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# HOMEOWNERS ASSISTANCE

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## HEARING BEFORE A SUBCOMMITTEE OF THE COMMITTEE ON ARMED SERVICES UNITED STATES SENATE

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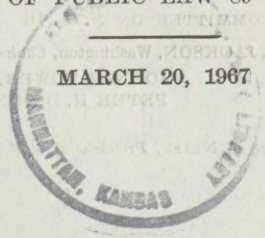
FIRST SESSION

ON

### S. 1216

A BILL TO AUTHORIZE APPROPRIATIONS DURING FISCAL  
YEAR 1967 FOR USE BY THE SECRETARY OF DEFENSE FOR  
ACQUISITION OF PROPERTIES PURSUANT TO SECTION 1013  
OF PUBLIC LAW 89-754

MARCH 20, 1967



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HOMEFOWNERS ASSISTANCE

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COMMISSION OF ARMED SERVICES

COMMITTEE ON ARMED SERVICES

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# HOMEOWNERS ASSISTANCE

MONDAY, MARCH 20, 1967

U.S. SENATE,  
SUBCOMMITTEE OF THE  
COMMITTEE ON ARMED SERVICES,  
Washington, D.C.

The subcommittee (composed of Senators Jackson (chairman), Cannon, Inouye, Byrd, Jr., of Virginia, Tower, and Dominick) met pursuant to notice at 2:15 p.m., in room 212, Old Senate Office Building, Senator Henry M. Jackson presiding.

Present: Senators Jackson, Cannon, and Dominick.

Also present: Gordon A. Nease, professional staff member.

Senator JACKSON. The committee will come to order.

We have before us for consideration this afternoon S. 1216, which would authorize appropriations during fiscal year 1967 in the amount of \$11 million for use by the Secretary of Defense for acquisition of properties pursuant to section 1013 of Public Law 89-754.

(The bill S. 1216, together with documentation of the basic legislation, follows:)

[S. 1216, 90th Cong., first sess.]

A BILL To authorize appropriations during fiscal year 1967 for use by the Secretary of Defense for acquisition of properties pursuant to section 1013 of Public Law 89-754, and for other purposes

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That in accordance with subsection 1013(i) of Public Law 89-754 (80 Stat. 1255, 1292) there is authorized to be appropriated for use by the Secretary of Defense for the purposes of section 1013 of Public Law 89-754, including acquisition of properties, an amount not to exceed \$11,000,000.*

## ASSISTANCE TO HOMEOWNERS IN BASE CLOSURE AREAS

### BASIC LEGISLATION

Section 1013 of Public Law 89-754, the Demonstration Cities and Metropolitan Development Act of 1966, authorizes the Secretary of Defense to provide assistance to military or civilian employee homeowners by reducing their losses incident to the disposal of their homes when the military installations at which they were serving or employed are ordered to be closed in whole or in part. To provide such assistance, the Secretary is authorized "to acquire title to, hold, manage, and dispose of, or, in lieu thereof, to reimburse for certain losses upon private sale of, or foreclosure against, any property improved with a one- or two-family dwelling.\* \* \*"

The Act establishes in the Treasury a fund to be available to the Secretary for extending such financial assistance to qualified homeowners but subsection 1013(i) requires that appropriations for the acquisition of properties must be authorized by a military construction authorization act and that no monies in the fund may be expended except as may be provided in appropriation acts.

The Act authorizes assistance for the owner of a qualified dwelling if he was a serviceman or a civilian occupying the dwelling and serving or employed at the installation at the time of, or under specified conditions within stipulated periods prior to, the public announcement of the closure action. Any individual who is eligible under the criteria of the Act may elect to receive (1) a cash payment as partial compensation for losses sustained in a private sale or (2) as purchase

price for his property, an amount equal to 90 percent of the fair market value prior to the base closure announcement, or the amount of the outstanding mortgages. Also, the Secretary of Defense may reimburse or pay on account of eligible persons such sums as may be paid or be otherwise due and owing by such persons as the result of foreclosure commenced by mortgagees after the base closure announcement and prior to March 3, 1967.

#### SCOPE OF THE PROGRAM

Studies at installations announced for closure between November 1, 1964 and December 31, 1966, indicate that about 124,600 military personnel and 81,200 civilian employees will be affected and that 12,980 and 32,370, respectively, will be eligible homeowners. It is estimated that some 28,500 homeowners—8,500 military and 20,000 civilians—will establish eligibility for assistance by June 30, 1967, but it is estimated that about 10,600 will elect not to apply for assistance because (being in areas where the impact of base closure on the housing market is negligible), they can sell at a price in excess of the prices available under the alternatives provided by the statute.

Accordingly, it appears that about 17,900 individuals will apply for assistance under the Act during Fiscal Year 1967. Even though a major portion of FY 1967 is already passed and some time is required to develop maximum administrative efficiency, it is estimated that about 45 percent—8,100 of the applications can be processed by June 30, 1967; the remainder will be handled as expeditiously as possible in FY 1968.

Base closure actions announced on January 19, 1967 are not expected to have a perceptible impact on the homeowners assistance program during FY 1967.

#### ELIGIBILITY CRITERIA

Section 1013 of Public Law 89-754 spells out in detail just who will be eligible for assistance. The Secretary of Defense may provide assistance with respect to "any property improved with a one- or two-family dwelling which is situated at or near a military base or installation which the Department of Defense has, subsequent to November 1, 1964, ordered to be closed in whole or in part, if he determines—

"(1) that the owner of such property is, or has been, a Federal employee employed at or in connection with such base or installation (other than a temporary employee serving under a time limitation) or a serviceman assigned thereto;

"(2) that the closing of such base or installation, in whole or in part, has required or will require the termination of such owner's employment or service at or in connection with such base or installation; and

"(3) that as the result of the actual or pending closing of such base or installation, in whole or in part, there is no present market for the sale of such property upon reasonable terms and conditions."

