NSLI INVESTMENT FUND

2041-1

HEARING

BEFORE THE

SUBCOMMITTEE ON VETERANS' LEGISLATION

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-FIRST CONGRESS

FIRST SESSION

ON

S. 3008

TO INCREASE THE AVAILABILITY OF GUARANTEED HOME LOAN FINANCING FOR VETERANS AND TO INCREASE THE INCOME OF THE NATIONAL SERVICE LIFE INSURANCE FUND

NOVEMBER 19, 1969

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE

37-463 O WASHINGTON : 1969

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NSLI INVESTMENT FUND

WEDNESDAY, NOVEMBER 19, 1969

U. S. SENATE,
SUBCOMMITTEE ON VETERANS' LEGISLATION,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to notice, at 10:10 a.m., in room 2221, New Senate Office Building, Senator Vance Hartke presiding.

Present: Senators Talmadge (chairman of the subcommittee), Long, Hartke, and Jordan of Idaho.

Senator HARTKE. Senator Talmadge wanted me to apologize for his lateness this morning, but he was required to attend a meeting of the Agriculture Committee. He is deeply interested in this legislation, and he has asked me also to give this statement on S. 3008 which he would have given if he had been here.

This bill would authorize the use of funds from the national service life insurance trust fund to purchase guaranteed GI home loans. I might mention that the national service life insurance program was created in 1940 in an amendment to a revenue bill handled by the Committee on Finance.

The GI housing program was established by the GI bill of rights 25 years ago, a bill originating in the Subcommittee on Veterans' Legislation of the Senate Finance Committee.

The bill before us today is designed to meet three objectives. First, it would enhance the availability of home financing for veterans by providing a substantial new source of mortgage funds.

Second, it would assist the home construction industry which has been so hard hit by inflation, high interest rates and tight money policy. Third, the bill would permit the national service life insurance trust fund to earn more on its investments.

The need for a new source of funds is clearly reflected in the recent experience of home construction under the VA program. In 1968, 71,423 new homes were purchased by veterans with GI financing. A rise in the VA interest rates from 6.75 to 7.5 percent in the beginning of 1969 was supposed to help increase the funds available for GI loans.

However, it now appears that only about 70,000 new homes will be purchased by veterans with GI financing this year, a slight drop from last year. An increase in the interest rates did not achieve the results some said it would. It did not attract the capital needed even to maintain the building of new homes at the 1968 level.

Last year the Congress set a goal of 2.6 million single family units in order to provide for the Nation's housing needs, but we are now building new homes at the rate of only about 1 million new family dwelling units a year.

What is needed is a new source of funds to finance the construction of new homes, and it is this new source that S. 3008 is designed to provide. The national service life insurance trust fund currently has $6¼ billion invested in U.S. Government securities. As a whole, these investments yield a return of less than 4 percent. More than two-fifths of the investments yield 3¼ percent or less. The bill would enable the trust fund to increase its earnings substantially through investment in guaranteed home mortgages. At the same time, it would provide funds for housing which are needed if we are to attempt to meet the national goals set 20 years ago for a decent home and suitable living environment for every American family.

We will include at this point in the record our press release announcing these hearings, a copy of the bill, S. 3008, and other related materials.

(The material referred to follows:)

HEARINGS SET ON LEGISLATION AUTHORIZING INVESTMENT OF NATIONAL SERVICE LIFE INSURANCE TRUST FUNDS IN GUARANTEED HOME LOANS TO VETERANS

Senator Herman E. Talmadge (D. Ga.), Chairman of the Subcommittee on Veterans' Legislation of the Senate Committee on Finance, announced today that on Wednesday, November 19, 1969, the Subcommittee will hold public hearings on S. 3008, a bill to authorize the investment of up to $5 billion from the National Service Life Insurance Trust Fund over the next five years in guaranteed home loans to veterans.

"The bill is designed to meet three objectives," commented Senator Talmadge. "First, it would enhance the availability of home financing for veterans by providing a substantial new source of mortgage funds. Second, it would assist the home construction industry which has been so hard hit by inflation, high interest, and tight money policy. Third, the bill would permit the National Service Life Insurance Fund to earn more on its investments."

Senator Talmadge stated that those organizations and individuals who would like to testify should make their request to Tom Vail, Chief Counsel, Committee on Finance, 2227 New Senate Office Building, no later than November 14, 1969. Senator Talmadge said that the Subcommittee would welcome written comments on S. 3008; five copies of these comments should be sent to Mr. Vail by the close of business Friday, November 21, 1969.

The hearing will be held in the Finance Committee Hearing Room, 2221 New Senate Office Building, on Wednesday, November 19, beginning at 10:00 A.M.

91st CONGRESS
1st Session

S. 3008

IN THE SENATE OF THE UNITED STATES

October 9, 1969

Mr. Yarborough (for himself, Mr. Cranston, Mr. Hughes, Mr. Randolph, Mr. Talmadge, and Mr. Williams of New Jersey) introduced the following bill; which was read twice and referred to the Committee on Labor and Public Welfare

October 15, 1969

The Committee on Labor and Public Welfare discharged, and referred to the Committee on Finance

A BILL

To increase the availability of guaranteed home loan financing for veterans and to increase the income of the national service life insurance fund.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) subchapter III of chapter 37 of title 38, United States Code, is amended by adding at the end thereof the following new section:

"§ 1828. Investment of funds of the national service life insurance fund in the first mortgage loans guaranteed under section 1810 of this chapter

"(a) When issuing a commitment to guarantee a proposed home mortgage loan under section 1810 of this chapter, the Administrator is authorized and is hereby directed to issue, if such is requested by the lender-mortgagee, a nonassignable commitment to purchase the completed loan from such lender-mortgagee. For each such commitment the lender-mortgagee shall pay a nonrefundable fee of not in excess of one-half percentum of the amount of the commitment. Such commitment shall provide for the purchase of the loan from the lender-mortgagee for the price specified in the commitment (which price shall be specified as a percentage of par) if the lender-mortgagee certifies to the Administrator, not earlier than sixty days subsequent to the disbursement of the loan proceeds but not later than twelve months from the date of the Administrator's issuance of the loan guaranty evidence, that—

"(1) it has not been successful in effecting a sale of the loan to a private investor at a price equal to or in excess of that specified in the Administrator's commitment;

"(2) it has not charged or collected from and will not charge or collect from the seller or builder of the property, or from any third person or entity, directly or indirectly, any discount (points) in excess of the difference between the face amount of the loan and the price specified in the Administrator's purchase commitment plus the origination fee charged by the lender-mortgagee and the commitment fee specified in this subsection (a);

"(3) the loan is not in default.

The purchase price specified in any purchase commitment issued under this subsection shall not be less than the average price for which one hundred and eighty day purchase commitments were auctioned by the Federal National Mortgage Association at the last Association auction preceding the issuance of the Administrator's purchase commitment, but in no instance shall the Administrator agree to pay more than par (unpaid principal balance plus accrued interest) nor less than 96 per centum of par for any loan purchased under this subsection. Insofar as practicable the Administrator shall utilize the purchase authorization in this subsection in those localities where the discount levels are determined by him to be substantially in excess of the discounts entailed in the Federal National Mortgage Association average auction prices for its one hundred and eighty day purchase commitments.

"(b) There is hereby established in the Treasury of the United States a revolving fund to be known as the national service life insurance investment fund (hereinafter called the investment fund). The investment fund shall be available to the Administrator for all operations under this section, including the payment of expenses and losses, except administrative expenses. From time to time, the Administrator shall notify the Secretary of the Treasury as to the amount of funds necessary to purchase loans as the consequence of commitments issued or to be issued, pursuant to subsection (a) of this section, and to purchase direct loans, pursuant to subsection (c) of this section, and the Secretary shall, as authorized by section 720 (c) of this title, transfer such funds from the insurance fund to the investment fund, except that the aggregate of transfers pursuant to this subsection shall not, in the period between the enactment of this section and June 30, 1974, exceed $5,000,000,000, nor exceed in any fiscal year $1,000,000,000.

"(c) The Administrator shall utilize the funds transferred to the investment fund as provided in subsection (b) of this section to purchase loans pursuant to commitments issued as provided by subsection (a) of this section. In addition, the Administrator may utilize available funds of such investment fund to purchase (at par plus accrued interest) direct loan assets of the direct loan revolving fund and the entire proceeds of any such sale of direct loan assets shall be deposited in the direct loan revolving fund and be available thereafter for the purposes of that fund. The insurance fund shall be paid interest on all funds transferred to the investment fund at the same rate as the average interest rate on loans purchased by the Administrator less

1 per centum but in no event less than the average return on the other invested portion of the national service life insurance fund. All moneys received by the Administrator in the repayment of such loans shall be deposited in the investment fund and shall also be available, until June 30, 1975, for the purchase of loans pursuant to commitments issued as provided in subsection (a) of this section, and for the purchase of direct loans as provided for in the second sentence of this subsection, except that if the Administrator at any time determines that the balance in the investment fund is in excess of anticipated needs for the purchase of loans, he may so notify the Secretary of the Treasury, who shall then transfer such excess to the insurance fund. All collections of interest on loans purchased and all nonrefundable commitment fees received pursuant to the authority in subsection (a) of this section shall be deposited in the investment fund by the Administrator, who shall, after determining the amount to be retained in the investment fund as a reserve for expenses and losses, periodically notify the Secretary as to the amount of such interest collections available for transfer to the insurance fund and the Secretary thereupon shall effect such transfers. Such transfers shall constitute the payment of interest to the insurance fund. After June 30, 1974, all

moneys received in the repayment of loans purchased pursuant to (subsection (a) of) this section and all interest collections on such loans, except for such sums which the Administrator determines to be necessary for retention in the investment fund as a reserve for losses, shall be deposited in the insurance fund. Interest collections so deposited shall constitute the payment of interest to the insurance fund.

"(d) In the event of a deficiency in the investment fund reserves for expenses and losses, the Administrator is hereby authorized and directed to transfer to the investment fund from available funds of the loan guaranty revolving fund or the direct loan revolving fund such sum or sums as may be necessary to defray such deficiency. For the purposes of this subsection the Administrator shall accord priority to the utilization of available funds of the direct loan revolving fund to the elimination of such deficiency notwithstanding the obligations of that fund in respect to advances theretofore made by the Secretary of the Treasury pursuant to section 1823 of this chapter.

"(e) The Administrator may sell, and shall offer for sale, any loan purchased under the authority of this section at a price determined by the Administrator, but not less than the price paid by the Administrator to purchase the loan (i.e., the percentage of the unpaid balance of the loan), plus accrued interest. The Administrator may, in respect to loans (originated under section 1810 and subsequently purchased by him, guarantee any loan) thus sold, guarantee any such loans subject to the same conditions, terms and limitations as would be applicable were the loans guaranteed under section 1810 of this chapter.

"(f) Notwithstanding any of the foregoing provisions of this section, the Administrator, when authorized by appropriation Acts so to do, may set aside first mortgage loan assets of the investment fund as the basis for the sale of participation certificates pursuant to and in accordance with the provisions of the Participation Sales Act of 1966 (Public Law 89-429), and until June 30, 1974, the proceeds of any sale of such participation certificates shall be deposited in the investment fund and be available for the purposes of that fund. After June 30, 1974, the proceeds of any sales of such participation certificates shall be deposited in the insurance fund.

"(g) In the administration and management of the investment fund the Administrator shall, to the extent feasible, invest the funds thereof in loans which will represent a broad spectrum of the veteran homebuying population in respect to age, income, and location of the properties which will constitute the loan securities. In order to facilitate a more adequate supply of mortgage financing for veterans in the lower and middle income brackets the Administrator shall purchase only loans not in excess of $30,000 which are secured by single family dwellings only. The Administrator is authorized to adopt such standards, policies, and procedures and to promulgate such regulations as he considers necessary or appropriate for carrying out his functions and responsibilities under this section. In carrying out such functions and responsibilities the Administrator may contract with private entities for the servicing of any loans purchased by him for the investment fund provided that the servicing fee payable pursuant to any such contract shall not exceed the Administrator's estimate of the cost of the direct servicing of such loans by agency employees."

(b) The analysis of chapter 37 of title 38, United States Code, is amended by adding at the end thereof the following:

"1828. Investment of funds of the national service life insurance fund in first mortgage loans guaranteed under section 1810 of this chapter."

SEC. 2. Paragraph (1) of section 1811(c) of title 38, United States Code, is amended to read as follows:

"(1) he is unable to obtain from a private lender in such housing credit shortage area, at a discount charge for the purchase of existing housing to the home sellers or builders not in excess of the discount involved in the latest average auction price of the Federal National Mortgage Association's ninety-day purchase commitments, and for the purchase of a newly constructed or to be constructed home, at a discount charge to the home sellers or builders not in excess of the discount involved in the latest average auction price of the Federal National Mortgage Association's purchase commitments for the period of twelve to eighteen months."

SEC. 3. Section 720 of title 38, United States Code, is amended by adding at the end thereof the following new subsection (c):

"(c) The Secretary of the Treasury is authorized and directed to transfer from such fund to the investment fund established under section 1828 of this title such amounts as the Administrator may from time to time request pursuant to such section, and shall transfer from the investment fund to the national service life insurance fund, upon notification by the Administrator, such amounts as the Administrator determines are available for such transfer pursuant to the provisions of such section."

SUMMARY AND ANALYSIS OF S. 3008

SUMMARY

The bill would establish a new revolving fund, the National Service Life Insurance *Investment* Fund. Up to $1 billion per fiscal year could be transferred from the National Service Life Insurance *Trust* Fund from fiscal year 1970 through fiscal year 1974 (a total of up to $5 billion). The Investment Fund could use the money to purchase guaranteed GI home loans of up to $30,000 secured by single family dwellings.

The National Service Life Insurance *Trust* Fund represents the reserves for that insurance program. The fund now holds about $7 billion, invested (as required by law) in U.S. Treasury securities, which today yield less than 4 percent on the average.

SECTION-BY-SECTION ANALYSIS

Page of bill and provision

Page 1. *Sec. 1* of the bill establishes a National Service Life Insurance Investment Fund under a new sec. 1828 of title 38 (Veterans' Benefits) of the U.S. Code and states what its funds may be used for.

Pages 1–3. *Sec. 1828(a)* authorizes VA to promise a lending institution that it will purchase a VA-guaranteed home loan made by the lender between 2 months and one year from the date the loan is made. The VA commitment cannot be assigned by the lending institution to another party. The commitment is stated as a percentage of the face amount of the loan; this percentage is based on recent FNMA experience, but it cannot be less than 96% nor more than 100% of par. The nonrefundable of ½% of the loan is charged for the VA commitment. The VA can purchase the loan at the price it committed itself to only if (1) the lender has not been able to sell the loan for at least the VA price, and (2) the lender has not charged (and will not charge) the seller of the property more than (a) the difference between the VA price and the face amount of the loan, plus (b) the fee the lender paid the VA for VA's commitment to buy the loan, plus (c) the origination fee charged to the borrower (limited by VA to 1% of the loan amount). VA is directed, to the extent practicable, to purchase loans in areas where money is tightest.

Pages 3–4. *Sec. 1828(b)* establishes a National Service Life Insurance Investment Fund as a revolving fund to accomplish the purpose of the bill. The Investment Fund may not, however, pay for administrative costs. Up to $1 billion may be transferred to the Investment Fund from the National Service Life Insurance *Trust* Fund each of the 5 fiscal years from FY 1970 to 1974.

Pages 4–6. *Sec. 1828(c)* permits the VA to use the Investment Fund to purchase direct loans made by the VA to veterans in areas where private credit is not generally available.

Until June 30, 1974, all repayments will be deposited in the Investment Fund, available for further purchase of loans; interest and commitment fees shall also be deposited in the Investment Fund. The National Service Life Insurance *Trust* Fund will be paid interest on all funds transferred from it to the Investment Fund; the interest rate shall be set at one percent less than the average interest rate on loans purchased by the Investment Fund.

After June 30, 1974, all loan repayments and interest will be deposited in the National Service Life Insurance *Trust* Fund, except an amount needed as a reserve for losses.

Any money in the Investment Fund not currently needed to purchase loans could be invested in U.S. Treasury securities.

Page 6. *Sec. 1828(d)* authorizes the use of funds from the VA direct loan revolving fund and the VA loan guaranty revolving fund to make up any deficiency in the Investment Fund's reserves for expenses and losses.

Pages 6–7. *Sec. 1828(e)* permits the VA to sell any loan held by the Investment Fund, at a price not lower than the remaining principal on the loan (discounted by the same percentage as the original VA discount when the loan was purchased) plus accrued interest.

Page 7. *Sec. 1828(f)* authorizes the VA to sell loans held by the Investment Fund through the participation certificate method.

Pages 7–8. *Sec. 1828(g)* directs the VA to invest its funds under the bill "in loans which will represent a broad spectrum of the veteran homebuying population in respect to age, income and location of the properties which will constitute the loan securities." The Investment Fund can only be used to purchase loans of $30,000 or less on single family dwellings. VA can contract out for servicing the loans purchased as long as the cost is not higher than it would be if VA serviced the loans themselves.

Pages 8–9. *Sec. 2* of the bill is entirely unrelated to the rest of the bill. This section prohibits the VA from making a direct loan to a veteran in an area where private funds are available at a discount not greater than the average recent FNMA discount.

Page 9. *Sec. 3* of the bill is complementary to Sec. 1; it authorizes the transfer of funds from the National Service Life Insurance *Trust* Fund to the new Investment Fund.

HOW S. 3008 WOULD WORK, USING A $20,000 HOME LOAN AS AN EXAMPLE

The veteran applies for a VA home loan at a lending institution (say a bank), just as he does under present law. The bank can charge him an origination fee of not more than 1% ($200).

The bank asks VA to make a commitment to buy the loan between 2 months and one year after it is made. VA commits itself to buy the loan (if it cannot otherwise be sold) at 96% of par, or $19,200. The bank pays VA a nonrefundable fee of $100 (½% of the loan amount) for this commitment.

The bank either retains the loan as an investment or seeks to sell it to a private investor for at least $19,200. If it cannot do so, it asks VA to fulfill its commitment and purchase the loan for $19,200. VA first ensures that the seller has not been charged and will not be charged more than $1,100 by the bank for making the loan:

The difference between the $20,000 face amount and the $19,200 VA price	$800
Fee paid for VA's commitment	200
Origination fee paid by veteran to bank	100
Total	1,100

VA buys the loan for $19,200. The loan may either be held until paid in full, or it may be sold again. If it is sold, VA cannot charge less than the remaining principal (discounted as was the original VA purchase of the loan) plus interest due since the last payment. For example, suppose the mortgage payments have reduced the principal from the original $20,000 to $15,000. The minimum sale price would be $14,400 (96% of $15,000) plus the interest due.

PRESENT LAW: LEGISLATION ESTABLISHING NATIONAL SERVICE LIFE INSURANCE TRUST FUND

TITLE 38, U.S. CODE.—VETERANS' BENEFITS

CHAPTER 19.—INSURANCE

Subchapter I—National Service Life Insurance

* * * * * * *

Sec. 720. National Service Life Insurance Fund

(a) The National Service Life Insurance Fund heretofore created in the Treasury is continued as a permanent trust fund. Except as otherwise provided in this chapter, all premiums paid on account of National Service Life Insurance shall be deposited and covered into the Treasury to the credit of such fund, which, together with interest earned thereon, shall be available for the payment of liabilities under such insurance, including payment of dividends and refunds of unearned premiums. Payments from this fund shall be made upon and in accordance with awards by the Administrator.

(b) The Administrator is authorized to set aside out of such fund such reserve amounts as may be required under accepted actuarial principles to meet all liabilities under such insurance; and the Secretary of the Treasury is authorized to invest and reinvest such fund, or any part thereof, in interest-bearing obligations of the United States or in obligations guaranteed as to principal and interest by the United States, and to sell such obligations for the purposes of such fund.

37-463 O—70——2

INVESTMENTS OF THE NATIONAL SERVICE LIFE INSURANCE TRUST FUND AS OF OCT. 31, 1969

Interest rate (percent)	Year of Maturity	Total investments (par and book value)
Public debt securities:		
3	1970	$312,732,000
3	1971 to 1974	1,516,000,000
3⅛	1976	343,149,000
3¼	1976 to 1977	430,031,000
3⅜	1978	298,259,000
3⅝	1970 to 1980	939,332,000
3¾	1970 to 1975	426,238,000
4¼	1981	225,452,000
4⅜	1970 to 1971	558,176,000
5½	1975	332,597,000
6¼	1976	305,419,000
6⅜	1970	9,849,000
6½	1970	28,240,000
6⅝	1970	25,656,000
7⅜	1970	1,128,000
Participation certificates:		
5.20	1972 to 1977	100,000,000
6	1971	70,000,000
6⅛	1978	100,000,000
6.20	1988	100,000,000
6.35	1970	50,000,000
6.45	1988	35,000,000
Federal bank bonds and debentures:		
6	1969	42,500,000
Total		6,249,758,000

Note: Average yield on all investments, 3.93 percent.

The VA Home Loan Program Today

1. HOME LOAN GUARANTEE PROGRAM

Eligibility of loan.—In order for a loan to be eligible for guarantee, the following conditions must be met:

(*a*) The veteran must certify that he intends to occupy the property as his home;

(*b*) The contemplated terms of payment of the mortgage must bear a proper relation to the veteran's present and anticipated income and expenses, and the veteran must be a satisfactory credit risk;

(*c*) The loan amount exclusive of any funding fee may not exceed the reasonable value as determined by VA;

(*d*) Newly constructed property must meet or exceed minimum requirements for planning, construction, and general acceptability;

(*e*) The VA can set the maximum interest rate (currently 7½%), except that this rate cannot exceed FHA's maximum rate;

(*f*) No down payment is required by VA; loans may run up to 40 years on non-farm realty; and

(*g*) Cold War GI's must pay a one-time fee of ½% of the loan amount; this fee may be included in the loan.

How the guarantee works.—The Veterans' Administration loan guarantee program operates by substituting the guarantee of the Federal Government for the investment protection afforded, under conventional mortgage terms, by substantial downpayment requirements and relatively shorter terms of loan. Thus, eligible veterans are enabled to finance home purchases even though they may not have the resources to qualify for conventional loans.

Home loans may be guaranteed up to 60% of the amount of the loan, with a maximum guarantee of $12,500. This guarantee makes it extremely unlikely that a lending institution will suffer a loss if a loan is defaulted.

For example, suppose a bank loans $20,000 to a veteran on a $20,000 home. The VA guarantees up to $12,000 (60% of $20,000). If the veteran pays $2,000 of principal and then defaults, VA appraises the property. If the expenses of foreclosure plus accrued interest total $1,000 and the current value of the property is appraised by VA at $17,000, the following calculation is made:

Loan balance at default	$18,000
Foreclosure expenses plus accrued interest	1,000
Total	19,000
Minus appraised value of property	17,000
Net claim amou	2,000

If the bank is unable to sell the property for at least $17,000, it can either retain the property or convey it to VA for $19,000. Lenders almost always elect to convey property to VA in case of default.

Funding.—Receipts from program operations are deposited in a Loan Guaranty Revolving Fund, which is available to meet the expenses related to the settlement of claims.

Eligibility of veterans.—Veterans of World War II and the Korean conflict are eligible for loan benefits for 10 years after their last period of wartime service (any part of which occurred during one of those 2 wars); their eligibility is extended one year for each 3 months of active wartime service. In any case, no veteran with only World War II service will be eligible after July 25, 1970; Korean conflict veterans will not be eligible after January 31, 1975.

Cold War GI Bill veterans are eligible for at least 10 years after separation from the armed services, plus one additional year for each 3 months of active duty with a maximum eligibility of 20 years after separation.

Veteran participation.—About 40 percent of World War II veterans have obtained GI loans. The median age of these veterans is now about 49 years. Substantial numbers of these veterans have purchased homes without benefit of VA loans. A current population survey in late 1962 indicated that, at that time 25 percent of World War II veterans had purchased homes with conventional financing, and 6 percent had used FHA financing. The satisfaction of demand and the phasing out of World War II entitlement to VA loan benefits are reflected in the comparatively low volume of loans now being made to World War II veterans.

About 27 percent of Korean conflict veterans have obtained GI loans. The home buying patterns established to date are consistent with an assumption that, ultimately, the participation of Korean conflict veterans will approach that of their World War II counterparts. The median age of Korean conflict veterans is estimated at 39 years.

Post-Korean veterans, those with service since January 31, 1955, only, are still relatively young. As of June 30, 1968, their median age was estimated to be 27.6 years. This group is being constantly augmented. It can be expected that most will form households and require shelter. Their earning capacity is rather low at the start of civil life but should increase as they get older. The post-Korean segment of the eligible veteran population will have a great need for housing in the next few years. They are also a class for which a low down-payment, long maturity home loan most nearly meets the need for financing home purchases. Only 4 percent of these veterans have used their entitlement to date, but this group of veterans currently account for the majority of the GI loans being made and the participation rate of these veterans is expected to increase substantially in future years.

2. DIRECT LOAN PROGRAM

Purpose.—The purpose of the program is to extend credit directly to veterans for the purchase, construction, repair, and alteration of homes and farmhouses in rural areas, small cities, and towns where private credit is not generally available. The Administrator of Veterans Affairs is authorized to designate such rural areas, small cities, and towns as "housing credit shortage areas," if he finds that private credit is not generally available for the making of guaranteed loans.

Eligibility.—To qualify for a direct loan,

(*a*) The property securing the loan must be in a designated "housing credit shortage area;"

(*b*) The veterans must demonstrate that he is unable to obtain a VA guaranteed loan;

(*c*) The amount of the loan cannot exceed $21,000;

(*d*) The loan must be for purchase, construction, alteration, or repair of a home or farmhouse to be occupied by the veteran;

(*e*) The loan cannot be for more than 30 years; and

(*f*) The interest rate is about the same as the maximum rate for VA guaranteed loans.

Coverage.—About one-fifth of the 25 million veterans live in areas designated as "housing credit shortage areas." Of 3,094 counties in the U.S., 2,184 are eligible, 579 are ineligible, and parts of the remaining 331 are eligible.

Funding.—Receipts from program operations are deposited in a Direct Loan Revolving Fund; the fund currently has a balance of about $700 million, more than enough to meet all program needs for the foreseeable future.

Program Information Furnished by Veterans' Administration

TABLE I.—VETERAN POPULATION (THOUSANDS)

	World War II	Korean conflict [1]	Post-Korean [2]	Total
Year:				
1965	13,819	5,718		19,537
1966	13,714	5,770	4,031	23,513
1967	13,598	5,797	4,512	23,907
1968	13,471	5,814	5,214	24,499
1969	13,335	5,847	6,090	25,272
1970	13,191	5,881	6,908	25,980
1971	13,043	5,922	7,855	26,820
1972	12,887	5,963	8,650	27,500
1973	12,719	6,001	9,114	27,834
1974	12,536	6,036	9,574	28,146
1975	12,353	6,069	10,033	28,455

[1] Including those with World War II service.
[2] All service after January 1955.

TABLE II.—VETERAN USE OF ENTITLEMENT, TO VA HOME FINANCING BY PERIODS OF SERVICE

[Numbers of veterans in thousands]

Fiscal year	World War II [1]			Korean conflict [2]			Post-Korean [3]		
	Veterans with unused entitlement on June 30	Annual entitlement utilization rate (percent)	Cumulative participation rate (percent)	Veterans with unused entitlement on June 30	Annual entitlement utilization rate (percent)	Cumulative participation rate (percent)	Veterans with unused entitlement on June 30	Annual entitlement utilization rate (percent)	Cumulative participation rate (percent)
1945	2,372								
1946	12,110	7.4	1.5						
1947	13,074	5.2	5.7						
1948	13,059	4.0	9.2						
1949	13,008	2.1	11.1						
1950	12,775	3.1	13.8						
1951	12,124	4.2	17.9						
1952	11,529	3.5	20.4						
1953	11,149	2.6	22.5	1,865		0.9			
1954	10,767	2.5	24.4	2,740	2.6	2.2			
1955	10,288	4.2	27.5	3,731	4.4	4.6			
1956	9,813	4.3	30.5	4,239	4.3	7.3			
1957	9,484	3.0	32.5	4,513	3.5	9.7			
1958	9,351	1.1	33.2	4,692	1.5	10.5			
1959	9,221	1.0	33.9	4,677	2.3	12.3			
1960	9,109	.8	34.4	4,610	2.2	14.1			
1961	9,009	.6	34.8	4,586	1.5	15.3			
1962	6,521	.7	35.2	4,536	2.2	17.0			
1963	5,962	.9	35.6	4,488	2.8	19.0			
1964	5,354	.9	36.0	4,400	3.0	21.2			
1965	4,743	.9	36.3	4,158	2.8	23.3			
1966	3,989	.8	36.6	4,028	2.5	25.0	3,783		
1967	3,242	.5	36.7	3,814	1.6	25.9	4,172	1.9	1.8
1968	2,514	.6	36.8	3,665	1.8	26.9	4,740	2.7	3.7
1969	1,808	.4	36.9	3,424	1.6	27.9	5,459	2.8	5.3

[1] Excludes World War II veterans who remained in service after June 27, 1950.

[2] Includes all veterans with service between June 27, 1950, and Jan. 31, 1955, including those who also had service prior to or after this period.

[3] All service after Jan. 31, 1955, excludes servicemen.

TABLE III.—VETERANS WITH UNUSED ENTITLEMENT, BY SERVICE PERIOD, FISCAL YEAR 1966–75

[In thousands]

	Total	World War II [1]	Korean conflict [2]	Post-Korean [3]
Beginning of fiscal year:				
1966	8,901	4,743	4,158	
1967	11,800	3,989	4,028	3,783
1968	11,228	3,242	3,814	4,172
1969	10,919	2,514	3,665	4,740
1970	10,691	1,808	3,424	5,459
1971	10,635	1,353	3,182	6,100
1972	9,801		2,959	6,842
1973	10,176		2,768	7,408
1974	10,241		2,613	7,628
1975	10,291		2,461	7,830

[1] All service prior to June 27, 1950.
[2] Includes all veterans with service between June 27, 1950, and Jan. 31, 1955, including those who also had service prior to or after this period.
[3] Veterans with all service after Jan. 31, 1955.

TABLE IV.—VA LOAN ACTIVITY

Calendar year	GI primary home loans: Number	GI primary home loans: Amount (thousands)	Direct loans: Number	Direct loans: Amount (thousands)	Total VA loans: Number	Total VA loans: Amount (thousands)
1944–45	41,064	$197,868			41,064	$197,868
1946	403,561	2,365,170			403,561	2,365,170
1947	487,667	3,204,649			487,667	3,204,649
1948	248,540	1,726,753			248,540	1,726,753
1949	173,419	1,266,842			173,419	1,266,842
1950	369,069	2,868,303	724	$4,406	369,793	2,872,709
1951	409,329	3,632,523	16,064	103,350	425,393	3,735,873
1952	301,698	2,692,685	9,731	68,464	311,429	2,761,149
1953	318,118	3,034,135	15,583	113,170	333,701	3,147,305
1954	407,340	4,222,799	14,527	109,353	421,867	4,332,152
1955	643,226	7,092,459	15,856	119,939	659,082	7,212,398
1956	502,007	5,857,973	10,803	80,924	512,810	5,938,897
1957	302,047	3,752,651	26,120	207,561	328,167	3,960,212
1958	143,519	1,859,826	17,440	147,733	160,959	2,007,559
1959	210,511	2,781,695	19,698	198,486	230,209	2,980,181
1960	143,287	1,981,691	30,558	308,144	173,845	2,289,835
1961	132,889	1,828,313	23,488	244,485	156,377	2,072,798
1962	187,077	2,648,977	15,880	167,666	202,957	2,816,643
1963	187,889	2,798,223	21,091	226,191	208,980	3,024,414
1964	177,594	2,764,388	15,277	167,467	192,871	2,931,855
1965	159,582	2,615,262	7,172	77,702	166,754	2,692,964
1966	156,918	2,597,584	9,267	107,890	166,185	2,705,474
1967	200,018	3,395,346	11,682	142,536	211,700	3,537,882
1968	210,946	3,771,674	12,043	153,460	222,989	3,925,134
Total	6,517,315	70,957,789	293,004	2,748,927	6,810,319	73,706,716

Note: The above figures do not include guaranteed or insured farm and business loans, refinancing loans, or alteration and repair loans.

