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# SUPPLEMENTAL APPROPRIATIONS FOR THE VETERANS ADMINISTRATION, 1962

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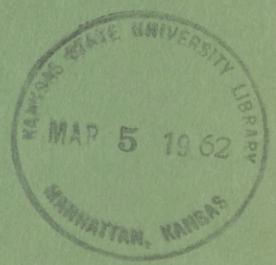
## HEARINGS BEFORE THE COMMITTEE ON APPROPRIATIONS UNITED STATES SENATE EIGHTY-SEVENTH CONGRESS SECOND SESSION

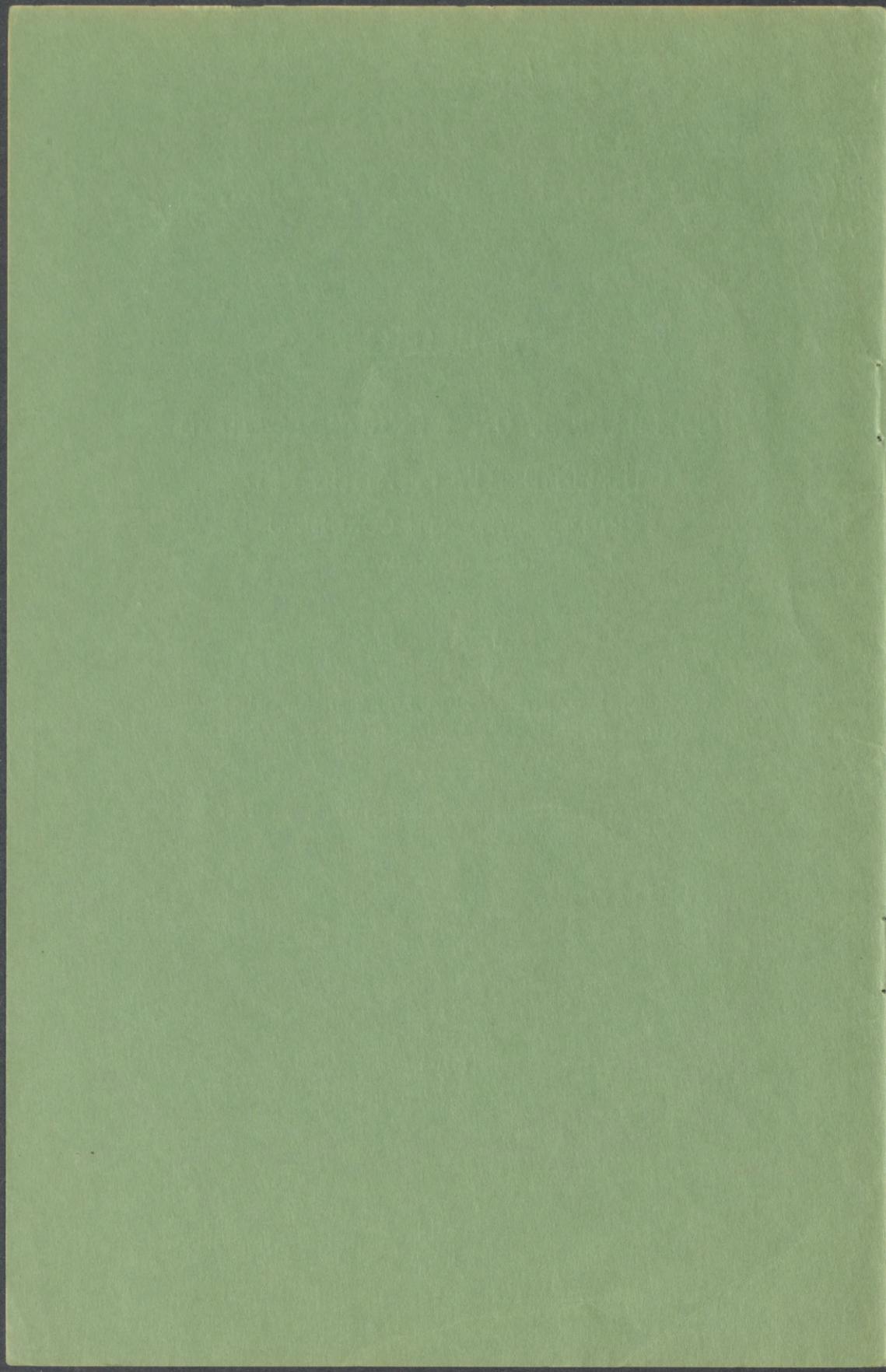
### ON H.J. Res. 612

MAKING SUPPLEMENTAL APPROPRIATIONS FOR THE  
VETERANS ADMINISTRATION FOR THE FISCAL YEAR  
ENDING JUNE 30, 1962, AND FOR OTHER PURPOSES

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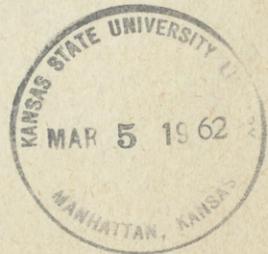
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EIGHTY-SEVENTH CONGRESS  
SECOND SESSION  
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**H.J. Res. 612**  
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ENDING JUNE 30, 1962, AND FOR OTHER PURPOSES

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Printed for the use of the Committee on Appropriations



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WASHINGTON : 1962

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# SUPPLEMENTAL APPROPRIATIONS FOR THE VETERANS ADMINISTRATION, 1962

THURSDAY, FEBRUARY 1, 1962

U.S. SENATE,  
COMMITTEE ON APPROPRIATIONS,  
*Washington, D.C.*

The committee met at 10:30 a.m., pursuant to notice, in room 1223, New Senate Office Building, Hon. Warren G. Magnuson presiding.  
Present: Chairman Hayden, Senators Magnuson, Robertson, Bible, Young of North Dakota, Allott, and Dworshak.

## VETERANS ADMINISTRATION

STATEMENT OF WILLIAM J. DRIVER, DEPUTY ADMINISTRATOR, ACCOMPANIED BY A. H. MONK, ASSOCIATE DEPUTY ADMINISTRATOR; J. M. HANSMAN, CONTROLLER; J. D. SHYTLER, DIRECTOR, BUDGET SERVICE; P. N. BROWNSTEIN, CHIEF BENEFITS DIRECTOR; J. M. DERVAN, DIRECTOR, LOAN GUARANTY SERVICE; E. R. SILBERMAN, CONTROLLER; AND U. E. WELLS, ASSISTANT CONTROLLER

### EDUCATION AND TRAINING ALLOWANCE FOR KOREAN VETERANS

Senator MAGNUSON. Gentlemen, we will begin and there will be some other members of the committee here. Who is going to be the spokesman?

Mr. DRIVER. I am, Senator.

Mr. Gleason is on temporary military duty.

Senator MAGNUSON. Off the record.

(Discussion off the record.)

Senator MAGNUSON. Gentlemen, the House passed House Joint Resolution 612 appropriating \$55 million for additional readjustment benefits, the amount you stated in the supplemental request which is needed for the education and training allowances for Korean veterans. Let's take the first item.

Mr. DRIVER. Yes, sir.

Senator MAGNUSON. The \$55 million item which you said was needed for the education and training allowance for Korean veterans.

Mr. DRIVER. That is right, sir. This item is required because we had a less than expected carryover in this fund from 1961 to 1962 by nearly \$42 million and we have an increase in subsistence requirements of \$13 million because of the fact that we have more veterans in training on the average during the year by 13,000 than we antici-

pated. We have approximately 98,000 and we had budgeted for 85,000. So the two items together total \$55 million.

Senator MAGNUSON. Well now, explain for the record what you mean by "in training."

Mr. DRIVER. These are principally Korean veterans who are taking educational courses mainly in institutions of higher learning.

Senator MAGNUSON. And you say there was an increase in those?

Mr. DRIVER. We anticipated 85,000 on the average for the year and we have 98,000.