Further, the section provides:

"(b) In order to be eligible for the benefits of this section such employees or military personnel must be or have been—

"(1) assigned to or employed at or in connection with the installation or activity at the time of public announcement of the closure action,

"(2) transferred from such installation or activity, or terminated as employees as a result of reduction-in-force, within six months prior to public announcement of the closure action, or

"(3) transferred from the installation or activity on an overseas tour unaccompanied by dependents within fifteen months prior to public announcement of the closure action;

*Provided, That, at the time of public announcement of the closure action, or at the time of transfer or termination as set forth above, such personnel or employees must—*

*"(i) have been the owner-occupant of the dwelling, or*

*"(ii) have vacated the owned dwelling as a result of being ordered into on-post housing during a six-month period prior to the closure announcement:*

*Provided further, That as a consequence of such closure such employees or personnel must—*

*"(i) be required to relocate because of military transfer or acceptance of employment beyond a normal commuting distance from the dwelling for which compensation is sought, or*

"(ii) be unemployed, not as a matter of personal choice, and able to demonstrate such financial hardship that they are unable to meet their mortgage payments and related expenses."

These eligibility criteria are intended to insure that assistance is extended only to DoD-connected homeowners who have been *proximately* affected by a base closure action. It is contemplated that other persons, such as local businessmen, will be assisted through the Defense Department's vigorous economic adjustment program, which is designed to assist communities in minimizing the economic impact of military base closures. The program is limited to career or career-conditional Federal employees, on the basis that there should be an eligibility threshold for homeowners assistance, just as there is for other employee benefits.

#### PROCEDURES

The types of assistance available and the mechanics of the program can best be illustrated by examining in sequence the procedures planned by the Defense Department. To begin with, it is contemplated that an applicant for assistance will obtain an information brochure on the program from his military or civilian Personnel Officer, or, if he is no longer associated with the Federal Government, from the Personnel Officer of the nearest military installation or activity.

The brochure will describe the eligibility requirements and rights of applicants under section 1013 of Public Law 89-754, as well as the procedures to be followed in seeking the alternative forms of assistance which are available.

The applicant will also obtain and submit to the Personnel Officer an *Application for Homeowners Assistance*. This form will contain—

1. Information as to his service or employment at an installation or activity announced for closure,
2. Reasons for desiring assistance (relocation outside commuting area or financial hardship, with related detailed information), and
3. Information on property for which assistance is sought.

The Personnel Officer will review the Application and verify the facts relating to eligibility, and certify that the applicant has been determined to be eligible, or that he has been determined to be ineligible (with reasons therefore).

If the Personnel Officer determines the applicant to be *ineligible*, he will return the Application with a Determination to that effect. Applicant will have a right of appeal to the Central Claims Office, and to higher authority.

#### CENTRAL CLAIMS OFFICE

If the Personnel Officer determines the applicant to be *eligible*, he will so certify at the bottom of the Application form, and forward the form to the Central Claims Office for further action.

The Central Claims Office will take the following actions with respect to Applicants from eligible homeowners:

1. *Applicants whose homes have been foreclosed.* The Claims Office will confer with the Veterans Administration, Federal Housing Administration, and mortgagees (as appropriate) and pay deficiency judgments, debts owing to VA or FHA, and other foreclosure costs directly on behalf of the applicant. To the extent that the applicant may have already paid all or part of his valid foreclosure costs, the Claims Office will reimburse him.

2. *Applicants whose homes have already been sold.* The Claims Office will obtain fair market value appraisals, both current and prior to the base closure announcement, for the property for which assistance is sought. It will remit to the applicant a check in the amount (if any) by which 95 percent of the prior FMV exceeds either the current FMV or the actual salesprice (whichever is higher). If no payment is due, the applicant will be so advised. In all cases applicants will be informed of the basis for the decision in his case (essentially the amounts of the two appraisals).

3. *Applicants still in possession of their homes.*—The Claims Office will obtain current and prior FMV appraisals, and inform applicants of the amounts of such appraisals so that they may elect to:

- (a) Sell privately and claim loss compensation, or
- (b) Assign their properties to the Government for the amount of the outstanding mortgage(s), or
- (c) Assign their properties to the Government for 90 percent of the prior FMV.

Upon receipt of the appraisal information, homeowners electing alternate 3(a) will sell privately and thereafter send the Claims Office a *Claim for Loss Compensation* with evidence of the gross sales price received. The Claims Office will

thereupon remit to the homeowners a check in the amount (if any) by which 95 percent of the prior FMV exceeds either the current FMV or the actual sales price (whichever is higher).

Homeowners electing to assign their properties to the Government under alternates 3(b) or 3(c) will send the Claims Office an *Application for Government Purchase*. The Claims Office will approve such Applications by endorsement and transmit them to the appropriate office for action with respect to property acquisitions, mortgage assumptions, and cash equity payments (alternate 3(c)).

#### INTERAGENCY ACTIONS

Pursuant to the provisions of section 1013(g) of Public Law 89-754, the Department of Defense is currently engaged in discussions with the Department of Housing and Urban Development in order to determine which functions the latter Department might most effectively perform in connection with this program, especially with respect to acquisition, management, and disposal of properties.

#### COST ESTIMATES

Total costs of homeowners assistance in connection with base closure actions between November 1, 1964 and December 31, 1966 are estimated to be \$49.8 million, including \$11 million in FY 1967 and \$27 million in FY 1968. These are net costs, after deducting estimated receipts from disposition of acquired properties.

The table appearing below contains an approximate distribution of the FY 1967 authorization into principal categories. It is based on Department of Defense estimates which involve a number of complex factors such as the number of military and civilian personnel displaced, time phasing of displacements, percentages of homeowners among displaced personnel, average values of homes, percentages of market declines in impacted areas, and probable elections by homeowners as to types of assistance.

#### *Summary of authorization request, fiscal year 1967*

Activity	Number of cases	Amount
Payments to homeowners (reimbursement for losses in private sales) .....	4,970	\$1,593,000
Operating costs (operating and maintenance costs for acquired properties, appraisal fees, and administrative costs for all types of assistance) .....		1,617,000
Capital outlay (equity payments to homeowners, payments in foreclosure cases, and payments on assumed mortgages) .....	3,130	7,790,000
Total authorization .....	8,100	11,000,000

Senator JACKSON. I believe a few words of explanation as to the significance of this bill are in order. We are all quite aware that a substantial number of military installations were ordered closed or consolidated by the Secretary of Defense between November 1, 1964, and December 31, 1966. This program affected some 205,800 personnel, both military and civilian. Of these, some 45,350 were estimated to be homeowners. Many of these homeowners now find themselves in a dilemma. The closure of these installations in some areas has adversely affected the real estate market, making it extremely difficult for the homeowner to dispose of his property without suffering a substantial loss. The military homeowner has no choice but to accept such transfer as is given to him. The civilian member is in about the same position if he wishes to continue his employment.