TABLE V.—GI LOAN APPLICATIONS

	1967	1968	1969
January-March	40,649	51,050	53,304
April-June	68,300	62,471	65,875
July-September	78,667	69,496	62,808
October-December	61,600	65,649	....
Total	249,216	248,666	....

GI LOANS

	1967	1968	1969
January-March	34,495	50,628	53,216
April-June	40,943	44,527	50,167
July-September	58,461	55,625	57,356
October-December	66,523	60,437	....
Total	200,422	211,217	....

TABLE VI.—COMPARISON OF USE OF LOAN ENTITLEMENT BY VETERANS OF DIFFERENT SERVICE PERIODS IN YEARS IMMEDIATELY FOLLOWING ELIGIBILITY

Fiscal year	Average age of veterans	Loans closed	Eligible veterans at beginning of year	Percent of eligible veterans using entitlement
World War II:				
1946	26	176,000	2,372,000	7.4
1947	27	635,000	12,110,000	5.2
1948	28	521,000	13,074,000	4.0
Korean conflict:				
1954	25	48,000	1,865,000	2.6
1955	26	120,000	2,740,000	4.4
1956	27	159,000	3,731,000	4.3
Post-Korean veterans [1]:				
1967	27	73,000	3,783,000	1.9
1968	27	113,000	4,172,000	2.7
1969	28	131,000	4,740,000	2.8

[1] Veterans with all service after January 1955 (excludes active-duty servicemen).

TABLE VII-A.—FINANCIAL CHARACTERISTICS OF PRIOR-APPROVAL HOME LOANS, GUARANTEED BY THE VETERANS' ADMINISTRATION IN 1957-68, BY PURCHASE PRICE OF HOUSE[1]

	All prices	Purchase price of house					
		Less than $8,000	$8,000 to $9,999	$10,000 to $11,999	$12,000 to $14,999	$15,000 to $19,999	$20,000 and over
Percentage distribution of loans by purchase price class and year:							
1957	100.0	3.2	7.6	17.8	39.9	27.4	4.1
1958	100.0	3.2	6.1	15.7	39.3	30.4	5.3
1959	100.0	3.1	6.8	16.2	41.9	27.7	4.3
1960	100.0	2.7	5.3	13.9	37.3	35.4	5.4
1961	100.0	3.1	6.5	15.8	34.3	34.7	5.6
1962	100.0	2.9	7.2	14.4	31.2	36.1	8.2
1963	100.0	2.7	6.0	12.0	27.6	38.6	13.1
1964	100.0	2.5	5.5	10.4	25.0	38.5	18.1
1965	100.0	2.4	5.0	8.8	21.5	38.4	23.9
1966	100.0	2.2	5.1	8.8	21.3	37.9	24.7
1967	100.0	1.9	4.7	8.3	20.1	38.0	27.0
1968	100.0	1.5	3.9	7.2	17.3	37.2	32.9
Loans for new houses as a percent of total home loans and year:							
1957	81.8	20.2	54.5	79.0	88.1	89.3	81.2
1958	78.3	13.4	43.3	73.1	84.8	86.8	76.3
1959	80.3	3.4	45.1	76.6	88.4	87.8	78.3
1960	81.9	1.6	33.3	70.7	87.5	92.7	88.9
1961	66.3	2.8	21.1	56.7	72.0	78.2	72.2
1962	53.4	3.6	15.7	44.3	55.8	64.2	63.3
1963	43.8	4.1	13.1	34.8	44.3	51.3	51.0
1964	36.1	1.7	8.2	24.7	36.4	41.9	43.2
1965	32.2	1.7	6.0	15.9	30.3	37.7	39.5
1966	35.4	2.8	3.1	13.5	27.5	42.3	49.0
1967	31.2	1.2	3.3	9.4	22.7	36.3	43.8
1968	35.1	1.4	2.8	6.5	22.8	39.9	48.8
Loans for existing houses as a percent of total home loans and year:							
1957	18.2	79.8	45.5	21.0	11.9	10.7	18.8
1958	21.7	86.6	56.7	26.9	15.2	13.2	23.7
1959	19.7	96.6	54.9	23.4	11.6	12.2	21.7
1960	18.1	98.4	66.7	29.3	12.5	7.3	11.1
1961	33.7	97.2	78.9	43.3	28.0	21.8	27.8
1962	46.6	96.4	84.3	55.7	44.2	35.8	36.7
1963	56.2	95.9	86.9	65.2	55.7	48.7	49.0
1964	63.9	98.3	91.2	75.3	63.6	58.1	56.8
1965	67.8	98.3	94.0	84.1	69.7	62.3	60.5
1966	64.6	97.2	96.9	86.5	72.5	57.7	51.0
1967	68.8	98.8	96.7	90.6	77.3	63.7	56.2
1968	64.9	98.6	97.2	93.5	77.2	60.1	52.2

[1] Based on a 20-percent sample.

TABLE VII-B.—FINANCIAL CHARACTERISTICS OF PRIOR-APPROVAL HOME LOANS, GUARANTEED BY THE VETERANS' ADMINISTRATION IN 1957-68, BY MONTHLY INCOME AND AGE OF VETERANS

	Monthly income (after taxes) of veterans							
	All incomes	Less than $300	$300 to $399	$400 to $499	$500 to $599	$600 to $699	$700 to $799	$800 and over
	(Percent of loans by income of veterans)							
Year:								
1957...	100.0	3.9	29.4	29.6	18.6	9.4	4.7	4.4
1958...	100.0	2.8	28.7	31.1	18.2	9.6	4.6	5.0
1959...	100.0	2.5	29.7	34.0	17.7	8.9	4.0	3.2
1960...	100.0	2.4	23.5	33.0	20.4	10.2	4.9	5.6
1961...	100.0	3.0	28.3	36.2	19.0	8.0	3.1	2.4
1962...	100.0	3.5	26.8	34.7	19.3	9.2	3.7	2.8
1963...	100.0	3.2	24.1	33.1	21.0	10.3	4.5	3.8
1964...	100.0	2.5	19.8	31.9	21.9	11.8	6.1	6.0
1965...	100.0	2.1	16.5	29.2	22.2	13.8	7.7	8.5
1966...	100.0	1.6	15.4	29.2	23.4	14.2	7.6	8.6
1967...	100.0	1.3	13.4	27.9	23.5	14.9	8.5	10.5
1968...	100.0	0.9	9.8	25.2	24.1	16.1	10.2	13.7

	Age of veterans (in years)						
	All ages	Less than 25	25 to 29	30 to 34	35 to 39	40 to 49	50 and over
	(Percentage distribution of loans by age of veterans)						
Year:							
1957	100.0	5.3	30.0	31.2	21.4	11.2	0.9
1958	100.0	4.9	34.5	29.3	19.1	11.1	1.1
1959	100.0	4.7	36.2	28.4	18.1	11.5	1.1
1960	100.0	2.5	31.0	31.3	19.8	13.9	1.5
1961	100.0	1.1	29.3	32.1	19.3	16.1	2.1
1962	100.0	.1	22.4	34.4	21.4	19.1	2.6
1963	100.0	(1)	16.1	38.4	20.9	21.7	2.9
1964	100.0	(1)	11.2	39.2	20.7	25.0	3.9
1965	100.0	(1)	5.9	37.4	23.8	28.4	4.5
1966	100.0	5.2	19.9	29.3	20.5	21.1	4.0
1967	100.0	7.6	29.0	26.3	18.0	15.5	3.6
1968	100.0	8.9	30.0	26.7	18.6	12.6	3.2

[1] Less than ½ percent

TABLE VII-C.—FINANCIAL CHARACTERISTICS OF PRIOR-APPROVAL HOME LOANS GUARANTEED BY THE VETERANS' ADMINISTRATION

	Number of loans [1]	All incomes	Less than $300	$300 to $399	$400 to $499	$500 to $599	$600 to $699	$700 to $799	$800 and over
1965	159,582	100.0	2.1	16.5	29.2	22.2	13.8	7.7	8.5
1966	156,918	100.0	1.6	15.4	29.2	23.4	14.2	7.6	8.6
1967	200,018	100.0	1.3	13.4	27.9	23.5	14.9	8.5	10.5
1968	210,946	100.0	.9	9.8	25.2	24.1	16.1	10.2	13.7
1968:									
1st quarter...	50,531	100.0	1.2	11.3	26.7	22.9	15.5	10.1	12.3
2d quarter...	44,492	100.0	1.1	10.7	27.3	24.6	16.3	9.5	10.4
3d quarter...	55,552	100.0	.7	8.8	25.1	24.8	16.5	10.3	13.9
4th quarter...	60,371	100.0	.6	8.3	22.4	24.6	16.7	11.0	16.4
1969:									
1st quarter...	53,160	100.0	(2)	6.9	21.8	25.1	18.0	11.6	16.1
2d quarter...	50,128	100.0	(2)	6.8	19.8	24.7	18.9	12.1	17.2
3d quarter...	51,316	100.0	(2)	5.1	17.6	23.9	19.3	14.9	18.9

[1] Numbers exclude refinancing loans, alteration and repair loans, and direct loans sold and guaranteed.
[2] Less than 0.05 percent or number of cases too small to produce valid results.

TABLE VII-D.—FINANCIAL CHARACTERISTICS OF PRIOR-APPROVAL NEW HOME LOANS GUARANTEED BY THE VETERANS' ADMINISTRATION

	Number of loans [1]	All incomes	Less than $300	$300 to $399	$400 to $499	$500 to $599	$600 to $699	$700 to $799	$800 and over
1965	48,935	100	0.8	13.0	28.0	23.2	15.3	9.7	10.0
1966	53,101	100	.6	9.8	25.3	25.1	17.2	9.7	12.3
1967	60,435	100	.4	8.2	24.2	23.9	16.8	11.3	15.2
1968	71,423	100	.4	5.9	20.8	23.5	17.7	12.6	19.1
1968:									
1st quarter	18,314	100	.5	6.6	23.6	22.7	17.0	12.5	17.1
2d quarter	16,132	100	.2	5.8	21.9	24.1	18.5	12.5	16.9
3d quarter	17,707	100	.2	5.7	20.7	25.1	17.6	12.3	18.4
4th quarter	19,270	100	(2)	4.1	17.0	23.3	18.9	13.7	22.8
1969:									
1st quarter	17,973	100	(2)	2.6	15.9	23.6	19.2	15.5	23.1
2d quarter	15,151	100	(2)	2.3	13.0	22.9	21.2	14.7	25.7
3d quarter	17,186	100	(2)	.9	10.7	20.8	21.3	20.1	26.1

[1] Numbers exclude refinancing loans, alteration and repair loans, and direct loans sold and guaranteed.
[2] Less than 0.05 percent or number of cases too small to produce valid results.

TABLE VII-E.—FINANCIAL CHARACTERISTICS OF PRIOR-APPROVAL EXISTING HOME LOANS GUARANTEED BY THE VETERANS' ADMINISTRATION

	Number of loans [1]	All incomes	Less than $300	$300 to $399	$400 to $499	$500 to $599	$600 to $699	$700 to $799	$800 and over
1965	110,647	100	2.6	18.2	29.8	21.7	13.1	6.8	7.8
1966	103,817	100	2.1	18.4	31.4	22.4	12.6	6.5	6.6
1967	139,583	100	1.7	15.7	29.6	23.3	14.0	7.3	8.4
1968	139,523	100	1.3	12.0	27.5	24.4	15.2	8.9	10.7
1968:									
1st quarter	32,217	100	1.6	14.1	28.6	23.0	14.6	8.6	9.5
2d quarter	28,360	100	1.6	13.6	30.5	24.9	15.0	7.7	6.7
3d quarter	37,845	100	.9	10.3	27.3	24.6	16.0	9.3	11.6
4th quarter	41,101	100	(2)	10.4	25.0	25.2	15.6	9.8	13.2
1969:									
1st quarter	35,187	100	(2)	9.2	24.9	25.9	17.3	9.6	12.3
2d quarter	34,977	100	(2)	8.9	22.9	25.5	17.8	10.9	13.4
3d quarter	40,130	100	(2)	6.7	20.4	25.2	18.5	12.8	15.9

[1] Numbers exclude refinancing loans, alteration and repair loans, and direct loans sold and guaranteed.
[2] Less than 0.05 percent or number of cases too small to produce valid results.

TABLE VIII-A.—CHARACTERISTICS OF VA-GUARANTEED PRIMARY MORTGAGES FOR PURCHASE OF NEW HOMES [1]

Calendar year	Number of loans guaranteed (thousands)	Average purchase price	Average loan amount	Average loan-to-purchase-price ratio	Percent of total loans with— No down-payment	Percent of total loans with— 30-year maturity	Average term of loan: Years	Average term of loan: Months
1945	2.7	$5,940	$5,665	95.4	68.4	(2)	18	8
1946	65.0	7,000	6,490	92.7	47.3	(2)	19	10
1947	198.4	8,160	7,375	90.4	31.9	(2)	20	2
1948	107.6	9,200	7,770	84.5	19.0	(2)	19	8
1949	83.8	9,240	7,990	86.5	37.7	(2)	21	2
1950	208.9	8,945	8,220	91.9	56.6	2.5	23	1
1951	286.5	10,590	9,490	89.6	28.5	12.0	24	0
1952	192.2	10,905	9,475	86.9	7.5	7.0	23	1
1953	202.9	11,335	10,065	88.8	11.2	5.3	23	2
1954	243.2	11,925	11,045	92.6	37.2	30.7	25	11
1955	387.6	12,460	11,795	94.7	53.4	43.0	27	5
1956	313.5	13,390	12,475	93.2	32.0	42.9	27	2
1957	218.8	14,335	13,210	92.2	8.4	43.6	27	4
1958	94.0	14,760	13,940	94.3	29.2	59.3	28	3
1959	145.4	14,590	14,105	96.7	65.7	68.1	28	11
1960	104.8	15,325	14,835	96.8	69.8	66.1	28	11
1961	78.5	15,260	14,910	97.7	75.9	70.3	29	1
1962	87.9	15,790	15,435	97.8	75.2	72.8	29	2
1963	75.3	16,510	16,120	97.6	75.4	75.2	29	3
1964	60.3	17,235	16,820	97.6	77.8	77.1	29	3
1965	48.9	18,340	17,830	97.2	75.6	79.3	29	4
1966	53.1	18,970	18,465	97.3	74.2	78.6	29	4
1967	60.4	19,390	18,910	97.5	74.4	76.6	29	4
1968	71.4	20,490	20,025	97.7	76.5	75.6	29	4

[1] Excludes refinancing loans, alteration and repair loans; direct loans sold and guaranteed since January 1962.

[2] From June 22, 1944, to Dec. 27, 1945, there was a 20-year maturity limitation. From Dec. 28, 1945, to Apr. 19, 1950, there was a 25-year maturity limitation. From Apr. 20, 1950, to Apr. 22, 1953, there was a 20- to 52-year maturity limitation. From Apr. 23, 1953, to July 29, 1955, there was a 30-year maturity limitation. From July 30, 1955, to Jan. 19, 1956, there was a 25-year, 32-day maturity limitation. From Jan. 20, 1956 to present, there was a 30-year maturity limitation.

TABLE VIII-B.—CHARACTERISTICS OF VA-GUARANTEED PRIMARY MORTGAGES FOR PURCHASE OF EXISTING HOMES [1]

Year	Number of loans guaranteed (thousands)	Average purchase price	Average loan amount	Average loan-to-purchase-price ratio	Percent of total loans with— No down-payment	Percent of total loans with— 30-year maturity	Average term of loan Years	Average term of loan Months
1944–45	38.4	$5,075	$4,760	93.8	66.7	(2)	17	8
1946	338.6	5,850	5,740	98.1	48.0	(2)	18	2
1947	289.2	6,750	6,020	89.2	31.8	(2)	16	8
1948	141.0	7,545	6,320	83.8	22.5	(2)	16	1
1949	89.6	7,875	6,665	84.6	28.2	(2)	17	5
1950	160.2	8,435	7,290	86.4	28.0	.4	19	8
1951	122.9	9,460	7,630	80.7	4.1	1.6	18	2
1952	109.5	10,105	8,110	80.3	1.2	.6	18	9
1953	115.2	10,690	8,770	82.0	3.4	2.0	19	3
1954	164.1	10,965	9,515	86.8	15.5	6.4	21	5
1955	255.6	11,335	10,025	88.4	19.7	10.1	22	5
1956	188.5	11,970	10,330	86.3	2.2	7.4	22	0
1957	83.2	12,085	10,365	85.8	1.0	8.5	21	3
1958	49.5	12,650	11,095	87.4	13.3	20.0	22	4
1959	65.1	12,610	11,220	89.0	22.9	23.0	23	7
1960	38.5	12,240	11,100	90.7	33.5	22.2	23	7
1961	54.4	13,060	12,095	92.5	45.6	38.6	25	5
1962	99.1	13,725	13,030	94.9	56.7	47.7	26	7
1963	112.6	14,695	14,070	95.7	62.7	54.6	27	4
1964	117.2	15,500	14,875	96.0	67.8	56.7	27	8
1965	110.6	16,370	15,750	96.2	68.9	57.9	27	8
1966	103.8	16,090	15,575	96.8	69.8	57.7	27	10
1967	139.6	16,525	16,135	97.6	74.6	60.6	28	0
1968	139.5	17,200	16,780	97.6	75.0	58.8	28	2

[1] Excludes refinancing loans, alteration, and repair loans; direct loans sold and guaranteed since January 1962.
[2] From June 22, 1944, to Dec. 27, 1945, there was a 20-year maturity limitation. From Dec. 28, 1945, to Apr. 19, 1950, there was a 25-year maturity limitation. From Apr. 20, 1950, to Apr. 22, 1953, there was a 20-year to 25-year maturity limitation. From Apr. 23, 1953, to July 29, 1955, there was a 30-year maturity limitation. From July 30, 1955, to Jan. 19, 1956, there was a 25-year, 32-day maturity limitation. From Jan. 20, 1956 to present, there was a 30-year maturity limitation.

TABLE IX.—PRINCIPAL AMOUNT OF VA HOME LOANS CLOSED, BY TYPE OF ORIGINATING LENDER, 1944-68

[Dollar amounts in millions]

Calendar year	Total		Savings and loan associations		Insurance companies		Mutual savings banks		Commercial banks		Mortgage and real estate companies		Other	
	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of toal
1944-47	$5,770	100.0	$2,100	36.4	$240	4.1	$430	7.4	$2,300	39.9	$690	12.0	$10	0.2
1948	1,880	100.0	536	28.5	139	7.4	226	12.0	737	39.2	231	12.3	11	.6
1949	1,424	100.0	330	23.2	66	4.6	191	13.4	345	24.2	487	34.2	5	.4
1950	3,073	100.0	740	24.1	222	7.2	298	9.7	586	19.1	1,216	39.6	11	.3
1951	3,615	100.0	704	19.5	494	13.7	422	11.7	765	21.1	1,200	33.2	30	.8
1952	2,721	100.0	694	25.5	155	5.7	414	15.2	570	21.0	860	31.6	28	1.0
1953	3,061	100.0	853	27.9	96	3.1	531	17.4	497	16.2	1,050	34.3	34	1.1
1954	4,257	100.0	883	20.7	256	6.0	560	13.2	510	12.0	2,012	47.3	36	.8
1955	7,157	100.0	1,591	22.2	423	5.9	662	9.3	993	13.9	3,429	47.9	59	.8
1956	5,868	100.0	1,166	19.9	270	4.6	639	10.9	915	15.6	2,821	48.1	57	.9
1957	3,761	100.0	786	20.9	132	3.5	495	13.2	464	12.3	1,849	49.2	35	.9
1958	1,865	100.0	445	23.9	34	1.8	299	16.0	167	9.0	893	47.9	27	1.4
1959	2,787	100.0	621	22.3	46	1.7	391	14.0	226	8.1	1,480	53.1	23	.8
1960	1,985	100.0	422	21.3	48	2.4	257	12.9	142	7.2	1,098	55.3	18	.9
1961	1,832	100.0	322	17.6	51	2.8	234	12.8	107	5.8	1,100	60.0	18	1.0
1962	2,652	100.0	425	16.0	106	4.0	279	10.5	233	8.8	1,591	60.0	18	.7
1963 [1]	2,801	100.0	349	12.5	115	4.1	280	10.0	317	11.3	1,715	61.2	25	.9
1964	2,764	100.0	243	8.8	111	4.0	260	9.4	290	10.5	1,846	66.8	11	.5
1965	2,618	100.0	213	8.1	87	3.3	234	8.9	284	10.9	1,790	68.4	10	.4
1966	2,599	100.0	224	8.6	75	2.9	237	9.1	321	12.4	1,737	66.8	5	.2
1967	3,398	100.0	308	9.1	55	1.6	254	7.5	450	13.2	2,325	68.4	6	.2
1968	3,772	100.0	407	10.8	57	1.5	237	6.3	546	14.5	2,520	66.8	5	.1
Cumulative, Dec. 31, 1968 [2]	71,660	100.0	14,362	20.0	3,278	4.6	7,830	10.9	11,765	16.4	33,940	47.4	485	.7

[1] Direct loans sold and guaranteed have been excluded from his series since Jan. 1, 1963, in order to only show distribution of loans originated by lenders.

[2] Excludes adjustment transactions. Adjusted total of home loans guaranteed or insured is $72,017,000,000 including $476,800,000 in direct loans sold and guaranteed.

TABLE X.—OUTSTANDING AMOUNT OF VA HOME LOANS HELD AT END OF YEAR, BY TYPE OF MORTGAGE HOLDER

[Dollar amounts in millions]

Year	All types, total amount [1]	Savings and loan associations		Life insurance companies		Mutual savings banks		Commercial banks		Federal National Mortgage Association [2]		Others	
		Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total
1951	$13,200	$3,125	23.7	$3,131	23.7	$1,726	13.1	$2,921	22.1	$1,646	12.5	$651	4.9
1952	14,600	3,385	23.2	3,347	22.9	2,237	15.3	3,012	20.6	1,922	13.2	697	4.8
1953	16,100	3,961	24.6	3,560	22.1	3,053	19.0	3,061	19.0	1,841	11.4	624	3.9
1954	19,300	4,709	24.4	4,643	24.1	4,262	22.1	3,350	17.4	1,632	8.4	704	3.6
1955	24,600	5,883	23.9	6,074	24.7	5,773	23.5	3,711	15.1	1,714	6.9	1,445	5.9
1956	28,400	6,643	23.4	7,304	25.7	7,139	25.1	3,902	13.8	2,069	7.3	1,343	4.7
1957	30,700	7,011	22.8	7,721	25.2	7,790	25.4	3,589	11.7	2,737	8.9	1,852	6.0
1958	30,400	7,077	23.3	7,433	24.4	8,360	27.5	3,335	11.0	2,418	8.0	1,777	5.8
1959	30,000	7,186	24.0	7,086	23.6	8,589	28.6	3,161	10.5	2,985	10.0	993	3.3
1960	29,700	7,222	24.3	6,901	23.2	8,986	30.3	2,859	9.6	2,803	9.5	929	3.1
1961	29,600	7,152	24.2	6,553	22.1	9,267	31.3	2,627	8.9	2,603	8.8	1,398	4.7
1962	29,900	7,010	23.4	6,395	21.4	9,787	32.7	2,654	8.9	2,353	7.9	1,701	5.7
1963	30,900	6,960	22.5	6,401	20.7	10,490	33.9	2,862	9.3	1,634	5.3	2,553	8.3
1964	30,900	6,683	21.6	6,403	20.7	11,121	36.0	2,742	8.9	1,416	4.6	2,535	8.2
1965	31,100	6,398	20.6	6,286	20.2	11,408	36.7	2,688	8.6	1,327	4.3	2,993	9.6
1966	31,300	6,158	19.7	6,201	19.8	11,471	36.6	2,599	8.3	1,655	5.3	3,114	10.3
1967	32,500	6,351	19.6	6,122	18.8	11,795	36.3	2,696	8.3	2,066	6.4	3,470	10.7
1968	33,800	7,012	20.8	5,954	17.6	12,033	35.6	2,708	8.0	2,697	8.0	3,396	10.0

[1] Includes outstanding amount of VA vendee accounts held by private lenders under repurchase agreement.

[2] Includes holdings of GNMA.

TREASURY DEPARTMENT REPORT ON S. 3008

THE GENERAL COUNSEL OF THE TREASURY,
Washington, D.C., November 17, 1969.

Hon. RUSSELL B. LONG,
Chairman, Committee on Finance, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Reference is made to your request for the views of this Department on S. 3008, "To increase the availability of guaranteed home loan financing for veterans and to increase the income of the national service life insurance fund."

The bill would provide for the investment of the assets of the National Service Life Insurance Fund in VA guaranteed mortgages. To finance the proposed investment activities, it would establish a national service life insurance investment fund, to which the Secretary of the Treasury would be required to transfer from the National Service Life Insurance Fund such amounts, up to $5 billion, as the Administrator of Veterans Affairs may request. The investment fund would pay interest to the insurance fund at the average rate on loans purchased by the investment fund less 1 percent, but not less than the average return on the other invested portion of the insurance fund. The Administrator would also be authorized to utilize the investment fund to purchase loans from the direct loan revolving fund; to sell and guarantee any loans held in the investment fund; to sell participation certificates in mortgages held by the fund; and to utilize available funds in the loan guarantee and direct loan revolving funds to cover deficiencies in the investment fund.

The proposed mortgage purchase program would be contrary to the Federal credit program policy of placing primary reliance on the private market system, and would result in substantially greater dependence on Federal involvement and budget outlays. The purchase of mortgages as contemplated in the bill could increase Federal outlays by up to $5 billion over a 5 year period, beginning in fiscal year 1970, thus increasing the requirements for Treasury borrowing from the public. To the extent that the increased Treasury borrowing requirements add to total credit demands, the proposed mortgage purchase program would have an inflationary impact and would thus run counter to the Administration's objective of reducing inflationary pressures. Under existing major Federal credit programs in the housing area, the Government assumes the loan risk but private lenders originate, provide the capital, and service the loans. Secondary market support is available from the now private Federal National Mortgage Association. It appears that the proposed VA mortgage purchase program would largely duplicate the activities of FNMA. It is not clear what advantage the proposal would have over continued reliance on existing private market arrangements, apart from any subsidy to veterans which may be provided under the proposal. The Department has no knowledge of any need or justification for subsidies.

The Federal National Mortgage Association has been purchasing a large volume of VA guaranteed loans. About a third of its activity is in such mortgages. In the year ended June 30, 1969, FNMA purchases of VA loans were about $600 million, and current purchases (about $150 million per month) are at an annual rate about triple the 1969 level. Even these amounts understate the total impact. Under the present "auction" system, a FNMA commitment is usually carried through to purchase only when a private investor cannot be found. Commitments may be used to initiate several mortgages in sequence, with a private investor found in each case. The commitment may well expire without ever resulting in the purchase of a mortgage by FNMA, although it has actually supported several mortgages prior to expiration. The fact that FNMA commitments expire in this way is indicative of the availability of private mortgage financing for VA loans when the home buying borrower is prepared to pay yields which are competitive with those paid by other borrowers.

The proposed changes in the investment of the National Service Life Insurance Fund raise critical issues of overall Federal trust fund policy. The major trust funds, including the NSLI Fund, are now largely invested in special Treasury issues. The apparent intent of the Congress, as evidenced by specific legislative enactments in this area, has been that these funds be invested at rates which approximate current Treasury borrowing rates. Increasing the earnings of these funds by investment in other than Treasury issues must be weighed against the loss of the safety and liquidity provided by the Treasury issues. Any proposal to increase the earnings of the NSLI Fund must involve a fundamental reappraisal of overall trust fund policy.

The proposed use of the NSLI Fund to purchase VA guaranteed loans raises the general question of the extent to which trust funds should be used to support particular credit market sectors. The proposal could also lead to a confusion of the costs and benefits of the life insurance and housing assistance programs. Moreover, there is a lack of coincidence between the beneficiaries of the NSLI Fund and the beneficiaries of the proposed mortgage purchase program.

The Department believes that any expansion in direct Federal lending under the VA housing program should be financed through the regular appropriations process rather than by "back door" financing through the Federal trust fund investment and asset sales proposed in S. 3008.

Accordingly, the Department is strongly opposed to the bill.

The Department has been advised by the Bureau of the Budget that there is no objection to the submission of this report to your Committee and that enactment of this legislation would not be in accord with the program of the President.

Sincerely yours,

PAUL W. EGGERS, *General Counsel.*

VETERANS' ADMINISTRATION REPORT ON S. 3008

VETERANS' ADMINISTRATION,
OFFICE OF THE ADMINISTRATOR OF VETERANS' AFFAIRS,
Washington, D.C., November 13, 1969.

Hon. RUSSELL B. LONG,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: The following comments are furnished in response to your request for a report on S. 3008, 91st Congress.

The general purpose of the bill is to increase the availability of guaranteed home loan financing for veterans and to increase the income of the National Service Life Insurance Fund.

The bill would establish an Investment Fund, on a revolving fund basis, to which funds, not exceeding $5 billion in the aggregate nor more than $1 billion in any one fiscal year, would be transferred from the National Service Life Insurance Fund, in the period between enactment and June 30, 1974. The Investment Fund would be available for the purchase of loans guaranteed under section 1810 and loans made under section 1811, title 38, United States Code, Collections of principal on loans so purchased would, after June 30, 1975, be used to repay the funds transferred from the National Service Life Insurance Fund and that fund would be paid interest on all funds transferred therefrom.

While the purchase of both guaranteed loans and direct loans would be authorized, most of the funds available in the Investment Fund undoubtedly would be utilized for the purchase of guaranteed loans. It is unlikely that there would be any urgent need to utilize the Investment Fund to purchase direct loans to a large extent. About 80% of the veterans eligible for loan benefits live in areas or places which are not classified as housing credit shortage areas and, thus, are not eligible for direct loans under section 1811. Cumulatively, there have been over 7 million home loans guaranteed, but only about 300,000 direct loans have been made to veterans. In the current fiscal year, it is anticipated that there will be nearly a quarter million loans guaranteed, but only 12,000 to 13,000 direct loans will be made to veterans. The resources of the Direct Loan Revolving Fund are adequate for any necessary direct lending in the foreseeable future, without such supplemental support as would be provided by the bill.

Over the years, the volume of loans guaranteed annually has fluctuated widely, with the sharp cyclical movements in guaranteed loan activity having been influenced more by the ebb and flow of private capital available for investment in mortgages than any other factor. Enactment of the bill would, we believe, make more capital uniformly available for investment in guaranteed loans the next five years.

In the last 10 years the number of veterans eligible for loan benefits generally have been large enough to support volumes of guaranteed loans substantially in excess of the numbers of such loans actually processed. The current situation is not basically different. The population of eligible veterans is expanding rapidly and in the coming years will be increasingly dominated by post-Korean veterans, including veterans of Vietnam service. Their relative youthfulness and the fact that generally they may have not yet realized their maximum earning capacity underscore the need to improve the viability of the guaranteed loan program. The proposed legislation would be an effective means of increasing the flow of capital available for guaranteed loan financing, especially to assist the growing number of veterans to finance their home purchases.

The bill also provides that the National Service Life Insurance Fund would be paid interest on all funds transferred to the Investment Fund at the average rate of interest on loans purchased by the latter Fund, less 1 percent, but in no event less than the average rate of return on the other investments of the National Service Life Insurance Fund. Since the interest rate now applicable to loans being guaranteed and direct loans being made is 7½-percent, the rate of interest payable on the funds transferred to the Investment Fund would be 6½-percent.