Senator MAGNUSON. To what do you attribute that? Your estimates are usually pretty good.

Mr. DRIVER. Yes, sir. We are getting down to the point, though, where there is such a small number in training that it is very difficult to be accurate within 10,000 or 12,000. It may well be that a larger number than would normally have done so remained in training longer than they would have because of the difficulty of obtaining employment during the last economic recession.

#### PAYMENT TO LOAN GUARANTEE REVOLVING FUND

Senator MAGNUSON. Now the other item in there is payment to the loan guarantee revolving fund.

Mr. DRIVER. That is right, sir.

Senator MAGNUSON. That is \$96 million.

Mr. DRIVER. \$96 million.

Senator MAGNUSON. What do you attribute the—here, I will put this in the record—increase in the ceiling of the loan guarantee revolving fund.

Mr. DRIVER. We need that as well as the initial amount—

Senator MAGNUSON. I recall we tried to knock out the ceiling in the regular bill.

Mr. DRIVER. That is right, sir.

Senator MAGNUSON. Because you told us then that you anticipated activity in that program beyond your estimate of \$120,624,000 which became your ceiling for the year 1962.

Mr. DRIVER. That is right.

Senator MAGNUSON. You have now reached that ceiling and request an increase. So will you explain that for the record, the increase of \$115 million?

Mr. DRIVER. As the chairman has indicated, when we came before you last year we felt that the ceiling which had been imposed of \$120 million would not be sufficient to enable us to pay the claims and the costs of acquiring properties in cases where the GI loans had gone to foreclosure and the lenders chose to return the properties to us. We asked that the ceiling not be imposed.

Our estimates in this area have come true, and since we have hit the ceiling it is now necessary that we come back and ask you to raise it so that we may honor the claims that have been presented to us as a result of foreclosure on GI mortgages.

Senator MAGNUSON. Now that is for all loans—

Mr. DRIVER. All guaranteed loans.

Senator MAGNUSON. All guaranteed loans.

Mr. DRIVER. Yes, sir.

Senator MAGNUSON. As I remember last year there was testimony to the effect that the amount of foreclosures, or readjustments or return of GI loans, for many reasons had been on the increase.

Mr. DRIVER. That is right, sir.

Senator MAGNUSON. And you did testify that you did not think this ceiling would be enough.

Mr. DRIVER. That is right, sir. And this committee removed the ceiling.

Senator MAGNUSON. Well now, since we met last year has that anticipated increase been the same or is it getting greater?

Mr. DRIVER. It has accelerated, Mr. Chairman.

Senator MAGNUSON. What would be the percentage now?

Mr. DRIVER. Well, it has gone from a quarterly rate of less than \$35 million in the second quarter to \$41.6 million in the third quarter and to \$51.3 million in the fourth quarter.

Senator ALLOTT. Will you repeat those again? Thirty-five million dollars in the first quarter—

Mr. DRIVER. \$35 million in the second quarter, to \$41.6 million in the third, to \$51.3 million in the fourth.

Mr. BROWNSTEIN. And is currently running at about \$20 million a month.

Senator MAGNUSON. That will be about a 100-percent increase from the last year, will it not?

Mr. BROWNSTEIN. Yes, sir.

Mr. DRIVER. Yes, sir.

Senator MAGNUSON. What would that mean in terms of units?

Mr. BROWNSTEIN. Well, we took in 9,414 properties in the first half of fiscal 1962 and we estimate that we will take in another 8,400 in the last half.

Senator ROBERTSON. Mr. Chairman, may I ask a question there?

Senator MAGNUSON. Yes.

#### BASIS FOR GI AND FHA LOANS

Senator ROBERTSON. Will you state the basis on which a GI loan for housing is made and the basis on which a regular FHA loan is made?

Mr. BROWNSTEIN. And the basis on which an FHA loan is made, Senator?

Senator ROBERTSON. Yes. The difference is, one, the GI loan is more liberal. Tell us what that basis is and what the other is.

Mr. BROWNSTEIN. Well, on the GI loan the maximum permissible interest rate at the present time is  $5\frac{1}{4}$  percent and it may not be increased beyond that. This is the statutory limit. On an FHA loan the present fixed rate is  $5\frac{1}{4}$  percent also, but the FHA Commissioner has the authority to increase that up to 6 percent. On an FHA loan, however, the FHA mortgagor also pays a one-half of 1 percent mortgage insurance premium. So he in effect is paying  $5\frac{3}{4}$  percent.

So far as downpayment is concerned, the FHA has a gradation in their downpayment—

Senator MAGNUSON. I do not like to interrupt, but I did not follow this. The mortgagor pays how much?

Senator ROBERTSON. What I wanted, Mr. Chairman, was to develop this—

Senator MAGNUSON. I was going to ask for my information.

The mortgagor, you say, pays one and what?

Mr. BROWNSTEIN. The mortgagor, the borrower, pays one-half percent insurance premium on an FHA loan in addition to his fixed interest.

Senator ROBERTSON. And the veteran does not pay that.

Mr. BROWNSTEIN. The veteran does not.

Senator ROBERTSON. He gets the lowest amount of interest.

Mr. BROWNSTEIN. Yes, sir.

Senator ROBERTSON. He gets 100 percent coverage.

Mr. BROWNSTEIN. Yes, sir. He can get a 100-percent loan.

Senator ROBERTSON. And has the biggest rate of default in the entire program. Why is that? That is the point I am trying to develop now. They have the most liberal program, the lowest rate of interest and the biggest coverage. They have the biggest default. The FNMA coverage has the next biggest default. And we are trying to rush our Government into a program of subsidizing what they call the middle income people. And when the default occurs in that we are really going to have some losses.

So I think the time has come for us to know just what is happening before it gets completely out of hand on this housing program. You realize that the default among the veterans is the largest?

Mr. BROWNSTEIN. It is higher. It is a little higher than the FHA foreclosure rate. The total number of claims paid on VA guaranteed or insured home loans is about 1.4 percent of the total home loans guaranteed or insured.

Senator ROBERTSON. And it is higher than the FNMA program.

Mr. BROWNSTEIN. Well, of course, the FNMA mortgages, Senator Robertson, include FHA and GI mortgages.

Senator ROBERTSON. I know, but they have a little—well, the Government is committed to them more than they are on a bank loan, for instance, that has FHA insurance, don't you see. But the rate of your default has increased so rapidly that you have had to come back for a supplemental estimate, and at a period of our greatest national prosperity. What would happen to us if we were ever to have a depression?

#### INCREASE IN FORECLOSURES

Mr. BROWNSTEIN. It is entirely correct that our foreclosure rate has gone up, as has FHA's. FHA's foreclosure rate has gone up very appreciably as well, and so have conventional mortgage foreclosures gone up.

And as Senator Robertson has indicated, it is true that the GI loan can be 100-percent loan, the entire amount of the purchase price may be financed with a GI loan. These are the most liberal terms of any type of mortgage.

Senator MAGNUSON. But you people anticipated that this would happen. You said you did not think you would have enough. And the problem revolves here around whether we should add to that ceiling to take care of the anticipated increase you thought was going to happen.

Mr. BROWNSTEIN. Yes, sir.

Mr. MONK. We have spent, Senator, through December, almost the entire amount of the \$120 million ceiling that was provided in the initial bill and we are not paying claims that were due after the end of December. We are out of money and we are out of ceiling.

Senator ROBERTSON. But you do not have any option as to whether you pay or not. It is just a question of whether you get the money.

Mr. MONK. That is correct, sir.

Senator ROBERTSON. You are legally committed to pay.

Mr. MONK. That is right.

Senator ROBERTSON. And you are asking us to give you the money to carry out that obligation.

Mr. MONK. That is correct.