Three courses of action appear to be open to them insofar as the disposal of their property is concerned; namely, face foreclosure, dispose of the property at a loss, or let the house remain vacant. It is not beyond reason to assume that many of these people have their life's savings tied to the equity in their homes. They are without resources to purchase another home at their new post of assignment.

Since these people, both military and civilian, are victims of a situation created as a direct result of the base closure program, it seems only just that some steps be taken to afford them relief. A legislative proposal was submitted by the Department of Defense which was subsequently incorporated into the Demonstration Cities and Metropolitan Development Act of 1966 which was passed during the last session of Congress. This relief provision is set forth in section 1013 of the act and begins on page 36 of Public Law 89-754, which is before you. In brief, it provides for the payment of deficiency judgments and other foreclosure costs on behalf of those who lost their homes through foreclosure. For those who sold their homes at a loss, a payment will be made in an amount equal to the difference between the fair market value at the time of the sale and 95 percent of the fair market value prior to the announcement of the closure. If the home has not been sold, the property will be taken over by the Government and the owner compensated for the difference between the amount of the mortgage and 90 percent of the fair market value prior to the announcement of the closure.

At this time it is estimated this program will result in a net cost to the Government of \$49.8 million but, of course, this remains to be seen. The bill we are considering today is the first increment and will permit the processing of perhaps as many as 8,100 claims before June 30 of this year.

The military construction authorization bill for fiscal year 1968, which will soon be before the Armed Services Committee, contains a request for a second increment in the amount of \$27 million.

Before closing my remarks, I should like to point out that Senator Tower has taken a very active part, along with Senator Stennis, in bringing about legislation to afford these homeowners relief.

Our witness today is the Honorable John J. Reed, the Deputy Assistant Secretary of Defense for Family Housing. I believe you have a prepared statement, Mr. Reed, and you may proceed at will.

**STATEMENT OF HON. JOHN J. REED, DEPUTY ASSISTANT SECRETARY OF DEFENSE (FAMILY HOUSING); ACCOMPANIED BY MARVIN H. MORSE, OFFICE, GENERAL COUNSEL, OFFICE OF THE SECRETARY OF DEFENSE; AND JOHN H. ARRINGTON, OFFICE, DEPUTY ASSISTANT SECRETARY OF DEFENSE (FAMILY HOUSING)**

Mr. REED. Thank you, sir.

Mr. Chairman and members of the committee, I appreciate the opportunity to appear before you today on behalf of the Department of Defense, in order to testify in support of S. 1216, which would authorize funds for the purposes of section 1013 of Public Law 89-754, including the acquisition of properties.

Section 1013 of the Demonstration Cities and Metropolitan Development Act of 1966 (Public Law 89-754, enacted November 3, 1966) authorizes the Secretary of Defense to provide assistance to owners of one- or two-family dwellings located at or near military installations ordered to be closed in whole or in part subsequent to November 1, 1964, providing the Secretary finds that such persons are military personnel or civilians whose service or employment at such installations has been (or will be) terminated as a result of the

closure action. The Secretary must also find that such persons were owner-occupants of the dwellings at the time of the closure announcement, and that there is no present market for the properties on reasonable terms.

To provide the authorized assistance, the Secretary is authorized—to acquire title to, hold, manage, and dispose of, or, in lieu thereof, to reimburse for certain losses upon private sale of, or foreclosure against, any property improved with a one- or two-family dwelling. \* \* \*

Eligible homeowners may elect either to receive a cash payment as partial compensation for losses which may have been sustained in a private sale, or to sell their properties to the Department of Defense for an amount not to exceed 90 percent of fair market value prior to the base closure announcement (or the amount of the outstanding mortgages if these exceed 90 percent of prior value). The Secretary of Defense is also authorized to reimburse or pay on account of eligible persons such sums as may be paid or be otherwise due and owing by such persons as the result of foreclosures commenced by mortgagees after the base closure announcement but prior to the 120th day after enactment of Public Law 89-754—that date would be prior to March 3, 1967.

The act establishes in the Treasury a fund to be available to the Secretary for extending such financial assistance to qualified homeowners; but subsection 1013(i) requires that appropriations for the acquisition of properties must be authorized by a military construction authorization act and that no moneys in the fund may be expended except as may be provided in appropriation acts.

Studies at installations announced for closure between November 1, 1964, and December 31, 1966, indicate that about 124,600 military personnel and 81,200 civilian employees will be affected and that 12,980 and 32,370, respectively, will be eligible homeowners. It was estimated that some 28,500 homeowners—8,500 military and 20,000 civilians—would establish eligibility for assistance by June 30, 1967, but it was estimated that about 10,600 will elect not to apply for assistance because (being in areas where the impact of base closure on the housing market is negligible) they can sell at a price in excess of the prices available under the alternatives provided by the statute.

Accordingly, it appears that about 17,900 individuals will apply for assistance under the act during fiscal year 1967. Even though a major portion of fiscal year 1967 is already passed and some time is required to develop maximum administrative efficiency, it was estimated that about 45 percent—8,100—of the applications could be processed by June 30, 1967; the remainder will be handled as expeditiously as possible in fiscal year 1968.

Base closure actions announced on January 19, 1967, are not expected to have a perceptible impact on the homeowners assistance program during fiscal year 1967.

Section 1013 of Public Law 89-754 spells out in detail just who will be eligible for assistance. These eligibility criteria are intended to insure that assistance is extended only to Department of Defense-connected homeowners who have been proximately affected by a base closure action. It is contemplated that other persons, such as local businessmen, will be assisted through the Defense Department's vigorous economic adjustment program, which is designed to assist communities in minimizing the economic impact of military base

closures. Assistance to homeowners is limited to career or career-conditional Federal employees, on the basis that there should be an eligibility threshold for this program, just as there is for other employee benefits.

To begin with, it is contemplated that an applicant for assistance will obtain an information brochure on the program from his military or civilian personnel officer, or, if he is no longer associated with the Federal Government, from the personnel officer of the nearest military installation or activity.