We are informed that, since 1960, the investment of the National Service Life Insurance Fund in special Treasury obligations has been at a rate equal to the current market yield on marketable Treasury securities with maturities of over three years, reduced by a fraction of 1 percent (currently ¼), with a guaranteed interest rate floor of 3 percent. According to the Department of the Treasury, the rate paid on special issues to the National Service Life Insurance Fund recently was 6⅝ percent. It was indicated that the average rate on investments held by the fund is now almost 4 percent because of the maturity spread of the special issues, but that this rate will increase each year as low rate issues mature.

The purchase of mortgages as contemplated in this bill could increase Federal outlays up to $5 billion during the five-year period, fiscal year 1970–1974, resulting in increased requirements for Treasury borrowing from the public. In the present economic environment, the proposal would not be in accord with the Administration's current anti-inflationary economic policy.

If enacted and approved, the provisions of the bill would, in the first year of operations, increase VA general operating expenses by $2.9 million, according to our estimates.

If the basic provisions of S. 3008 are favorably considered by the Committee, there are certain substantive and technical changes which we consider desirable in order to make the program envisioned by the bill more workable, to provide greater security to the National Service Life Insurance Fund, and to simplify the administration of the program. These changes are reflected in the enclosure.

The Bureau of the Budget has advised that there is no objection to the presentation of this report and that enactment of this legislation would not be in accord wtih the program of the President.

Sincerely,

DONALD E. JOHNSON,
Administrator.

SUGGESTED AMENDMENTS TO S. 3008, 91ST CONGRESS

1. On page 1, line 8, the words "or made under section 1811" should be inserted after "1810" since the proposed section 1828 provides for the investment of funds in direct loans as well as guaranteed loans.

2. Page 2, lines 11 and 12. To make uniform the date from which the time periods for exercise of the commitment by the lender-mortgagee will commence, we recommend that the words "subsequent to the disbursement of the loan proceeds but not" be deleted and the word "nor" substituted therefor. We further recommend that the words "twelve months" in line 12 be deleted and the words "one hundred eighty days" be substituted therefor. We consider that twelve months from the date of issuance of the loan guaranty certificate is an excessive period of time for the exercise of the commitment option by the lender-mortgagee, bearing in mind that the entire time the commitment is outstanding would constitute a period during which the Administrator would have a contingent liability. Shortening the period to one hundred eighty days will assist the VA materially in planning for the maximum use of available funds in income producing loans.

3. On page 2, line 25, we recommend the words "the origination fee charged by the lender-mortgagee and" be deleted. We assume that the origination fee referred to is the origination fee of one percent which the lender is authorized to charge the veteran-borrower pursuant to the provisions of VA Regulation 4312 in lieu of charges for other services not authorized therein. Reference to this fee has no place in statutory language referring to discounts the lender may charge the seller or builder.

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4. On page 3, line 13, we recommend that two new sentences be inserted after the word "subsection" reading as follows: "If an auction of purchase commitments by the Federal National Mortgage Association has not been conducted during the three months immediately preceding the issuance of a commitment under this subsection the price to be specified in such commitment shall be determined by the Administrator but any such price determination by the Administrator shall not exceed par nor be less than 96 per centum of par. Upon the purchase of a guaranteed loan pursuant to a commitment issued under this subsection the Administrator's guaranty of the loan shall continue in full force and effect and shall inure to the Investment Fund established in subsection (b) of this section."

The foregoing sentences are recommended to provide a procedure for continuing the program in the event auctions by FNMA are discontinued. In addition, the language will give specific assurance that the guaranty previously issued will continue in full force for the benefit of the Investment Fund.

5. In page 4, line 8, delete the words "insurance fund" and substitute therefor the words "national service life insurance fund (hereinafter called the insurance fund)".

This will fully identify the national service life insurance fund for the first time in the new section 1828 and will be consistent with the first reference to the national service life insurance investment fund in line 22 on page 3.

6. On page 4, line 22, we recommend that the following language be inserted after the word "fund." "Any direct loan purchased for the Investment Fund shall when so purchased be guaranteed subject to the same conditions, terms and limitations as would be applicable were the loan guaranteed under section 1810 of this chapter."

The foregoing language will provide the security of the guaranty to the Investment Fund in the same manner as is provided for any other purchaser of direct loans, i.e., the provisions in section 1811(g) of title 38.

7. On page 5, line 4, delete the word "in" where it first appears and substitute the word "from". In addition, delete the words "such loans" and substitute "all loans purchased by the Investment Fund". We believe the substitution of this language will make it clear that the loans referred to include both guaranteed loans as well as direct loans acquired by the Investment Fund.

8. On page 5, line 24, we recommend that a new sentence be inserted after the word "fund." as follows: "The Administrator is authorized to invest on an interim basis unexpanded balances of the Investment Fund, including the reserve for expenses and losses, in obligations of the United States Government or agencies thereof."

The reason for the added language is to give the Administrator specific authority to invest monies in the Investment Fund from time to time in short-term securities of the Federal Government in the event there appears there will be a time lag in investing the funds in long-term obligations represented by guaranteed and direct loans. We believe it important the Administrator have this authority to be able to derive some income from these funds since he is obligated to pay interest on all funds transferred from the Insurance Fund to the Investment Fund regardless of whether monies in the Investment Fund are invested or not.

9. On page 5, line 24, change "1974" to "1975" to conform to the date in line 6 on page 5.

10. On page 6, line 2, delete "(subsection (a) of)". Subsection (a) of section 1828 deals only with guaranteed loans acquired from lenders and it obviously is the intention of the bill that all monies received in repayment of loans purchased pursuant to the entire section, i.e., including direct loans, be deposited in the Insurance Fund.

11. On page 6, lines 6 and 7. Delete the last sentence of subsection (c) and substitute the following: "Such deposits shall be continued until the funds transferred to the Investment Fund by the Insurance Fund are repaid in full with interest."

We believe the last sentence of subsection (c) is unnecessary since the previous sentence provides that all interest collections will be deposited in the Insurance Fund. The added language is believed to be necessary to provide a cut-off date for transfer of funds from the Investment Fund to the Insurance Fund after the Insurance Fund has been repaid in full together with the interest specified in subsection (c) of section 1828.

12. On page 6, line 10, delete the word "transfer" and insert in lieu thereof the following: "guarantee the Investment Fund against loss of interest or principal and shall discharge such guarantee by transferring".

The foregoing change is designed to make specific the obligation of the Administrator to guarantee the Investment Fund against loss of both principal and interest in the event of a deficiency and thus provide a greater degree of security to the NSLI fund.

13. On page 6, line 19, we recommend that a new sentence be added at the end of subsection (d) as follows: "Any deficiencies in the Investment Fund defrayed by the Loan Guaranty or Direct Loan Revolving Funds shall be paid to such funds by the Investment Fund as soon as such payment becomes feasible."

The reason for recommending addition of the foregoing sentence is the fact that it is possible there may be times, particularly in the early life of the Investment Fund, when there may be a deficiency in the Investment Fund which must be cured by transfers of funds from the Loan Guaranty or Direct Loan Revolving Funds and that later on the amount of the deficiency will not only be recouped by the Investment Fund but there will be sufficient funds available not only for the purposes specified in section 1828 but to reimburse the Loan Guaranty or Direct Loan Revolving Funds for the funds previously advanced to the Investment Fund. We consider it important that this provision be made in order to maintain the Guaranteed and Direct Loan Revolving Funds in such financial condition that they may be used for the purposes currently specified in the law.

14. On page 7, line 1, delete the following language "(originated under section 1810 and subsequently purchased by him, guarantee any loan)". This language should be deleted since the sentence in which it appears should be applicable both to loans guaranteed under section 1810 and to direct loans purchased by the Investment Fund and subsequently guaranteed by the Administrator.

15. On page 7, line 5, we recommend that a new sentence be added at the end of subsection "(e)" as follows: "The proceeds of any such sales shall be deposited in the Investment Fund." The purpose of this sentence is to make it clear that the proceeds from the sale by the Administrator of any loans owned by the Investment Fund will be deposited in the Investment Fund.

16. On page 8, in subsection (b) there should be inserted in the second line of the analysis of section 1828 the words "or made under section 1811" after "1810". The reason for the addition of the inserted language is the fact that section 1828 as proposed would cover the investment of funds in direct loans as well as guaranteed loans.

17. On page 8, the proposed new paragraph (1) of section 1811(c), beginning at line 17 and continuing through line 5 on page 9, should be deleted in its entirety and the following language substituted therefor: "(1) he is unable to obtain from a private lender in such housing credit shortage area, a loan for such purpose for which he is qualified under section 1810 of this title, at an interest rate not in excess of the rate authorized for guaranteed home loans and at a discount charge to the seller or builder not in excess of the discount (if any) determined to be reasonable by the Administrator who shall, whenever feasible to do so, base such determination on the discount involved in the latest average auction price for the Federal National Mortgage Association purchase commitments but not in excess of a four percent discount in any event; and".

The language presently appearing in Sec. 2 of the bill is a departure from the language currently in section 1811(c)(1) of title 38. It makes no reference to interest rate nor to the purpose of the loan nor to the fact that the veteran must be qualified for such purpose, i.e., meet the statutory income and credit requirements. We think it essential that these factors be retained in section 1811(c)(1) and the substitute language recommended will accomplish this.

The language in the bill obviously is designed to preclude the Administrator from making a direct loan to a veteran if a private lender is willing to make him a guaranteed loan on terms which include a discount charge to the seller not in excess of the discount involved in the latest average auction price of FNMA commitments. It does not contain a maximum limitation of four points as does section 1828(a) in respect to commitments on guaranteed loans. We assume the provision in the bill likely stems from recognition of the fact that the existing law has been interpreted to mean that if a lender imposes a discount charge against the seller and the latter declines to pay it, the Administrator is legally obligated to make the veteran a direct loan at par if the veteran, the loan and the property are otherwise eligible. This principle has become widely known and has resulted in negating to a considerable extent the basic purpose of the direct loan program, i.e., to supplement the guaranteed loan program by authorizing direct loans to be made "Whenever the Administrator finds that private capital is not generally available in any rural area or small city or town for the financing of loans guaranteed under section 1810 of this title" (section 1811(b) of title 38). The language further recognizes that discount charges to sellers by private lenders making guaranteed loans has been a common practice whenever the yield on guaranteed loans has been less than that obtainable from similar alternate capital investments and apparently is an attempt to make it possible for more guaranteed loans to be made in rural areas, small cities and towns which have been determined by VA to meet the current statutory criteria for VA direct loan financing. It would also tend to place veterans and sellers in rural areas, small cities and towns on a basis similar to those whose properties are located in urban areas where no direct loan financing at par is available.

While we agree with the general purpose of the language in the bill we do not consider it advisable to attempt to specify in the statutory language a separate discount formula for existing housing and another for new construction, both geared to FNMA auction prices. We would prefer to have the provision in the form we have suggested which authorizes the Administrator to fix the discount at a figure he determines to be reasonable and to use FNMA auction prices as a basis so long as the FNMA auction procedure is continued. A floor of 96 (or maximum of four points) is provided, a figure identical to that set forth for commitments in section 1828(a), to preclude charging of discounts to sellers in excess of four points.

Section 720(b) of title 38 requires that the NSLI Fund be invested in obligations guaranteed as to principal and interest by the United States. In order to assure the same investment criteria for amounts transferred under subsection 720(c) (as added by section 3 of the bill), the following sentence should be added to line 17, page 9: "The funds transferred from the National Service Life Insurance Fund under this section to the Investment Fund, together with the interest thereon as computed under section 1823(c) of this title, shall be guaranteed as to principal and interest by the United States."

Senator HARTKE. Senator Jordan and I are here this morning, and we are expecting momentarily Senator Yarborough, who will appear soon. At such time as he does, we will hear him, but will continue with the other witnesses at this time.

The first witness we have is the Honorable Paul Volcker, Under Secretary of the Treasury for Monetary Affairs, and you have how many people with you?

STATEMENT OF HON. PAUL A. VOLCKER, UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS; ACCOMPANIED BY EDWARD P. SNYDER, DIRECTOR, OFFICE OF DEBT ANALYSIS

Mr. VOLCKER. Just Mr. Snyder from the Office of Debt Analysis of the Treasury, Senator.

Mr. HARTKE. Fine, you may proceed, sir.

Mr. VOLCKER. I am pleased to have this opportunity to present the views of the administration and the Treasury Department on S. 3008, a bill to increase the availability of guaranteed home loan financing for veterans and to increase the income of the national service life insurance fund.

S. 3008 would provide for the investment of the assets of the national service life insurance—NSLI—fund in VA-guaranteed mortgages. The bill would establish a national service life insurance investment fund to which the Secretary of the Treasury would be required to transfer from the NSLI fund such amounts as the Administrator of Veterans' Affairs may request, except that the total amount transferred could not exceed $5 billion in the period between the enactment of the bill and June 30, 1974, and could not exceed $1 billion in any one fiscal year.

The Administrator would use the amounts transferred to purchase guaranteed mortgage loans pursuant to commitments made at the time the loans were guaranteed. The new investment fund would pay interest to the insurance fund at the average rate on loans purchased by the investment fund less 1 percent but not less than the average return on the other invested portion of the insurance fund. The Administrator would also be authorized to utilize the investment fund to purchase loans from the direct loan revolving fund.

It seems to me that one fundamental issue posed by S. 3008 is whether the Congress is willing to face up to the hard choices that must be made among the many pressing needs for funds through the regular authorization-appropriations process or whether instead certain Federal outlays, in this case in support of VA-guaranteed mortgages, are to short circuit that regular process.

Under the new unified budget adopted pursuant to the recommendations of the Budget Concepts Commission, trust fund acquisitions of VA-guaranteed mortgages would in any event constitute Federal budget outlays. The anticipated Federal budgetary surplus would be reduced by an equivalent amount, and the Treasury would be required to increase the amount of its borrowing from the public in order to raise new funds to replace the Treasury special issues now held by the NSLI fund.

During the present fiscal year 1970, the administration is operating within the confines of a tight expenditure ceiling. Thus the use of VA insurance reserves under S. 3008 to acquire VA-guaranteed mortgages would require a reduction in other programs. This is why I feel that the Congress should have the opportunity through the regular appropriations process to consider how Federal budget support of VA-guaranteed mortgages fits into the overall fiscal posture and budgetary priorities of the Federal Government.

In addition to these immediate budgetary implications I believe it is evident the use of trust fund moneys for the acquisition of VA mortgages would make it increasingly difficult to resist pressures to finance other, perhaps equally pressing, programs by the same means.

The net result would be to undermine orderly budgeting and rational allocations of scarce Federal financial resources.

Apart from this fundamental question of budget policy, it is hard to see what would be accomplished by S. 3008 which could not be accomplished more effectively and more equitably under existing arrangements for the support of mortgage loans to veterans and for the investment of Federal trust funds.

An efficient mechanism for market support of VA-guaranteed mortgages has already been provided by the Congress in the now private Federal National Mortgage Association, which purchases mortgage loans guaranteed by other Federal agencies, including the Veterans' Administration.

The establishment of the proposed facility for VA-guaranteed mortgages would in key respects duplicate the activities of FNMA. If the intent of the Congress is to provide additional subsidies for VA-guaranteed mortgages, this could be accomplished consistent with existing institutional arrangements and without involving trust fund purchases. Instead, the proposal embodied in S. 3008 would tend to obscure the element of subsidy and, in principle, give rise to an uneasy compromise between the interests of the trust fund beneficiaries and the recipients of the mortgage credit.

The Federal National Mortgage Association has been purchasing a large volume of VA-guaranteed loans; about a third of its activities is in such mortgages. In the year ended June 30, 1969, FNMA purchases of VA loans were about $600 million, and purchases have recently been running about $150 million per month or at an annual rate about three times the 1969 level.

FNMA is also active, in tandem with GNMA, in purchasing mortgages for which the Federal Government wishes to provide greater subsidy, with the cost of the subsidy absorbed by the general revenues.

S. 3008 establishes a minimum purchase price of 96 percent of par for loans purchased by the new proposed investment fund. This price compares with the current FNMA purchase price of about 93. Thus those mortgage lenders now selling VA-guaranteed loans to FNMA would presumably choose instead to sell to the new investment fund at the higher price. Since FNMA has been purchasing VA-guaranteed mortgages at a monthly rate of $150 million, or at an annual rate of $1.8 billion, the authorized purchases under S. 3008 of up to $1 billion a year would apparently involve mortgages which would otherwise have been purchased by FNMA and thus tend to duplicate the activity of FNMA.

I would like to emphasize that I fully share the committee's concern over the limited availability of mortgage funds in the present environment. For this reason, a number of specific steps have been taken to help support home construction. Operating directly to maintain a flow of money into housing, the home loan banks have very substantially stepped up their volume of advances to member savings and loan associations.

In fact, total home loan bank borrowings have increased by over $2 billion since June 30. Similarly, the Federal National Mortgage Association has been making new commitments at rate of roughly $10 billion per year, or about three-fourths of the entire volume of FHA and VA mortgages originated.

President Nixon recently announced a sharp cutback in Federal construction projects, which should also help to relieve pressures on construction resources. Finally, the Government National Mortgage Association is expected to commit some $650 million of special assistance funds to multifamily housing units in cooperation with the Federal National Mortgage Association in the "tandem" plan.

These measures are not all aimed specifically at providing mortgage funds to veterans. However, they are intended to provide strong support for the flow of mortgage credit generally, and just help cushion the effects of tight money on home building. I must emphasize, however, that the only effective means of assuring an adequate flow of mortgage funds to veterans and others in need of housing finance is to continue to exercise the budgetary and monetary restraint necessary to assure that the economy returns to a path of stable growth.

Reflecting longstanding congressional policy, the major trust funds, including social security, civil service, and the veterans insurance funds, are now invested largely in special Treasury issues which are redeemable on demand. This provides uniform treatment and avoids any potential conflict between trust fund requirements and program financing.

The apparent intent of the Congress, as evidenced by specific legislative enactments, has consistently been that trust funds be invested at rates which approximate current Treasury borrowing rates.

If the Congress does desire to increase the investment income of the NSLI fund, this could be accomplished more effectively under existing arrangements without confusing this objective with the objective of mortgage support. The present proposal can only confuse the question of identifying the costs and benefits of the veterans life insurance and housing assistance programs.

Moreover, there is a lack of coincidence between the beneficiaries of the NSLI fund—which are largely World War II veterans—and the beneficiaries of the proposed mortgage purchase program. Federally assisted life insurance for Korean and Vietnam veterans has been provided through other insurance programs and funds.

I see no apparent reason for increasing the insurance dividends paid to World War II veterans through the mechanism of higher investment yields from mortgage loans to Vietnam veterans.

In sum, we believe the approach toward Federal trust fund investment embodied in S. 3008 conflicts with sound budgetary and trust fund policy. We do not believe it is a necessary or desirable mechanism for channeling more funds into VA mortgages. Consequently, the administration strongly recommends that it not be passed.

Senator TALMADGE (presiding). Mr. Volcker, first might I apologize for being late. We were supposed to have an executive session this morning in the Agriculture Committee to mark up the school lunch fund bill of which I am the author. I asked Senator Hartke to preside in my absence and I want to express my deep appreciation to him for doing so.

Just 1 year ago the President of the United States appointed a Commission on Mortgage Interest Rates. Its distinguished members, who included Senator Bennett, studied all aspects of housing and the appropriate Federal role in meeting our national housing goals. One of the matters considered was the proposal contained in S. 3008, and I quote from the Commission's report:

> The Commission believes that such a proposal makes a great deal of sense as a way of helping meet a clearly established priority need.

How would you argue against the Commission's recommendation?

Mr. VOLCKER. My arguments against that particular recommendation would follow along the comments I made in my statement, Mr. Chairman. I must say in consideration of the Commission report, Mr. Chairman, that it laid heavy emphasis, and fundamental emphasis, on the necessity for generating a Federal budgetary surplus and eliminating the inflationary pressures in the economy, and with that basic thrust of the Commission report, which is reported in the section wherein lies this recommendation, I have no disagreement whatsoever.

I think there they were dealing with a fundamental issue. I have the feeling that in this particular recommendation, they were less well founded than in certain other sections of their report.

Senator TALMADGE. The Commission on Monetary Interest Rates states in its report, and I quote:

At any given moment in time, an increase in interest rates may lead some families to make a larger down payment than they would otherwise in purchasing a home, in order to keep down their monthly mortgage payments. Others may seek to earn additional income by moonlighting in order to meet the higher payments, while some will look for a somewhat less expensive house. Some are simply priced out of the market.

VA's statistics tally with this. For example, veterans with after-tax pay of less than $6,000 a year accounted for almost half of the GI loans in 1965; the most recent figures show that this proportion has dropped to less than a quarter. If you don't recommend using the trust fund as proposed in S. 3008, what do you recommend doing to enable more veterans in this income bracket to obtain GI loans?

Mr. VOLCKER. I think this comment puts the issue very clearly, Mr. Chairman. I think two issues are involved. One is whether or not the Congress wants to provide mortgage funds to veterans or to other groups at a cheaper rate than can now be provided through the market, and there are mechanisms for doing that directly.

It could be done through the GNMA kind of programs, or it could be done with a direct interest rate subsidy. That is a question that can be dealt with directly on its merits.

The other question is how this should be done, if a positive decision is made to subsidize these mortgage takers. To do it through this more or less hidden trust fund mechanism seems to us to lead to inherent conflicts of interest and to a back-door financing kind of situation. It raises a series of issues that we think should be avoided, and we would oppose that method of doing it.

That does not say that if Congress wants to subsidize veterans' mortgages more heavily, it should not go ahead and do this, but in our opinion it should do it directly through a straightforward subsidy mechanism. That doesn't raise these issues of trust fund policy, and budgetary policy.

Senator TALMADGE. Last week Mr. Charles W. Robertson, the chairman of the American Bankers Association Mortgaging Financing Committee told the National Association of Real Estate Boards:

I am thoroughly convinced that the Federal Reserve will continue its restrictive credit posture until clear signs are seen that the inflationary expectations are completely purged. If you believe that those in power are serious, as I do, there can only be one conclusion—interest rates will remain high and money will continue to be tight for some months ahead. I, therefore, do not look for increasing investor capability or interest in the mortgage market for some time.

Do you agree with Mr. Robertson's evaluation, and if so, wouldn't our failure to provide a new source of financing condemn the GI loan program to stagnation?

Mr. VOLCKER. No, sir; I think it would be just the opposite. I do agree, I think, a good deal with some of the implications of that statement, but I think if we do not deal with this problem of inflation and inflationary expectations, that you gentlemen and the rest of us are going to be plagued with a situation of inadequate mortgage funds for veterans and for others for the indefinite future.

If we are going in the long run to have the chance of meeting our housing goals, we had better deal with this inflationary problem, and the more promptly we deal with it the better. To avoid that fundamental, in the hopes by one device or another of relieving the pressure over the next few months in this market seems to me to be shortsighted.

This bill itself is not directed toward the next few months. It is directed, as I read it, toward the next 5 years at least, and maybe beyond that if the authority is extended. But we are dealing with an important long-range problem here in reaching our housing goals, and I would urge you to consider that our chances of meeting those housing goals are lessened to the extent we do not deal with this current inflationary psychology and inflationary problem.

Senator TALMADGE. Since GI loans are guaranteed by the Government, why shouldn't their interest be limited to a lower rate than the interest on conventional financing with its greater investment risk?

Mr. VOLCKER. Well, I think they are to a considerable extent, Mr. Chairman. They do have a 7½ percent limit on them at present. The market discounts that rate, as you know, but by and large I think for a mortage in comparable circumstances, the VA mortgage does attract the lower rate than the conventional mortgage and it attracts it because it has the Government guarantee.

Senator TALMADGE. The Treasury Department report on the bill states:

> The Department believes that any expansion in direct Federal lending under the VA Housing Program should be financed through the regular appropriations process rather than by "backdoor" financing through the Federal trust fund investment and asset sales proposed in S.3008.

Does this mean that you would prefer a $5 billion expansion in the direct loan program?

Mr. VOLCKER. Yes. It is up to the Congress, I think, whether they want to vote $5 billion for purchases of veterans mortgages in this particular budgetary and fiscal situation, but if you give me a choice between that and this method of going through the trust funds, I think the direct, the straightforward way to doing it is through the appropriations process. I think Congress ought to make the decision whether that $5 billion of appropriations should be made and what the implications are for the $5 billion of appropriations against all the other expenditures that must be squeezed under the current expenditure ceiling in the current fiscal year.

But if the Congress wants to vote $5 billion for this purpose and take it out of some other program, and remain under its expenditure ceiling, I do not think we would be in a position to object. What we are questioning, as your quotation suggested, in going around through the back door and providing this same amount of funds with the same budgetary impact without going through the regular authorization and appropriations process.

We question whether that is consistent with past congressional intent and policy.

Senator TALMADGE. The NSLI trust fund currently holds about $1.8 billion in securities for which it receives only 3-percent interest. Why should World War II veterans subsidize the Treasury with such mandatory investments when other veterans are having such difficulty in buying a home?

Mr. VOLCKER. I am not sure it would be accurate to call this a subsidy, Mr. Chairman. The low rates that you refer to, are on securities acquired by the trust fund in earlier years, when the prevailing interest rates were at that level.

The Treasury still has outstanding in the market 2½-percent bonds, which were sold back at a time many years ago.

Currently this trust fund is refunding these outstanding issues when they mature into new special Treasury securities which bear rates based on current yields in the market. These rates are roughly 6¾ percent now, so while it is quite true that this trust fund has many issues still in its portfolio that were acquired in earlier years, or other issues mature and are rolled over, they are being rolled over at current interest rates, which in the most recent months have been in the neighborhood of 6¾ percent.

Senator TALMADGE. Mr. Volcker, if I may have your cooperation, Senator Yarborough has arrived now, and he is the principal author of this bill. He must leave as soon as possible to chair a subcommittee on the Labor and Public Welfare Committee. If you would yield at this time and let the committee hear from Senator Yarborough, we will continue to question you afterward, if there is no objection.

Mr. VOLCKER. I will be happy to, Mr. Chairman.

Senator TALMADGE. The committee is pleased to have with us the principal author of the bill, the distinguished senior Senator from Texas, Senator Yarborough.

STATEMENT OF HON. RALPH YARBOROUGH, A U.S. SENATOR FROM THE STATE OF TEXAS

Senator YARBOROUGH. Mr. Chairman, I appreciate very much the courtesy of the committee and the witnesses for the administration in permitting me to make my brief statement now.

I am late because I am chairman of the Health Subcommittee to mark up the Hill-Burton bill. We had to start and they released me for a few minutes to come here, but as chairman I am obligated to go back.

I want to begin by thanking the chairman of this subcommittee for your interest, your cosponsorship. We have sponsored together this measure to make this money available for veterans, and I know of the long interest of the chairman in the welfare of the veterans, and also the fiscal policies of the country, and also the distinguished Senator from Idaho.

I had the privilege of serving on the other Veterans Subcommittee with him for a number of years. He was always there. I have likewise cosponsored a number of bills in similar vein with the distinguished Senator from Indiana, but I will not labor the point because I know from long association with the members of the subcommittee that they have a long familiarity with the plight of the veterans.

Everybody is aware of the serious and adverse impact the administration's anti-inflation policy has had upon housing. Practically the full brunt of the administration's anti-inflation policy has fallen upon the homebuilding industry almost exclusively.

The unemployment rates have been pointed to with pride by some of the administration officials when they rise but the greatest rate of rise has been in the homebuilding. I know in my own State a number of small homebuilders, those with eight or nine employees, have gone broke. The larger ones have curtailed their operations. I know some have told me they would not be building a house except for the fact they have had commitments made and they have got to make their word good.

Except for prior commitments they are doing nothing. They are waiting until there is money available for building again.

The estimates now are that the rate of new starts will decline to around 1 million annually by the end of this year. Yet in the Housing Act of 1968, Congress estimated that we have got to have 2.6 million housing starts a year for 10 years to keep America from sliding further backward into slums.

I do not propose though, Mr. Chairman, to go into the reasons why the tight money has so crippled the home financing sector of the economy vis-a-vis the rest of the economy. There is where the brunt has fallen, as the chairman knows, and the Committee on Banking and Currency has already given much attention and study to that matter, and has proposed some general remedies. I am going specifically into the effect, the impact on veterans of these high interest rates, and I want to stress the unfairness, the injustice of denying to the Nation's veterans the realization of their rights under the GI bill.

That is why I take strong exception to the statement made by the General Counsel of the Treasury Department in his report to the House Veterans' Affairs Committee on a similar measure and also on this S. 3008. That statement of Mr. Eggers, the Counsel for the Treasury Department said:

> The proposed Mortgage Purchase Program would be contrary to the Federal Credit Program policy of placing primary reliance on the private market system and would result in substantially greater dependence on Federal involvement in budget outlays.

Mr. Chairman, the veterans housing sections of the GI bill create a Federal obligation to our veterans. It is created under the GI bills, and that obligation cannot be turned over to the private market system.

It was the Congress and the President that made this promise to the veterans and I think it is up to the Congress and the President to see that the promise is kept.

Argument is frequently made in opposition to this that no guaranteed veterans loans are failing to find buyers. That begs the question whether the veterans generally are able to participate with the present interest rates and the discount practices.

There is considerable evidence that these high interest rates have priced many veterans out of the market. I am not presuming to anticipate the testimony of the VA, but there is a press account of a statement attributed to the Director of the VA Loan Guarantee Service, Mr. Dervan, who said on November 11:

> For all practical purposes a GI loan today is meaningful only to those in the middle or high income bracket. A veteran who makes $150 a week or less usually is priced right out of the market by the high cost of homes, unlike the veterans of World War II and the Korean war.

He is further quoted as saying that the average GI mortgage loan today is $18,300. Nearly half of the 750,000 Vietnam veterans who return to private life each year make only $600 a month or less as civilians.

> Even with the 100 per cent financing on loans available under the VA Program, Vietnam veterans who are starting their working careers are finding in altogether too many areas that the high cost for a modest house requiring a loan of $18,000

or more at a 7.5 per cent interest rate is beyond the reach of those in low and moderate income brackets.

I think, Mr. Chairman, Mr. Dervan's remarks, delivered to the National Association of Real Estate Boards point out the need for the prompt enactment of this bill. The VA has proved the case themselves.

I remind the members of this subcommittee that in the cold war and Vietnam bills we provided large groups who will be eligible for VA guarantees. The figures furnished to me by the Veterans' Administration, which I ask leave to have printed at the conclusion of my remarks, in table after table prove the necessity of this bill. They show the cold war veterans are using the section to a lesser extent than did the veterans of World War II or the Korean conflict.

In the first 4 years of operation, 11.1 percent of World War II veterans used this entitlement, in spite of the stringent shortage of materials right after World War II that we all remember. They could not get materials. Building was slow. Yet 11.1 percent used it.

In the first 4 years of operation, 9.7 percent of the Korean veterans used their entitlement. In the first 4 years of this bill only 6.9 percent of the cold war and Vietnam veterans have used their entitlement, and that includes the estimated loans made and to be made in fiscal 1970.

Mr. Dervan pointed out these earlier veterans were not priced out of the market. Today we have the highest interest rates in the history of this Nation, higher than the War of 1814 and 1812 when the British blockaded our ports and our ships rotted in the harbor. Higher than when Grant stalled before Richmond and there was a threat that Joe Johnson might stall Sherman in Atlanta, and if he had everybody knew the Civil War would be a stalemate.

There was a run on gold in New York and interest rates went to the highest point in history until now. Now, there is no world war, the Nation is not in danger of falling as it was in danger in 1812 and 1814 when New England was threatening to secede, and there is no domestic trouble comparable to 1864.

Nothing like that now, and yet we have this incredibly high interest rate.

There will be an increase in the number of veterans. They will not decline as World War II and Korean conflict veterans numbers declined. The cold war and Vietnam veterans are increasing. There are over 6 million discharged veterans eligible for these loans. This group is being cheated out of their fair share of housing relative to their predecessors. If the estimated rates of future participation in the VA project are to be realized, it will take legislation of this kind to assure that the financial support is available.