LOCATIONS OF PROPERTIES FORECLOSED

Mr. DRIVER. I think the committee might be interested, Senator Robertson, in the area that you were discussing, to know that these foreclosures are confined almost exclusively to about 12 States in this country. That is not a general condition in the economy.

Senator ROBERTSON. Are any of them in Virginia?

Mr. DRIVER. No, sir. Virginia is not one of these States.

Senator ROBERTSON. I took a chance and asked but I did not think there were any.

Senator ALLOTT. While he has mentioned that—I intended to go into it—I wonder if you could give us for the record the 10 or 12 communities that are the leaders in this?

Mr. DRIVER. Yes, sir.

Senator ALLOTT. Could you do that now?

Mr. DRIVER. Mr. Brownstein can.

Senator ALLOTT. Do not go too fast as I would like to write these down.

Mr. DRIVER. Could you give the percentages?

Senator MAGNUSON. Give the percentages, too, if you have them.

Mr. BROWNSTEIN. I can give you numbers, Mr. Chairman.

Senator MAGNUSON. All right. Do not worry about it.

Mr. DRIVER. Give us the total number to start with.

Mr. BROWNSTEIN. We have 16 of our field stations, regional offices, located in 12 States that account for 80 percent of our total holding. The highest was Detroit with 1,939 properties, Chicago with 1,359.

Now when I say Detroit and Chicago, that means the entire State of Michigan and the entire State of Illinois. This does not mean the city.

Senator ALLOTT. Chicago was 15 what?

Senator ROBERTSON. When you say Chicago—

Mr. DRIVER. Our regional office is located there, but it covers the entire State and most of the properties would be downstate.

Senator ROBERTSON. Not in the city?

Mr. DRIVER. No, sir.

Mr. BROWNSTEIN. No, sir. As a matter of fact, Chicago also has a part of Indiana, and one of our critical areas is in Indiana.

Senator ROBERTSON. Maybe they have taken care of the housing need there with public housing. Because when I spoke in the second largest city in Illinois they told me there were more public units in Chicago than there were private homes in the second largest city in

Illinois. That is one little development that I took note of when I was out there. But Chicago leads the area in defaults though.

Mr. DRIVER. Not the city of Chicago.

Senator MAGNUSON. No, Illinois.

Mr. BROWNSTEIN. Chicago does not have them, Senator Robertson. It is Carpentersville principally and downstate, Springfield.

Senator ROBERTSON. Do you have any logical explanation? Illinois is not a bankrupt State.

Mr. BROWNSTEIN. No. As a matter of fact, it is Indiana in large measure and it is in the Gary steel district.

Senator ROBERTSON. And that gets charged up to Chicago?

Mr. DRIVER. That is the regional office that covers that area.

Mr. BROWNSTEIN. That is why I wanted to be sure you understood the qualification that these were regional offices.

Mr. DRIVER. Those are 2 from the list and there are 10 more.

Senator ALLOTT. Let's get that figure for Chicago, 15 what?

Mr. BROWNSTEIN. 1,359. Wichita, 1,320; Los Angeles, 1,264; Philadelphia, 1,019; Houston, 649; San Antonio, 644; Lubbock, 498; St. Petersburg, 428; San Francisco, 328; Newark, 313; Dallas, 293; Montgomery, Ala., 290; Milwaukee, 243; New Orleans, 237; Seattle, 204.

Senator ROBERTSON. Mr. Chairman, the economic conditions in those various places vary so that there must be something behind this besides economic conditions. Now they mention the steel strike at Gary, Ind., but they did not have any steel strike in Los Angeles. That is one of the most rapidly growing cities in the United States.

Houston is not a poverty-stricken city. And, the others you mentioned there. There must have been something in the method used in handling these loans in those places that contributed to the default, you overappraised the property, the veterans were encouraged to buy above their reasonable expectation of repayment. There must have been some fault with the way this program was handled.

#### PROBLEMS IN AIRCRAFT AND PETROLEUM INDUSTRIES

Mr. BROWNSTEIN. Well, of course, in southern California and in Houston, Senator Robertson, there were economic problems. There were some shutdowns in the aircraft industry in California. The petroleum industry and some others around Houston had some problems. However, what you say, of course, is the first thing that we would look at—why is this occurring. And naturally, you wonder whether the credit was proper. We have done studies on this and we have found that we could not question the credit that was exercised in the making of these loans initially. I believe what has happened is that this has come about as a result of the curbing of inflation in the housing industry. We have had a continually rising housing market since before the end of World War II, and up until fairly recently when a person got into trouble with his house he could automatically turn it over to someone else at a profit, someone willing to pick up this favorable financing that we discussed earlier. In the last 3 years the housing industry has been quite stable and the individual who gets into trouble with his house and is unable to make the payments no longer can find a ready purchaser to take over this financing because he has not reduced his loan balance to the point where the

unpaid balance of the mortgage, plus the brokers commission, is a sufficiently attractive price. The prospective buyer can buy a new house for probably no more, or maybe even less, on similar terms. And this, in my judgment, accounts for the current condition.

Senator ROBERTSON. He could not buy it on similar terms unless he was a veteran.

Mr. BROWNSTEIN. FHA terms are now very liberal, too, Senator Robertson.

Mr. DRIVER. But we have found, to repeat a little, that there has been a specific economic factor in everyone of these areas.

Senator ROBERTSON. Some areas may, frankly, be overbuilt.

Mr. DRIVER. We had such things as, in Wichita, the closing of the aircraft factory there. This, of course, raised hardships with the community as a whole. In some places it is a military installation which has curtailed its activities. And we find this affects us.

Senator MAGNUSON. And another thing, as a general factor, you are running into some homes that are now getting older and some of them were built pretty badly, and the ability to resell or even refinance becomes more difficult.

Mr. DRIVER. Well, if you can get a new home for no more, with just the same terms, you are not going to buy the older one no matter what condition it is in.

Senator MAGNUSON. Surely. Some of the original GI homes have now reached a point where the maintenance is a great factor in whether someone picks it up or not. And I suppose that will become even greater as we move along.

Mr. BROWNSTEIN. This could well be, Senator.

Senator ALLOTT. I would like to run over some of these points, Mr. Chairman, if Senator Robertson is through.

Senator MAGNUSON. Have you completed, Senator Robertson?

Senator ROBERTSON. Yes.

Senator MAGNUSON. Go ahead.

Senator ALLOTT. On this same subject, trying to keep on one thing until we exhaust it, I can understand the situation in Detroit, Chicago, and Wichita. However, this has not occurred in Los Angeles?

Mr. DRIVER. Shutdowns of aircraft activity, with a subsequent movement of the homeowner to follow employment some place else, has specifically resulted in some areas of Los Angeles.

Senator ALLOTT. Let's explore this. We are trying to find the reasons and the facts. Go ahead.

Mr. BROWNSTEIN. I think what I said initially about the ability to buy a new house on equally good terms is particularly true in southern California area. In addition to that, let me say also that our sales experience in Los Angeles is extremely good. While we take in a number of these, we are successful in moving them quite quickly.

Senator ALLOTT. More than in other places.

Mr. BROWNSTEIN. Yes. Better than in most places where we have substantial holdings.

#### SITUATION IN HOUSTON

Senator ALLOTT. I do not know anything about Philadelphia. What is the situation in Houston?

Mr. BROWNSTEIN. In Houston? Well, as you know—

Senator ALLOTT. I was down in that area quite recently and I could not see any signs of depression down there.

Mr. BROWNSTEIN. At the moment I do not think there is. Bear in mind that you have quite a timelag here. They did have their economic problems in the petroleum industry and in the steel industry in Houston.

Senator ALLOTT. And you have San Antonio and Lubbock.

Mr. BROWNSTEIN. Yes, sir. Well, San Antonio—

Senator ALLOTT. And Dallas.

#### SHUTDOWN OF MILITARY BASES

Mr. BROWNSTEIN. Well, San Antonio—this is not in San Antonio, in fact, it is mainly in Corpus Christi and in Victoria which are within our San Antonio regional office. And we have problems there because of the shutdown of some military bases.