The brochure will describe the eligibility requirements and rights of applicants under section 1013 of Public Law 89-754, as well as the procedures to be followed in seeking the alternative forms of assistance which are available.

The applicant will also obtain and submit to the personnel officer an application for homeowners assistance. The personnel officer will review the application and verify the facts relating to eligibility, and certify that the applicant has been determined to be eligible, or that he has been determined to be ineligible (with reasons therefor).

If the personnel officer determines the applicant to be eligible, he will so certify at the bottom of the application form, and forward the form to a central claims office for further action. The central claims office will process claims, determine market values, pay foreclosure costs where appropriate, and make such payments to homeowners as may be due to them for loss compensations. It will also certify properties for acquisition on specified terms.

Pursuant to the provisions of section 1013(g) of Public Law 89-754, the Department of Defense is currently engaged in discussions with the Department of Housing and Urban Development in order to determine which functions the latter Department might most effectively perform in connection with this program, especially with respect to acquisition, management, and disposal of properties.

Total costs of homeowners assistance in connection with base closure actions between November 1, 1964, and December 31, 1966, have been estimated to be \$49.8 million, including \$11 million in fiscal year 1967 and \$27 million in fiscal year 1968. These are net costs, after deducting estimated receipts from disposition of acquired properties.

The table appearing below contains an approximate distribution of the fiscal year 1967 authorization into principal categories. It is based on Department of Defense estimates which involve a variety of factors such as the number of military and civilian personnel displaced, time phasing of displacements, percentages of homeowners among displaced personnel, average values of homes, percentages of market declines in impacted areas, and probable elections by homeowners as to types of assistance.

Briefly, the summary table shows in the activity column payments to homeowners. These are reimbursements for losses in private sales, and we estimate 4,970 cases at a cost of \$1.6 million; operating costs, which cover all of the administrative costs, appraisal fees, and other costs associated with acquiring the properties, we estimate at about \$1.6 million; capital outlay, which are the equity payments to homeowners, payments in foreclosure cases, and payments on assumed mortgages, we estimate 3,130 cases requiring the amount of \$7.8

million; the total authorization that we see involved in fiscal year 1967 will be \$11 million associated with 8,100 cases.

We are happy to answer any of your questions, gentlemen, that you may have in respect to this program.

Thank you.

(The table referred to follows:)

*Summary of authorization request, fiscal year 1967*

Activity	Number of cases	Amount
Payments to homeowners (reimbursement for losses in private sales)-----	4,970	+\$1,593,000
Operating costs (operating and maintenance costs for acquired properties, appraisal fees, and administrative costs for all types of assistance)-----		1,617,000
Capital outlay (equity payments to homeowners, payments in foreclosure cases, and payments on assumed mortgages)-----	3,130	7,790,000
Total authorization-----	8,100	11,000,000

Senator JACKSON. Mr. Reed, first of all, I wanted to ask a couple of questions before I turn to my colleagues. The effective date is November 1, 1964, and for hardship that has accrued subsequent to that date.

Now, what about the situations prior to that?

Mr. REED. The Congress, I believe, sir, discussed that particular point as to those people who were at a base which was closed prior to November 1964, and my recollection of the discussions with Congress at that time was that the greatest number of hardships came with the two big closure announcements in November of 1964 and in 1965, and the basic legislation picked that as a cutoff point. There is no retroactivity beyond November 1964.

Senator JACKSON. I was just thinking of some situations that might arise where they can come back and say, "Look, I took a real beating here and we ought to be covered. It occurred prior to 1964. We are going back retroactively to November 1, 1964."

Your judgment is that as a practical matter there would be few if any situations which could come under the criteria of the legislation here.

Mr. REED. I am sure that there may be some cases, Mr. Chairman, of people who have situations going back before that. But it is my understanding, when this legislation was enacted last year, that the Congress was desirous of finding some point in time to measure from, and that the large closures, the ones which caused so much displacement, were the two big ones which I referred to earlier.

Senator JACKSON. I can just visualize; yes, Senator.

Senator CANNON. Was that cutoff date fixed in the bill that Congress enacted last year?

Mr. REED. Yes, sir; it was.

Senator CANNON. So that is already established as a matter of law now.

Senator JACKSON. There is no question it has been authorized, to start with November 1964. But now, when the money is coming along, I can just see these people coming around and saying, "Look, I was at a little base and we took a real beating here and yet we are being discriminated against." That is why I am raising it. I understand it is in the basic law that November 1, 1964, really was the

cutoff date. But this becomes a problem only when they see others getting compensated, and I am trying to anticipate some requests that may be coming in here for private relief, shall we say. That is why I raised the question. Maybe we can have supplied, if you have the information available, and I am sure you have it, the bases that were involved prior to that date, say, for the last 4 or 5 years prior to 1964 of closures in which there might be an impact.

Mr. REED. Yes, sir.

(The information requested follows:)

*Base closure actions with possible significant community impact, January 1961 to October 1964*

<i>Installation or activity</i>	<i>Date of announcement</i>
Benecia Arsenal, Calif.....	Mar. 30, 1961.
Presque Isle Air Force Base, Maine.....	Do.
Harlingen Air Force Base, Tex.....	Do.
Chennault Air Force Base, La.....	Dec. 27, 1963.
Donaldson Air Force Base, S.C.....	Do.
Greenville Air Force Base, Miss.....	Dec. 12, 1963.
Stead Air Force Base, Nev.....	Do.
Rome Air Material Area, N.Y.....	Do.
Erie Army Depot, Ohio.....	Do.
Naval Auxiliary Air Station, New Iberia, La.....	Apr. 24, 1964.
Watertown Arsenal, Mass.....	Do.
Sioux Army Ammunition Depot, Nebr.....	Do.
Black Hills Ammunition Depot, S. Dak.....	Do.

Senator JACKSON. How would you determine the fair market value?

Mr. REED. These will be determined by fee appraisal contracts at the local level, utilizing local fee appraisers. It will be parallel to what the FHA is doing in this area, and appraisals will be established for each property in each of the given areas. This will be under the administration of the central claims office.

Senator JACKSON. But you are going to employ local people.

Mr. REED. Yes, sir. We will employ by contract local fee appraisers.

Senator JACKSON. Sometimes it is kind of hard to find out what the market value was back at a given time, which was the test here. It is the value of the property prior to the closure.