I want to speak 1 minute, Mr. Chairman, on the impact of this bill on the national service life insurance fund. Generally the resources of the national service life insurance fund will benefit from the enactment of this law.

Under the present law, its funds can be invested only in securities of the Federal Government and these securities plus return from policy loans now bring an overall average of $3^{98}/_{100}$ percent.

The bill calls for deduction of 1 percent of the interest on the loan for various costs, but if the rates remain in the realm of 7 percent and and over this fund would realize 2 percent more than at present.

I hope these interest rates will not stay up for long, Mr. Chairman and members of the committee, but so long as they remain 1 percent higher than the rate for the securities it must now buy, the fund will prosper.

This fund—this veterans fund—instead of protecting the veterans is having to pay a part of the cost of running the Government by holding its interest rates artificially down. So this bill has a double-edged effect.

Not only will it make veterans housing available, but it will give some justice to those who hold their policies under national service life insurance.

They are bearing the brunt of running the rest of the Government. They do not get the full amount of return on the moneys paid in under their premiums that they should get, so this is a two-edged source, both on the side of justice.

In the only change in this bill from the House version, H.R. 9476, the amount that could be transferred from Government securities into mortgage finance under our bill will be $1 billion each for 5 years. The House bill simply called for $5 billion in 5 years, and this change we have in the Senate bill would even out the shift in investment, and that would prevent any sudden adverse impact upon Treasury operations.

The next point is whether the national service life insurance fund should be subsidizing Government borrowings instead of supporting veterans mortgage financing. The Treasury ought to answer that.

The Treasury has a captive low interest rate market in this fund. It is chiseling in on this fund. It is this Treasury that is biting the trust fund, biting off about 2 percent a year on this.

This trust fund should be for the benefit of the veterans. The Treasury is using it for the benefit of their other operations.

It wants to go on placing these low interest securities in the fund while it is paying out enormous interest rates to private lenders. Certainly the guarantee of security is no different with a mortgage loan guaranteed by the Veterans' Administration than it is with Government securities.

The Government is guaranteeing these. There would be no difference in the security for this trust fund.

Mr. Chairman, investment of $5 billion of the fund's assests in veterans mortgage loans would improve the possibilities that low- and middle-income veterans could obtain financing. No longer would we be financing only for higher or middle-income or well-to-do veterans. In fact, the problem of home financing would become easier for all income levels, even though this bill carries a ceiling of $30,000 on the price of property guaranteed.

The introduction of $1 billion of new capital a year for five years will help attract builders and lenders back into the veterans' market. Discounts up to 7 points in other building markets discourage activities in the veterans market where discounts theoretically are not permitted. Builders and other sellers can obtain discounts of several points from the nonveterans purchasers, but not from veterans. Purchase of the loan at 96 percent of its par value, compared to FNMA purchases at only 93 percent, would encourage builders to come back into the veterans market.

Many builders just want to hold the status quo for their operations until this market slackens up again. They would rather build with no discount in order to hold their labor and management force together.

I call again upon the Veterans' Administration for a summary of the impact of the bill. The VA statement says:

> Enactment of the bill would, we believe, make more capital uniformly available for investment in guaranteed loans during the next 5 years . . . The population of eligible veterans is expanding rapidly and in the coming years will be increasingly dominated by post-Korean veterans, including veterans of Vietnam service. Their relrtive youthfulness and the fact that generally they have not yet realized their maximum earning capacity underscore the need to improve the viability of the guaranteed loan program. The proposed legislation would be an effective means of increasing the flow of capital available for guaranteed loan financing, especially to assist the growing number of veterans to finance their home purchases.

That is what the VA told the House committee, and this committee. That is the end of the quote from the VA. This portion of the VA statement appears just ahead of its deference to the Treasury opinion, just as in the cold war GI bill the VA stepped aside for the Defense Department to try to keep those veterans from going to school.

I think the VA ought to stand on its own two feet for what is good for the veterans and not defer to the Defense Department and Treasury in matters concerning this GI bill.

I am pleased to add, Mr. Chairman, that there will be a statement from the National Association of Home Builders presented by a constituent of mine, Mr. Larry Blackmon of Fort Worth. There will be another witness from my home State, Mr. Harold Pollman of the Dallas Association of Home Builders.

Mr Pollman has been an active leader in the Texas homebuilding industry. They will testify later. There are representatives also of veterans organizations they are authorized to represent.

I am very grateful to this committee for permitting me to make my statement now, since I am under obligation to go back to the other subcommittee now in executive session. I thank the chairman here for the privileges of cosponsoring with him a measure that I think is so beneficial to the whole country as well as these veterans.

Thank you.

Senator TALMADGE. Thank you, Senator Yarborough. Without objection, your statement in full and the other material you referred to will be inserted in the record at this point.

Do you have time to stay for any questions?

Senator YARBOROUGH. Mr. Chairman, if the Senator would waive that, I am holding up the committee on the Hill-Burton bill. I am not running from any questions if the committee has any. I am here at the will of the committee.

Senator TALMADGE. Do any members of the committee have any questions?

Senator HARTKE. I would like to congratulate the Senator on a fine job.

Senator YARBOROUGH. Thank you very much, Senator Hartke.

(The prepared statement of Senator Yarborough, in addition to tables mentioned previously follows:)

A PREPARED STATEMENT OF HON. RALPH W. YARBOROUGH, A U.S. SENATOR FROM THE STATE OF TEXAS

Mr. Chairman, I want to begin by thanking you for the interest and support you have shown for this proposal, first when you joined me as a co-sponsor of S. 3008, and now by holding this prompt hearing on it. You are doing a great service to the Nation's veterans, and also, to our beleaguered home construction industry.

All of us are aware of the serious and adverse impact that the Administration's anti-inflation program has had upon housing. There are strong indications that what little effect that policy has had in curbing business activity has been manifested in the home building industry almost exclusively. Unemployment rates, which are pointed to with some pride by the Administration when they rise, are showing the greatest increases in the home building trades. The rate of new building permits has dropped off to the point where housing officials estimate that the rate of new starts will decline to around 1 million annually by the end of the year.

At this hearing, I do not propose to go into the many reasons why tight money has so crippled the home financing sector of the economy. The Committee on Banking and Currency has already given much attention and study to that matter and has proposed some general remedies.

IMPACT ON VETERANS OF HIGH INTEREST RATES

What I do want to stress is the unfairness, and the injustice, of denying to the Nation's veterans their rights under the G.I. Bill to home financing.

This is why I take strong exception to the statement made by the General Counsel of the Treasury Department in its report to the House Veterans Affairs Committee on a similar measure, and also on S. 3008. In that statement Mr. Eggers asserts:

"The proposed mortgage purchase program would be contrary to the Federal credit program policy of placing primary reliance on the private market system, and would result in substantially greater dependence on Federal involvement and budget outlays."

Mr. Chairman, the veterans housing sections of the G.I. Bill create a Federal obligation to our veterans that cannot be turned over to the private market system that did not establish the veterans housing program, it was Congress and the President. It is we who must assure that the promise is kept.

One argument frequently made in opposition to this proposal is that no veterans loans are failing to find guarantees. But that begs the question of whether veterans generally are able to participate under present interest charges and discount practices. There is considerable evidence that these high interest rates have priced many veterans out of the market.

I do not presume to anticipate the testimony of the Veterans Administration. But we must be concerned by the press accounts of the statement attributed to the Director of the VA Loan Guaranty Service, Mr. John Dervan. He is quoted as having said, on November 11:

"For all practical purposes, a G.I. loan today is meaningful only to those in the middle or high income bracket. A veteran who makes $150 a week or less usually is priced right out of the market by the high cost of homes, unlike the veterans of World War II and the Korean War."

Mr. Dervan is further quoted as saying that the average G.I. mortgage loan today is $18,300, while nearly half of the 750,000 Vietnam veterans who return annually make only $600 a month or less as civilians.

"Even with the 100 percent financing on homes available under the VA program, Vietnam veterans who are starting their working careers are finding in altogether too many areas that the high cost of a modest house, requiring a loan of $18,000 or more at a 7½ percent rate, is beyond the reach of those in low and moderate income brackets."

I think that Mr. Dervan's remarks, delivered to the National Association of Real Estate Boards, points out the need for prompt enactment of this bill.

I remind the Members of the Subcommittee that with the Cold War and Vietnam G.I. Bills, we have provided a large new group who are and will be eligible for the G.I. loan guarantee.

Figures furnished me by the Veterans Administration, which I ask to have printed at the conclusion of my testimony, show that Cold War veterans are using the home loan section to a lesser extent than did veterans of World War II of Korea.

By the end of the first 4 years of operation, 11.1 percent of the World War II veterans had used this entitlement, despite the stringent shortages of materials. By the end of the first 4 years of operation, 9.7 percent of the Korean veterans had used this entitlement.

By the end of the first 4 years of operation, 6.9 percent of the Cold War and Vietnam veterans will have used their entitlement, and that includes the estimated loans made and to be made in fiscal year 1970.

As Mr. Dervan pointed out, these earlier veterans were not priced out of the market in huge numbers by incredibly high interest rates.

I point out, too, Mr. Chairman, that the total number of veterans eligible will not decline much in the immediate future. As eligible World War II and Korean veterans decline in number, Cold War and Vietnam veterans are increasing. This latter group is already being cheated out of their fair share of housing, relative to their predecessors. If the estimated rates of participation the VA has projected are to be realized, it will take legislation of this kind to assure that the financial support is available.

IMPACT OF BILL ON NATIONAL SERVICE LIFE INSURANCE FUND

Certainly the resources of the National Service Life Insurance Fund would benefit from enactment of S. 3008. Under present law, its funds can only be invested in the securities of the Federal government. These securities, plus the return from policy loans, now bring an overall return of 3.98 percent. The bill calls for a deduction of 1 percent of the interest on the loan for various costs. But if rates remain in the realm of 7 percent and over, the fund would realize 2 percent more than at present. I hope they will not remain that high for long. But so long as mortgage rates are at least 1 percent higher than rates for the security it must now buy, the fund will prosper.

In the only change in my bill from the House version, H.R. 9476, the amount that could be transferred from government securities into mortgage financing would be $1 billion a year for each of 5 years. The House bill calls simply for $5 billion in 5 years. This change would stretch out the shift in investment and prevent any sudden adverse impact upon Treasury operations.

This brings me to another point. It is the question whether the National Service Life Insurance Fund should be subsidizing government borrowing instead of supporting veterans mortgage financing. The Treasury has a captive, low interest rate market in this fund. It wants to keep it. It wants to go on placing low interest securities in the fund, while it pays enormous interest rates to private lenders.

Certainly the guarantee of security is no different with a mortgage loan guaranteed by the Veterans Administration than it is with government securities.

CONCLUSION

Mr. Chairman, investment of $5 billion of the fund's assets in veterans mortgage loans would improve the possibilities that low and middle income veterans could obtain financing. In fact, the problem of home financing would become easier for all income levels, even though this bill carries a ceiling of $30,000 on the price of the property guaranteed.

Introduction of $1 billion of new capital a year for 5 years will help attract builders and lenders back into the veterans market. Discounts up to 7 points in other building markets discourage activity in the veterans market, where discounts theoretically are not permitted. Builders and other sellers can obtain discounts up to 7 points from the non-veteran purchasers.

This substantial new amount for purchase of mortgages will encourage this business to come back into the veterans market.

Finally, I call again upon the Veterans Administration for a summary of the impact of this bill. In the statement submitted to the House hearing, the VA said:

"Enactment of the bill would, we believe, make more capital uniformly available for investment in guaranteed loans during the next 5 years . . . The population of eligible veterans is expanding rapidly and in the coming years will be increasingly dominated by post-Korean veterans, including veterans of Vietnam service. Their relative youthfulness and the fact that generally they have not yet realized their maximum earning capacity underscore the need to improve the viability of the guaranteed loan program. The proposed legislation would be an effective means of increasing the flow of capital available for guaranteed loan financing, especially to assist the growing number of veterans to finance their home purchases."

That portion of the VA statement appears just ahead of its deference to the Treasury's opposition.

I am pleased to add that the statement for the National Association of Homebuilders will be presented by a constituent, Mr. Larry Blackmon, of Fort Worth, Texas. Another witness from Texas will be Mr. Harold Pollman, of the Dallas Association of Home and Apartment Builders. Mr. Pollman has been an active leader in the Texas home building industry, and I am, pleased to introduce him, and Mr. Blackmon, to the Subcommittee.

TABLE 1.—WORLD WAR II VETERANS—USE OF OF GI LOAN ENTITLEMENT [1]

[Number in thousands]

Date	Net eligible (1)	Cumulative GI loans made fiscal year ending (2)	Percent of cumulative loans applying to net eligible (3)	Net eligible who already used entitlement (4)	GI loans made fiscal year ending (5)	Vets. with unused entitlement (6)	Annual entitlement utilization rate (7)	Cumulative participation rate (8)
June 30:								
1945	2,384	12		0	12	2,372		
1946	12,298	188	100.0	12	176	12,110	7.4	1.5
1947	13,897	823	100.0	188	635	13,074	5.2	5.7
1948	14,403	1,344	100.0	823	521	13,059	4.0	9.2
1949	14,631	1,623	100.0	1,344	279	13,008	2.1	11.1
1950	14,796	2,021	100.0	1,623	398	12,775	3.1	13.8
1951	14,677	2,559	99.2	2,005	538	12,124	4.2	17.9
1952	14,454	2,983	97.7	2,500	425	11,529	3.5	20.4
1953	14,339	3,282	96.9	2,891	299	11,149	2.6	22.5
1954	14,201	3,565	96.0	3,151	283	10,767	2.5	24.4
1955	14,143	4,012	95.6	3,408	447	10,288	4.2	27.5
1956	14,075	4,459	95.1	3,815	447	9,813	4.3	30.5
1957	13,994	4,751	94.6	4,218	292	9,484	3.0	32.5
1958	13,931	4,856	94.2	4,475	105	9,351	1.1	33.2
1959	13,867	4,952	93.7	4,550	96	9,221	1.0	33.9
1960	13,805	5,028	93.3	4,620	76	9,109	.8	34.4
1961	13,728	5,081	92.8	4,666	53	9,009	.6	34.8
1962	10,028	5,143	67.8	3,445	62	6,521	.7	35.2
1963	9,231	5,203	62.4	3,209	60	5,962	.9	35.6
1964	8,336	5,256	56.3	2,929	53	5,354	.9	36.0
1965	7,428	5,302	50.2	2,639	46	4,743	.9	36.3
1966	6,281	5,341	42.5	2,253	39	3,989	.8	36.6
1967	5,105	5,361	34.5	1,843	20	3,242	.5	36.7
1968	3,970	5,380	26.8	1,437	19	2,514	.6	36.8
1969	2,858	5,390	19.3	1,038	10	1,808	.4	36.9
1970	2,146	5,397	14.5	782	7	1,353	[2].4	36.9
1971		5,402			5		[2].4	37.0

[1] Excludes World War II veterans who remained in service after June 27, 1950.
[2] Estimate.

NOTES

Column 1.—From table 1a.

Column 2.—Source: Worksheet B. Excludes direct loans sold and guaranteed.

Column 3.—1946–50 assumed net eligible veterans at the end of each year, accounted for all (100 percent) of loans made through end of prior fiscal year. 1951–70 calaculated by dividing end of year net eligible in column 1 by maximum net eligible of 14,796 at end of fiscal year 1951.

Column 4. Percent in column 3 times end of preceding fiscal year cumulative loans made in column 4.

Column 5.—1945–69 derived from column 2. 1970–75 equals utilization rate, column 7 times end of preceding fiscal year unused entitlement in column 6.

Column 6.—Column 1 minus columns 4 and 5.

Column 7.—For 1946–69 equals fiscal year loans made in column 5 divided by end of preceding year, column 6. 1970–71 are projected estimates.

Column 8.—For 1948–71 cumulative loans in column 2 divided by 14,610,000 which is the total number of World War II veterans separated (15,386,000) minus those 776,000 reentering Korean era. 1946, 1947 equals column 2 divided by total separations from column 1 table 1a.

TABLE 1A.—WORLD WAR II VETERANS ELIGIBLE FOR HOME LOANS [1]

[Numbers in thousands]

Date	Total with service (separations) (1)	Entered Korean service or died (2)	Living World War II veterans (3)	Insufficient period of service (4)	Net eligible (5)
June 30:					
1945	2,501	....	2,501	117	2,384
1946	12,701	35	12,666	368	12,298
1947	14,371	65	14,306	409	13,897
1948	14,921	95	14,826	423	14,403
1949	15,186	125	15,061	430	14,631
1950	15,386	155	15,231	435	14,796
1951	15,386	274	15,112	435	14,677
1952	15,386	497	14,889	435	14,454
1953	15,386	612	14,774	435	14,339
1954	15,386	750	14,636	435	14,201
1955	15,386	808	14,578	435	14,143
1956	15,386	876	14,510	435	14,075
1957	15,386	957	14,429	435	13,994
1958	15,386	1,020	14,366	435	13,931
1959	15,386	1,084	14,302	435	13,867
1960	15,386	1,146	14,240	435	13,805
1961	15,386	1,223	14,163	435	13,728
1962	15,386	1,300	14,086	4,058	10,028
1963	15,386	1,382	14,004	4,773	9,231
1964	15,386	1,472	13,914	5,578	8,336
1965	15,386	1,567	13,819	6,391	7,428
1966	15,386	1,672	13,714	7,433	6,281
1967	15,386	1,778	13,598	8,493	5,105
1968	15,386	1,915	13,471	9,501	3,970
1969	15,386	2,049	13,335	10,479	2,858
1970	15,386	2,195	13,191	11,045	2,146
1971	(2)	(2)	13,043	(2)	(2)
1972	(2)	(2)	12,887	(2)	(2)
1973	(2)	(2)	12,719	(2)	(2)

[1] Excludes World War II veterans who remained in service after June 27, 1950.
[2] Entitlement expires.

NOTES

Col. (1): Source: Office of Comptroller table dated Mar. 16, 1961.
Col. (2): Col. (1) minus col. (3).
Col. (3): 1945-67 from "Statistical Summary of VA Activities" and "Veteran Population" reports issued by Office of Comptroller. Annual net increases for 1968-71 derived from "Veteran Population Projections," July 1962, Office of Comptroller.
Col. (4): Based on tables showing World War II veterans length of service by year of separation.
Col. (5): Col. (3) minus col. (4).

KOREAN CONFLICT VETERANS[1]—USE OF GI LOAN ENTITLEMENT

[Number in thousands]

Date	Net eligible (1)	Cumulative GI loans made fiscal year ending (2)	Percent of cumulative loans applying to net eligible (3)	Net eligible who already used entitlement (4)	GI loans made fiscal year ending (5)	Vets. with unused entitlement (6)	Annual entitlement utilization rate (percent) (7)	Cumulative participation rate (8)
June 30:								
1952	839							
1953	1,882	17	100.0	0	17	1,865		0.9
1954	2,805	65	100.0	17	48	2,740	2.6	2.2
1955	3,916	185	100.0	65	120	3,731	4.4	4.6
1956	4,583	344	100.0	185	159	4,239	4.3	7.3
1957	5,006	493	100.0	344	149	4,513	3.5	9.7
1958	5,254	562	100.0	493	69	4,692	1.5	10.5
1959	5,349	672	100.0	562	110	4,677	2.3	12.3
1960	5,385	775	100.0	672	103	4,610	2.2	14.1
1961	5,432	846	100.0	775	71	4,586	1.5	15.3
1962	5,485	949	100.0	846	103	4,536	2.2	17.0
1963	5,564	1,076	100.0	949	127	4,488	2.8	19.0
1964	5,609	1,209	100.0	1,076	133	4,400	3.0	21.2
1965	5,459	1,334	97.3	1,176	125	4,158	2.8	23.3
1966	5,422	1,438	96.7	1,290	104	4,028	2.5	25.0
1967	5,212	1,501	92.9	1,335	63	3,814	1.6	25.9
1968	5,098	1,570	90.9	1,364	69	3,665	1.8	26.9
1969	4,837	1,630	86.2	1,353	60	3,424	1.64	27.9
1970	4,563	1,684	81.4	1,327	54	3,182	[2] 1.59	28.6
1971	4,298	1,733	76.6	1,290	49	2,959	[2] 1.53	29.3
1972	4,020	1,777	72.6	1,258	44	2,768	[2] 1.48	29.8
1973	3,883	1,817	69.2	1,230	40	2,613	[2] 1.43	30.3
1974	3,694	1,853	65.9	1,197	36	2,461	[2] 1.38	30.7
1975		1,886			33		[2] 1.34	31.1

[1] Includes all veterans with service between June 27, 1950, and Jan. 31, 1955, including those who also had service prior to or after this period.
[2] Estimate.

NOTES

Col. (1)—From table 2a.

Col. (2)—Excludes direct loans sold and guaranteed. Source: Worksheet B for 1963–69; 1970–75 from col. (5) plus end of preceding year col. (2).

Col. (3)—1953–64 assumed net eligible veterans at end of each year accounted for all (100 percent) of loans made through end of prior fiscal year; 1965-74 calculated by dividing end of year net eligible in col. (1) by 5,609 (maximum number of veterans ever eligible).

Col. (4)—Percentage in col. (3) times end of preceding fiscal year cumulative loans made in col. (2).

Col. (5)—1952-69 derived from col. (2); 1970-75 equals utilization rate col. (7) times end of preceding fiscal year unused entitlement in col. (6).

Col. (6)—Col. (1) minus cols. (4) and (5).

Col. (7)—For 1953–69 equals fiscal year loans made in col. (5) plus end of preceding year col. (6). 1970–75 are projected estimates assuming an annual rate of decrease of 3.3 percent, the same as the average rate of decrease during 1959–69.

Col. (8)—Cumulative loans col. (2) plus living veterans in col. (1) of table 2a.

TABLE 2A.—KOREAN CONFLICT VETERANS [1] ELIGIBLE FOR HOME LOANS UNDER PUBLIC LAW 550 AND PUBLIC LAW 89-358

[Numbers in thousands]

Date	Living veterans: Total	Living veterans: Service after Jan. 31, 1955	Living veterans: Public Law 550 entitlement	Insufficient period of service	Net eligible, Public Law 550	Net eligible total
	(1)	(2)	(3)	(4)	(5)	(6)
June 30—						
1951	188		188			
1952	908		908	69	839	839
1953	1,963		1,963	81	1,882	1,882
1954	2,897		2,897	92	2,805	2,805
1955	4,015		4,015	99	3,916	3,916
1956	4,682		4,682	99	4,583	4,583
1957	5,105		5,105	99	5,006	5,006
1958	5,353		5,353	99	5,254	5,254
1959	5,448		5,448	99	5,349	5,349
1960	5,482		5,482	99	5,383	5,383
1961	5,531		5,531	99	5,432	5,432
1962	5,586		5,586	99	5,485	5,485
1963	5,663		5,663	99	5,564	5,564
1964	5,708		5,708	99	5,609	5,609
1965	5,718		5,718	259	5,459	5,459
1966	5,770	2,320	3,450	348	3,102	5,422
1967	5,797	2,357	3,440	585	2,855	5,212
1968	5,814	2,385	3,429	716	2,713	5,098
1969	5,847	2,430	3,417	1,010	2,407	4,837
1970	5,881	2,477	[2] 3,404	1,308	2,086	4,563
1971	5,922	2,532	[2] 3,390	1,624	1,766	4,298
1972	5,963	2,588	[2] 3,375	1,893	1,482	4,070
1973	6,001	2,643	[2] 3,358	2,118	1,240	3,883
1974	6,036	2,697	[2] 3,339	2,342	997	3,694
1975	6,069	2,750	[2] 3,319			

[1] Includes all veterans with service between June 27, 1950, and Jan. 31, 1955, including those who also had service prior to or after this period.
[2] Estimate.

NOTES

Col. (1)—1951-69 "Veteran Population and Statistical Summary of VA Activities," Office of Controller, 1970-76, see table P.
Col. (2)—Col. (1) minus col. (3).
Col. (3)—1951 through 1965 equals col. (1) total. 1966-75 based on 3,523,000 Korean veterans separated on or before Jan. 31, 1955, minus estimated annual deaths, see table K.
Col. (4)—Col. (3) minus col. (5).
Col. (4)—Col. (3) minus col. (5).
Col. (5)—Based on tables showing Korean veterans length of service by year of separation.
Col. (6)—Col. (1) minus col. (4). Note: All Public Law 89-358 veterans (col. (2)) are eligible.

TABLE 3.—POST-KOREAN VETERANS [1]—USE OF GI LOAN ENTITLEMENT

[Numbers in thousands]

Date	Net eligible [2]	Cumulative GI loans made, fiscal year ending [3]	Percent of cumulative loans applying to net eligible [4]	Net eligible who already used entitlement [5]	GI loans made, fiscal year ending [6]	Vets with unused entitlement [7]	Annual entitlement utilization rate [8] (percent)	Cumulative participation rate [9] (percent)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
June 30—								
1966	3,789	6			6	3,783		
1967	4,251	79	100.0	6	73	4,172	1.9	1.8
1968	4,932	192	100.0	79	113	4,740	2.7	3.7
1969	5,782	323	100.0	192	131	5,459	2.8	5.3
1970	6,575	475	100.0	323	153	6,100	[10] 2.8	6.9
1971	7,494	652	100.0	475	177	6,842	[10] 2.9	8.3
1972	8,265	857	100.0	652	205	7,408	[10] 3.0	9.9
1973	8,715	1,087	100.0	857	230	7,628	[10] 3.1	11.9
1974	9,161	1,331	100.0	1,087	244	7,830	[10] 3.2	13.9
1975	9,606	1,582	100.0	1,331	251	8,024	[10] 3.2	15.8

[1] All service after Jan. 31, 1955, excludes servicemen.
[2] From table 3a.
[3] Excludes direct loans sold and guaranteed. Source: "GI Loans by Entitlement" folder for 1966–69; 1970–75 derived by adding estimated annual volume from col. (5).
[4] Assumes net eligible veterans at end of each year accounted for all loans made through end of prior year.
[5] Calculated by multiplying percent in col. (3) by cumulative loans (col. (2)) at end of preceding fiscal year.
[6] 1966–69, actual data; 1970–75, col. (7) times col. (6) at end of preceding fiscal year.
[7] Col. (1) minus cols. (4) and (5).
[8] 1967–69, col. (5) divided by prior year col. (6); 1970–74, estimated.
[9] Cumulative loans, col. (2), divided by total with service (col. (2) from table 3a).
[10] Estimated.

TABLE 3a.—POST-KOREAN VETERANS ELIBIBLE FOR HOME LOANS UNDER PUBLIC LAW 89–358 [1]

[Numbers in thousands]

Date	Net increase in living veterans [2]	Total living veterans [3]	Eligible for GI loans [4]	Net eligible [5]
	(1)	(2)	(3)	(4)
June 30—				
1966		4,031	94	3,789
1967	481	4,512	[6] 96	4,251
1968	702	5,214	97	4,932
1969	876	6,090	97	5,782
1970	818	6,908	[6] 97	6,575
1971	947	7,855	[6] 97	7,494
1972	795	8,650	[6] 97	8,265
1973	464	9,114	[6] 97	8,715
1974	460	9,574	[6] 97	9,161
1975	459	10,033		9,606

[1] All service after Jan. 31, 1955.
[2] Fiscal years 1967–75 derived from col. 2.
[3] Estimates from controller's office Aug. 22, 1969.
[4] About 6 percent of all post-Korean veterans separated through fiscal year 1966 were nondisabled veterans with less than 6 months' service. The comparable percentage in fiscal years 1968 and 1969 was 3 percent (derived from data from Controller's office, see attached memo from F. Branon) 1967 is estimated and 1970–75 are projected at 3 percent or the same as in fiscal years 1968 and 1969.
[5] June 30, 1966 equals col. 2 times col. 3; 1967–74 the percentage in col. 3 is applied to the net annual increase in net eligibles and this is added to net eligible at end of preceding fiscal year.
[6] Estimated.

TABLE 4.—ACTUAL AND PROJECTED GI LOANS MADE FOR FISCAL YEAR 1966-75

[In thousands]

Fiscal year	Total	World War II [1]	Korean conflict [2]	Post-Korean [3]	Servicemen
1966	151	39	105	6	1
1967	167	19	62	73	13
1968	220	19	69	113	19
1969	219	10	60	131	18
1970	234	7	54	153	20
1971	251	5	49	177	20
1972	269		44	205	20
1973	290		40	230	20
1974	300		36	244	20
1975	304		33	251	20

[1] All service prior to June 27, 1950. Source, table 1.
[2] Includes all veterans with service between June 27, 1950, and Jan. 31, 1955, including those who also had service prior to or after this period. Source, table 2.
[3] Veterans with all service after Jan. 31, 1955. Source, table 3.

TABLE 4a.—VETERANS WITH UNUSED ENTITLEMENT, BY SERVICE PERIOD, 1966-75

	Total	World War II [1]	Korean conflict [2]	Post-Korean [3]
June 30:				
1966	11,800	3,989	4,028	3,783
1967	11,228	3,242	3,814	4,172
1968	10,919	2,514	3,665	4,740
1969	10,691	1,808	3,424	5,459
1970	10,635	1,353	3,182	6,100
1971	9,801		2,959	6,842
1972	9,610		2,768	6,842
1973	10,241		2,613	7,628
1974	10,291		2,461	7,830

[1] All service prior to Jan. 27, 1950. From table 1.
[2] Includes all veterans with service between June 27, 1950 and Jan. 31, 1955 including those who also had service prior to or after this period. From table 2.
[3] Veterans with all service after Jan. 31, 1955. From table 3.

VETERANS HOUSING NEEDS NEW FINANCIAL SUPPORT

MR. PRESIDENT: I introduce for appropriate reference a bill to increase the availability of guaranteed home loan financing for veterans, and to increase the income of the national service life insurance fund.

It would accomplish the first objective by permitting the investment of up to $5 billion of funds of the national service life insurance fund in mortgage loans for veterans. This injection of capital into veterans housing would be made at the rate of $1 billion a year for each of five years, and would mean a real shot-in-the-arm to home construction in general and for veterans in particular.

The bill would accomplish the second purpose because income to the national service life insurance fund from mortgage interest would be higher than the present income from government securities.

On August 28, the Department of Commerce released its monthly economic indicators, showing a decline of 4/10s of 1% in the composite economic index. It was clear from the figures that this decline took place in the home construction industry, and that housing was bearing the brunt of the anti-inflation tactics of stringent monetary policy and high interest rates.

Under the impact of these record-breaking high rates, construction of single-family dwellings dwindled to an annual rate of 1.3 million in August, and is headed down to 1 million. That number is a tragic contrast to the 2.6 million units a year we must build to meet the goal established in the Housing Act of 1968.

The special veterans housing program has not been hard hit by interest inflation, along with all moderate and low income housing. Despite the legislation we have enacted in an effort to assure home ownership opportunities for veterans, interest rates have undermined it, as they have undermined all home building.

Raising interest rates in an effort to outbid other borrowers is becoming a game of governmental leapfrog. We are asked, in effect, to raise rates for loans to students to give lenders a 10% return. Then we are told that mortgage rates must rise in order to outbid the students. Then the federal debt is refinanced at higher rates in order to outbid all the other borrowers.

I believe we have gone as far as we can to help housing by raising interest rates. In the case of veterans housing, the effect has been a decline, not an increase, in construction.

In May of 1968, the 6% mortgage ceiling still prevailed. Starts then were at an annual rate of 57,000 veterans homes. Then the mortgage rate was raised to 6.75% and in January of this year to 7.5%. But the current rate of veterans housing starts is down to 46,000 a year. An increase in the interest rate of 1.5% in other words, has reduced construction by 11,000 units at an annual rate.