Mr. HANSMAN. The Air Force had a large installation shut down at Victoria.

Senator ALLOTT. Where is Victoria in relation to Corpus Christi?

Senator MAGNUSON. It is toward the gulf from San Antonio. It is east. I am pretty sure it is east, southeast.

Senator ALLOTT. What about Lubbock and Dallas?

Mr. BROWNSTEIN. Well, now, we are getting into offices that have had a rather sharp increase. Dallas has 293 properties, which is a sizable number. I believe some of this problem is in the Fort Worth area.

In Lubbock we have had a rather sizable number of acquisitions. They had economic problems in Lubbock that now are improving, but still these acquisitions are due to the timelag that you have between when you start feeling the improvement and when you get a decline in the number of properties that you acquire.

Senator ALLOTT. Now, Mr. Brownstein, I live out in that country and I cannot see any conditions facing Lubbock that do not face generally the whole southwestern area. What are these conditions you are speaking of?

Mr. BROWNSTEIN. The one that I mentioned earlier, Senator, of the man who cannot keep his house, being able no longer to find a purchaser who is willing to take it over at a price which will allow the seller to pay the broker's commission and other costs because a buyer can get another house on equally liberal terms for no more and possibly even less than this amount.

Senator ALLOTT. Then the thing you are saying is the thing that some of us have feared that in these programs, after a man has paid a certain amount of time on what could be a too liberal program, he reaches the place where he in fact has just been paying rent for that time and it is just as cheap and more advantageous for him to go out and purchase a new home as it is to try to redeem any possible equity that he may have in his own home considering the original cost and the depreciation of it?

LIABILITY FOR DEFICIENCY

Mr. BROWNSTEIN. I think that this occurs. Of course, in the VA program there is one point, and that is that we do hold the veteran liable for the deficiency. So this is a retarding influence.

Mr. DRIVER. He cannot just just walk away from it.

Mr. BROWNSTEIN. And he does do his best to try and come out whole on it.

Senator ALLOTT. Well now, could you give me some figures which would indicate to what extent you have taken the deficiency in any of these, I mean, the extent to which you have been able to take deficiencies or secure collection on them?

Senator MAGNUSON. Before he leaves that, I am interested in what the situation is in Seattle. There is no depression there? What is the problem there?

Mr. BROWNSTEIN. That is only 204 properties.

Senator MAGNUSON. Well, is it out of Seattle or in Seattle?

Mr. BROWNSTEIN. I am not certain. I can find out for you where they are and put that in the record.

Senator MAGNUSON. Yes; put that in the record. Because I am just personally interested where it is happening in that area.

(The information referred to follows:)

	<i>Properties</i>
Spokane area.....	80
Tocoma area.....	60
Seattle area.....	30
Northwest Washington.....	15
Olympia Peninsula.....	10
Scattered localities.....	9

TOTAL HOMES GUARANTEED UNDER PROGRAM

Mr. DRIVER. We are, of course, concerned with any number, but in relation to the exposure made you might be interested that this total picture is against something in excess of 5 million homes which have been guaranteed under the program. It is important to understand that there is a very large exposure in excess of \$50 billion of mortgages guaranteed or insured since the beginning of the program.

Senator DWORSHAK. Do these developments reveal a weakness in the overall program, or are they difficulties stemming primarily from peculiar conditions which you will find in some areas?

Mr. DRIVER. The rate of acquisition has always ebbed and flowed with the economy. And what we are here today indicating—

Senator DWORSHAK. Are you talking on a nationwide basis or just some areas?

Mr. DRIVER. On a nationwide basis. But we have had a lag in the improvement of the foreclosure rate here for reasons which we think are isolated in a few locations to make it somewhat different from the general picture of the total economy.

## NEED FOR NEW LEGISLATION

Senator DWORSHAK. Would it be advisable to ask for some legislation which would correct a weakness in this program? All of us are interested in it, and certainly we do not want to develop weaknesses which will call disfavor on the part of the public—

Mr. BROWNSTEIN. Senator Dworshak, I think this is a very important matter, and really we ought to keep this thing in perspective in speaking of weaknesses and what is occurring. And I think we ought to take a look and see just what this has cost the American taxpayer. This, I think, is the important thing.

Senator DWORSHAK. Well, it is important to know that the program will be sound in the future.

Mr. DRIVER. Right.

Mr. BROWNSTEIN. Let me tell you what the experience has been. And, I do not think there are weaknesses requiring legislation. I think that while it is not as good as it once was, it still is extremely good. When you take into account the amount that we pay on our claims and the amount that we pay on our properties and our expenses in selling properties and so forth, and you offset that against the amount that we realize when we sell a property, and the interest that we collect on the mortgages, and what we have recovered from the veterans in connection with these plus the value of properties on hand, the total cost is about \$13 million. Now this is against a \$51 billion program. So while it is true that this has accelerated, I think it is important to keep it in perspective and recognize that on balance, it does not demonstrate any inherent weakness in the program.

Now getting back to your question—

Senator MAGNUSON. Before we leave that, you asked for X number, \$115 million. Well, that does not mean that the Treasury is going to pay out ultimately \$115 million.

Mr. DRIVER. No, sir.

Mr. BROWNSTEIN. We would hope to recover most of it.

Senator MAGNUSON. Most of it would be recovered. And I think the record ought to have some of these things in it. Your first inclination is to say it is costing us \$115 million.

Mr. DRIVER. It does today. We have to make good on the claim immediately. But we sell the property and sometimes take a mortgage that may bring us back our money over a 20-year period.

Senator MAGNUSON. I understand what you do. I am talking about someone else who just takes a look at this thing, at just what you said in your statement there about the whole program. Because all that we are going to find here is that we had a big ceiling of \$120 million and now we want \$115 million more.

Mr. DRIVER. That is very true—

Mr. BROWNSTEIN. With your permission, Mr. Chairman, at this point I will insert in the record our balance sheet.

Senator MAGNUSON. That is what we should have here, the balance sheet.

(The information referred to follows:)

LOAN GUARANTEE PROGRAM

Statement of accountability of funds disbursed, and collections received cumulative through Sept. 30, 1961

TOTAL FUNDS DISBURSED AND RECEIPTS RETURNED TO TREASURY AND DEPOSITED TO LOAN GUARANTEE REVOLVING FUND

Total funds expended (exclusive of 4 percent gratuities):		
1. For payment of claims	-----	\$321,371,363.32
2. For acquisition of properties (additional cost)	-----	362,230,153.21
3. For acquisition of loans, property management and sale, and all other expenditures	-----	100,872,110.69
Total funds expended:		
Disbursements, deposit fund	-----	\$730,150,446.03
Accrued expenditures, revenue fund	-----	54,323,181.19
		784,473,627.22
Accounts payable for which properties have been acquired	-----	451,644.25
Receipts from operations:		
1. Deposits to general fund, Treasury	-----	\$208,815,333.60
2. Deposits to loan guarantee revolving fund	-----	11,790,085.56
		220,605,419.16
Net expenditures to be accounted for	-----	564,319,852.31

ACCOUNTABILITY FOR NET EXPENDITURE

Assets on hand:		
1. Advances to VA employees for bidding at public sales	-----	41,434.33
2. Property owned:		
(a) Property owned in absolute title	-----	\$97,730,080.04
(b) Property in process of acquisition	-----	26,220,426.35
(c) Personal property owned	-----	0.00
		123,950,506.39
3. Loans receivable:		
(a) Acquired loans	-----	3,949,299.41
(b) Vendee accounts on property sold	-----	407,820,889.46
(c) Mortgage loans in process of liquidation	-----	169,769.47
4. Accounts receivable:		
(a) Veterans liability accounts, gross	-----	\$33,393,577.40
(b) Due from others, gross	-----	327,755.16
Total accounts receivable, gross	-----	\$33,721,332.56
(c) Less reserve on liability, accounts	-----	\$19,533,556.56
Less reserve on other accounts	-----	191,378.85
Total reserve	-----	19,724,935.41
Net veterans liability and other accounts receivable	-----	13,996,397.15
(d) Accrued income and rent	-----	1,190,904.00
Total assets on hand	-----	551,119,200.21
Estimated net loss	-----	13,200,652.10