Mr. REED. That is correct, sir, and they will use accepted techniques such as prior sales at that time, and this type of procedure.

Senator JACKSON. With respect to homeowners who have lost their homes through foreclosure, will they receive any cash payment, any cash above payment of foreclosure costs?

Mr. REED. No, sir; they will not. The procedure that will be followed will be this, that the Government will come in and either pay off these legitimate foreclosure debts, including the payment of court costs and attorney fees or else it will reimburse those individuals for such costs which they can verify, if they have already paid, but there will be no other cash payment to these people.

Senator JACKSON. Just the reimbursement for the actual costs of foreclosure?

Mr. REED. The actual costs of foreclosure.

Senator JACKSON. So the equity part they lose?

Mr. REED. Yes, sir; they will lose it.

Senator JACKSON. As distinguished from one who had to sell, isn't that kind of severe?

Mr. REED. It might be severe. There are examples on this, Mr. Chairman.

Senator JACKSON. A small equity may be involved.

Mr. REED. Very small. Most of these cases would probably be the VA-FHA type loan where there was an almost 100-percent mortgage, very small downpayment. The other people, judging from the considerable correspondence which we have received, as have you gentlemen, I know, I think most of the people who had significant equities are hanging on, waiting for this legislative relief.

Senator JACKSON. What is the reasoning behind the 120-day limitation on the initiation of foreclosure actions?

Mr. REED. This was written into the bill to provide a cutoff date on the foreclosures so that the mortgagees seeing the legislative relief being enacted would forebear from taking foreclosure action after legislation had been enacted.

Senator JACKSON. Senator Tower could not be present and he has submitted a statement, which will be included in the record at this point.

(The statement referred to follows:)

STATEMENT OF SENATOR JOHN TOWER TO SUBCOMMITTEE ON HOMEOWNERS' RELIEF, MARCH 20, 1967

Mr. Chairman, in my joint capacity as an Armed Services Committee member and as ranking minority member of the Senate's Housing and Urban Affairs Subcommittee, I have been insisting on and working for many months to achieve financial relief for homeowners forced by arbitrary base closings to move and often to suffer losses on their property.

In 1964 when the Defense Secretary disclosed his major base reduction plan, affecting among many others in the nation my state's Amarillo Air Force Base and James Connally Air Force Base at Waco; I urged the Defense Department to immediately recognize the financial hardships sure to develop from the forced sale of homes in what was certain to be a suddenly depressed market. Despite the logic and equity of such consideration, the Defense Secretary chose to ignore the problem.

In 1965 the Housing Act written in my Housing Subcommittee contained provision for financial relief to these homeowners. Again this year, the Defense Secretary refused to request the funds authorized and passed up a chance to alleviate the problem early in the game. We had made available to him a chance to grant mortgage moratoriums and to directly purchase some properties.

By 1966, when it became evident the Defense Secretary did not intend to implement the wise, bipartisan provisions of the Congress; a further, more determined campaign was mounted. I introduced separate legislation to accomplish the homeowner relief, and I introduced a resolution enabling the Armed Services Committee to conduct a complete inquiry into the increasingly pressing problem. The 1966 Housing Bill presented to the Senate by my subcommittee flatly mandated the Defense Secretary to implement the relief program. At this juncture the Defense Department saw the handwriting on the wall and finally proposed legislation of its own.

The Department's proposals did not provide all the relief many of us felt desirable. However, in an effort to get something accomplished finally we agreed on the Senate floor to ameliorate the committee's "mandate" language and accept the Department's suggestions and assurances that action would be forthcoming.

We now appear to have arrived at the point of action. I hope we can have committee and Congressional approval of this new legislation and speedy Department implementation.

Senator JACKSON. There are a number of questions Senator Tower has posed which you can respond to for the record.

Mr. REED. Yes, sir; I would be happy to do that.

(The questions and answers follow:)

1. *Question:* In my view there has been a long record of delay of this program by the Department of Defense, indicating that the Department never has been

particularly enthusiastic about it. Can we now be assured that the Department is committed to the program and will carry it through?

*Answer:* The Department of Defense had certain objections to the original homeowners relief legislation contained in section 108 of the 1965 Housing Act. These objections have been eliminated by section 1013 of the Demonstration Cities and Metropolitan Development Act of 1966 (Public Law 89-754), which substantially reflects DoD recommendations, and which repealed section 108. The Department fully supports the principles embodied in section 1013 and will implement it expeditiously.

2. *Question:* In light of the Department's rather elaborately publicized and implemented programs of assistance to individuals and communities in base closure situation, how do you explain the failure of the Department to anticipate this particular homeowner need and to plan for its alleviation from beginning?

*Answer:* The homeowners assistance program authorized by section 1013 of PL 89-754 represents an unprecedented step in the direction of increased personnel benefits. The need for a program of this type became apparent following the major base closure announcements of November 1964. After carefully considering the provisions of section 108 of the 1965 Housing Act, the Department undertook a comprehensive study of the problem, and submitted its recommendations to Congress on May 13, 1966.

3. *Question:* I note in page 3 of Mr. Reed's statement the words "some time will be required to develop maximum administrative efficiency." Far too much time already has elapsed in institution of this assistance. Does this statement mean we are building in further delays? Can the Department put some deadline on what you go on to call "as expeditiously as possible"?

*Answer:* We feel that any new program does require time to develop maximum administrative efficiency, but we expect that this should be achieved within a short time after the initial implementation date. Any FY 1967 relief applications which cannot be processed in FY 1967 should be processed during the first half of FY 1968.

4. *Question:* Define for the subcommittee this word "proximately" as used on page 3 of Mr. Reed's statement. How do you decide who is proximate and who is not?

*Answer:* We were referring to those Department of Defense-connected homeowners whose losses result directly from an actual or pending base closure action, and not from some other cause. Determinations as to personnel "proximately affected" will be made in accordance with the detailed eligibility criteria set forth in section 1013 of Public Law 89-754.

5. *Question:* How has the Department gone about determining eligibility? Are you sure all concerned have been identified?

*Answer:* Eligibility will be determined by personnel officers at military installations or activities upon receipt of applications. Although estimates have been prepared as to the numbers of persons who will establish eligibility, no actual determinations have yet been made.