We need another answer to the housing depression beside new increases in mortgage rates. One answer that holds out hope for more veterans housing is the proposal sponsored in the House of Representatives by my colleague from Texas, the Honorable Olin Teague. It would make available up to $5 billion from the National service life insurance fund, over a period of 5 years, for investment in veterans home mortgages. This bill in the House is H.R. 9476. The same proposal was offered in the House on September 29 by Congressman Patman as an amendment to a VA interest rate bill. Unfortunately, it was ruled not germane to that measure.

The terms of the bill I am introducing today permit the VA Administrator to use the investment funds to purchase loans from the direct loan revolving fund; to sell participation certificates in mortgages held by the fund; and to utilize available funds in the loan guarantee and direct loan revolving funds to cover deficiencies in the investment fund.

This measure has wide support among veterans organizations, who recognize that higher lending rates are a death knell and not a stimulus to home purchasing by veterans. The Veterans of Foreign Wars adopted a resolution at its annual convention supporting the use of these insurance funds for veterans home mortgages, and I ask unanimous consent to have this resolution printed in the Record following the printing of the bill.

The proposal is also supported by the National Association of Homebuilders.

I wish to acknowledge the leadership on this matter by my colleagues from Texas in the House, and to commend them for it. This measure is in the best interest of the nation's veterans, and will at the same time provide a new and useful approach to the financing of home building.

STATEMENT OF HON. PAUL A. VOLCKER—Resumed

Senator TALMADGE. Mr. Volcker, I want to thank you very much for your cooperation on this matter. If you will return to the witness stand I have one further question to add, sir.

The Treasury Department report on the bill appears to conclude that there is adequate mortgage financing available for GI loans, Mr. Volcker. Is this your opinion?

Mr. VOLCKER. I would think that that is generally true, yes, sir, Mr. Chairman, over a period of time and relative to other investments I think that all mortgage borrowers are under pressure at the moment. If you ask me to make a judgment whether in some sense the flow of mortgage credit is adequate now, obviously by many measures the flow is not adequate for veterans mortgages or other mortgages at the moment. This is a reflection of the general problem that we have.

You can say the same thing about the flow of money to State and local government securities or to other portions of the credit market. We have overextension of demands and inadequate supplies. This is inherent in the current situation.

While I am not aware of any serious defects in the private structure, I think all sectors are under very great pressure at the moment, and the veteran is affected as well as others.

Senator TALMADGE. Senator Hartke?

Senator HARTKE. As I understand it, I can fully sympathize with you, that you are in a position in which you are taking the administration's general approach toward monetary affairs which I do not know whether you originate or whether you are confined to it. I think the basic problem here is whether or not it was the purpose when we created the trust funds to use them to pay for, in effect to pay at a disadvantage to them of the other functions of government.

Basically it amounts to now the payment on the cost of war, which is the principal cost of our debt. Is this the position of the Treasury, that there is an obligation of the trust funds to carry that load?

Mr. VOLCKER. It is certainly not our position or feeling that their investment in U.S. Treasury securities operates at any disadvantage to them. There are many investors who are perfectly free to invest, and we have hundreds of millions of securities outstanding on the market at rates similar to those received in the trust funds.

I think it has been a long-standing, consistent policy of the Congress and the government as a whole that the trust fund be invested in U.S. Treasury securities—general obligations of the United States—and that this problem of trust fund investment not get mixed up with the problem of support for one particular sector of the economy or another.

If I may just repeat here something which I think is in my statement, and which occurred to me when Senator Yarborough was talking, I think there is a conflict here. You cannot have it both ways. You cannot use the trust fund to subsidize the veteran in his home-buying capacity and at the same time give the trust funds the maximum rate that they might otherwise receive. It is entirely possible, even under the proposal of this bill, that in given circumstances this bill would require that the trust fund acquire mortgages at a lower rate than they would have gotten from a direct Treasury security.

Now, this may not happen all the time or most of the time, but it involves you, the Congress, I think directly in a judgment as to how much of these funds are going to be used to support home buyers and how much are they going to be used in the interest of the beneficiaries, and I think there is an inherent conflict here which existing policy and long-standing policy has avoided and side-stepped quite properly, in my opinion, by saying these funds should be invested uniformly—all the trust funds—in U.S. Government securities.

Senator HARTKE. Yes. Now, what is the purpose of setting up the trust fund? The purpose is basically to provide for an earmarking of these funds so that they shall be available for the purpose for which they originally were deposited?

Mr. VOLCKER. That is right.

Senator HARTKE. Like other trusts, they are earmarked funds. They are not the general obligations of the U.S. Treasury, and they are being used as a financing mechanism. This is true not alone of the national service life insurance trust fund, but the biggest one of course is the social security trust fund?

Mr. VOLCKER. That is correct.

Senator HARTKE. But the point remains that in the original concept all of us really intend to provide for the guarantee to pay the obligation for which the original legislation was enacted?

Mr. VOLCKER. I think that is true.

Senator HARTKE. But what you have here in effect is that the veteran and these people, any one of them, and I called attention of the chairman of the Finance Committee to the same proposition in the social security fund which now has a surplus in the neighborhood of close to $30 billion, isn't that correct, a little under I think?

Mr. VOLCKER. I do not know the precise figure but it is very much larger than this veteran fund.

Senator HARTKE. Yes, and I think they are being used for the wrong purpose.

For example, when you come back onto a combined budget level, you ended up with a $3 billion surplus in fiscal 1968. The point of it was that there was a $5 billion surplus in the social security complexes?

Mr. VOLCKER. That is right.

Senator HARTKE. Which accounted for more than the entire surplus. Now, in this case, let me ask you a question which I think a veteran has a right to ask. I think he might even be able to challenge if not the legality of the Government operating in this, certainly the morality of it, of taking his money and using it at less than he could have if he had any control over that trust fund himself?

Mr. VOLCKER. Well, that is a matter of judgment I suppose, Senator. These funds have been consistently invested at a rate priced on the going rate for money as reflected in the Treasury borrowing costs.

Senator HARTKE. Let us see if that is true. What is the highest rate that the Government is now paying?

Mr. VOLCKER. The highest rate we are now paying is—it depends upon which sector of the market. We have paid a rate as high as 8 percent just recently.

Senator HARTKE. That is right. Now, can you pay 8 percent to the veterans fund?

Mr. VOLCKER. The veterans fund works against a formula related to yield on longer term securities, I believe of 3 years or more maturity. This calculation is made each month on the prevailing yields in the market on U.S. Treasury securities outstanding with these maturities, and new securities are then issued to the veterans fund at those rates, which at present approximates 6¾ percent.

Senator HARTKE. Yes, but now what are you taking—generally speaking isn't it true that if they could invest this money into mortgage funds today what is the going rate in the mortgage market?

Mr. VOLCKER. The going rate in the mortgage market depending upon the type of mortgage may be——

Senator HARTKE. I am talking about the real rate now, I am taking into account this proposterous idea of points. What is the going rate in the market?

Mr. VOLCKER. Let me say roughly 8½ percent.

Senator HARTKE. Oh, now, just be honest with us. It is more than that in the going rate with the points.

Mr. VOLCKER. Oh, no, sir. In some areas of the country it will be higher. It may be slightly lower in some places.

Senator HARTKE. I would hope that we——

Mr. VOLCKER. And this is with the servicing which you would have to deduct from those rates to get the real return to the lender. I think taking the country at large you can find many rates at something like 8½ percent.

Senator HARTKE. I can see from the Treasury viewpoint why you take a position that you do, because you have to finance this debt, and this is a nice fund to get into, and it is a nice investment.

Mr. VOLCKER. Precisely. It is a good investment.

Senator HARTKE. I understand what you are saying.

Mr. VOLCKER. You spoke of the $30 billion social security trust fund. Well, what is there to say that those social security funds could not be used for all sorts of purposes that one person or the other has in mind. What we say, simply, is if Congress wants to spend this kind of money for these kinds of purposes, it should provide the authorization and the appropriation in the ordinary course, and then it should weigh this use of funds against all the other uses of funds which are included in the budget.

This money spent for this purpose through the trust fund will appear in the budget in any event.

Senator HARTKE. I understand.

Mr. VOLCKER. It will add to your budgetary expeditures, and it is just a question I think of the procedure by which you want to provide this kind of budgetary support.

Senator HARTKE. Yes; but it leaves a false impression, does it not? I mean this part of putting it into the combined budget, because it is not really a budgetary item in the traditional sense although it has to be appropriated subject to all the rules and regulations. The fact of it is, it is a special category. I mean this is a self-paying proposition as far as the Government is concerned. It does not cost the Government a penny, does it?

Mr. VOLCKER. Yes; I think it does, Senator. I think this is precisely the point. After long study, these things were presented as a unified budget whole, because otherwise there might be an illusion that by taking it out of this pocket somehow you are avoiding a real expense. You are not avoiding any real expense. The Treasury has to turn around and——

Senator HARTKE. I am talking about the national service life insurance fund itself. It is not an expense of Government. This is a contribution by the people.

Mr. VOLCKER. This is the contributions of the veterans.

Senator HARTKE. If you wanted to, quite honestly, you could have put this with the Chase Manhattan Bank of New York or if you do not want to put it with Chase put it with the First National or somebody?

Mr. VOLCKER. I suspect the veteran would not have quite as good a deal as he now is having. There are certain administrative expenses that are picked up by the Government. Sure, in theory it could have been put with someone else.

Senator HARTKE. That is right.

Mr. VOLCKER. At greater expense.

Senator HARTKE. I am not going to try to change the whole Government policy, but you did make a statement that for the indefinite future there would be a shortage of mortgage funds, and there is no inclination on the part of the Congress nor on the part of the President to provide for any increase in direct availability of additional mortgage funds from any other source, and in the absence of that, since the Finance Committee has its fair share of criticism and as the chairman of the subcommittee, Mr. Talmadge has indicated, that most of the initiatives for doing anything for veterans originated right here in the Finance Committee, I would hope that we would figure out some way to try to provide some benefits for these people.

Mr. VOLCKER. Let me emphasize again that we are doing a tremendous amount in this area through FNMA and through the home loan banks, much more than has ever been done in the past during these kinds of tight money periods.

I think this is reflected in the fact that while homebuilding is certainly under pressure—I would not deny that for a moment—the level of homebuilding has held up better in this tight money period than it has in previous tight money periods, even though the pressures on the market are even more severe and the rates are higher.

FNMA itself—I happen to be a director of that institution—is buying a very large proportion of all the newly originated VA mortgages, and in part here what you are questioning is whether those mortgages should be purchased at the current FNMA rate of roughly 93—this fluctuates with the market—or whether they should be purchased at 96. So there is a question of whether a little additional subsidy should be provided here.

I think this is a fair question for the Congress to consider. But in considering that question of whether a little additional subsidy is needed, I would hope that it could be faced straightforwardly instead of by this back-door method of the trust fund.

Senator HARTKE. I understand what you say. I mean I am like the Chinese, when I nod my head I only mean I hear what you say, not that I agree with you, but I am glad the chairman of the Finance Committee is here because you see there is one thing that is not within the prerogative of the Congress at this moment.

I think it should be under the Constitution, because the power to fix the rate of money is designated directly in the Constitution, and that power is given to the Congress, not to somebody else.

But at this moment we have no control in the Congress over whether or not there is going to be a tight money market. That is strictly outside of our opportunity to move at this moment. This is an artificial restraint, which is being placed upon the economy, and as has been indicated by Senator Yarborough, it is having its primary effect upon the homebuilding industry.

I want to ask two questions on that. How long is the tight money policy going to continue, and second, how soon can we expect an increase in the prime rate?

Mr. VOLCKER. Tight money, I would hope, is not going to have to continue too much longer, but I do not think this is a matter which is under our control any more than it is directly under congressional control. It is a reflection of what is going on in the economy in the overheating and inflationary pressures. There is just no device by which we can manage easy money when we have this kind of pressure and overheating in the economy itself.

Senator HARTKE. Can I stop you? I do not want to go into a long discussion on this except I do not get a chance to get at these experts at all. Tell me where the economy is overheated. Not in the homebuilding industry certainly, is it?

Mr. VOLCKER. The homebuilding industry has been one area which has declined somewhat.

Senator HARTKE. Let me ask you a series of questions now. Is it overheated in the homebuilding industry?

Mr. VOLCKER. I think not in the homebuilding industry.

Senator HARTKE. Is it overheated in the automobile industry today? Sales are down 89,000 over——

Mr. VOLCKER. It is overheated in the construction industry. It has been overheated in the construction industry where the pressures for commercial building in particular have led to very rapid cost and price increases that have fanned out through the rest of the economy.

Senator HARTKE. You want to say it is in construction. Where else is it overheated, in what place?

Mr. VOLCKER. I think this is a process which takes place over time. The rapid expansion——

Senator HARTKE. Can you just name me two items where the economy is overheated?

Mr. VOLCKER. I think business investment.

Senator HARTKE. In business investment?

Mr. VOLCKER. Has been an area of overheating.

Senator HARTKE. For example, what type of business?

Mr. VOLCKER. Defense spending is now being reduced.

Senator HARTKE. What?

Mr. VOLCKER. But historically has contributed to this overheating.

Senator HARTKE. What type of business is the economy overheated?

Mr. VOLCKER. There is a broad range of business investment.

Senator HARTKE. I just asked just what type or what segment. What I am going to say to you is I do not think the economy is overheated when the industrial plant of this Nation is going at 80 percent of capacity. Prices are overheated. There is a shortage of skilled labor, there is no question about that, but that has nothing whatever—you're not going to increase skilled labor by increasing unemployment. You are not going to increase any more skilled labor by tight money, and the fact of it is that there is no indication whatsoever that even with the slowdown in the economy, which certainly is indicated at the moment, that there is going to be any decrease or even any holding of the price level.

The fact of the mattter is the acceleration is sharper than it has ever been.

Mr. VOLCKER. I think there are certain lags involved here, Senator, but I have every confidence——

Senator HARTKE. I do not.

Mr. VOLCKER (continuing). That a more balanced economic situation will——

Senator HARTKE. I think when the unemployment rates come in, there will be a sharp change in the money supply and a lot of these other restrictions. I want to ask you again though is there anticipated to be an increase in the prime rate shortly?

Mr. VOLCKER. I do not anticipate that.

Senator HARTKE. Then just one other item that you mentioned you said about the budget deficits. Do you honestly believe that budget deficits have a direct relationship to inflation?

Mr. VOLCKER. Yes, sir. I am not saying that every deficit creates inflation. I think that in an inflationary situation—

Senator HARTKE. When? Give me a year.

Mr. VOLCKER. The deficit of $25 billion that was recorded a couple of years was directly related to the inflationary problem we now have.

Senator HARTKE. What about the deficit of $12 billion in 1958?

Mr. VOLCKER. This goes back and my timing is a little cloudy. Certainly if we have a period of recession, and we had a recession in 1958, a large deficit need not lead to an inflation, particularly simultaneously. You look at it over time and see what the future prospects for business are, but I am not saying that every time the Government has a deficit, there is an inflation. To the contrary, the recession itself may bring the deficit.

Senator HARTKE. What about the surplus? Does the surplus create deflation? I will just take you back now.

Mr. VOLCKER. A surplus tends to reduce the pressures on the economy, and to release funds in the market and make money easier.

Now, sometimes that is appropriate and sometimes it is not.

Senator HARTKE. Mr. Chairman, could I just have the Treasury submit for the record then the period say from the end of World War II, give us in each case, both the case of the administrative deficit and combined deficit or however they are computed, and the increase in the cost of living for the corresponding years.

I have done this myself but I would like for the Treasury to do it, and I can show you that there is no relationship, and there is no corresponding in the future. The fact of the matter is nobody can prove anything by this. You cannot prove or disapprove it. You actually end up with a hodgepodge.

Mr. VOLCKER. I agree you will have a hodgepodge in that particular correlation, Senator, for the reason I just suggested, that a recession itself, all other things being equal, will tend to pull down revenues, and create a deficit.

Senator HARTKE. Yes.

Mr. VOLCKER. And in those cases the deficit may not be inflationary.

Senator HARTKE. May that be put in the record?

Senator TALMADGE. Without objection, if you will supply that for the record, it will be inserted at this point.

Mr. VOLCKER. We will be glad to supply it, Mr. Chairman.

Senator TALMADGE. Thank you, sir.

Mr. VOLCKER. We will submit the requested information with the least possible delay.

(The information to be furnished for the record follows:)

FEDERAL BUDGET SURPLUS OR DEFICIT AND CHANGES IN THE CONSUMER PRICE INDEX, 1946-69

[Dollar amounts in billions]

	Fiscal year surplus or deficit (−)—Consolidated cash statement	Calendar year change in Consumer Price Index (percent)
1946	−$18.2	8.5
1947	6.6	14.4
1948	8.9	7.7
1949	1.0	−1.0
1950	−2.2	1.0
1951	7.6	8.0
1952	(1)	2.2
1953	−5.3	.8
Unified budget:		
1954	−1.2	.4
1955	−3.0	−.3
1956	4.1	1.5
1957	3.2	3.5
1958	−3.0	2.8
1959	−12.9	.8
1960	.2	1.6
1961	−3.4	1.1
1962	−7.1	1.2
1963	−4.8	1.2
1964	−5.9	1.3
1965	−1.6	1.7
1966	−3.8	2.9
1967	−8.7	2.8
1968	−25.2	4.2
1969	3.1	[2] 4.6

[1] Less than $50 million.
[2] Based on data through September 1969.

Sources: Bureau of the Budget and Department of Labor.

Senator HARTKE. I do not think you can find any period in which you can show any relationship, any whatsoever. I have done it, and no one—I have spoken to the best economists and they say well it should. But that is all they ever say.

Thank you, Mr. Chairman, I think I understand the Treasury's viewpoint. They are in a helpless position. They need money. Their primary concern is not homes, it is money?

Mr. VOLCKER. We are concerned with homes, too, but the are other problems.

Senator TALMADGE. Senator Jordan?

Senator JORDAN. Thank you, Mr. Chairman.

First I should like to ask some questions that Senator Bennett left with me because he could not be here. He is on another assignment.

Senator TALMADGE. If I might interrupt at that point, Senator Bennett told me this morning he had an appointment at 10:30, I believe at the White House.

Senator JORDAN. That is right. These first questions I shall ask you, Mr. Secretary, are the questions that Senator Bennett would ask if he were here. I think you answered the first one, Mr. Volcker. If this bill were to become law, where would the $5 billion worth of credit be taken away from, in order to direct it into GI home loans?

Mr. VOLCKER. That is a very good question, Senator. I think that is precisely the problem which would have to be faced. The technical answer is that if this bill become law, the Treasury will have to go out and sell $5 billion more securities in the market, and it will put pressure on the market from that direction, and through the market processes take it away from someone else. Who that someone else is would include some other home buyers I would suspect.

Senator JORDAN. It would put that much more competition for available home mortgage funds out of the market into this particular assignment.

Mr. VOLCKER. That is right, to the extent that just does not substitute for what FNMA, let's say, does anyway.

Senator JORDAN. In other words, isn't it true that the bill would not produce any new money for housing but would simply require the Treasury to borrow an equivalent amount of money from sources at least part of which funds might have otherwise been invested in housing?

Mr. VOLCKER. That is absolutely true, Senator, provided other expenditures were not reduced.

Senator JORDAN. Mr. Volcker, what would you estimate to be the inflationary impact of requiring the Treasury to borrow an additional $1 billion a year for a period of 5 years from the public?

Mr. VOLCKER. I would hate to have to try to isolate the inflationary impact of that alone. I would hope that if the Congress is considering action of this type, that they would reduce other spending by $1 billion, and that would be the choice and not just additional inflation in the economy, which I think would be self-defeating, most of all for the homebuilding industry.

Senator JORDAN. Wouldn't the $1 billion of additional expenditures in 1970 have to fit within the overall budget ceiling? In other words, wouldn't other Federal programs have to be reduced by $1 billion if we were to retain a balanced budget?

Mr. VOLCKER. Yes, sir.

Senator JORDAN. I am one of those who do not approve of the unified budget system that you are using now. I have tried to explain it to my rotary club and I could not do it, so I am not in sympathy with the unified budget system, but I can see that in this instance if you operate on that basis, if you are going to take $5 billion here for this purpose, it has got to come out of someplace.

Now, for myself, I would like to ask a question or two.

Mr. Secretary, who established the formula for investing the veterans funds? You said I think it was on a revolving formula, taking a rolling 3-year average which is now presently 6¾ percent. Who established that formula?

Mr. VOLCKER. Basically the Congress, Senator.

Senator JORDAN. The Congress established it. You are without any authority to change that whatever?

Mr. VOLCKER. There may be some limited discretion as to just how it is interpreted, but the basic formula is set by the Congress.

Senator JORDAN. In other words, it would be quite impossible for you to get 8 percent for that money, even if that is the going rate, because you are bound by the congressional directive tying you to this rolling 3-year average?

Mr. VOLCKER. Yes. We could provide an 8 percent rate if the Treasury itself was borrowing at 8 percent in a relevant sector of the market, but only under those conditions.

Senator JORDAN. Mr. Secretary, reference has been made here to high interest rate, the interest rates going back to 1814 and 1864 and now 1969 as being the highest of all time. Tell us, what in your opinion are the contributing factors to high interest rates?

Mr. VOLCKER. I do not think there is any question that the basic factor contributing to high interest rates at present is the inflationary state of economy and inflationary state of expectations, so that potential lender naturally is concerned about the value of his money when his principal is returned to him, and he makes some allowance for that in the rate of interest at which he is willing to lend. Until we can convince the investors that inflation is not a perpetual phenomenon, I think we are going to be troubled by high interest rates and nobody likes it less than the Treasury.

Senator JORDAN. When we added a 25 plus billion dollar deficit in 1968 and the Federal Government had to go into the money markets and finance that deficit did this or did this not have an inflationary effect on interest rates?

Mr. VOLCKER. I think it did, yes, sir.

Senator JORDAN. You think it did. To what extent do you think it did?

Mr. VOLCKER. I think it was an important contributing factor in its occurrence and aftermath. This directly led to increased demands upon the market, and was accompanied by and induced other investors to borrow in the market while they felt they could, and even anticipate future needs, and all this added up to very heavy pressure on interest rates.

Senator JORDAN. Tell the committee if you will what is the available supply of funds that can be borrowed for all purposes, the annual available supply?

Mr. VOLCKER. Oh, this depends upon how you add it up. It is not easy to add up this figure while avoiding double counting and getting the consistent concepts, but something like $70 billion to $90 billion in recent years would probably be a fair estimate.

Senator JORDAN. So if the Federal Government goes into that kind of a market requiring 25 plus billion dollars, they are in effect putting a preemption on 30 percent of the available funds for borrowing, are they not?

Mr. VOLCKER. That is true, yes.

Senator JORDAN. And the effect of that has to be inflationary. It has to be to drive the interest rates up for the guy that is going to build a home, for the man who wants to start a business, for the State financing a road program, for the community financing a waterworks and a sewer program. Isn't this all involved in the same package?

Mr. VOLCKER. Yes, that is certainly true in any situation such as the kind we have had in recent years, where other demands for credit are very high, other pressures for spending and for resources are high. Against that kind of a background, this kind of deficit in Treasury financing is bound to be both inflationary on prices and inflationary in terms of interest rates.

Senator JORDAN. As I understand your testimony, certainly you have no aversion to making homes for veterans as accessible at as low an interest rate as it is possible to do, but as I understand your testimony, you want specific instructions from the Congress to give you the authority to do that, rather than to do it in a circuitous way?

Mr. VOLCKER. That is precisely right, Senator. We think that this should be weighed directly against other appropriations and authorizations by the Congress, and weighed within the confines of whatever overall budgetary ceiling the Congress wishes to impose, and has imposed in this particular case.

Senator JORDAN. But any effort you might make is purely a manipulation, if you put it into this resource you are taking it from another?

Mr. VOLCKER. In fact we cannot put it in this resource without taking it away from another, so long as we have to live under this expenditure ceiling to which you referred yourself.

Senator JORDAN. And you interpret, you live under the law that you cannot do that without specific authorization from the Congress?

Mr. VOLCKER. Congress really ought to tell us where to take the other money out of, if they are going to tell us to put it in here.

Senator JORDAN. Thank you.

Senator TALMADGE. Senator Long?

Senator LONG. I do not have any questions at this time. I think you have made yourself quite clear.

Thank you.

Senator TALMADGE. Thank you very much, Mr. Volcker.

Mr. VOLCKER. Thank you, Mr. Chairman.

Senator TALMADGE. Senator Allan Cranston, a co-sponsor of the bill, had intended to appear before the subcommittee this morning, but was unable to come because of pressing business. He asked that his statement be inserted in the record. Without objection, it will be inserted at this point.

(The statement follows:)

STATEMENT OF HON. ALAN CRANSTON, A U.S. SENATOR FROM THE STATE OF CALIFORNIA

Mr. Chairman, thank you for permitting me to testify today in support of S. 3008, a bill introduced by Senator Yarborough which I am privileged to co-sponsor. I wish to commend the distinguished subcommittee and full committee chairmen, Senator Talmadge and Senator Long, for moving so rapidly to hold hearings on this important bill.

In passing the Housing Act of 1968, Congress set as its goal the construction of 26,000,000 additional housing units in the next decade. To date, little progress has been made toward this end.

With interest rates at the highest level since the Civil War, housing starts are down this year by well over one-third. The President's Housing Secretary, in concluding that the outlook is even gloomier, stated that housing starts will probably be down by as much as 50 percent by the end of the year.

Housing is obviously one of the principal victims of the Administration's anti-inflationary policies. In stating the Administration's view of this situation, Treasury Kennedy said that "there is no real escape from present pressures until overall credit demands can be reduced and they in turn rest on budget surplus and beating back inflation."

Thus tight budgetary and monetary restraints mean little or no money for housing. The Federal National Mortgage Association—Fannie Mae—has done an admirable job in making money available for FHA, VA, and other Government-guaranteed housing programs. But for Fannie Mae's activities, money for these loans would have long since evaporated.

The bill before the subcommittee, S. 3008, is another major veterans' bill introduced by Senator Yarborough, who has authored so much vital veterans' legislation.

S. 3008 is designed to inject new money into the mortgage market for VA-guaranteed housing loans. The bill would establish an investment fund which would utilize money transferred from the national service life insurance fund. The investment fund would pay interest on all money so transferred. It is contemplated that as much as $5 billion could be accumulated in the investment fund over a five-year period. The money in the fund would be used to purchase both VA-guaranteed and VA direct loans.

The enactment of S. 3008 would be an important step toward providing our returning veterans with some protection against the demoralizing effect of an inflationary economy and the Administration's efforts to control it. When they return to civilian life, they are the victims of this inflationary situation. We must not permit them to be further victimized by the war-induced inflation which has dried up the housing market while those of us at home were able to accumulate dollars to try to cope with spiraling interest rates.

Moreover, Vietnam veterans returning at a rate of 70,000 to 80,000 per month are now beginning to experience increasing difficulty in finding reasonably well-paying jobs in a depressed employment market. Making housing loans at a reasonable interest rate available to them will aid significantly in their readjustment to civilian life.

In addition to making more money available for VA housing, the legislation would have the effect of allowing more of Fannie Mae's funds to be used for FHA and other Government-assisted housing programs. The new program which S. 3008 would establish compliments the comprehensive veterans' education and training legislation which was recently passed overwhelmingly in the Senate.

The Nation's housing shortage is approaching crisis proportions. It is my hope that this committee will report the legislation favorably for speedy Congressional action and executive implementation.

Thank you, Mr. Chairman.

Senator TALMADGE. The next witness is Mr. Larry Blackmon, National Association of Home Builders.

We shall be glad to hear from you, sir.

Please identify for the record the gentlemen who are accompanying you.

STATEMENT OF LARRY BLACKMON, A BUILDER FROM FORT WORTH, TEX., PAST PRESIDENT OF NAHB, ACCOMPANIED BY HERBERT S. COLTON, GENERAL COUNSEL, AND CARL COAN, DEPUTY LEGISLATIVE COUNSEL

Mr. BLACKMON. Mr. Chairman and members of the committee, my name is Larry Blackmon and I have with me today Mr. Herbert Colton, our general counsel, and Mr. Carl Coan, our staff legislative director of the National Association of Home Builders.

I am a builder from Fort Worth, Tex., and I appear before you today as spokesman for the National Association of Home Builders of the United States.

I am also a past president of that organization. NAHB is the trade association of the home building industry. Our membership numbers approximately 51,000 in 478 associations in the 50 States and Puerto Rico, and we estimate that our members build about 75 percent of all homes and apartments constructed by professional builders.

We are pleased to have this opportunity to testify on S. 3008 now pending before this subcommittee. Because of our great concern for the opportunity of every qualified veteran to secure decent and safe housing at prices which they can afford, we believe that this legislation is essential. Further we believe that it is also essential in helping this Nation to meet the housing goals set by the Congress last year.

These goals, established in the 1968 Housing and Urban Development Act, called for the construction and rehabilitation of 26 million housing units during the next decade or at an average annual rate of 2.6 million units.

It is hardly a secret that this Nation is facing one of the greatest crises the home building industry has had in its history. Housing starts are down drastically from the beginning of the year. We are now building at an annual rate of approximately 1.3 million units per year or just half the rate called for by the goals. All indications point to a further decline in housing.

While the goals do not deal specifically with veterans' housing, our association feels that this legislation can serve the two fold purpose of helping achieve the housing goals while at the same time giving consideration to the needs of veterans returning from Vietnam.

The Veterans Administration home loan program, which reached its peak in 1955, by the end of 1968, had accounted for nearly 3 million veterans owning a new home and another 4 million purchasing an existing one. In the peak year of 1955, 24 percent of all new housing units had mortgages guaranteed by the VA.

Today, only 3.7 percent of new starts receive a VA guarantee. This decline is accounted for in part by two factors—first, the high discounts which a seller must pay in order to obtain a guaranteed loan for a veteran purchaser and second, the severe shortage of money in the housing market and the unwillingness of many institutions to make home loans. With increased mortgage financing support, the VA guaranteed program could be of much greater significance.

At present, there are about 10.6 million veterans eligible for guaranteed home loans and there will continue to be a substantial increase in the number of young veterans who will be eligible for these mortgages in the years to come.

These young veterans, now returning from overseas and leaving the service, are finding it increasingly difficult to purchase a home due to a continuing short supply of credit for single family mortgages. Even at higher prices, mortgage money today is often unavailable to finance housing which is within reach of a typical veteran family of modest income. The fact is that housing resource allocation has resulted in mortgage money flowing either into mortgages for the housing of lower income families, through Federal programs, or to housing for the higher income groups who need no assistance with conventional financing.

Few resources have been allocated and little attention has been given in recent years to the provision of housing for middle income families. The young veteran with a good job and the economic stability requisite for homeownership and a desire for a home, many times finds himself unable to share in the housing market to the same extent as the World War II or Korean veteran.

In today's tight money market, the Federal National Mortgage Association is virtually the sole source of funds for FHA and VA mortgages. By making money available from the VA fund, it would be possible for FNMA to continue its assistance of this market and relieve the veteran of his sole dependence on this institution for his source of financing.

This Nation has seen a dramatic shift in the sources of mortgage credit during the past decade. Americans are now saving less with the traditional thrift institutions. Savings and loans are practically the only source of single-family mortgage funds today, and the flow of funds into these for the first 10 months in 1969 is down 44 percent from the same period last year and this downward trend is accelerating.

Savings are increasingly going into pensions, trust and welfare funds, and life insurance reserves. Automatic savings of this type have not in recent years been entering the single-family mortgage market. These points are vividly illustrated in the tables and charts attached to this statement.

Mr. Chairman, I would like to make those as part of my testimony for the record.

Senator TALMADGE. Without objection they will be inserted in full.

Mr. BLACKMON. Thank you, sir.

One such fund, the Veterans' national service life insurance fund, now has assets of $6.4 billion and within a decade should have resources of nearly $8.5 billion. Unfortunately this fund is not now able to assist the VA in providing financing to veterans to purchase a home. Its investments are limited solely to government bonds and bills. These now have an average yield of about 4 percent. Limiting the national service life insurance fund to Government bond investment unquestionably retards its growth and the consequential yield to veteran policy holders.