RESULT OF LIQUIDATION OF ASSETS AND OPERATIONS

1. Income:		
(a) Gross profit on sales:		
Selling price of property	-----	\$552,321,527.84
Book value of property	-----	515,477,024.67
		36,844,503.17
(b) Rental and miscellaneous income		8,152,548.76
(c) Interest income:		
From loans receivable	-----	\$67,877,140.68
From veterans liability accounts	-----	893,262.60
		68,770,403.28
Total income	-----	113,767,455.21
2. Expenses and losses:		
(a) Property expense:		
Management expense	-----	\$36,666,722.27
Selling expense	-----	26,731,904.92
		63,398,627.19
(b) General expense		1,045,291.36
(c) Provisions for reserves		\$61,885,243.58
(d) Acquired security and collateral		631,799.98
		62,517,043.56
Total expenses and losses	-----	126,960,962.11
3. Difference between income and expenses and losses	-----	13,193,506.90
4. Intransit items <sup>1</sup>	-----	7,145.20
Net expenditures accounted for	-----	13,200,652.10

<sup>1</sup> Represents balance of charges and repayments and receivables transferred to other stations which were not recorded by receiving stations at close of accounting period. It also includes unreconciled items in the amount of \$696.67.

## VETERANS ADMINISTRATION, DEPARTMENT OF VETERANS' BENEFITS

*Direct loan program balance sheet, as of Sept. 30, 1961*

## ASSETS

Cash on deposit with Treasury disbursing officers:		
Washington, D.C.-----	\$163,757,157.05	
Regional offices-----	156,282,082.17	
Total cash on deposit-----		\$320,039,239.22
Receivables:		
Vendee accounts and advances-----	\$7,321,748.77	
Veterans liability accounts-----	231,092.00	
Mortgage loans and advances-----	1,248,861,824.35	
Receivables—Miscellaneous and sales proceeds in transit-----	7,546.73	
Receivables in process (DPC)-----	(318.30)	
Accrued interest on vendee accounts and advances-----	15,126.10	
Accrued interest mortgage loans and advances-----	1,578,333.88	
Accrued rents on property owned-----	2,912.00	
Total receivables-----		1,258,018,265.53
Acquired security:		
Real property in process of acquiring title-----	\$237,350.35	
Real property owned-----	2,304,265.12	
Total acquired security-----		2,541,615.47
Total assets-----		1,580,599,120.22

## LIABILITIES

Accounts payable—Tax and insurance deposits-----		20,774,845.81
Loans payable to U.S. Treasury-----		1,530,077,996.00
Interest payable to U.S. Treasury-----		10,700,000.00
Deposits-liabilities-suspended credits:		
Application fees collected-----	\$937,291.96	
Earnest money deposits-----	29,506.94	
Insurance loss proceeds-----	219,238.05	
Miscellaneous-----	64,800.43	
Escrow deposits by purchasers-----	33,870.74	
Cash deposit contingency reserve-----	94,108.38	
Builders fees-----	485,728.96	
Total deposits liabilities-----		1,869,545.46
Undistributed collections-----		128,364.62
Total liabilities-----		1,563,550,751.89

## ANALYSIS OF RETAINED EARNINGS

Balance as of June 30, 1961-----	\$83,859,202.35	
Increase for current year-----	3,813,165.98	
Less transfer to loan guaranty revolving fund-----	70,624,000.00	
Net worth as of Sept. 30, 1961-----		17,048,368.33
Total liabilities and net worth-----		1,580,599,120.22

VETERANS ADMINISTRATION DIRECT LOAN PROGRAM

Statement of income and expenses and changes to analysis of retained earnings for quarter ending Sept. 30, 1961

	Prior years	July 1, 1961, through Sept. 30, 1961	Cumulative
INCOME			
Interest income on mortgage loans and advances.....	\$223,144,492.94	\$14,492,934.26	\$237,637,427.20
Interest income on vendee accounts and advances.....	873,557.72	101,826.32	975,384.04
Interest income on veterans' liability accounts.....	2,628.25	1,306.88	3,935.13
Rental income—Property owned.....	55,377.71	4,653.63	60,031.34
Gross profits on sale of property.....	184,551.68	(1,618.16)	182,933.52
Gross gain on sale of mortgages.....	998.23	0	998.23
Miscellaneous income.....	4,254,916.73	291,083.60	4,546,000.33
<b>Total income.....</b>	<b>228,516,523.26</b>	<b>14,890,186.53</b>	<b>243,406,709.79</b>
EXPENSES AND LOSSES			
Interest on U.S. Treasury loan.....	139,108,014.04	10,923,187.92	150,031,201.96
Property expense—Operation of property.....	403,503.11	50,947.44	454,450.55
Sales expenses—Loan program.....	383,965.43	32,822.41	416,787.84
General and special funds deposited.....	28.46	0	28.46
Expenses and losses—General:			
Loan closer's fees.....	3,865,691.76	568.63	3,866,260.39
Liquidation expenses.....	79,266.77	8,719.44	87,986.21
Miscellaneous expenses.....	42,489.91	3,166.09	45,656.00
Uninsured losses on acquired property.....	304.20	0	304.20
Writeoffs, application fees.....	168,469.57	11,474.30	179,943.87
Writeoffs, direct mortgage loans.....	310,883.63	28,934.05	339,817.68
Writeoffs, veterans' liability.....	82,683.21	1,641.41	84,324.62
Writeoffs, acquired properties.....	966.04	.10	966.14
Writeoffs, vendee accounts.....	3,408.86	0	3,408.86
Writeoffs of uncollectible receivables.....	214,025.96	16,292.19	230,318.15
Collections after writeoff.....	(6,380.04)	(733.43)	(7,113.47)
<b>Total expenses and losses.....</b>	<b>144,657,320.91</b>	<b>11,077,020.55</b>	<b>155,734,341.46</b>
Analysis of retained earnings:			
Balance, beginning of year.....		83,859,202.35	
Net income for current period.....		3,813,165.98	
Balance, prior to transfers.....		87,672,368.33	87,672,368.33
Less transfer to loan guaranty revolving fund.....		70,624,000.00	70,624,000.00
Balance at end of period.....		17,048,368.33	17,048,368.33

## MONTHLY SELLING RATE

Mr. DRIVER. You realize we may take back, let's say, 1,500 houses this month. Then we turn around and sell these houses, and we are selling at a rate of better than 1,000 a month in today's conditions. We are selling them at the best price we can get at the highest interest we can get.

Senator DWORSHAK. Involving how much loss?

Mr. DRIVER. The loss is as Mr. Brownstein indicated. Overall we have had a \$13 million loss on a \$51 billion program.

Senator MAGNUSON. And now, Senator Allott, we interrupted your questioning.

## TOTAL DEFICIENCIES

Mr. BROWNSTEIN. You wanted to know how many deficiencies we had set up against the veterans on these cases. We have on the books about \$33 million at the present time.

Senator ALLOTT. Of deficiencies?

Mr. BROWNSTEIN. Yes, sir.

Senator ALLOTT. So on a profit-and-loss statement this would show as credits—

Mr. BROWNSTEIN. It would show as an asset. But we always offset against that a reserve amount for what we expect the losses to be. And it is about 25 percent that we expect to recover on this item.

Senator ALLOTT. Now following partially what the chairman has just asked, you are going to put in the record what amounts to a profit-and-loss statement?