6. *Question:* What program is planned to explain the assistance and to help applicants?

*Answer:* Applicants will be furnished information brochures by personnel officers, who will be prepared to discuss the types of available assistance.

7. *Question:* I note that on page 4 of the statement you say applicants "will obtain" a brochure. Do you not feel that after the long delays in this program the Department has a special obligation to provide on its own initiative that information and to be sure everybody concerned gets it?

*Answer:* The Department will take steps to see that persons affected by base closure actions are informed about the program.

8. *Question:* How does the Department now feel the Department of Housing and Urban Development might assist and coordinate in this program?

*Answer:* Pursuant to the provisions of section 1013(g) of Public Law 89-754, the Department of Defense is currently engaged in discussions with the Department of Housing and Urban Development in order to determine which functions the latter Department might most effectively perform in connection with this program, especially with respect to acquisition, management, and disposal of properties.

9. *Question:* What further base closures are in the offing that would affect the scope of this program?

*Answer:* No specific information on this matter is available. However, military installations are constantly under review as to how the needs of national defense can most effectively be met at minimum cost.

Senator JACKSON. Senator Dominick?

Senator DOMINICK. I wonder if we can ask the last question in that group. Senator Tower asked me also to go over these questions.

Senator JACKSON. Sure. Why don't you go ahead. I yield to you.

Senator DOMINICK. The last question is: What further base closures are in the offing that would affect the scope of this program? That is a good solid question.

Mr. REED. That is an excellent question, sir.

First, I have no responsibilities in the area of base closures. The history of this, I think, is well known to the committee, that the Secretary has under constant review the complete group of installations of the Department. I personally know of no effort underway at the moment except the standing effort for continued review which is done by a different group in the Secretary's Office than my own.

I might volunteer, though, that certainly any future closures would have an effect upon the same general area of this legislation.

Senator DOMINICK. In effect, what you are saying then is that this is an open ended bill which would take care of closings so far as we can see in the future?

Mr. REED. This type of relief would be established on a permanent basis, yes.

Senator DOMINICK. Senator Tower also says, and I quote:

In my view there has been a long record of delay of this program by the Department of Defense, indicating that the Department never has been particularly enthusiastic about it. Can we now be assured that the Department is committed to the program and will carry it through?

Mr. REED. First of all, sir, the Secretary and the Department have been enthusiastic about accepting responsibility for hardships to its people created by acts of government. We proposed the legislation in 1013 which the Congress then did adopt, and this repealed former legislation which was section 108. Perhaps counsel knows the bill (Public Law 89-177).

The reason we did this was that the 108 legislation was not the best legislation because it did not establish eligibility nor did it provide options to the people involved. We will pursue this new legislation vigorously and we will pursue this relief, if granted by the Congress, vigorously.

Senator DOMINICK. Mr. Chairman, the only other questions are in the record and I presume they will be answered.

Senator JACKSON. Yes, they will be responded to, but go ahead if you would like.

Senator DOMINICK. I would like to ask some of my own. What basis do we use to distinguish between career military people and civil service civilians who are eliminated from a household by virtue of the closing of the base, and civilian technical personnel who are employed by defense industries and who move out to a location and then suffer the same problem when the defense contract is canceled?

Mr. REED. If I understand the question, Senator Dominick, you are asking what about the people who are not directly connected with defense but are indirectly connected.

Senator DOMINICK. Correct.

Mr. REED. In the study which was made of this, we did exclude this type of person. There is no direct employer-employee relationship, which again we feel is the essence of this type of beneficial legislation. The different employment conditions of each of these con-

tractors vary. Some are reimbursed for this type of thing, we understand, and it is logical to assume that all contractor employees were aware of the fact that they were employed strictly on a contract basis and that contract might terminate at any time.

We feel that indirectly these people in the different communities will be helped by the communities themselves as they go into the very active economic adjustment activities.

There are many very good stories in this area, as you are aware, of where the local economies after the military closure have picked up substantially beyond what was there with the military presence. But the heart of the thing is the employer-employee relationship.

Senator JACKSON. Will you yield right on that point?

Senator DOMINICK. Yes.

Senator JACKSON. What about a situation wherein the Government has a contract to undertake to do a given Defense assignment by contract, and for all practical purposes they are the same as Government employees—except it is by contract as distinguished from an ordinary defense-type industry situation. We have a lot of these contracts out. These contractors can be located in a remote area. Here's where you have a real hardship.

Mr. REED. Generally, Mr. Chairman, that has been viewed with some thought that it was not a permanent situation. I think wherever there is a permanency to a mission or the activity that we have gone the civil service route or military personnel route, rather than contract. The contract situation is generally an ad hoc situation.

Senator JACKSON. Yes, but you have got the Rand Corp. for the Air Force. Supposing they decide to close it all out. We have other contracts that have been going on for many years where there is a closure.

I think what you have got here is a point where you are going to have to cut off. I think if it is based on equities, it seems to me, one can make a real strong argument about the indirect employee. We do have a lot of Government contracts where we are undertaking to do normal Defense work which could be done within the Defense Department, but we are doing it through contractual relationships between various entities, between nonprofit organizations and universities.

Mr. REED. Yes. Of course, the key people in that relationship would be taken care of by their employers.

At some point, as you pointed out you must limit this. We could extend this to the man who made an investment in a dry cleaning plant because he assumed a military base would be there forever and he suffered a great loss.

This type of person just as the Government contractor personnel, we hope will be taken care of by economic improvements.

Senator DOMINICK. Suppose you take a specific case. Let us take the Martin Corp., which has this plant out in my State.

You have working for the Government in connection with that, let us say, Department of Defense inspectors.

Mr. Reed. Yes, sir.

Senator DOMINICK. They are actually working for the Department of Defense. Let us suppose that contract gets canceled back very shortly, and there is no longer the need for these people. Do they get relief under this?

Mr. REED. And this is, assuming this is subsequent to the November date, et cetera?

Senator DOMINICK. That is correct.

Mr. REED. I would like to ask counsel, but certainly the language of the bill says a base closure in whole or in part, and if this were not a military base as such, I doubt if it would qualify. But I think perhaps an equal argument could be waged on the other side that the contract inspection office was a military activity. I think the law is not completely clear on this.