This fund could make a greater contribution to returning veterans, by purchasing their guaranteed mortgages now bearing interest rates of 7½ percent. The VA guaranteed home mortgage offers the same security and soundness as a Treasury bond or bill. It offers two additional features: First, a yield substantially higher than the long-term government bond, and secondly, a good way of financing a house at less cost to veterans.

S. 3008 would permit the investment of up to $5 billion of the national service life insurance fund in VA guaranteed mortgages. This could provide financing for at least 300,000 additional new units. It would also help ease pressures on the mortgage market and to that extent help make loans to veterans more freely available and perhaps less costly than they are today.

We are aware that this would not happen immediately, but the funds could be released as housing is called for over a period of time. The bill before you simply expands the scope of the fund's investment powers by authorizing direct investments in VA guaranteed loans.

This association has long emphasized the need to direct pension and trust funds into mortgage financing. S. 3008 offers Congress an ideal vehicle toward this end. We think it is an excellent means of affording housing to America's deserving veteran population. It also will serve to increase the inventory of much needed medium income housing in this country and at the same time increase the yield to the national service life insurance fund.

Thank you for the opportunity to present our views on this measure.

If there are any questions you might have of us, we will be happy to answer them at this time.

(Attachments to Mr. Blackmon's prepared statement follow:)

APPENDIX TO THE STATEMENT OF THE NATIONAL ASSOCIATION OF HOME BUILDERS

TABLES AND CHARTS

VETERANS' ADMINISTRATION GUARANTEED HOME LOANS (CALENDAR YEAR)

Year	New	Existing	Year	New	Existing
1944		1,999	1957	218,800	83,247
1945	2,656	36,409	1958	94,049	49,470
1946	64,973	338,588	1959	145,414	65,097
1947	198,446	289,221	1960	104,760	38,527
1948	107,573	140,967	1961	78,483	64,406
1949	83,777	89,642	1962	87,936	99,141
1950	208,893	160,176	1963	75,305	112,584
1951	286,475	122,854	1964	60,348	117,246
1952	192,202	109,496	1965	48,935	110,647
1953	202,897	115,221	1966	53,101	103,817
1954	243,191	164,149	1967	60,435	139,583
1955	387,646	255,580	1968	71,423	139,523
1956	313,486	188,521			

Source: Veterans' Administration direct loans (calendar years)

1950	93	629	1960	10,423	19,762
1951	1,913	14,126	1961	7,730	15,440
1952	1,207	8,518	1962	5,039	10,530
1953	1,980	13,593	1963	4,743	15,926
1954	2,193	12,322	1964	3,334	11,595
1955	3,863	11,954	1965	1,625	5,307
1956	4,320	63,831	1966	1,273	7,783
1957	9,128	16,781	1967	1,952	9,544
1958	7,014	10,264	1968	1,542	10,333
1959	8,834	10,650			

Source: Veterans' Administration.

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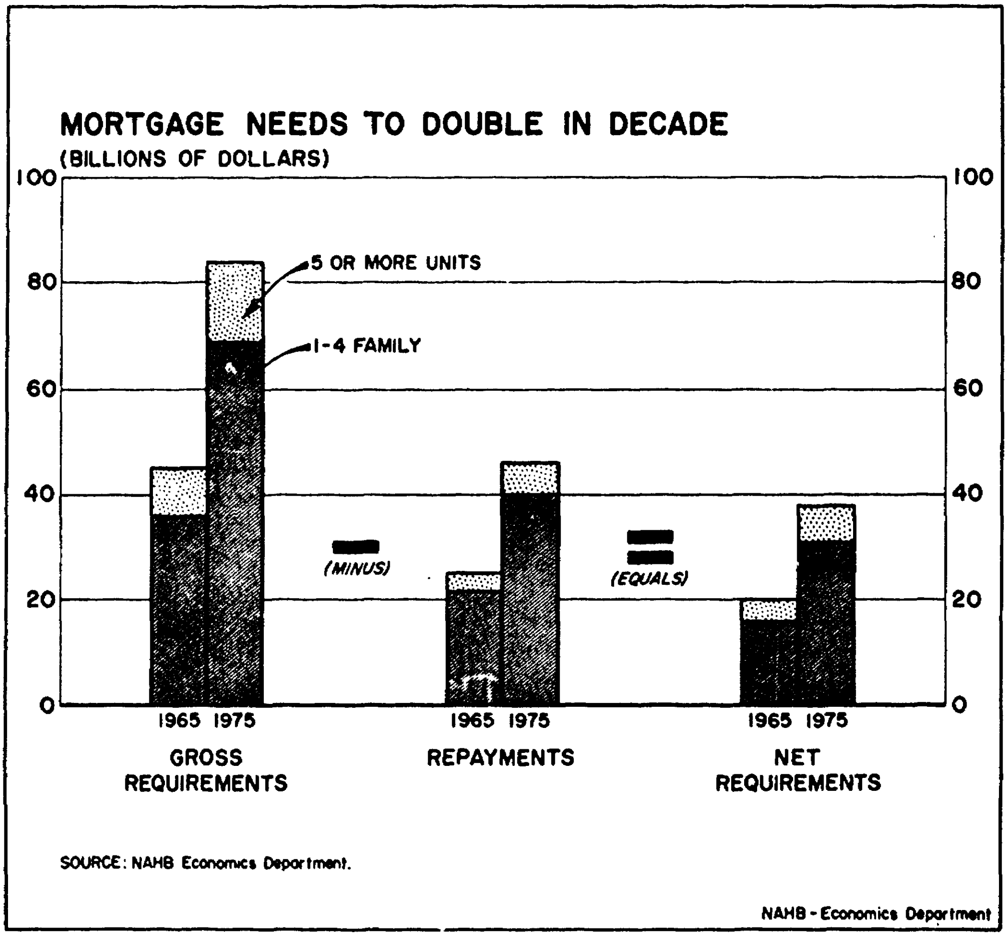
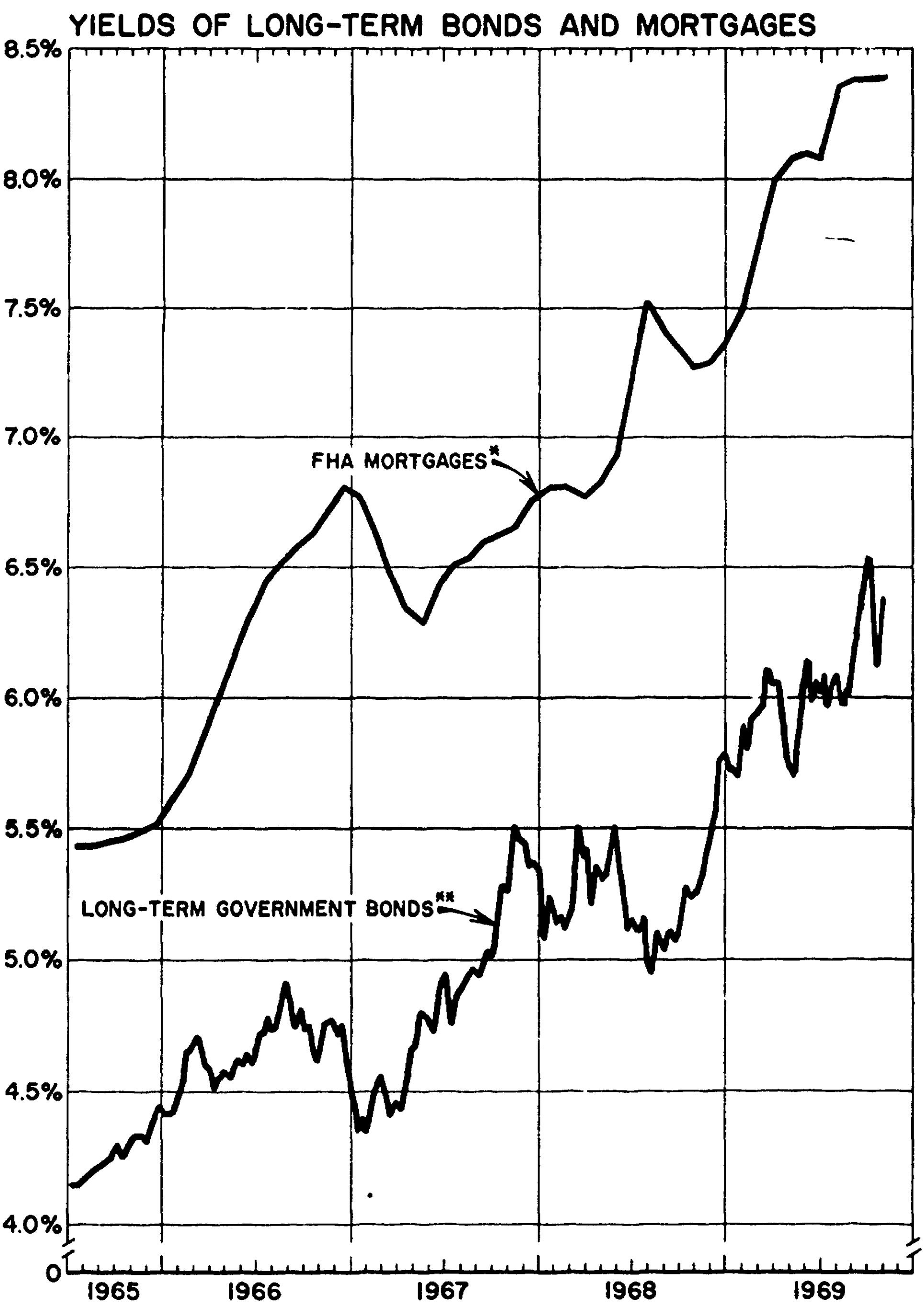

MORTGAGE NEEDS TO DOUBLE IN DECADE
(BILLIONS OF DOLLARS)
100
80
60
40
20
0
5 OR MORE UNITS
1-4 FAMILY
(MINUS)
(EQUALS)
1965 1975
GROSS REQUIREMENTS
1965 1975
REPAYMENTS
1965 1975
NET REQUIREMENTS
SOURCE: NAHB Economics Department.
NAHB - Economics Department



* Yields for FHA-insured 7 1/2% new-home mortgages (Section 203), immediate delivery transactions, 30-year maturity, minimum downpayment, based on prepayment of the mortgage at the end of 15 years.

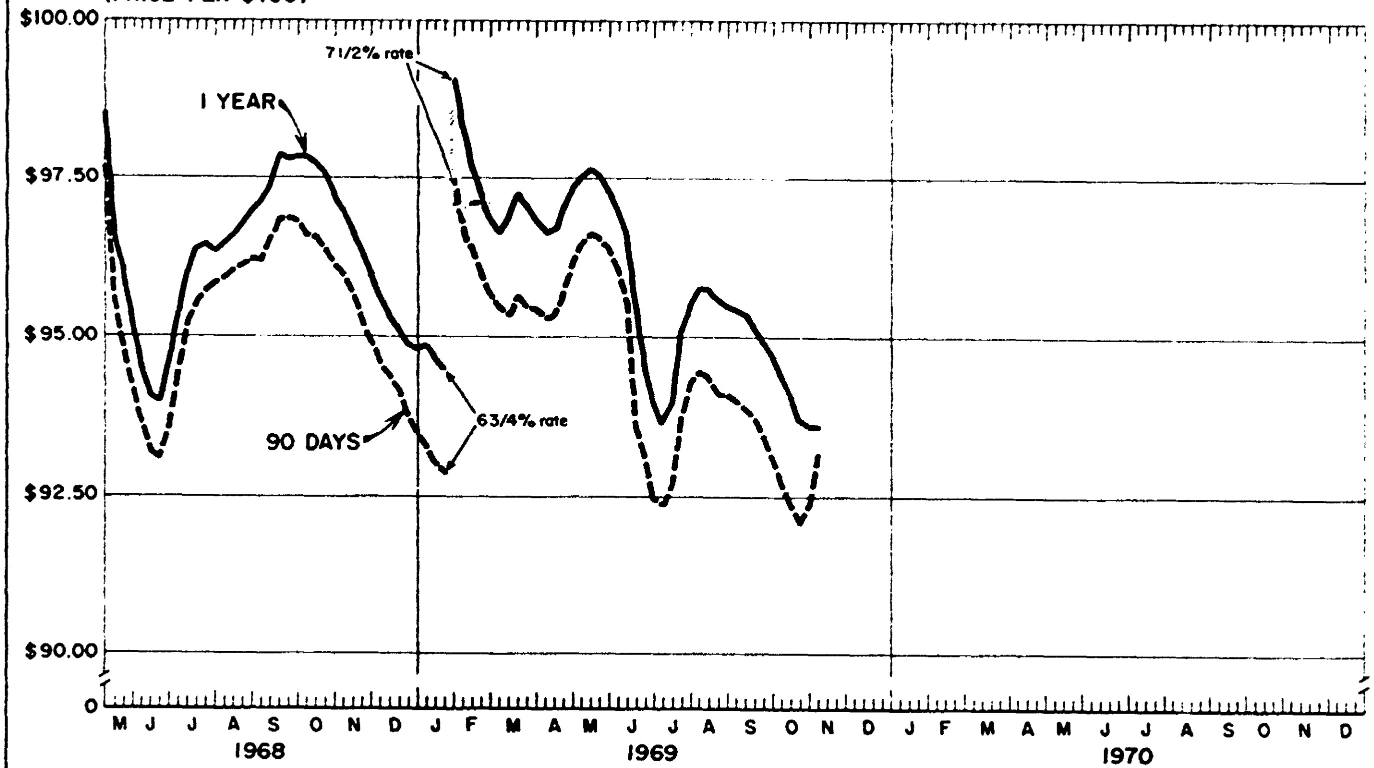
** Bonds due or callable in 10 years or more.

SOURCES: Board of Governors of the Federal Reserve System and FHA.

NAHB-Economics Department

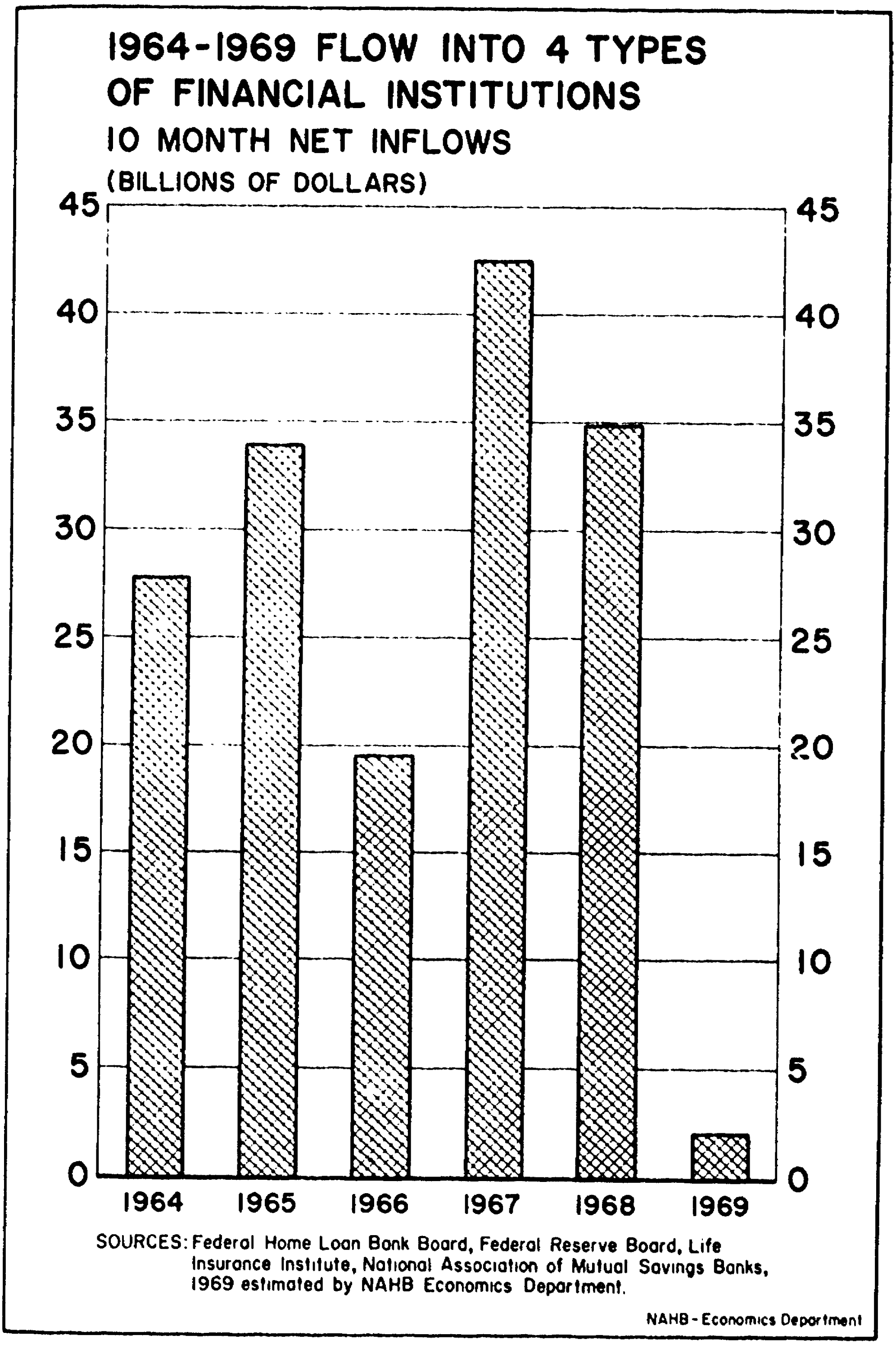
PRICES AT WHICH FNMA WILL BUY LOANS DURING A COMMITTED PERIOD OF 90 DAYS AND ONE YEAR

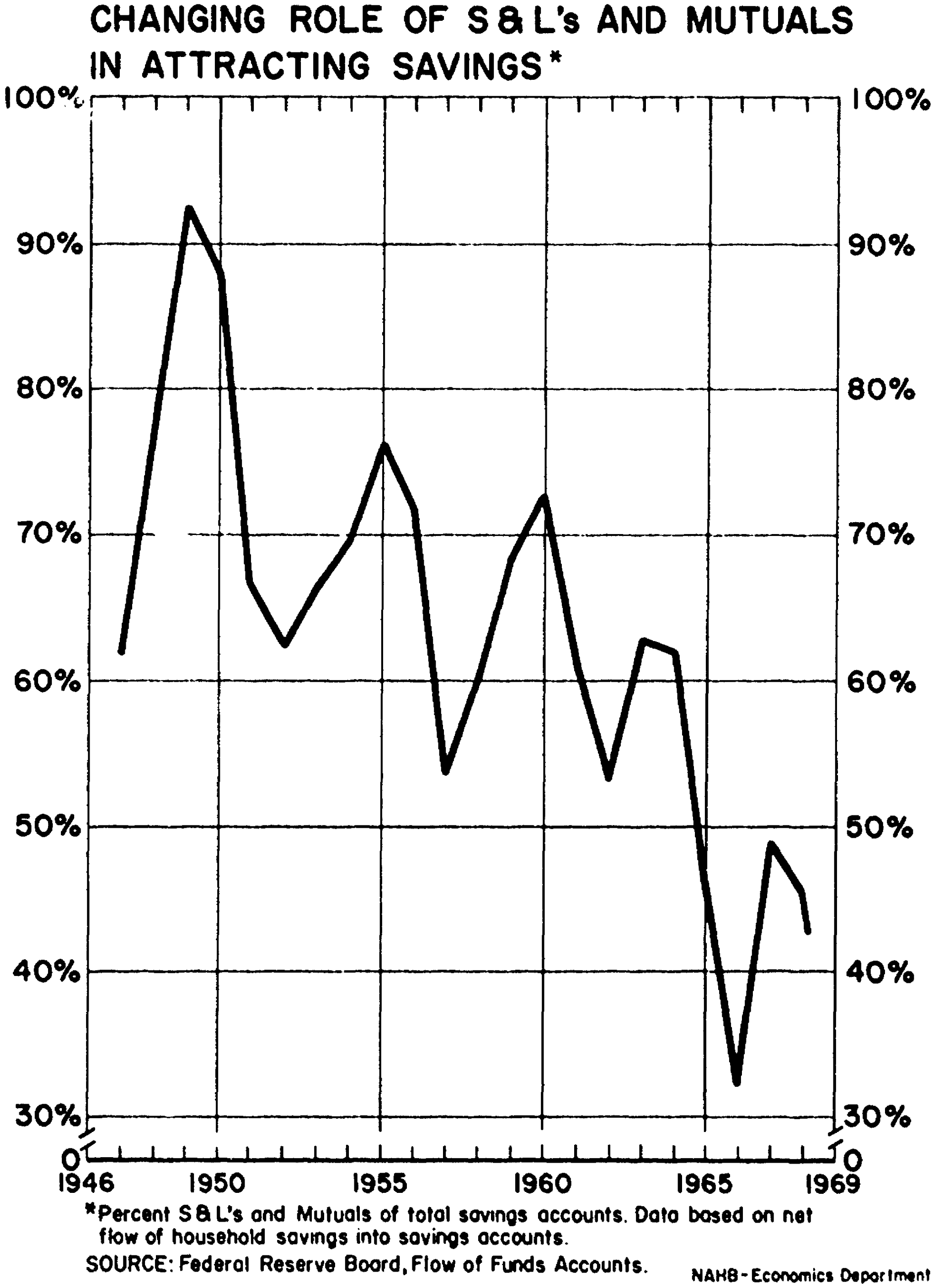
(PRICE PER $100)



NOTE Prices apply to 6 3/4% interest ceiling loans that are insured by the Federal Housing Administration or backed by the Veterans Administration. Federal National Mortgage Association in any week agrees to pay a given price (e.g. Auction June 9, 1968 an average price on 90 days commitment was $93.19) for each $100 of outstanding balance on mortgages submitted during 90, 180 or 360 days.

NAHB - Mortgage Finance Department


1964-1969 FLOW INTO 4 TYPES
OF FINANCIAL INSTITUTIONS
10 MONTH NET INFLOWS
(BILLIONS OF DOLLARS)
45
40
35
30
25
20
15
10
5
0
1964
1965
1966
1967
1968
1969
SOURCES: Federal Home Loan Bank Board, Federal Reserve Board, Life Insurance Institute, National Association of Mutual Savings Banks, 1969 estimated by NAHB Economics Department.
NAHB - Economics Department



*Percent S & L's and Mutuals of total savings accounts. Data based on net flow of household savings into savings accounts.

SOURCE: Federal Reserve Board, Flow of Funds Accounts.

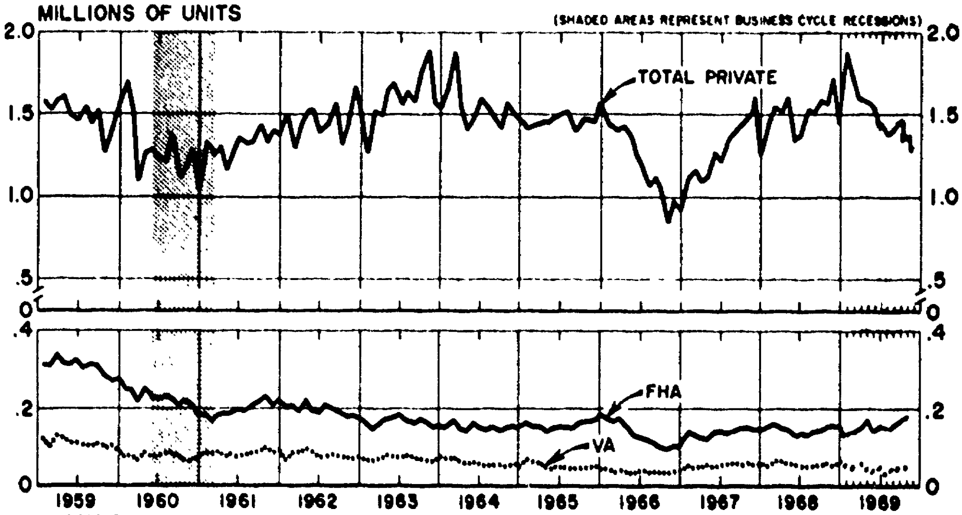
NAHB - Economics Department

HOUSING TRENDS SEASONALLY ADJUSTED ANNUAL RATES

U.S. HOUSING STARTS - PRIVATE, INCLUDING FARM

MILLIONS OF UNITS

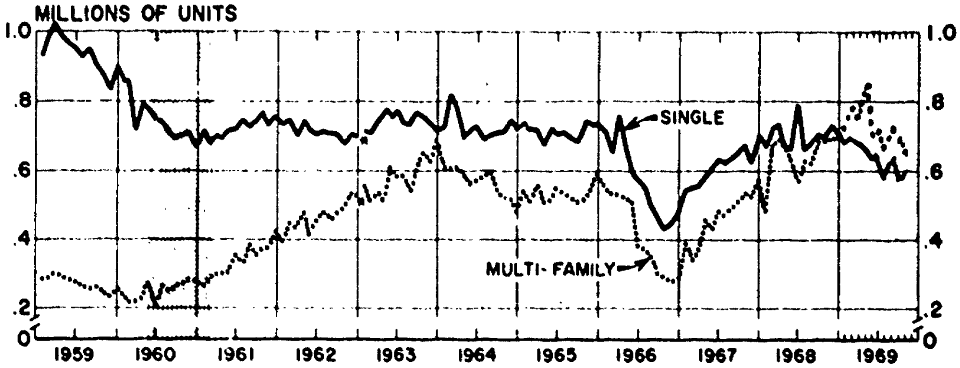
(SHADED AREAS REPRESENT BUSINESS CYCLE RECESSIONS)



SOURCES: Bureau of the Census, FHA and VA.

SINGLE VS MULTI-FAMILY PERMITS

MILLIONS OF UNITS

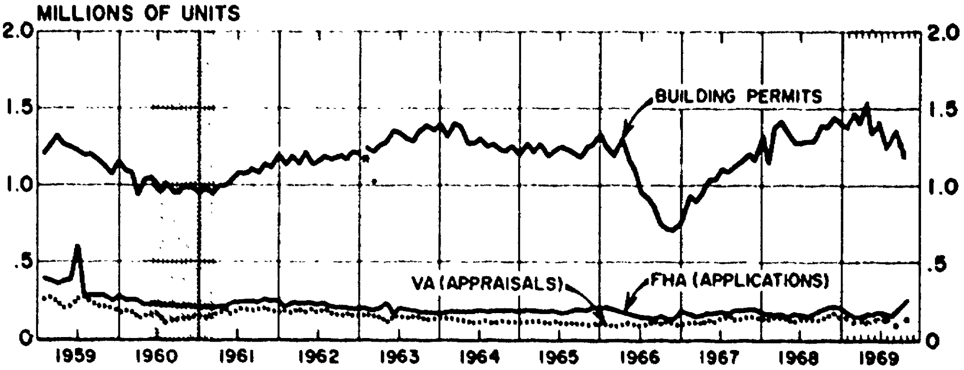


* Through December 1962, 10,000 reporting places, from 1962 through 1966 based on 12,000 reporting places, from January 1967 based on 13,000 reporting places.

SOURCE. Bureau of the Census

PROPOSED UNITS

MILLIONS OF UNITS



* Through December 1962, 10,000 reporting places, from 1962 through 1966 based on 12,000 reporting places, from January 1967 based on 13,000 reporting places.

SOURCES Bureau of the Census, FHA and VA

NAHB - Economics Department

Senator LONG. Mr. Blackmon, I might just put in a word at this time. I have to go to attend another meeting and I want you and the other witnesses for this bill to know that I am very much in sympathy with what you are trying to do here.

Mr. BLACKMON. Thank you, sir.

Senator LONG. Mortgage money is altogether too tight, and I think it is a shame for us to indicate to these veterans that we are going to help them get a home and then when the time comes tell them that the money is not available. If the money is in the NSLI fund or somewhere else, we will try to help them to get home loans at reasonable rates.

I am not too much concerned with where we get the money, but we ought to find it. I am in sympathy with what you and the veterans' organizations are trying to do along these lines.

Senator TALMADGE. Thank you, Mr. Blackmon, for a very fine statement.

Senator Jordan?

Senator JORDAN. No questions. It is a very good statement and I am wholly in sympathy with the objectives of it.

Senator TALMADGE. Thank you very much.

Mr. BLACKMON. Thank you, Mr. Chairman.

Senator TALMADGE. The next witness is Mr. Harold A. Pollman, Home Builders Association of Texas.

Mr. Pollman, I notice your statement is quite long and comprehensive. The Senate has been in session for an hour and a half, so if you desire to, you may insert your statement in the record in full and summarize it as you see fit.

STATEMENT OF HAROLD A. POLLMAN, A BUILDER FROM DALLAS, TEX., REPRESENTING THE HOME BUILDERS ASSOCIATION OF TEXAS AND THE DALLAS HOMEBUILDERS ASSOCIATION

Mr. POLLMAN. Thank you, sir.

By your leave, Mr. Chairman, I would ask the reporter to reflect my presence here as representing the Dallas Home Builders Association as well as the Texas Home Builders Association.

Senator TALMADGE. Without objection that will be done, and Senator Yarborough in his statement I think pointed it out.

Mr. POLLMAN. Thank you, sir.

Honorable Senator Talmadge, chairman, and gentlemen of the committee:

I am a builder in Dallas, Tex., Harold Pollman, and I appear before this committee at the invitation of your chairman and our senior Senator from Texas, the Honorable Ralph Yarborough, the sponsor of this legislation today coming under your purview and study.

My official capacity in testifying to this committee is that of a Texas State board director and Dallas director of the Home Builders Association.

Please permit me a valuable moment of this morning's time to bear to you greetings from both the Texas State Board of Directors and the Dallas board of the Home Builders Association and also to state to you that both boards have asked me to express to you their commendation for your knowledgeable awareness of the economic plight of the returning veteran seeking a home in which to establish himself and his family upon his completion of military service.

I notice with interest the testimony of the knowledgeable Under Secretary of the Treasury and the representative of the Mortgage Bankers Association and other highly qualified experts and therefore I can only believe that I have been requested to appear here today to testify to you on a more grassroots sense of feeling of builder and veteran on the ground seeking to build and to buy a home.

You are of course aware that the legislation we have under study here today concerns itself with approximately $6 billion of national service life insurance reserves. These reserves have been generated by the veteran's payment of his life insurance premiums.

I am emphasizing some of these comments as I go along and I imagine the record will reflect my comments in full, Mr. Chairman.

As you know, these funds are currently loaned to the Treasury on an "inside the family" type loan at a yield to the national service life insurance fund of approximately 3.77 percent.

This veterans home loan program has an eligibility of 10½ million veterans. Soon, hopefully, many more young men will be returning from service in Vietnam. These men will be returning to their community seeking to make a home for themselves and their families.

While Congress has acted appropriately (and I cannot use the word magnanimously as these are the men who have served their Nation) as these men are not magnanimously treated but appropriately treated as they have borne service to their Nation, in providing the necessary legislative vehicle to provide housing for the veteran, the veteran has returned home to find that the congressionally established vehicle for homeownership is totally immobilized due to a complete lack of economic fuel.

The entire climate of money availability has changed since many of us returned from service after World War II. I will not trace the history of what has happened there. When we returned from service in World War II we found a readily available and marketable money mortgage market waiting to receive the insured GI home mortgages.

Both the savings and loans and the insurance companies were anxious to place large insurance reserves and savings and loans reserves at the disposal of these Government insured loans. And this economic climate resulted in $72 billion of loans being made to 7 million veterans.

By the way, gentlemen, I am informed, Mr. Chairman and Senators, that the rate of loss in this veterans' insurance program has been less than in many conventional lending programs.

Today's veteran returns to find a totally different home loan mortgage market awaiting him.

I. THE INSURANCE COMPANIES

For instance, take the insurance company reserves. Almost all major insurance companies in the country have abandoned the financing of the single family GI homes. Today's money managers for our insurance companies have chased "yield" (for inflationary protection) into the highly remunerative yield of apartment, shopping center, and commercial loans premised upon various formulas of:

(*a*) Participation actually in the venture with the project developer, or

(*b*) Of gross or net rental yields—"a piece of the action."