Mr. BROWNSTEIN. A balance sheet; yes, sir.

Senator ALLOTT. All right, a balance sheet then.

Mr. DRIVER. For the whole program.

Senator ALLOTT. Just for this year or for the whole program?

Mr. BROWNSTEIN. No, sir; for the whole program. I think the latest we have is through September 30, 1961.

Senator MAGNUSON. That will give us a good picture.

Senator ALLOTT. That would give it.

Senator DWORSHAK. Senator Allott, would it be desirable to have a table inserted showing where the foreclosures are in relation to the 50 States?

Mr. DRIVER. I think we put that in the record.

Mr. BROWNSTEIN. You have 80 percent of them there, Senator. I can give the others.

Mr. DRIVER. We can give you a list showing all of them if you like.

Mr. BROWNSTEIN. They are not of much significance.

## AVERAGE LOSS IN FORECLOSURES

Senator ALLOTT. Now with respect to the present situation of foreclosures, what is the loss picture with respect to an average of what you are taking on the homes at the present time? Can you give me an answer now?

Mr. BROWNSTEIN. Yes, sir. About \$1,400 a property.

Senator ALLOTT. About \$1,400 a property.

Mr. BROWNSTEIN. Some or all of that may be owed us by the veteran.

Senator ALLOTT. Part of that may be represented by a deficiency judgment?

Mr. BROWNSTEIN. That is correct.

Senator ALLOTT. And anyway, whether it had been reduced to an actual deficiency judgment, he would still owe you a deficiency?

Mr. BROWNSTEIN. Yes.

Mr. DRIVER. And if we sell the property later at a profit he would still owe us.

Senator ALLOTT. At a profit?

Mr. DRIVER. Yes, sir.

Senator ALLOTT. He could not owe you money if you sold the property at a profit over what you had in it? He still could not owe you money on that?

Mr. DRIVER. Yes, sir.

Mr. BROWNSTEIN. It would be possible in this sort of circumstance, Senator Allott.

Senator MAGNUSON. You would not bring suit on that?

Mr. BROWNSTEIN. We would be pretty liberal in our collection policy.

Mr. DRIVER. The point I am making is he is not forgiven.

Mr. BROWNSTEIN. Here is what happens. You have a foreclosure sale. His indebtedness to us is determined by the amount brought at the foreclosure sale, or the amount that we think the property is worth at that time. When a foreclosure occurs we give the lender an accounting figure at what we think the current value is. The borrower's indebtedness is the difference between the total amount that he owes and that figure. Now if the market is better than we thought, if our appraisal was too low, then as Mr. Driver suggests, it may be that we have come out whole on it and still the veteran would owe a debt. But we then—

Senator ALLOTT. Wait a minute, Mr. Brownstein. You cannot do this sort of thing. If you did this in private life, you would get run off the street.

Mr. DRIVER. They do this in private life.

Senator ALLOTT. No, they do not.

Mr. DRIVER. At the time the foreclosures are made everyone's obligations are fixed. If we hold that property for 10 years, and maybe rent it in the meantime, but the market changes and we sell it for 100 percent profit 10 years later should we give back that money? Eighteen months later?

Senator ALLOTT. Well, you would find yourself, in private practice, in court, I will tell you, with respect to your bid-in values. And you would have a whale of a time trying to get a deficiency, enforcement deficiency.

Mr. BROWNSTEIN. Let me say in these cases, Senator, our collection practices are extremely liberal and what we would do in a case like that is listen to a very reasonable compromise.

Senator ALLOTT. So you have a deficiency of \$1,400 per property. Now could you state for me what percentages of these acquisitions, both in numbers and in dollar value, are from the guaranteed loan program as against direct loan government?

Mr. BROWNSTEIN. This is totally in the guaranteed loan program. We have not discussed the direct loan program here at all today.

Senator ALLOTT. Well, let's do. Could you give us these figures? You may not have them here at the moment, but could you supply these figures for the record as to the acquisition in the guaranteed program? We are talking about the guaranteed loan revolving fund here.

Mr. BROWNSTEIN. Yes, sir, we are.

Senator ALLOTT. But could we get the figures on acquisitions in the two different categories?

Mr. BROWNSTEIN. Yes.

Senator ALLOTT. All right.

#### DIRECT LOAN PROGRAM

Mr. BROWNSTEIN. In the direct loan program, cumulatively, we have acquired 2,031 properties. This is since the program started in 1950. We have sold 1,615 of those and we have on hand 404. There is a difference of 12 there. They were redeemed after acquisition by the original purchaser.

Now, in the direct loan program we have made a profit of \$87 million.

Senator ALLOTT. In the direct loan?

Mr. BROWNSTEIN. Yes.

Senator ALLOTT. When you say "profit," you are talking about interest?

Mr. BROWNSTEIN. Yes.

Senator ALLOTT. Interest or increased sales in some instances?

Mr. BROWNSTEIN. I am talking about the amount of interest that we collect from the borrower plus other income, and offset against that is the interest that we pay to the Treasury on our borrowings and the losses that we have incurred.

Senator ALLOTT. Now, you have had—

Mr. BROWNSTEIN. Excuse me, Senator. This does not include administrative expense.

Senator ALLOTT. All right. Now you have had in direct loans 2,031 loans—

Mr. BROWNSTEIN. 2,031 properties acquired.

Senator ALLOTT. Acquired. Now, what I am interested in, and you may have to work this out—

Mr. BROWNSTEIN. I think I have the answer.

Senator ALLOTT. I want to have inserted in the record the relative percentage of loans that have been acquired as between the direct loan and the guaranteed loan, and I would like these percentages both as to numbers and percentages of values.

Mr. BROWNSTEIN. I can give them to you as to numbers right now.

Senator ALLOTT. All right.

#### FORECLOSURES ON GUARANTEED AND DIRECT LOANS

Mr. BROWNSTEIN. The percentage of foreclosures on guaranteed loans is 1.4. On direct loans it is 0.95.

Senator ALLOTT. And I suppose that roughly the dollar value signs would follow these percentages, in a rough way?

Mr. BROWNSTEIN. Probably our direct loans would be a little less because our average loan is less in the direct loan program than in the guaranteed loan program.

Senator ALLOTT. Now there is one other question I would like to ask. Is there actually a revolving fund?

Mr. BROWNSTEIN. The loan guarantee revolving fund?

Mr. DRIVER. Direct or guaranteed?

Senator ALLOTT. You are asking for \$115¼ million for the loan guarantee revolving fund.

Mr. DRIVER. Right.

Mr. BROWNSTEIN. It is in this sense, Senator, that all of our income goes into the revolving fund. Our principal repayments on the mortgages we hold, the interest, and all other income goes into this fund. If we sell any of these mortgages the proceeds of the sale go into the fund. We pay out of the fund our losses.

Now there is, of course, the ceiling, there is the limitation, on our expenditures. We may not go beyond the amount that is authorized by the ceiling, even though there may be funds available.

Senator ALLOTT. Well, it does not go back to the Federal Government—

#### CEILING ON EXPENDITURES

Senator MAGNUSON. Let's get this straight. The ceiling is a ceiling on your expenditures.

Mr. BROWNSTEIN. Yes, sir.

Mr. DRIVER. Withdrawal from the fund.

Senator MAGNUSON. Withdrawals from the fund. But supposing you had a period where the fund got even much higher than the withdrawals. You would still keep it in your fund?

Mr. DRIVER. Yes, sir. We could not use it without permission.

Senator MAGNUSON. Without permission.

Mr. DRIVER. That is right, sir.

Senator MAGNUSON. In other words, all of this is in the bank and what we want, I think what we should have, is the balance sheet. That is what counts. But that means you will have in the bank now to work with, or you would have, for the fiscal year, let's say, \$120 million which was last year's estimate plus \$115 million, which is \$316 million in round figures in the fund. But during the year—

Mr. DRIVER. \$236 million.