Mr. MORSE. It is my understanding that section 1013 would limit in application the benefits to military bases or installations which, as Mr. Reed suggests, would be those that typically are within the control of the Department, and to the extent that this is an assistance which has developed in light of base closure, there would not seem to be any room under this interpretation that would apply the relief here to a contract or contract activity.

There had never been, as I understand it, any intention in the base closure concept of treating terminations of particular procurements, for example, as part of that approach.

Senator DOMINICK. Even though the Federal Government itself owns the land and leases it to the contractor?

Mr. MORSE. Well, I think there might be some close cases. But I think even there that would be the termination of a contractual relationship rather than the closure of a military activity, as we understand it, involving military or civilian in-house personnel; yes, sir.

Mr. REED. Certainly the same result would be achieved by competitive procurement means where a large contractor lost a contract to another company.

Senator DOMINICK. The thing I am concerned about is that the provisions as we now have them worded in section 1013 will operate inequitably amongst people, and I think this is what the chairman was talking about, too, and the question is should any effort be made to modify this in order to get the equities more even.

Senator CANNON. We could not modify it in this bill.

Mr. REED. I believe, sir, that we could not do any modification to section 1013 at this point since the particular bill that we have submitted to you is merely complying with section 1013(i) of—

Senator JACKSON. We could by separate legislation. It was handled by the Banking and Currency Committee.

Mr. REED. Yes, sir; it was.

Senator JACKSON. But if we could obtain jurisdiction to handle this matter by handling it as a separate matter relating to the Department of Defense, we could put it in this bill, I mean, this is an authorization bill.

Mr. REED. Certainly in Senator Dominick's illustration, as I tried to mention earlier, there seems to be a persuasive argument to that point as to what is the definition of an installation. Is a contract inspection office with, perhaps, 500 employees a significant installation? Again we do not have the actual experience. The intent here is certainly to aid those people who have been injured for reasons beyond their control by an act of the department, rather than by competitive act or an act of the marketplace or any other thing, and this being the basic intent, I do not know how much room we have for legislative interpretation. But if the intent of the Congress in giving us this authority is to assist those Government employees who are subjected

to possible damages because of an act of the Department's, then it would seem to me to be a persuasive argument to include such people.

Senator DOMINICK. Of course, you get right into the middle of the other inequity if you take care of the inspection team, for example, and did not take care of the ones who were employees of the contractor, then you are going to get your throat cut that way.

Mr. REED. Well, our study group wrestled with this problem at some length, and that is why we limited it to the directly affected personnel.

Senator DOMINICK. Your estimate of the costs, I should have remembered it but I do not, Mr. Reed—

Mr. REED. The total estimate is \$49 million, sir, on a net basis. The estimate for fiscal year 1967 is \$11 million, and we will be back before you in a month or so in the regular military construction authorization bill for \$27 million.

Senator JACKSON. The balance for the year following.

Mr. REED. The balance, sir, is stretched out over the next few years beyond fiscal year 1968, depending upon closure dates and the phasing of these different actions.

Senator JACKSON. What is the figure on the bases, the facilities and installations that have been closed to date, sir?

Mr. REED. It is the \$49 million figure.

Senator JACKSON. Why is it taking so long? Does this contemplate others?

Mr. REED. Because some of these closures which were announced are 4 and 5 years in the future, sir.

Senator JACKSON. Yes. But some of them really would not. In the ones that aren't being phased out over a longer period of time, the losses ought to be relatively lower than the ones where you just chop right down. Some of them may not have any loss.

Mr. REED. That is correct, sir.

Senator JACKSON. There is some element of speculation, I assume, here. It is a guestimate in part as to what the costs will be beyond, say, next year.

Mr. REED. Yes, sir. As each year we come back to the committee for this particular authorization we will have the advantage of the prior experience, and I think we can do a much better job with our estimates.

Senator JACKSON. Senator Cannon?

Senator CANNON. Was this \$49 million cost estimate included in the Secretary's estimate of the cost of closure of these bases?

Mr. REED. No, sir; it was not. The action to study this type of assistance came subsequent to the first of the two big closures. Of course, this is a general factor. The cost savings associated with base closures are generally the operating savings when you are—

Senator CANNON. That was going to be my next question. Then the estimated cost savings that the Secretary announced at the time of these closures, this would reduce those cost savings by \$49 million, would it not?

Mr. REED. I think, Senator Cannon, all of those savings are predicated upon operating cost savings.

Senator CANNON. That is what I understand. But if you are going to go out and pay \$49 million in addition related to the cost of closing the bases that is going to reduce your estimated cost savings, is it not?

Mr. REED. Not on the operating savings concept, sir. The Secretary will certainly have a price-out of the relief costs based on our experience.

Senator CANNON. I do not know what kind of a concept it is.

Senator JACKSON. The cost to Uncle Sam, I think is Senator Cannon's point.

Senator CANNON. It seems very simple. If the Secretary, in announcing his cost savings in closing of bases of these millions of dollars that were going to be saved, and you did not include this factor, and you come in here and say we are going to pay now \$49 million as a result of these closures, certainly his cost savings will be reduced, wouldn't you say?

Mr. REED. I do not know how he will do it in the future. I can tell you in the past the savings have been predicated on operating savings. These would not be classed as operating costs.

Senator CANNON. But you have never done any of this in the past either.

Mr. REED. We have never done it, but he will be apprised of the magnitude of these costs as he does his analysis on any future base closings.

Senator CANNON. Why do you come in here with a separate bill now in view of the fact that your military construction bill is coming along now for this year in the next few weeks. Isn't it true that the military construction bill will have additional funds in it for this purpose?

Senator JACKSON. Yes.

Mr. REED. The fiscal year 1968 bill does have this item. The thought here was to commence at the first opportunity this type of relief because of the real hardships that some of these people are experiencing, and come into the Congress in fiscal year 1967 on a supplemental basis. The requirement was put into the basic language in section 1013 that we must have it authorized and we must have the specific appropriation.

Senator CANNON. All right. If this authorization bill is passed, will you have to come along with a supplemental appropriation bill to fund it?

Mr. REED. Yes, sir. Such a bill will come to Congress.

Senator CANNON. Actually, you are not going to be able to do that physically much before the start of fiscal 1968, are you?