By the way, they stretch their yardsticks of investment based upon the action that they get in the net return and sometimes I question whether they are investing these funds on a strict basis of betting on the yield or on true mortgage lending practices.

There is, of course, no logical way that the individual homeowner veteran can compete in the mortgage money market for the type of insurance company money against that formula of yield attraction.

II. THE PUBLIC MORTGAGE MONEY MARKET

(*a*) The historically unparalleled corporate expansion, that the Under Secretary referred to, in the last decade has engendered the corporate debtor who can pay 10 and 12 percent interest, which when adjusted for 52 percent tax rates and 7 percent investment credit nets an effective cost to the corporate borrower of 4 to 6 percent for his 10 to 12 percent rate commitment. Again this makes the 7½ percent veteran loan unattractive to the investor.

(*b*) Unparalleled municipal, State, and school district expansion carrying tax favored exemptions and being issued at 4 percent, 5 percent and 6 percent, giving investors an effective yield of double these rates, again significantly undercut the funds once called upon for homeownership.

This is the worst category of all, gentlemen. This is the one that hurts the home purchaser to the greatest extent.

III. THE PENSION TRUST FUNDS

I do not wish to allude to the fact that there is any inappropriateness about their investments where they invest it. It is just that we are not getting it in homeownership, gentlemen, and it has changed the total character of home financing in America today.

The character of saving the last 20 years, certainly until the last decade, was primarily individual in nature.

Each individual held his own passbook savings account. He provided the bulk of his personal savings for his old age, his retirement, or an emergency sickness, reserved in his savings and loan account. These savings were invested by savings and loans almost totally (by virtue of the very premise of their charter) in home loan mortgages.

However, today by far the very substantial majority of our savings from individual earnings take the route of: Payroll deductions, with an automatic holdout from salary and a moving of these holdout savings into tax-favored employee pension trust funds.

IV. HOLDING SAVINGS INTO TAX-FAVORED EMPLOYEE PENSION TRUST FUNDS

These tax-favored pension trust funds are professionally managed by sophisticated investment managers and they only seek for their entrusted funds "maximum yields"—of course, that is their job.

Those of us who have addressed ourselves to the current money resources for home financing find some peculiarly anomalous creatures in the pension trust fund investments. For example, numerous carpenter, plumbing, electrical, et cetera, union pension trust funds with their employees livelihood geared to and independent upon the residential construction industry, hold not one dollar in their investment portfolio in federally guaranteed home loan mortgages.

This is where they ought to be putting their money. They, of course, also are chasing "yield." The better yield of glamour electronic stocks, corporate bonds, tax-favored municipals, and so forth.

I beg your indulgence but for another graphic example, and it is so important, so basic to our American system of life. We have found that in a large majority of all States, some as tremendously important as California, not one dime of the teacher pension trust funds—or for that matter, any other State employee trust funds—not one dime of the investment portfolios were held in federally insured home ownership.

It must, of course, be shocking to you as it was to us to find in a vast majority of all of our teacher, professorial, professional, and trade association tax-favored pen ion trust funds—these are the teachers and mentors, the very people who stand before our young people and teach and exhort for our American way of life and who avow the fundamental foundations and sociological importance of a good family home, and thus a solid family life—not one cent in their multimillion-dollar trust funds, which, by the way, in some States grow at the rate of several million dollars each year, not one cent for homeownership loans in their portfolio.

Instead, they invest in the glamour stocks, the piece of the action and participation of shopping centers and apartments loans, the tax-preferred municipals—in fact we have actually found investments of these tax-favored funds in Las Vegas motor hotel facilities. This makes the returning veterans' home loan mortgage by comparison a totally unattractive package.

We have chastised these teacher pension trust funds. There must be something more to yield than dollar yield, Mr. Chairman, and Senators of this committee.

There has to be a humanistic yield, and this is what they talk about as they visit with us in their classrooms, the humanistic yield has to have some value. That is what the people playing the guitars are telling us about, if I may by your leave, and we wish to have some human yield as well as dollar yield.

Well, we have convinced many of these pension trust funds to move over into Government-insured mortgage loans, but they point to us and tell us that the very thing we are chastising them for is our own veterans' life insurance reserve trust fund not being made available.

I will conclude by saying that the only way the veteran competes is by paying 5, 6 or 7 points for new housing and 9, 10 and 11 points for old housing. On a $20,000 home the veteran may pay anywhere from $1,500 to $2,000 to get his 7½-percent congressional ceiling loan and here lies a double economic tragedy.

First, he pays $1,600 to $2,000 in points to get that $20,000 loan while his life insurance reserve trust fund is being loaned out at 3.7 percent approximately, and he is unable to borrow from his own life insurance reserve while he goes out and pays 8 to 10 points.

But the second edge of that same sword which cuts him again and the second tragedy is that I understand Treasury has taken a position that the brokerage he pays of $1,600 to $2,000, which he pays to get the loan rate interest up to a competitive yield is not considered interest for tax purposes by the Treasury.

Of course, that is all it really is. The disallowance of considering this interest further injures the veteran, whereby he is paying these points at 7½ percent, the 8 to 10 points over the historical life of the note gives a yield of 12 to 14 percent, but this cannot be taken off his taxes because this advance interest or brokerage or points is not considered as interest for tax deduction purposes.

I will conclude by saying that I am not unmindful of Treasury's contention that to put $1 billion a year of their notes back in, it is preferred by them to have this sheltered family inside loan, and to put this back into veterans' life insurance reserves to be loaned to veterans, puts them out on the street to seek the replacement of that money.

That, it is asserted, contributes to our economic inflationary pressures. It is true that the economic climate is cold and harsh in the open money market. None of us can blame Treasury. I think they are doing their job here this morning for not wanting to leave this comfortable warm sheltered loan position inside the family and to go out in the cold market climate to replace that money, but that is the very climate in which the veteran is asked to seek his loan today.

The veteran does not want to come to Congress and ask for a subsidy. I believe that is a misappropriation of a name. The veteran is not seeking a subsidy. The veteran does not want to come to Congress and get a bill to finance on. The veteran just wants to stop subsidizing.

That puts it in the right framework. The veteran wants to stop subsidizing me as a general citizen. He is not asking for subsidy. He wants to do away with this. This answer to the Treasury's view that they would contribute to inflationary pressures we must remember that by seeking this $1 billion in the open market, and by the veteran having the open market for his $1 billion, we must not overlook that when he funds his loan through national service life insurance funds, he thus to the identically correlative amount of $1 billion moves out of the money market, subject of course to the differential in interest the Treasury would then have to pay, of course.

The dollar effect, the impact on the economy with the Treasury going out and the veteran coming off the general market should be (and these economists can sure prove me wrong with their technical statements) about on balance and wash out.

We believe that all of us as a general citizenry, and by the way that again includes the veteran, all of us as a general citizenry must share this burden. We must not call upon this veteran who has already borne the service of his country and again ask this veteran to subsidize the general citizens with a preferred interest rate loan from his life insurance fund while he is unable to borrow these funds and pays exorbitant rates on the open market.

Of course, in writing testimony you feel everything you have to say is important, and it will be a part of your record. I do want to point out that the housing industry, right after World War II when Congress gave a commitment for housing, we built 2 million homes in one year. Today, after a quarter of a century of vastly improved technological ability, of marvelously expeditious mechanical improvements, a quarter century of improved industrial know-how, my carpenters can mass volume produce, my people can do more volume than they could ever do before with mechanical nailing guns and the skill saw. We have doubled and perhaps tripled our production ability.

Yet our industry finds itself this year, after 25 years of technological improvement growth, and remember we produced 2 million houses a year after World War II, a quarter of a century ago, we find ourselves today producing between 1 million and 1,200,000 homes and thus from a population of 130 million when we showed the capacity to build 2 million homes, we have now moved to a 200 million population and will deliver less than 1¼ million homes this year.

This comes at a time when Congress has directed our industry to the need for 26 million homes over the next decade. Thus, genetlemen, we are building into our already multifaceted burgeoning crisis in the city, we are building in an additional problem of a construction deficit of 1½ million homes per year.

Gentlemen, we must have your commitment to inner space. We have had your commitment in all other directions, incredible accomplishments have been made. You gentlemen have seen what such a commitment can do for us in almost infinite and limitless accomplishments in outer space. While perhaps not quite as glamorous an impact, perhaps not as glamorous a short-range picture, an equal commitment to inner space must be made by you gentlemen and fulfilled.

I can find no valid reason for denying to veterans the access to their own life insurance savings for home loan mortagages. It appears perfectly appropriate and timely that the life insurance savings generated by these veterans be made available to the veterans in need of home mortgage funds.

Again, Mr. Chairman, members of this committee, permit me to extend to you and your committee colleagues in the Senate as well as the House through Hon. Olin Teague, of Texas, who is sponsoring parallel legislation in the House, the commendations of the veterans in our community and yours as well as our housing industry, the Texas State Board of Directors and the Dallas State Board of Directors for your consideration and for your invitation to appear before this committee on this necessary legislation.

(The prepared statement of Mr. Pollman follows:)

TESTIMONY TO THE COMMITTEE ON FINANCE, SUBCOMMITTEE ON VETERANS LEGISLATION, U.S. SENATE, HEARINGS ON S. 3008—BY HAROLD A. POLLMAN, BUILDER, DALLAS, TEX., REPRESENTING TEXAS STATE & DALLAS HOME BUILDERS ASSOCIATIONS

Hon. Senator Talmadge, chairman, and gentlemen of the committee, my name is Harold Pollman, I am a builder in Dallas, Texas. I appear before this Committee at the invitation of your chairman, Senator Talmadge, and our senior Senator from Texas, the Honorable Ralph Yarborough, the sponsor of this legislation today coming under your pervue and study.

My official capacity in testifying to this committee is that of a Texas State Board Director and Dallas Director of the Home Builders Association.

Please permit me a valuable moment of this morning's time to bear to you greetings from both the Texas State Board of Directors and the Dallas Board of the Home Builders Association and also to state to you that both boards have asked me to express to you their commendation for your knowledgeable awareness of the economic plight of the returning veteran seeking a home in which to establish himself and his family upon his completion of military service.

I am aware, both by the presence at this hearing before you today of numerous experts in the field of finance and economics, as well as by submitted transcripts for the committee's study, that a very substantial amount of studied economic and technical data will be provided for your consideration in this matter.

A most capable understanding of this matter from the viewpoint of home builders throughout the nation will be provided by Mr. Larry Blackmon a past national president of the National Home Builders Association who is accompanied by various staff economists of that association. These gentlemen are most learned in statistics and studies germane to the questions involved in this legislation. I also note with interest the testimony of most knowledgeable economists as well as the general counsel for the Treasury, the president of the National Mortgage Bankers Association, officials of the Veterans Administration, officers of the National Association of Real Estate Boards and many other highly qualified and competent witnesses. With the availability to you of this necessary and properly highly informative type of testimony I can only believe that I have been requested to appear here today to testify to you on a more "grass roots sense of feeling" concerning this proposed legislation.

My company in Dallas is a medium volume tract builder in the price range of a low of $19,900 to our top home at $42,500. We build between 135 and 200 homes per year. Our annual dollar volume is between 4½ million and 6 million dollars. These homes are financed approximately 95% of our total annual volume by FHA and VA guaranteed loans and of that percentage 70% of our homes are sold to veterans.

You are of course aware that the legislation we have under study here today concerns itself with approximately 6 billion dollars of national service life insurance reserves. These reserves have been generated by the veteran's payment of his life insurance premiums.

As you know these funds are currently loaned to the Treasury on an "inside the family" type loan at a yield to the national service life insurance fund of approximately 3.77%.

The veterans home loan program has an eligibility of 10½ million veterans. Soon, hopefully, many more young men will be returning from service in Viet Nam. These men will be returning to their community seeking to make a home for themselves and their families.

While Congress has acted appropriately (and I cannot use the word magnanimously as these are the men who have served their nation) in providing the necessary legislative vehicle to provide housing for the veteran, the veteran has returned home to find that the congressionally established vehicle for home ownership is totally immobilized due to a complete lack of economic fuel.

The entire climate of money availability has changed since many of us returned from service after World War II. At that time we found awaiting us very substantial funds in savings and loans and life insurance companies. These funds were accumulated through substantial war time earnings and with very little real goods of value to purchase and thus dissipate these savings. Thus the returning veterans found substantial savings in savings and loans anxious to be invested in government insured GI home mortgages. The insurance companies were anxious to place large insurance reserves in government guaranteed real estate home mortgage loans. Thus under prior economic conditions the returning veteran with no economic wherewithall to make a down payment on a home and economically disadvantaged by his time in military service, found that Congress had provided legislation for a *readily acceptable* and *marketable* government insured home loan.

This economic climate resulted in $72 billion of loans to 7 million veterans. By the way, I am informed that the loss rates on these veteran mortgage loans has been less than conventional lending programs.

Today's returning veteran finds a *totally different* home loan climate awaiting him.

I. THE INSURANCE COMPANIES

Almost all major insurance companies in the country have abandoned the financing of the single family G.I. homes. Today's money managers for our insurance companies have chased "yield" (for inflationary protection) into the highly questionable practice but for, at least this time, highly remunerative yield of apartment, shopping center, and commercial loans premised upon various formulas of:

(a) Participation actually in the venture with project developer, or

(b) Of gross or net rental yields "A piece of the action".

There is, of course, no logical way that the individual home owner veteran can compete in the mortgage money market for this type of insurance company money against that formula of yield attraction.

II. THE PUBLIC MORTGAGE MONEY MARKET

(a) The historically unparalled *corporate expansion* in the last decade has engendered the corporate debtor who can pay 10 and 12 percent interest, which when adjusted for 52 percent tax rates and 7 percent investment credit nets an effective cost to the corporate borrower of 4 to 6 percent for his 10 to 12 percent rate commitment. Again this makes the 7½ percent veteran loan unattractive to the investor.

(b) Unparalled *municipal, State, and school district expansion* carrying tax favored exemptions and being issued at 4%, 5% and 6%, giving investors an effective yield or double these rates, again significantly undercut the funds once called upon for home ownership.

III. PENSION TRUST FUNDS

The character of saving the last 20 years, certainly until the last decade, was primarily individual in nature. Each individual held his own passbook savings account. He provided the bulk of his personal savings for his old age, his retirement, or an emergency sickness, reserved in his savings and loan account. These savings were invested by savings and loans almost totally (by virtue of the very premise of their charter) in home loan mortgages. However, today by far the very substantial majority of our savings from individual earnings take the route of: Payroll deductions, with an automatic holdout from salary and a moving of these holdout savings into tax favored employee pension trust funds. These tax favored pension trust funds are professionally managed by sophisticated investment managers and they only seek for their entrusted funds "maximum yields"—of course, that is their job.

Those of us who have addressed ourselves to the current money resources for home financing find some peculiarly anomalous creatures in the pension trust fund investments. For example, numerous carpenter, plumbing, electrical, etc. union pension trust funds with their employees livelihood geared to and dependent upon the residential construction industry, hold not one dollar in their investment portfolio in federally guaranteed home loan mortgages. They, of course, also are chasing "yield". The better "yield" of glamour electronic stocks, corporate bonds, tax favored municipals, etc.

I beg your indulgence but for another graphic example. We have found that in a large majority of all states, some as tremendously important as California, not one dime of the teacher pension trust funds—or for that matter, any other State employee trust funds—not one dime of the investment portfolios were held in federally insured home ownership. It must, of course, be shocking to you as it was to us to find in a vast majority of all of our teacher, professorial, professional, and trade association tax favored pension trust funds these are the teachers and mentors, the very people who stand before our young people and teach and exhort for our American way of life and who avow the fundamental foundations and sociological importance of a good family home, and thus a solid family life, find not one cent in their multi-million dollar trust funds—which by the way, in some States grow at the rate of several million dollars each year—not one cent for home ownership loans in their portfolio. The glamour stocks. the piece of the action and participation of shopping centers and apartments loans, the tax preferred municipals in fact we have actually found investments of these tax favored funds in Las Vegas Motor Hotel facilities. This makes the returning veterans' home loan mortgage by comparison a totally unattractive package.

Thus the vehicle of your congressional legislation permitting home ownership can only be funded by the veteran stacking up exorbitant points of brokerage. High enough to make his interest rate, set by congress, attractive. Thus the veteran competes in the money market place with points as high as 5, 6, or 7 on new housing and 9, 19, and 11 points on existing housing.

On a $20 thousand home the veteran may pay anywhere from $1500–$2000 to get his 7½ percent loan.

Herein lies a double economic tragedy when:

1. Firstly the veteran returns from service and finds himself in the market place competing with an undesirable loan at 7½ percent and paying 8 to 10

points—$1600-$2000 on his $20,000 home, while his veteran's insurance fund has $6 to $8 billion of his reserve insurance funds loaned out to the general citizenry through Treasury at approximately 3.77 percent. Unable to borrow from his own life insurance reserves, the 8 to 10 points of brokerage he pays, when added to the 7½ percent stated rate, yields—depending upon the true historical life of this mortgage—(approximately 8½ to 10 years) yields 12% to 14%. Certainly this is a grave disadvantage to him when his insurance reserves are being loaned out at 3.77 percent.

II. Secondly to compound the veterans injury, I understand that Treasury has taken a position that the brokerage points of $1,600–$2,000 which the veteran pays to get the loan interest rate up to a competitive yield is not considered interest for tax purposes. Of course that is all it really is. This disallowance of considering this an interest further injures the veteran whereby if we recited his true cost for financing at 12 to 14 percent this would properly reflect his interest cost in his computation for taxes.

We are not unmindful of the necessity for restrictive fiscal and monetary policies to curb the ultimate calamity of unbridled inflation. Certainly the housing industry, standing virtually alone, as it now does, in the application of economic restraint is most aware of this unpalatable but necessary medicine for our economic health.

I am not unmindful of Treasury's contention that to call 1 billion dollars of their note per year out of their 3.77 percent "sheltered family loan" puts them out on the street to seek the replacement of that money. This, it is asserted, can contribute to our economic inflationary pressures. It is true that the economic climate is cold and harsh in the open money market. None of us could blame the Treasury from not wanting to leave their comfortable, warm, and sheltered loan position "inside the family" and go out in the cold market climate to replace that money. But that is the very climate in which the veteran is asked to seek his loan today. In answer to Treasury's view that they would contribute to inflationary pressures by seeking this $1 billion a year in the open market, we must not overlook the fact that when the veteran funds his loan through the $1 billion dollars returned to his National Service Life Insurance Fund, he thus, to the identically correlative amount of $1 billion removes his demand of that billion dollars of mortgage funds from the money market. Thus it really becomes a question of who gets out into today's harsh money climate to the extent of $1 billion a year, the Treasury or the veteran.

The dollar effect on the economy should be the same save and except the interest rate differential which Treasury would have to pay to the open market rather than the sheltered loan they hold. We believe that all of us as general citizens, and by the way the veteran included, must share this burden. We must not call upon this veteran, which has already borne service to his country to again ask this veteran to subsdize the general citizenry with a preferred interest rate loan from his life insurance funds—while he is unable to borrow these funds and pays exhorbitant rates at a non-competitive disadvantage in the open market place.

In conclusion, please permit me to state that shortly after world war II when more than 10 million men returned to their homes they found awaiting them your congressional commitment and their nation's commitment to house the returning veterans.

The housing industry was capable of fulfilling this commitment. Shortly after world war II our housing industry was providing 2 million homes per year.

Today after a quarter century of vastly improved technological ability, of marvelously expeditious mechanical improvement and a quarter of a century of improved industry know-how for volume production, in which we have doubled and perhaps tripled our production *ability*, our industry finds itself this year barely providing between a million and a million two hundred thousand homes.

Thus from a population of 130 million when we showed the capacity to build 2 million homes we have moved to a 200 million population and will deliver less than a million and a quarter homes. This comes at a time when Congress has directed our industry to the need for 26 million homes over the next decade. Thus we are building into our already multi-faceted burgeoning crises the additional problem of a construction deficit of approximately a million and a half homes per year.

I can assure you that it is only the fiscal and monetary restraint on our industry, which completely shuts us down and then attempts to start us up when it is economically expeditious to do so, which has created the critical housing shortage throughout the nation today and spells out impending new multi-faceted sociological problems for tomorrow.

Gentlemen, we must make a commitment to inner space as well. Inner space is living space. You gentlemen have seen what such a commitment can do for us in almost infinite and limitless accomplishments in outer-space. While perhaps not as glamorous a *short range impact*, an equal commitment to inner space must be made and fulfilled.

The pending legislation before you is just one small stepping stone along this important journey to the accomplishment of better housing for all Americans. It does not purport to solve but a small part of the problem of housing Americans.

I can find no valid reason for denying to veterans the access to their life insurance savings for home loan mortgages. It appears perfectly appropriate and timely that the life insurance savings generated by veterans be made available by veterans in need of home mortgage funds.

Again, Mr. Chairman, permit me to extend to you and your committee colleagues and the Senate, as well as the House through honorable Olin Teague of Texas who is sponsoring the parallel legislation, the commendations of the veterans in our community and yours; as well as our housing industry for your consideration of this valued and necessary legislation.

Senator TALMADGE. Thank you very much, Mr. Pollman, for a very compelling statement.

Senator Jordan?

Senator JORDON. Thank you, Mr. Pollman. Your statement is both eloquent and persuasive. I want to assure you that I think all the members of this subcommittee are veterans and we share your concern. We want to do something about it in any way we can.

Mr. POLLMAN. Thank you, sir.

Senator TALMADGE. Thank you very much.

The next witness is Mr. Graham T. Northup, Mortgage Bankers Association, who is accompanied by Mr. John M. Wetmore.

Mr. Northup, if you desire you may insert your statement in full and summarize it as briefly as you can.

STATEMENT OF GRAHAM T. NORTHUP, SENIOR DIRECTOR, THE MORTGAGE BANKERS ASSOCIATION OF AMERICA; ACCOMPANIED BY JOHN W. WETMORE, DIRECTOR OF THE RESEARCH DIVISION OF THE MORTGAGE BANKERS ASSOCIATION OF AMERICA

Mr. NORTHUP. Thank you, Mr. Chairman and Senator Jordan.

I hear the bells ringing and I will enter my full statement for the record if you please.

Senator TALMADGE. Without objection, your full statement will be put into the record.

Mr. NORTHUP. Thank you.

My name is Graham Northup, and I am accompanied by Mr. John M. Wetmore, director of our research division. We appreciate the opportunity to express our views on S. 3008.

The reasons for our support of this legislation have basically been announced by others here this morning and I will brief over, in fact I will simply skip over the first four pages of our statement.

I would like, however, to comment on a few suggested amendments if I might which we feel would be helpful with this bill.

On page 3 of the bill we recommend striking the language commencing on line 12 and ending on line 13 which reads: "... nor less than 96 percent on a par for any loan purchased under this subsection."

Either this is to be a program designed to operate at market rates of interest as suggested by keying the price to the FNMA auction prices, or it is not. The 96 percent of par minimum price would make the program a below market interest rate program by current market comparisons.

For example, FNMA's auction price for 180-day commitments in the period ending November 10 was $93.03. If this minimum price provision is retained, there will be a stampede for funds each time any are made available.

Under such circumstances in the past what has happened is that large tract builders have gobbled up available commitments thus making an equitable distribution of funds difficult to impossible.

Furthermore this makes a mockery of the concept that these loans would be delivered to the VA only if it were not possible to sell them to a private investor at an equal or better price.

It seems quite appropriate to suggest, as S. 3008 does, that an effort be made to direct these funds to areas where discounts are deeper than normal. The FNMA auction prices represent a national norm at any given time. To establish a minimum price of 96—when normal discounts are deeper—and then ask program administrators to channel funds to areas where discount levels are in excess of those reflected in the FNMA auction, is to present the administrators with an impossible task. We believe the program could operate far better if you delete this language on page 3.

We subscribe wholeheartedly to the provision of section 1828(b)—contained on page 4, lines 11 and 12—limiting the amount of funds which can be transferred in any one year. Reported opposition of the Treasury to this bill is not without some basis.

Inflation is our No. 1 domestic problem and the provision of these funds from the NSLI Reserve Fund at the expense of our efforts to control inflation would not be a benefit to the mortgage market.

Nevertheless, we believe the gradual transfer of these funds, properly coordinated with the Treasury, can be accomplished to the benefit of prospective home buyers and without an adverse effect to our fight against inflation.

May I make one additional comment in light of the previous testimony you have heard this morning.

First, let me say that the Mortgage Bankers Association has stood shoulder to shoulder with both the Treasury Department and the Federal Reserve in the fight against inflation, but even when inflation is controlled, urban problems of great magnitude will still be with us.

We believe it is entirely proper to begin now to develop the necessary mechanisms to attack these problems.

One of our principal concerns is that the patterns of thrift in savings institutions have been changing, as the previous speaker noted even before this inflationary spiral.

In our research we have begun making projections of mortgage money supply and demand for the decade of the 1970's. The nature of the demographic factors lead us to conclude that the potential growth in savings of individuals, the source of funds for the traditional thrift institutions, will fall far short of potential growth in demand for funds for mortgage credit and other types of credit.

If the housing and real estate financing industries are to obtain the needed funds, they must be able to tap that portion of the pool of funds outside of the traditional thrift and home financing institutions.

Pensions and trust funds have been the fastest growing sector in the thrift and savings industry, but they have invested only a minute percentage of their assets in mortgages. Thus, our industry and the Congress have been seeking ways to attract these funds to the mortgage market.

S. 3008 would represent only a small but a significant step forward. Let me assure you that the $5 billion spread over 5 years is not going to solve the mortgage market problem. It would not be a subsidy to the mortgage market or to the veteran.

It would represent a worthwhile experiment with the investing of Government trust funds in mortgages, and Treasury's opposition to this type of an experiment we consider to be most unfortunate.

I would also note that Congress last year endorsed a new effort to tap pension funds when it authorized what we call the GNMA mortgage-backed security. Treasury opposed this program, so that the issuance of regulations was delayed a year, and the first issue of these securities has yet to be made.

Furthermore, the regulations which have been issued cover only one of the concepts authorized in that legislation, for a modified pass-through security instead of the true bond type security which was contemplated in the legislation.

We are beginning to wonder under these circumstances if Treasury really recognizes the real importance of these first steps toward the development of means for obtaining an adequate flow of mortgage money during the decade of the 1970's.

I might add additionally that everybody is willing to criticize this industry all the time for our failure to move ahead and do things which need to be done, to develop the potential for private sector response to the Nation's needs, and it gets a bit discouraging when we try to take some forward steps, looking ahead to the next decade, and find ourselves consistently blocked by this type of opposition.

What is proposed here in this legislation is really as I say only a small step forward in an experimental way. Should it fail after a few years, the Congress has the perfect right and authority to repeal this concept, but it would be a worthwhile experiment and we think it should be endorsed.

Subsection (c) of the proposed section 1828, authorizes the purchase of direct loans from the direct loan revolving fund. The Mortgage Bankers Association does not favor this provision.

I will leave for the record the full statement as to why.

We recommend that you consider some suggestions for changing two of the administrative procedures which are proposed in the bill.

First, we believe it would be more economic and the program would become operative faster if the Veterans' Administration were authorized to utilize the facilities of the Government National Mortgage Association which would probably contract with the Federal National Mortgage Association, for the actual purchases of the mortgages. This is an existing setup which is capable of handling this kind of operation and would avoid any duplication within the Veterans' Administration and maintain the lowest cost possible for administration of the program.

Secondly, subsection (g) authorizes the Veterans' Administration to pay servicing fees to the mortgagees from whom it purchases mortgages "... provided that the servicing fee payable pursuant to any such contract shall not exceed the Administrator's estimate of the cost of the direct servicing of such loans by agency employees."

We strongly urge that this provision be amended to authorize the payment of a servicing fee equal to that paid for servicing by the Federal National Mortgage Association and further that the servicing contract entered into by the Administrator and the loan servicer be comparable to the service agreement utilized by the Federal National Mortgage Association insofar as possible.

Although we do not know what the Administrator would estimate the cost of direct servicing to be, we do know that if it is inadequate to meet the industry's needs it will make it difficult to achieve this bill's objectives.

We have discussed the question of VA's servicing expenses with the agency on a number of occasions over the years. We have the impression that it is difficult for them to be precise about these costs because so many of their employees are used interchangeably for servicing and other mortgage functions. Although such a use of manpower may be laudable from the point of view of agency administration, it poses very difficult cost accounting problems.

Even assuming that such costs could be accurately determined, we should examine the relevancy of a Government agency's expenses to the function of a servicing fee to a private lender. Quite obviously, the private lender hopes to make a profit out of the loan. For the mortgage banker, that profit must come over a period of years from the servicing fee.

Figures compiled by MBA's Research Department show that during 1967 most mortgage bankers had a net loss on loan origination, and for all firms, this net loss on loan originations on single-family home mortgages averaged $80 per loan. This is the lowest loss figure for any of the last 3 years.

Fortunately, in the early years of most new loans, the servicing fees exceed the servicing costs. The balance is then applied first against the origination loss and ultimately to profit. The firms with origination losses, report that it takes an average of 4.6 years to recover those losses out of the average net income from servicing of all loans.

Recovery of the origination loss will occur only if the servicing fee is adequate. Therefore, we urge that you permit the Veterans' Administrator sufficient flexibility to establish servicing fees to meet industry needs. We have suggested that they be the same as FNMA's because those fees reflect the industry experience in servicing Government insured and guaranteed loans.

Section 2 of S. 3008 would amend section 1811(c) of title 38, United States Code, to recognize that when mortgage funds are available only at a discount that this is not, per se, an indication of credit shortage. It would clarify a legal technicality which resulted 2 years ago in VA's abandoning a reasonable policy for the determination of credit shortage areas and has resulted in the making of unnecessary direct loans.

So long as Government guaranteed loans are subject to any form of interest rate ceiling, there can be no avoidance of discounts when this ceiling is held below the going yield in the market. This has consistently been the case since the early 1950's.

Under the existing language of section 1800(c), the Veterans' Administration must, however, find a shortage to exist whenever a discount is present. Section 2 of S. 3008 will clarify the existing law. We urge its enactment.

Again, let me express our appreciation for the opportunity of working with you toward improvements in the veterans home loan guarantee program.

(The complete statement of Mr. Northup follows:)

TESTIMONY OF GRAHAM T. NORTHRUP, SENIOR DIRECTOR, THE MORTGAGE BANKERS ASSOCIATION OF AMERICA, BEFORE THE SENATE COMMITTEE ON FINANCE ON S. 3008

Mr. Chairman, my name is Graham Northrup. I am a Senior Director of the Mortgage Bankers Association of America. With me this morning is Mr. John M. Wetmore, Director of our Research Division. We appreciate the opportunity to express our views on S. 3008.

The Mortgage Bankers Association of America consists of more than two thousand members. These include:

(*a*) Mortgage Bankers who engage directly in the origination, financing, selling, and servicing of real estate mortgage loans for others;

(*b*) Investing institutions that acquire mortgage loans from mortgage bankers, including life insurance companies, commercial banks, mutual savings banks, savings and loan associations, fire and casualty insurance companies, investment funds, pension funds, and similar intitutions; and

(*c*) Abstract and title companies, attorneys, accountants, consultants, and brokers providing services to mortgage bankers or investors.

Our members lending activities cover the broad spectrum of real estate finance. Originally founded in 1914 as the Farm Mortgage Brokers Association, we are still very much active in farm and ranch lending. However, a much larger percentage of our total activity is today devoted to the financing of homes, apartments, stores, factories, and other real estate improvements of our urban culture.

Mortgage Bankers are the largest originators and servicers of Veterans Administration guaranteed home loans. Of the more than $72 billion of mortgages currently serviced by mortgage bankers, 25 per cent are guaranteed by the Veterans Administration. Stated another way—more VA-guaranteed mortgages outstanding are serviced by mortgage banker members than all other lenders' put together.