Senator MAGNUSON. Yes, 236. But during the year you paid out some. Now it is down to where you have to add \$115 million.

Mr. BROWNSTEIN. Yes. And we have to have the ceiling increased.

Mr. DRIVER. In order to put it out.

#### DANGER SIGNS

Senator MAGNUSON. But there are some danger signs, even though this is in the overall a fair record, because this year what you have needed has doubled.

Mr. BROWNSTEIN. Right.

Senator MAGNUSON. What you have usually needed has doubled. And that is the danger sign.

Mr. DRIVER. We thought it would be higher than the ceiling, but we did not anticipate it would be as high as it now is.

Senator MAGNUSON. But there are some danger signs here even though the overall looks pretty solid. And this is what I think we are trying to get at, if there is anything we can do up here, or what you could do, or a combination of both, to slow this up.

Mr. DRIVER. As I have said, we do not feel there is anything specific to be done in the overall program in terms of credit tightening, interest rates, and that sort of thing. And this is brought out by 80 percent of these being located in 16 specific offices. We feel the conditions are unique enough to effect this substantial increase and we would hope to see an improvement as time passes, especially in the resale of the houses that we acquire.

Senator MAGNUSON. And Mr. Cooper points out, too, that what you do in this, you transfer this amount from direct loans—

Mr. MONK. From the direct loan revolving fund.

Senator MAGNUSON (continuing). Then you borrow from the Treasury.

Mr. BROWNSTEIN. That is under the resolution.

Senator MAGNUSON. Yes.

All right, any further questions on this item?

Senator ALLOTT. I do not think so, Mr. Chairman.

Senator MAGNUSON. I do not know whether it is possible or not, but it would be a point of interest if we could have in the record how many of these foreclosures involve houses that are, say, over 10 years old.

Mr. BROWNSTEIN. We would not have that information, Mr. Chairman.

Senator MAGNUSON. Off the record.

(Discussion off the record.)

#### STABILITY OF INTEREST RATES

Senator MAGNUSON. Now let's get this straight, on the record, just in simple language. As a simple explanation, let's say I am a GI and I am going to buy a home that is listed at \$15,000. I apply for the loan and the interest rate is quoted me. Now is that interest rate a stable one?

Mr. DRIVER. Yes, sir.

Mr. BROWNSTEIN. It is fixed. It may not be more than  $5\frac{1}{4}$ .

Senator MAGNUSON. Five and one-fourth. All right, supposing that is what they suggest. Now how much more do I pay than that?

Mr. BROWNSTEIN. Well, you may pay the costs of closing.

Senator MAGNUSON. At the time of closing?

Mr. BROWNSTEIN. You would pay closing expenses.

Senator MAGNUSON. What would that amount to, generally speaking, on a \$15,000 home?

Mr. BROWNSTEIN. Well, in this area I would say that it would cost you about \$400.

Senator MAGNUSON. So if I have \$400 I can start this procedure?

Mr. BROWNSTEIN. Yes, sir.

Senator MAGNUSON. And if I am eligible that can be closed. Now is that all, \$400?

Mr. BROWNSTEIN. That is all you have to pay. Then you start your monthly payments.

Senator MAGNUSON. Now is there any discount of this paper once it is guaranteed?

Mr. BROWNSTEIN. The veteran may not pay a discount.

Senator MAGNUSON. The veteran may not.

Mr. BROWNSTEIN. No, sir.

## CLOSING FEES

Senator MAGNUSON. So that you believe in actual practice, and there is some abuse, I suppose, in the closing fees, there always is in different places—

Mr. BROWNSTEIN. There will be variances in closing fees.

Senator MAGNUSON. But after he pays the closing, put that off to one side, he has bought a \$15,000 home and all he pays, is  $5\frac{1}{4}$  percent?

Mr. BROWNSTEIN. Yes, sir, and he cannot pay any more than that. Now the builder or other seller may have paid a discount, Mr. Chairman, to arrange GI financing. But the veteran may not pay that.

Senator MAGNUSON. Well now, I am going to ask my friend from Colorado here, who has a lot of experience in this field, how can they pay  $4\frac{1}{2}$ ,  $4\frac{1}{4}$  or 4.68 for savings and come out on  $5\frac{1}{4}$ —

Senator ALLOTT. Well, I just talked with some people in this field.

Senator MAGNUSON. Unless somewhere in here someone is paying something else?

Senator ALLOTT. I do not think they can. I think we are going to have a lot of things show up in the next few months that are going to surprise people.

Senator DWORSHAK. In this program?

Senator ALLOTT. Not specifically, but speaking of the general mortgage market.

Senator MAGNUSON. Off the record.

(Discussion off the record.)

Mr. BROWNSTEIN. What happens, Mr. Chairman, you may find some lenders who are making loans to their customers with extremely nominal closing costs. I have seen closing costs of \$25. In other cases you see all the permissible charges made. You have title insurance, and we permit a charge of 1 percent of the loan amount, to be charged the veteran to take care of incidental costs. And in some areas the total could run over \$400. So you find a very wide range.

Senator ALLOTT. In my opinion, if you are closing a \$15,000 loan, the only variable factor of any consequence should be the cost of abstracting, realizing that legal fees will vary somewhat from community to community.

Mr. DRIVER. Taxes, tax stamps.

Senator ALLOTT. Well, the taxes on the property are paid when he acquires it.

Mr. BROWNSTEIN. There is another rather large variable, and that is some lenders do not charge the 1 percent fee. So that would be \$150 difference on a \$15,000 loan.

Senator ALLOTT. All right, this is the real difference, really, the commission for the loan.

Mr. BROWNSTEIN. This is the cost of putting it on the lenders book. We make an appraisal but many lenders like to go out and take a look at it themselves. There are various incidental costs that go into a loan which we do not permit individually, but we say "we will allow you 1 percent that may be charged to the veteran for these various incidental expenses."

Senator MAGNUSON. Then where does the \$400 come in?

Mr. BROWNSTEIN. Title examination, survey, and similar fees, recording fees, credit reports, appraisals, the 1 percent fee.

Senator MAGNUSON. This is in addition to the orthodox things that must be done.

Senator ALLOTT. Title survey, appraisal, credit report, recording fees, taxes, if there are any, upon the recording of the instruments and so forth.

Senator MAGNUSON. All right.

#### AVERAGE COST PER CLAIM PAYMENT

Senator DWORSHAK. Just one question. Will you explain the significance of the comment that is in the House hearing as follows:

The average cost per claim payment is now \$1,400 as compared to a cost of \$867 used in the budget submitted.

What has caused that disparity?

Mr. BROWNSTEIN. I think a general decline in the value of these properties that we are speaking of, Senator Dworshak.

Senator DWORSHAK. Will that cause any subsequent loss, or make it more difficult for the VA to handle these foreclosures?

Mr. BROWNSTEIN. I do not believe it should make it any more difficult because in the resale of these properties we price them at the maximum price we think that they will bring, but competitively.

Senator DWORSHAK. As you sell these foreclosed properties do you learn that the veteran has been charged excessive prices for some of these houses?

#### SIDE PAYMENTS

Mr. BROWNSTEIN. No, sir. Very, very rarely do you find—and then not at the time of sale, but we have had a few cases where we have found that there had been side payments made, and those cases, of course, are always reported to the Attorney General.

Senator DWORSHAK. Thank you.

Senator ALLOTT. One other thing. I wonder, going back quite a ways, if we are not building up a situation where there will be a lot of trouble, with respect to an individual foreclosure, if you actually come out on a plus side on this thing. I do not ask for an opinion on this now, but I would like to have your suggestions later, if it needs to be changed by law, and maybe it can be done by regulation, so that if you come out on a plus side of an individual foreclosure, we are not running into trouble in the future by not washing these out in some legitimate manner—if someone comes along later who wants to make a record for himself and then starts trying to collect a lot of deficiencies which are not really justified.

