

veterans and active duty servicemen. Shortly after they received eligibility for VA loans in 1966, a severe credit shortage developed which sharply curtailed the availability of private capital for investment in VA guaranteed loans. Thus, these veterans are subjected to disadvantages which did not apply initially to World War II and Korean Conflict veterans.

To rectify this inequity to Vietnam Era veterans and to extend equal loan assistance to veterans throughout the country, the Commission recommends that the VA be enabled to expand its direct lending program throughout the country so that veterans and servicemen may purchase homes whenever and wherever they need them. If private lenders are willing to make VA guaranteed loans, the Commission believes this should constitute the preferred method. If, however, a qualified veteran is unable to find such a private lender, the VA should make the loan directly.

RECOMMENDATION NO. 33

The Commission endorses the proposal that the maximum loan guaranty be increased from \$7,500 to \$10,000, and recommends that the maximum direct loan amount be increased to \$20,000.

Background to Recommendation:

The VA loan guaranty is the Government protection afforded to private lenders in lieu of the substantial down payments and shorter terms associated with conventional loans. There are no limitations on the amount of a guaranteed loan, but the guaranty itself is limited to 60 percent of the loan amount up to a maximum of \$7,500.

If the VA guaranty provides less than adequate investment protection, in the view of lenders and investors, these firms and institutions will withdraw from participation in the program. Veterans would then be obliged either to obtain more costly financing or to forego home purchases.

When the \$7,500 maximum guaranty was approved in 1950, the average amount of home loans guaranteed was \$7,800 and most home loans were guaranteed for the maximum 60 percent of the loan amount within the \$7,500 ceiling. In 1967, the average loan amount was \$17,390 and the \$7,500 guaranty afforded only 43 percent protection.