Mr. REED. Well, we assumed, sir, that we could commence by May 15, that is our current thinking, trying to judge when the Congress could enact the appropriations. Now, this will give us a lead time through September, from May to September, to start processing these claims, and we think this would be significant and very helpful to the people involved.

Senator CANNON. Now, will the Department of Defense handle this entire transaction; that is, the acquisition of these homes that have to be acquired, and the management and so on, or is this going to be transferred to Housing and Urban Development?

Mr. REED. We are still having discussions with FHA people. We would hope the process would be this: The personnel officer would establish eligibility, the claims office would be a central claims office, and we are thinking of using one of the field finance offices, perhaps, the Air Force or one of the other services, they would establish the appraisals, draw the checks, et cetera. We would use FHA to acquire

the properties and go through the actual legal process of acquiring title to properties and to manage properties, and through the broker system dispose of properties. We would hope to avoid the role of property management and leave that in the hands of FHA. But these discussions with them are not yet complete.

Senator CANNON. Now, have you made any breakout of the estimated operating costs of these managed properties?

Mr. REED. Yes, sir; we have. We feel from the \$11 million figure, sir, that approximately \$1.6 million will be associated with operating costs; administrative costs would total about \$870,000 of this amount. It might be helpful if we submitted for the record a cost estimate breakdown which amplifies the material that is in my statement.

Senator JACKSON. All right.

Mr. REED. We will be paying on the average about 20 percent of the total for all administrative costs.

Senator JACKSON. Mr. Reed, if you will supply that for the record in response to Senator Cannon's questions we would appreciate it.

Senator CANNON. That is all I have, Mr. Chairman.

Senator JACKSON. Any further questions? If not, thank you, gentlemen.

If there are no further questions the committee will recess. Thank you very much.

We appreciated having your statement, sir.

(The information requested above follows:)

*Homeowners assistance program—Explanation of fiscal year 1967 cost estimates*

	Number of cases	Amount
<b>I. Payments to homeowners</b> -----	4,970	\$1,593,000
It is estimated that by June 30, 1967, some 8,540 individuals will be eligible for, and will seek reimbursement for losses on prior sales of their homes. It is anticipated that during the last quarter of fiscal year 1967 payments can be made to about 58 percent or 4,970 of these eligible individuals, of whom 4,110 will be civilians and 860 military.		
<b>Civilians</b> -----	4,110	1,352,000
Housing market studies in representative areas showed that the average fair market value for civilian employee properties prior to base closure announcement was \$16,500; these studies also indicated the average sales price after closure announcement would be about 93 percent of the average prior value or \$15,345. Since only losses up to 95 percent of the prior value (\$15,675) can be reimbursed, the average payment would be \$330 or for 4,100 cases, about \$1,352,000.		
<b>Military</b> -----	860	241,000
These studies also showed the average prior fair market value for military homes to be \$14,000 and the average sales price to be about 93 percent or \$13,020. With reimbursement limited to 95 percent or \$13,300, the average payment would be \$280 or about \$241,000 for 860 cases.		
<b>II. Operating costs</b> -----	NA	1,617,000
This category includes the costs of operating acquired properties as well as the administrative costs incurred in acquiring properties, determining and making reimbursements for losses on prior private sales, and making payments in connection with foreclosure actions.		

## Homeowners assistance program—Explanation of fiscal year 1967 cost estimates—Con.

	Number of cases	Amount
III. Operating acquired properties----- It is estimated that some 5,900 homeowners will offer their properties for sale to the Government, but that only about half or 2,950 of these will actually apply for assistance in the last quarter of fiscal year 1967. It is also estimated that the cost of operating acquired properties, which would be held about 1 year on the average, would amount to about 15 percent of the acquisition price; however, since the mean acquisition date would be the midpoint of the quarter (May 15) only about 1/2 of the year's operating costs would be incurred in fiscal year 1967. Using the average prior fair market values of \$16,500 for civilians and \$14,000 for military personnel, costs are estimated at \$747,000.	NA	\$747,000
Administrative costs, acquired properties----- It is estimated that these costs would amount to about 5 percent of acquisition costs for the caseload described above and on the basis of 1/2 of total costs being incurred during fiscal year 1967, this would amount to about \$255,000.	NA	255,000
Administrative costs, private sales----- It is estimated these costs, including appraisal fees, would amount to about \$100 per case for 4,970 cases (described above under "Payments to homeowners") or \$495,000.	NA	495,000
Administrative costs, foreclosure relief----- It is estimated that the cost of determining the amount of appropriate foreclosure costs and processing reimbursements to homeowners or direct payments on their behalf would amount to about \$50 per case, or for 2,390 cases which are described below, \$120,000.	NA	120,000
III. Capital outlay-----	3,130	7,790,000
This category includes equity payments to homeowners who sell their properties to the Government, mortgage payments on these properties after acquisition by the Government, and foreclosure payments to or on behalf of homeowners.		
Equity payments----- It is estimated that of the 2,950 cases in which the Government may initiate acquisition of property, only some 1,100-1,200 would involve sufficiently high equity to require direct payment therefor. About 2/3 of these would be civilians for whom the average payment will be \$5,850 and the total payments would amount to \$4,671,700. It is estimated that the 1/3 who are military would have much less equity (due to lower downpayments and shorter periods of ownership) and, therefore, much lower payments would be required—about \$600 or a total of \$248,400.		4,940,000
Mortgage payments----- It is estimated that for the 2,950 cases in which the Government may initiate acquisition of property, about \$350,000 would be required for monthly payments to the mortgagees. This was based on 1/2 of a full year's payments ranging from \$886 to \$1,155 for various average outstanding mortgage balances. The total number of cases which would be initiated (2,950) has not been shown as "number of cases"; this was reduced to about 1/2 or 740 to correspond to the level of operating costs expected to be incurred during the period. (See above, "Operating acquired properties" and "Administrative costs, acquired properties".)	740	350,000
Foreclosure relief----- It is estimated that some 3,400 individuals would be eligible for assistance on foreclosure costs but that only about 70 percent or 2,390 applications could be made and processed by the end of the fiscal year. It is also estimated that payments in these would average just under \$1,050; since no continuing actions on payments would be involved in these cases, the total amount of \$2,500,000 was shown in the fiscal year 1967 budget.	2,390	2,500,000

(Whereupon, at 2:55 p.m., the subcommittee was adjourned.)