Mr. DRIVER. This has been recommended in the form of a legislative proposal. I am not sure where it is at the moment.

Mr. BROWNSTEIN. I was just asking about that. We had submitted this as a proposal, and I was trying to find out whether it had been submitted to the Congress yet. We do believe that there is an area here, while I do not think there has been any hardship on any veteran because we work it out administratively, where there could be something added that would be desirable.

Senator ALLOTT. All right. That is all I have, Mr. Chairman.

PRIORITY IN PURCHASING FORECLOSED PROPERTIES

Senator MAGNUSON. One thing. On a foreclosure, where the home of a veteran who has a GI loan is up for foreclosure, does another GI have any priority on picking it up?

Mr. BROWNSTEIN. After we acquire a property, Senator?

Senator MAGNUSON. Yes.

Mr. BROWNSTEIN. At one time we had provided that we would hold properties open to sale to veterans for a period of 30 days. This was at the time when there was a housing shortage in many areas. Since that condition no longer exists, we have eliminated that requirement and we no longer require that it be for veterans and we will sell to veterans and nonveterans alike. Frankly, we are interested in selling.

Senator MAGNUSON. Another question. Where you have, say, 100 houses being acquired by you, and they are separate units, naturally, but you sometimes find a component of units, 20 in a group—

Mr. BROWNSTEIN. Yes, sir. Sometimes you find them in a subdivision.

Senator MAGNUSON. Now I suppose in that case you would have that open for people in that business to refinance and get into that subdivision again, rather than trying to sell 20 individual homes?

Mr. BROWNSTEIN. No; we will sell them individually. But what we will also do in that situation, Mr. Chairman, is possibly rent some of them. If the market is not good, and we do not think we can move them all, we may hold a half dozen of them open for sale, and keep them vacant, and rent the balance if we can rent them.

Senator MAGNUSON. So then, say, the builder that built the subdivision finds there is a block of them up, he cannot come back in and take advantage of the ringer and get right back in again?

Mr. DRIVER. No, sir. And we are very careful not to let the resale jeopardize any other exposure we may have in the area. Because if you were to sell below the other prices, you might very well jeopardize the value of the other homes. So we are very careful, and for that reason many times we will hold properties longer in the expectation of selling them at a higher value later. We just won't give them away at an auction sale.

Senator MAGNUSON. And again, for the record, you say that we have out now—and put the exact figure in—somewhat over \$50 billion?

Mr. BROWNSTEIN. Yes, sir; \$51 billion represents the original principal amount of the total loans guaranteed or insured by the VA. The total number guaranteed or insured is about 6 million.

Senator MAGNUSON. You put the exact amount in the record. (The information referred to follows:)

*Guaranteed/insured loans, as of Sept. 30, 1961*

	Number	Amount
Total.....	5,973,049	\$51,389,206,568
Home.....	5,664,836	50,441,487,836
Farm.....	71,545	283,999,703
Business.....	236,668	663,719,029

*Estimated contingent liability of outstanding VA guaranteed and insured loans, as of Sept. 30, 1961*

Type of loans	Number of loans outstanding	Outstanding principal balance	Contingent liability
Home.....	3, 773, 312	\$29, 929, 024, 390	\$16, 460, 963, 200
Farm.....	13, 749	40, 219, 200	17, 455, 133
Business.....	7, 104	12, 615, 245	4, 793, 793
Total.....	3, 794, 165	29, 981, 858, 835	16, 483, 212, 126

## CONTINGENT LIABILITY

Senator DWORSHAK. That is not all Government guaranteed, is it?

Mr. BROWNSTEIN. Oh, no; there is FHA.

Senator MAGNUSON. This is GI only.

Mr. DRIVER. This is only one figure.

Mr. BROWNSTEIN. Our contingent liability on the original \$51 billion, Senator Dworshak has been reduced from \$27.8 billion to \$16.4 billion at the present time.

Mr. DRIVER. The original principal amount of the loans of \$51.7 billion has been paid down to \$29.9 billion at the present time.

Senator MAGNUSON. It has been paid back in.

All right, any further questions on this item?

For the benefit of Senator Allott, who was not here at the beginning, on the first item they are asking for \$55 million for readjustment benefits, which involve the education and training allowance for Korean veterans. Now they explained that their estimate on the number of Korean veterans who were going to take education and training was just way above what last year they thought it would be.

Mr. MONK. About 13,000 above our budget estimate.

Mr. BROWNSTEIN. I would like to emphasize the critical nature of this, Mr. Chairman. Unless we get this supplemental very quickly, we are out of money now, and these veterans who are in school may not get their February check.

## TOTAL KOREAN VETERANS IN SCHOOL

Senator MAGNUSON. What is the total of Korean veterans in school? Do you have that off hand?

Mr. BROWNSTEIN. Yes, sir. About 98,000 average for the year.

Mr. DRIVER. 98,000 average for the year.

Senator MAGNUSON. Of the percentage of veterans who take advantage of the educational and training program, was the percentage of Korean veterans greater than the World War II veterans, or about the same?

Mr. DRIVER. No; they are about the same.

Senator MAGNUSON. Now, we have a bill which is going to be on the Senate floor here in a few days, or a couple of weeks, to allow peacetime benefits. You will be back here again, right?

Mr. DRIVER. Yes, sir; if we are invited.

Senator ALLOTT. There are no peacetime benefits now, are there?

Mr. DRIVER. Not for education. We pay compensation for service-connected disability incurred in peacetime and 80 percent of the war—

Senator ALLOTT. I mean, no educational allowance or anything like that?

Senator MAGNUSON. No; but there is a bill that cleared the Senate committee.

Mr. DRIVER. We recommended last year, and the House enacted, a proposal to give rehabilitation training to the disabled and that is pending in the Senate.

The one I think that you are referring to, Senator, is the proposal to give education, for cold war GI's.

## SERVICE LIFE FUND

Senator MAGNUSON. This does not involve this. What is the status of the service life fund, is that still good?

Mr. MONK. Yes, sir, very good.

Senator MAGNUSON. That has been a little better than our expectation.

Mr. MONK. Yes, sir.

Mr. DRIVER. We have been able to pay more in dividends than we thought because the mortality rate has not equalled the expectation, happily.

Senator MAGNUSON. Off the record.

(Discussion off the record.)

Any further questions on those items?

Senator ALLOTT. Just one question. Why do we use the borrowing privilege instead of making a direct appropriation? Why do we use the back door spending on this?

Senator MAGNUSON. You mean on the revolving fund?

Senator ALLOTT. Why don't we make a direct appropriation and then let them pay it back to us?

Senator MAGNUSON. On the revolving fund?

Senator ALLOTT. Yes.

Senator MAGNUSON. I suppose this is a simpler way.

Mr. DRIVER. It is quicker.

Senator MAGNUSON. That is what I mean, a more expeditious way.

Mr. HANSMAN. And our situation is quite serious. As pointed out, we ran out of money in our loan guarantee revolving fund in December and we do not have sufficient funds to pay the educational training allowances for February —

Senator ALLOTT. I was not speaking about the \$55 million item. I was going back to the other item.

Mr. DRIVER. The \$96 million for loan guaranty.

We asked for a direct appropriation, Senator, and the House used this mechanism to make it available.

Senator MAGNUSON. The House has language that provides that it will be available during the current fiscal year for transfer to the Federal loan guarantee revolving fund in such amount as may be necessary to provide the foregoing expenses.

The reason for that I suppose is some flexibility within the ceiling, too.

Mr. DRIVER. Yes, that is right.

Senator MAGNUSON. All right; we will go to the next item.

I am sorry, that takes care of all of the items.

If there are no further questions, we thank you gentlemen and we will go into executive session.

(Whereupon, at 11:35 a.m., Thursday, February 1, 1962, the committee adjourned to executive session.)

