

In rural areas, small cities, and towns where guaranteed loans are not generally available, the VA makes direct home loans to supplement the basic loan guaranty program. Generally, the terms and conditions of direct loans should be as nearly equal to those of guaranteed loans as possible. Direct loans are subject to a maximum amount limitation, presently \$17,500, except that, where cost levels require, the maximum may not exceed \$25,000. A veteran obtaining a direct loan must make a down payment equal to the difference between the purchase price of the house he buys and the maximum allowance amount for direct loans.

The maximum amount of direct loans has been increased four times since the initial \$10,000 maximum was established in 1950, in order to keep pace with the increasing cost of homes. In 1950, the average direct loan amount was \$6,400, but by 1967, it had increased to \$12,200.

Given these increases in average loan amounts for both guaranteed and direct loans, the Commission fully endorses and supports the proposal that the maximum loan guaranty be increased to \$10,000, that the maximum direct loan amount be increased to \$20,000, with the provision that the VA be permitted to make larger loans not to exceed \$30,000, in areas where cost levels so require.

The increase in the maximum guaranty should, in the view of the Commission, serve to attract the investment of more private capital in guaranteed mortgage loans. In addition, such an increase would reduce the possibility of veterans being obliged to make substantial down payments on guaranteed loans, or having to undertake more costly financing, or forego home purchases.

The recommended increase in the maximum direct loan amount would place veterans in non-urban areas on a practically equal footing with veterans in urban areas in respect to the amount of the loans available to them. In areas where construction costs are unusually high, such as Alaska, the maximum must be increased to \$30,000 if veterans are to be properly served.

RECOMMENDATION NO. 34

The Commission recommends that direct loans be authorized to totally disabled service-connected veterans throughout the country regardless of the availability of private capital.

Background to Recommendation:

The VA is authorized to make direct loans only in rural areas, small cities and towns where private credit for making