S. 3008 would authorize the Veterans Administration to transfer up to $5 billion from the National Service Life Insurance Fund to a newly created NSLI Investment Fund, which funds would then be used for the purchase of VA guaranteed or direct home loans with principal balances up to $30,000. The Mortgage Bankers Association supports this legislation, subject to some minor, but important, conditions which we will mention later.

The concept of purchasing mortgages for the investment portfolio of a government trust fund stimulated some debate within our Association. In the final analysis, we concluded that it was perfectly proper to grant this authority to the administrators of the NSLI Fund. Private life insurance companies have even greater flexibility in their choice of investments. They regularly exercise these choices for the benefit of their policyholders. Veterans who elect to save through the continuation of their National Service Life Insurance are entitled to returns on these savings comparable to those which they could obtain elsewhere.

We understand that the National Service Life Insurance Fund presently invests primarily in long-term Treasury obligations. These, as you know, are limited to a maximum interest rate of 4¼ per cent. Presently, the U.S. Treasury is unable to borrow funds at this low rate in the open market. It appears, then, that the existing limitations on the investment powers of the NSLI Fund result in a subsidy for the Treasury. In effect, veterans and the prospective beneficiaries of other government trust funds, have been called upon to sacrifice the future worth of their savings to support the false notion that somehow a ceiling on Treasury borrowing rates will keep down the cost of borrowing. We do not believe this is proper and so favor the broadened investment powers for the fund administrators which S. 3008 would grant.

Additionally, it seems perfectly appropriate that savings generated by veterans be available for veterans in need of home mortgage funds. These funds can be usefully and safety employed in the mortgage market. Despite the fact that FHA and VA rates have been raised to 7½ per cent, yields on these mortgages have not been as attractive to private market investors as they once were. Over the past few years, they have generally been below those obtainable on other investments. Increases in the maximum permissible rate have customarily been made only after conditions became critical and discounts excessive. Private investors, particularly insurance companies, exercising their freedom of investment choice, have turned increasingly to other more attractive investments. The result is that today there are considerably fewer investment outlets for FHA and VA home mortgages.

Having expressed our support for the principle involved in S. 3008, we turn to comments on a few particulars.

On page 3, we recommend striking the language commencing on line 12 and ending on line 13 which reads "nor less than 96 per centum of par for any loan purchased under this subsection."

Either this is to be a program designed to operate at market rates of interest, as suggested by keying the price to the FNMA auction prices, or it is not. The 96 per centum of par minimum price would make the program a below market interest rate program by current price comparison. For example, FNMA's auction price for 180 day commitments for the period ending November 10 was 93.03. If this minimum price proviso is retained, there will be a stampede for funds each time some are made available. Under such circumstances in the past, what has happened is that the largest tract builders have gobbled up available commitments thus making an equitable distribution of funds difficult to impossible. Furthermore, this makes a mockery of the concept that these loans would be delivered to the VA only if it were not possible to sell them to a private investor at an equal or better price.

It seems quite appropriate to suggest, as S. 3008 does, that an effort be made to direct these funds to areas where discounts are deeper than normal. The FNMA auction prices represent a national norm at any given time. To establish a minimum price of 96—when normal discounts are deeper—and then ask program administrators to channel funds to areas where discount levels are in excess of those reflected in the FNMA auction, is to present the administrators with an impossible task. We believe the program could operate far better if you delete this language on page 3.

We subscribe wholeheartedly to the provision of Section 1828(b) (contained on page 4, lines 11 and 12) limiting the amount of funds which can be transferred in any one year. Reported opposition of the Treasury to this bill is not without some basis. Inflation is our number one domestic problem and the provision of these funds from the NSLI Reserve Fund at the expense of our efforts to control inflation would not be a benefit to the mortgage market. Nevertheless, we believe the gradual transfer of these funds, properly coordinated with the Treasury, can be accomplished to the benefit of prospective home buyers and without an adverse effect to our fight against inflation.

Subsection (c) of the proposed Section 1828, authorizes the purchase of direct loans from the direct loan revolving fund. The Mortgage Bankers Association does not favor this provision. We have long felt that there is little or no need for the direct loan program. Direct loans are supposed to be made only when mortgage funds are clearly not available from private sources. Administrative procedures have been established to ascertain the availability of private credit, but local officials not sympathetic to the spirit of the legislation can and do abuse the procedures. The result is that direct loans are too often made on properties which private lenders would like to finance.

We recommend your consideration of the following suggestions for changing two of the administrative procedures which are proposed in S. 3008. First, we believe it would be more economical and the program would become operative faster if the Veterans Administration were authorized to utilize the facilities of the Government National Mortgage Association which would probably contract with the Federal National Mortgage Association, for the actual purchase of the mortgages. FNMA has been carrying on this type of function for many years, and during the past year, as a privately owned corporation, has performed these operations on a contract arrangement for GNMA. (We are not suggesting that the new NSLI Investment Fund purchase existing mortgages from the FNMA portofolio, but that the Veterans Administrator be authorized to contract with FNMA through GNMA to execute the commitment and purchase functions proposed in S. 3008.) FNMA is adequately staffed wtih experienced personnel. As a privately owned corporation, free of federal budget constraints, FNMA can add additional staff as needed. The Veterans Administration, on the other hand, is already understaffed in the Loan Guaranty Division. There has been a large increase in the volume of activity under the loan guaranty program as a result of the Cold War Veterans Act. There has not been a commensurate increase in the employees of the Loan Guaranty Division. According to reports we receive, processing time for loan applications is lengthening.

If S. 3008 is enacted in its present form, the Loan Guaranty Division will have to do the following: develop procedures for issuing commitments, develop forms, train employees who are already overloaded, and do all the other things incidental to the initiation of a new program. We believe it will be more economical and will expedite the opertaion if VA can contract with GNMA and FNMA to perform loan purchases.

Secondly, subsection (g) authorizes the Veterans Administration to pay servicing fees to the mortgagees from whom it purchases mortgages "* * * provided that the servicing fee payable pursuant to any such contract shall not exceed the Administrator's estimate of the cost of the direct servicing of such loans by agency employees." We strongly urge that this provision be amended to authorize the payment of a servicing fee equal to that paid for servicing by the Federal National Mortgage Association and further that the servicing contract entered into by the Administrator and the loan servicer be comparable to the service agreement utilized by the Federal National Mortgage Association insofar as possible.

Although we do not know what the Administrator would estimate the cost of direct servicing to be, we do know that if it is inadequate to meet the industry's needs it will make it difficult to achieve this bill's objectives. We have discussed the question of VA's servicing expenses with the agency on a number of occasions over the years. We have the impression that it is difficult for them to be precise about these costs because so many of their employees are used interchangeably for servicing and other mortgage functions. Although such a use of manpower may be laudable from the point-of-view of agency administration, it poses very difficult cost accounting problems.

Even assuming that such costs could be accurately determined, we should examine the relevancy of a government agency's expenses to the function of a servicing fee to a private lender. Quite obviously, the private lender hopes to make a profit out of the loan. For the mortgage banker, that profit must come over a period of years from the servicing fee. Figures compiled by MBA's Research Department show that during 1967 most mortgage bankers had a net loss on loan origination, and for all firms, this net loss on loan originations on single-family home mortgages averaged $80 per loan. This is the lowest loss figure for any of the last three years.

Fortunately, in the early year of most new loans, the servicing fees exceed the servicing costs. The balance is then applied first against the origination loss and ultimately to profit. The firms with origination losses, report that it takes an average of 4.6 years to recover those losses out of the average net income from servicing of all loans. Recovery of the origination loss will occur only if the servicing fee is adequate. Therefore, we urge that you permit the Veterans' Administrator sufficient flexibility to establish servicing fees to meet industry needs. We have suggested that they be the same as FNMA's because those fees reflect the industry experience in servicing government insured and guaranteed loans.

Section 2 of S. 3008 would amend Section 1811(c) of Title 38 U.S.C. to recognize that when mortgage funds are available only at a discount that this is not, per se, an indication of credit shortage. It would clarify a legal technicality which resulted two years ago in VA's abandoning a reasonable pclicy for the determination of credit shortage areas and has resulted in the making of unnecessary direct loans.

So long as government guaranteed loans are subject to any form of interest rate ceiling, there can be no avoidance of discounts when this ceiling is held below the going yield in the market. This has consistently been the case since the early 1950's. Under the existing language of Section 1811(c), the Veterans Administration must, however, find a shortage to exist whenever a discount is present. Section 2 of S. 3008 will clarify the existing law. We urge its enactment.

Again, let me express our appreciation for the opportunity of working with you toward improvements in the Veterans Home Loan Guaranty Program.

Senator TALMADGE. Mr. Northup, I think you have made a real contribution for the committee's consideration of this bill. Thank you.

Senator Jordan?

Senator JORDAN. I have no questions.

Senator TALMADGE. Thank you very much.

Mr. NORTHUP. Thank you.

Senator TALMADGE. The next witness is Mr. Francis H. Stover, director of the National Legislative Service, Veterans of Foreign Wars of the United States.

Mr. Stover, you may insert your statement in full in the record and summarize it as you see fit, sir.

STATEMENT OF FRANCIS W. STOVER, DIRECTOR, NATIONAL LEGISLATIVE SERVICE, VETERANS OF FOREIGN WARS OF THE UNITED STATES; ACCOMPANIED BY NORMAN D. JONES, DIRECTOR OF THE NATIONAL REHABILITATION SERVICE SECTION OF THE VETERANS OF FOREIGN WARS OF THE UNITED STATES

Mr. STOVER. With me to my right is Mr. Norman D. Jones, who is the director of our National Rehabilitation Service.

Mr. Chairman, I realize the hour is late and I am going to summarize my statement by stating to the committee as follows:

The position that we have in support of S. 3008 was determined by the delegates to our recently concluded national convention in Philadelphia last August. These delegates represented more than 1.5 million members. The proposal in S. 3008 was one of the problems brought to the attention of the delegates with which they spent a considerable amount of time.

I think it is accurate to say that the membership of the VFW is deeply concerned with the lack of veteran housing as provided under the GI bill in 1966 and previous GI bills.

I think our delegation members are especially concerned with the fact that there is no or little housing for the low and moderate income veteran. In other words, I am talking about the younger veteran who cannot buy a high-priced home.

The lack of GI housing was also restudied and reconsidered at a meeting of our National Legislative Committee here in Washington on September 28 and 29, and immediate priority action was recommended. This bill, which represents part of our position on this very complex subject, is a very reasonable solution to a very critical problem.

I make three points in support of the bill. It will pump more money into the GI home loan market, make more loans available for GI's to buy homes, and it will help the construction and building industry. Most appropriate as far as the VFW is concerned, this NSLI trust fund is a totally owned veterans fund.

Why not then use veterans insurance premium payments from World War II and some Korean veterans to help provide a benefit for our comrades in later wars—the Vietnam era conflict and the cold war.

That, Mr. Chairman, just about summarizes my statement in addition to what I have in my prepared statement.

Mr. Jones, would you care to make any comments?

Mr. JONES. I might make one or two, Mr. Chairman.

I am very sympathetic to the position of the spokesman for the Treasury Department on the burden of financing the $5 billion segment of the Federal debt. They must finance it in the money market.

There is no reason to impose on a small segment of our population, particularly veterans who have served their country the special burden of financing this particular $5 billion segment.

Of course, this would have a favorable impact in the veterans housing field, but there is another reason I would like to mention briefly but I do not believe it has been brought out previously.

It would enhance the trust fund, the NSLI insurance trust fund and would presumably result in greater interest dividends to those policyholders who might qualify for dividends. Trustees of a trust fund I think normally are obligated to enhance the trust by wise and prudent investment. The Veterans' Administration has not been privileged to do this because of the directions—and obligated directions of the investments but this would enhance the trust fund as is quite normal and as it should be, and would thus have a beneficial effect on NSLI policyholders in future years.

(Mr. Stover's prepared statement follows:)

PREPARED STATEMENT OF FRANCIS W. STOVER, DIRECTOR, NATIONAL LEGISLATIVE SERVICE, VETERANS OF FOREIGN WARS OF THE UNITED STATES WITH RESPECT TO S. 3008 TO INCREASE THE AVAILABILITY OF GUARANTEED HOME LOAN FINANCING FOR VETERANS AND TO INCREASE THE INCOME OF THE NATIONAL SERVICE LIFE INSURANCE FUND

Mr. Chairman and members of the subcommittee, thank you for the privilege to appear before this Subcommittee on S. 3008, a bill to authorize the investment of up to $5 billion from the National Service Life Insurance trust fund over the next five years in guaranteed home loans to veterans.

The legislative position of the Veterans of Foreign Wars is determined by the delegates to our annual National Conventions. At our most recent National Convention, which was held in Philadelphia last August, the delegates, representing 1,500,000 members, adopted a resolution directly in point with S. 3008. The resolution, identified as No. 359 and entitled "GI Mortgage Interest Rates" reads as follows:

"Whereas one of the rights granted to veterans under the GI Bill is guaranteed mortgages for the purchase of new or existing homes; and

"Whereas the Veterans of Foreign Wars has always advocated a statutory ceiling on interest rates on GI loans for veterans since the original 4% was established in the GI Bill for World War II veterans; and

"Whereas because of existing tight money and high interest rates, the GI home loan program, although still a program of considerable magnitude, has greatly dwindled because mortgage money for long term GI loans is not plentiful; and

"Whereas the Veterans of Foreign Wars strongly believes GI home loan assistance should be a meaningful benefit, which assistance is crucial to the Vietnam veteran during this period of a national housing shortage; and

"Whereas the present interest rate on GI home loans is 7½%, subject to a recommendation by the Commission on Mortgage Interest Rates, which has made a recommendation to the President which must be acted upon before October 1, 1969; and

"Whereas this Commission has recommended the present statutory ceiling established by Congress of 6% on the interest rate on VA mortgages should be permanently abolished; and

"Whereas the Commission on Mortgage Interest Rates has recommended that interest rates on GI mortgages should be determined in the market place without regard to any administrative or statutory ceiling or, in the alternative, if ceilings are established by the VA and Secretary of HUD, as at present, then discounts should be permitted between the borrower and the seller; and

"Whereas this recommendation by this Commission must be acted upon by the Congress; and

"Whereas the House Committee on Veterans' Affairs has completed hearings during this 91st Congress to provide for the use of a portion of the NSLI trust fund to be funneled into GI home loan mortgages: Now, therefore

"*Be it resolved by the 70th National Convention of the Veterans of Foreign Wars of the United States*, That we urge Congress to provide for a statutory ceiling on GI loans coupled with authority for the Veterans Administrator to establish the rate within the maximum ceiling; and

"*Be it further resolved*, That we strongly oppose the removal of the statutory ceiling as recommended by the Commission on Mortgage Interest Rates and its alternative recommendation that if there is a ceiling, discounts will be charged to veterans which would be nothing more than a license to pick the pockets of veterans; and

"*Be it further resolved*, That we strongly recommend that a part of the NSLI trust fund be made available for GI home loans; and

"*Be it further resolved*, That we recommend that the direct home loan program be greatly increased to provide more homes for veterans in small town and rural areas where home loan mortgage money is practically nonexistent."

Your attention is directed to the next to the last resolve clause of this resolution which strongly recommends that a part of the NSLI trust fund be made available for GI home loans. Pursuant to this recommendation, the V.F.W. supports the purpose and intent of S. 3008.

The V.F.W. has always supported legislation in support of the principle that there should be a maximum rate on GI home loans. It will be recalled that in the post-World War II period, the interest rate on GI homes was 4%. Over a period of years, the interest rate has increased to the present 7½%. The V.F.W. has supported these increases in the GI interest rate on the theory that GI mortgages would be plentiful for returning veterans in their efforts to purchase a home. Despite the dramatic increase in GI interest rates during the past several years, the number of loans being made to veterans has sharply decreased. As the resolution indicates, there is great concern in the V.F.W. respecting an adequate supply of funds to help returning veterans purchase a home.

High interest rates are not attracting home mortgage money for veterans. Long-term GI loans are not attractive in today's tight money market. That is why the delegates mention several possibilities with respect to finding additional funds for GI home loans.

One solution is to provide up to $5 billion over a period of five years to be pumped into the GI home loan program. Admittedly, this will not cure the present tight money situation and high interest rate problems with which we are presently faced. It will, however, provide a massive shot in the arm specifically aimed at helping veterans who need home mortgage financing.

Not only would it provide additional money for veterans who need financing to purchase a home, but it will help the home building industry, whose activities have been sharply curtailed during the last several years. This legislation will help not only veterans but the general economy relating to the home building and construction industry.

Another benefit, however, will accrue to veterans under the terms of S. 3008. By permitting up to $5 billion of the National Service Life Insurance fund to be made available for home loan financing for veterans, it will, in turn, permit the NSLI fund to earn more on its investments. The NSLI fund is made up of money paid by veterans on their NSLI policies. It is fitting and proper that this money should be made available to help veterans. This veteran-owned trust fund then would simply authorize the Government to invest up to $5 billion in GI mortgages, which would bring a return of 7½%, as opposed to the present rate of less than 4%. Presently, it is understood, the money in the NSLI fund is by law invested in U.S. Government bonds, which are yielding slightly less than 4%. The additional earnings on investments in GI loans will ultimately be distributed as dividends to veterans holding NSLI policies.

The Veterans of Foreign Wars, therefore, commends Senator Yarborough, Senator Talmadge, and other sponsors of this legislation as a reasonable solution to a very critical problem. If the Congress approves S. 3008, it will make the GI home loan benefit a meaningful one for thousands of veterans who, under present economic conditions, will not be able to take advantage of their GI home loan assistance upon their return from service in the armed forces.

The Veterans of Foreign Wars commends this Subcommittee for holding these hearings on this most important legislation and strongly recommends that favorable consideration be given to S. 3008 in the knowledge that, if approved, it will make it possible for thousands of veterans to obtain the housing that they desperately need.

Thank you for the opportunity to appear here today in support of this important legislation.

Senator TALMADGE. Thank you very much, gentlemen.

We appreciate your appearance before the full committee always.

As I understand the law, all of the trust funds that the Government is administering now, such as the social security fund, NSLI fund, highway trust fund and others, are all required by law to invest in U.S. securities, including participation certificates. The first time I believe participation certificates were issued was during the Eisenhower administration, and this was done again under the Johnson administration.

I can personally see no objection to investing these trust funds in some other area that will engender a higher return. I can see some problems for the Treasury, if they have to disgorge almost $1 billion in bonds annually. The same amount will have to come from other sources, and it would have some inflationary effect, perhaps in the cost of interest rates generally.

It seems to me we could at least make a start on this by investing the surplus funds that come into the trust fund for a few years. We could see how that approach works and then determine what we ought to do further in that regard.

Do you have any questions, Senator Jordan?

Senator JORDAN. No questions.

A very good statement, sir. I concur with the chairman's appraisal.

Mr. STOVER. Thank you, Senator.

Senator TALMADGE. Thank you very much, gentlemen. We are always delighted to have you appear before this committee, as you know.

Mr. STOVER. Thank you, Mr. Chairman.

Senator TALMADGE. If there are no further questions, the subcommittee is now adjourned.

(Whereupon, at 12:05 p.m., the Subcommittee on Veterans Legislation adjourned, to reconvene to the call of the Chair.)

(By direction or the chairman, the following communications are made part of the printed record:)

NATIONAL ASSOCIATION OF REAL ESTATE BOARDS
Washington, D.C., November 20, 1969.

Hon. HERMAN E. TALMADGE,
Senate Office Building,
Washington, D.C.

DEAR SENATOR TALMADGE: On behalf of the nearly 90,000 members of the National Association of Real Estate Boards, I am writing this letter in support of the basic objectives of S. 3008. At our convention in San Francisco, which concluded only a week ago, it was resolved that this Association endorse the principles of this bill which would authorize the transfer of up to $5 billion from the National Service Life Insurance Fund to an investment fund to be used for the purchase of VA-guaranteed loans with principal balances up to $30,000. I would be pleased if you would include this letter in the official record of the hearings of the Subcommittee on Veterans' Legislation on the bill.

The NSLIF has one overriding purpose—to assist veterans. S. 3008 would further this objective in two ways: first, by reducing financing costs of home ownership and, second, by enabling the insurance fund to grow at a more rapid rate. Additional funds are the most pressing need of a critically depressed mortgage market, and their availability would inevitably help reduce the pressures that cause excessive discounts and high interest. At the same time, veterans who who save through continuation of their National Service Life Insurance are entitled to returns on these savings comparable to those which they could obtain elsewhere. It is a paradox that at a time when private insurance companies are turning away from mortgage investments in favor of alternative, often higher yielding investments, that the administrators of the NSLIF are not even free to invest in mortgages.

It is no less a paradox that at a time when there is a massive insurance fund on deposit with the Treasury, a fund earmarked for veterans, the VA-guaranteed loan market is the one which suffers the most from the current tight money condition. It would be both logical and desirable to use these funds to assist veterans to obtain home financing at rates they can afford.

We would recommend, however, that S. 3008 be amended to remove the limitation on purchases at less than 96 percent of par. We recommend this amendment not because we have any particular affinity for excessive discounts. On the contrary, it is the Realtor who has the unpleasant task of explaining to the home owner that much of the equity he thought would become his at the time of sale must be used to enable the purchaser to get suitable financing. Our members could not even begin to calculate the number of sales that have been lost outright because of this. It is a serious situation which prevents, or at least discourages, millions of Americans from upgrading their housing, and prevents others, particularly many veterans, from owning their own homes in the first place. We would applaud and support any proposal which might serve to make financing available at lower rates. We believe the availability of additional funds for the VA mortgage market, which this bill would provide, will ultimately serve to lower discounts, but they cannot be lowered just by imposing a ceiling.

Unfortunately, experience teaches that artificial ceilings of any kind are self-defeating. They serve only to dry up funds when they are unrealistic. With FNMA's auction price hovering between 93 and 94 this concept could not work as intended unless prices were adjusted to meet market conditions.

We note that the bill would permit the VA to pay fees to the mortgagees from whom it purchases mortgages for loan servicing in an amount not to exceed the Administrator's estimate of the cost of servicing the loans himself. We welcome the fact that the bill would authorize private servicing because we believe this private servicing can be performed at a lower cost than it could be by the Administrator.

We also note with great interest suggestions that have been made that rather than have the Administrator enter the secondary mortgage market business, the fund should be turned over to the Federal National Mortgage Association through the Government National Mortgage Association on a contract basis, so that FNMA would inject these additional funds into the VA-guaranteed mortgage market through its regular channels. We believe this suggestion has a great deal of merit, because we are aware of the excellent job FNMA has done in establishing a secondary mortgage market.

Accordingly, we would urge the members of the Subcommittee to consider seriously an amendment to the bill which would turn the actual administration of the program over to FNMA, assuming FNMA felt it could take on these additional responsibilities without difficulty, by simply making these funds available on a contractual basis.

We commend these views to your sympathetic attention.

Sincerely yours,

DON E. DIXON,
Chairman.

HOME MANUFACTURERS ASSOCIATION,
Washington, D.C., November 21, 1969.

Re S. 3008.

Hon. HERMAN E. TALMADGE,
Chairman, Subcommittee on Veterans Legislation, Senate Finance Committee, U.S. Senate, New Senate Office Building, Washington, D.C.:

Senator Talmadge, the Home Manufacturers Association represents the producers of factory-built housing ranging from that for low cost housing up to and including what may be called luxury housing, all by an increasingly efficient process of industrialization. Our membership further includes most of the major national corporations furnishing raw materials to the housing industry, as well as many smaller national or regional suppliers.

The home manufacturer contribution to home building has increased dramatically in recent years, so that today at least 30 percent of all one- and two-family dwellings are built with his product, and where used, the factory-built house package has traditionally accounted for about one-third the value of construction put in place.

As you know, the 1968 Housing Act gave us a goal of 26 million units over 10 years, and 1.83 million for 1969. . . . we'll be fortunate to reach 1.2 or 1.3 million due to the current tight money market.

We, therefore, strongly endorse S. 3008 to authorize up to $5 billion from the National Service Life Insurance Fund over the next five years in guaranteed home loans to veterans. This bill, if enacted, would not only help our Industry to meet housing goals, but would enable more veterans to obtain housing. Right now there are 10.6 million veterans eligible for guaranteed home loans . . . this figure continues to increase from the return of veterans from Vietnam. The $5 billion made available for home loan mortgages would mean 300,000 housing units.

This Association urges the favorable Committee report on S. 3008 and enactment into law. We do not feel that one industry should continue to bear an unbalanced share in the current money crisis, and the channeling of this portion of NSLI reserves into the housing market is a constructive move.

Please include our statement in support of this bill in the record of hearing testimony.

DON L. GILCHRIST.

DISABLED AMERICAN VETERANS,
Cincinnati, Ohio, November 18, 1969.

Hon. HERMAN E. TALMADGE,
Chairman, Subcommittee on Veterans' Legislation, Senate Committee on Finance, U. S. Senate, Old Senate Office Building, Washington, D.C.

DEAR SENATOR TALMADGE: I would like to take this opportunity to present the views of the Disabled American Veterans on S. 3008, "To increase the availability of guaranteed home loan financing for veterans and to increase the income of the National Service Life Insurance Fund."

The bill proposes to make five billion dollars of the NSLI Trust Fund available to the Administrator of Veterans Affairs for purchase of guaranteed and direct loans to veterans.

It is the feeling of the DAV that the bill under consideration offers a very promising proposal which, if given a chance to develop, will furnish a source of capital that is desperately needed to provide adequate housing for servicemen returning to civil life.

In this connection, our brief observations in support of the bill are premised on reports received through a nationwide study carried out by DAV National Service Officers. The study brought fourth data which we think serves to confirm that passage of S. 3008 is both necessary and desirable.

Our reports indicate there is an ample supply of mortgage money available in many areas of the country. However, the mortgage market is generally "tight" for VA loans. Lenders do not participate in the VA Loan Guarantee Program inasmuch as they find more attractive investment in bonds and treasury bills.

The reports further disclose that fewer potential home buyers are able to qualify for mortgage loans backed by the VA now that the mortgage rate ceiling has been raised to 7½%, and that interest rates will continue at high levels unless the economic condition of the country can be stabilized and the inflationary spiral stopped.

The rising of the interest rate ceiling to its present level could—said the experts—encourage a smooth flow of funds into mortgages that are guaranteed by the VA.

An analysis of our reports would indicate that, although there is an abundance of theories and forecasts among lenders, none of them knows for sure whether raising the interest rates is the answer. It is generally conceded, however, that home buyers are finding it difficult to meet the monthly mortgage payments at the higher interest rates, that the low and middle income families have been priced out of the housing market entirely, that interest will go still higher through 1969 and will continue at a high level for years to come.

Some of the reports expressed anxiety about the Vietnam veterans who are interested in buying VA guaranteed homes but will be unable to qualify. There is a deep concern also about the historical fact that the increase in VA and FHA interest ceilings (designed among other things to reduce discount points) results in only a temporary decline in the points before they are pushed up again to the previous levels. Indeed we think it should be rather clear by now that mortgage discounts cannot be controlled, and that legislative action is required to check or restrain the use of these artificial assessments.

Most lenders are not originating VA loans because of insufficient yields when compared with other sources. As we understand it, the fundamental purpose of the VA guaranteed loan program is to help veterans obtain credit for the purchase or construction of homes for themselves and their families. It gives recognition to the fact that most veterans do not have an opportunity, during their period of military service, to save enough money to meet the requirements generally made by lenders for obtaining home loans.

The maximum interest rate authorized by the first G.I. bill in 1944 was 4%—a figure determined entirely adequate in view of the fact that little or no risk was involved on the part of the lender.

In the intervening years, the interest rate has been increased periodically on the theory that such increases were necessary to meet the demands of the loan market. Since the inception of the program, the interest rate has increased 87.5%. Lenders have been loud and insistent in their claims that high interest rates are necessary for survival of the VA Loan Guarantee Program and that it is in the best interest of the veterans to remove all restrictions.

Data accumulated by our survey indicate that private lenders are charging all that the market can bear by artificially increasing the lawful interest rate through the assessment of excessive fees as a condition for making loans.

The pegging of the statutory interest rate on the one hand and allowing the discount rate to go unchecked on the other has proved totally ineffective in protecting the interests of the veteran purchaser as well as the seller of real estate.

The reports of our service officers expressed a real concern about preserving the original intent of the G.I. Home Loan Program. They point out that speculative interest rates will weaken the very principle upon which the whole program is based. They hold to the view that the G.I. interest rate should be set at a reasonable level.

The DAV thinks it is fair to say that the highest priority should be given to the housing needs of those who have served our country in times of national emergencies; and in the carrying out of this effort, the vast resources of public or private sectors of the economy should be fully utilized.

S.3008 offers, in our opinion, a source of capital that will help resolve our veterans' housing problems. Indeed we see the bill as a major step along the road to fulfillment of the promise of "A decent home for every American family."

We respectfully request that the views expressed here in support of the pending legislation be included in the hearing record.

Sincerely,

CHARLES L. HUBER,
National Director of Legislation.

STATEMENT OF JULIUS D. MORRIS, NATIONAL PRESIDENT, BLINDED VETERANS ASSOCIATION, TO THE SUBCOMMITTEE ON VETERANS' LEGISLATION, COMMITTEE ON FINANCE, U.S. SENATE, ON S. 3008

Mr. Chairman and members of the Subcommittee, I am pleased to indicate the support of the Blinded Veterans Association for S. 3008.

The Blinded Veterans Association, the national membership organization of former service men and women blinded as a result of their service in the armed forces, was founded in 1945 and chartered by Act of Congress in 1958. Its principal objective is to assist blinded veterans in their rehabilitation as fully restored participants in the productive life of their home communities. One of the major components of full restoration to community life is the ownership of a suitable home.

As a result of "tight money", it has become virtually impossible for a veteran to obtain Veterans Administration guaranteed home loans to finance the purchase of suitable housing. Particularly hard hit are the veterans of service in the armed forces during the Vietnam Era.

S. 3008 would make it possible for veterans to obtain Veterans Administration guaranteed home loans by assuring a secondary market to existing lending institutions. At the same time, it would substantially improve earnings of the National Service Life Insurance trust fund. Thus, it would benefit veterans directly in their housing and life insurance programs. We respectfully urge the Subcommittee to act favorably on S. 3008 and hope that the Congress will complete action at an early date.

AMVETS, NATIONAL HEADQUARTERS,
Washington, D.C. November 19, 1969.

Senator HERMAN E. TALMADGE,
Chairman, Subcommittee on Veterans' Legislation, Committee on Finance, U.S. Senate, New Senate Office Building, Washington, D.C.

DEAR SENATOR TALMADGE: AMVETS appreciate the opportunity to identify its position in regard to S3008. We agree and indeed recognize that there is compelling need for legislation to stimulate mortgage money for returning war veterans. Accordingly, we commend your committee for proposing such legislation.

AMVETS feel that S3008 does merit serious consideration, since it will make available much needed mortgage money, especially within the interest rates that the returning war veterans would be capable of meeting and besides which there are several other attractive features.

Thus we lend our support and urge for a speedy enactment of the bill.

Sincerely yours,

RALPH J. ROSSIGNUOLO,
Legislative Director.

NATIONAL OFFICE,
AMERICAN VETERANS' COMMITTEE,
Washington, D.C., December 10, 1969.

Hon. HERMAN E. TALMADGE,
Old Senate Office Building,
Washington, D.C.

DEAR SENATOR TALMADGE: This is to inform you that the National Board of the American Veterans Committee this past week-end voted to endorse Senator Yarborough's bill, S. 3008, to increase the availability of guaranteed home loan financing for veterans. The American Veterans Committee believes that this legislation will make it easier for ex-G.I.'s to purchase their own homes.

Our endorsement of this bill is consistent with AVC's "Citizens first" concept which supports readjustment assistance to veterans so they can rightfully take their places in civilian society.

We request that this letter be made a part of the record of the hearings of S. 3008.

Sincerely,

JUNE A. WILLENZ,
Executive Director.

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