HEARINGS ON VETERANS ADMINISTRATION CONVENTIONAL HOME LOAN GUARANTY AND MOBILE HOME LOAN GUARANTY PROGRAM

HEARING

BEFORE THE

SUBCOMMITTEE ON HOUSING

OF THE

COMMITTEE ON VETERANS' AFFAIRS

HOUSE OF REPRESENTATIVES

NINETY-FIFTH CONGRESS

SECOND SESSION

REGARDING

H.R. 10268 and H.R. 11009

MARCH 22, 1978

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HEARING TO RECEIVE TESTIMONY ON H.R. 10268 AND H.R. 11009

WEDNESDAY, MARCH 22, 1978

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING,
COMMITTEE ON VETERANS' AFFAIRS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in room 340, Cannon House Office Building, Hon. Jack Brinkley (chairman) presiding.

Mr. BRINKLEY. Good morning. The Subcommittee on Housing of the House Committee on Veterans' Affairs will be in order.

Today's hearings are scheduled to consider H.R. 10268, a bill to amend title 38, United States Code, to increase the amount of a home loan which may be guaranteed by the Veterans' Administration from $17,500 to $25,000; and H.R. 11009, a bill to amend title 38, United States Code, to improve the mobile home loan guaranty program of the Veterans' Administration.

More specifically, H.R. 11009, in addition to making certain technical amendments, would eliminate the maximum permissible loan amounts for which mobile home loans are made and establish a maximum loan guaranty entitlement in the amount of $17,500; increase the maximum term of years for which loans are made from 12 years and 32 days to 15 years and 32 days in the case of a loan for the purchase of a lot only or a loan for the purchase of a single-wide mobile home only; eliminate the restriction allowing the loan guaranty benefit to be restored to the veteran a single time for the purchase of a mobile home provided the first loan has been repaid in full and provide for restoration of entitlement to the mobile home loan guaranty each time the veteran divests himself or herself of title and releases the Administrator of liability as to the loan; and provide for the use of partial entitlement in the purchase of a mobile home where the veteran moves from a conventionally built home to a mobile home.

Due to continued and spiralling inflation, the cost of housing, and indeed the raw materials for housing construction, continues to escalate. These bills have been introduced in recognition of these cost factors, and in an effort to assist those who have so nobly served the military needs of our Nation in their acquisition of homes in which to shelter themselves and their family.

The subcommittee has put a great deal of effort and interest in studying the impact of current market conditions on veterans' housing. Certainly Ms. Lunsford has. It is therefore with great pride that we proceed in these hearings this morning.

At this point I ask unanimous consent to have these bills printed in the record, along with the Veterans' Administration's report.

[Insert follows:]

95TH CONGRESS
1ST SESSION

H. R. 10268

IN THE HOUSE OF REPRESENTATIVES

DECEMBER 7, 1977

Mr. BRINKLEY (for himself and Mr. ABDNOR) introduced the following bill; which was referred to the Committee on Veterans' Affairs

A BILL

To amend title 38, United States Code, to increase the amount of a home loan which may be guaranteed by the Veterans' Administration from $17,500 to $25,000.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) section 1810 (c) of title 38, United States Code, relating to the amount of the Veterans' Administration guaranty of loans to veterans for purchase or construction of homes, is amended by striking out "$17,500" and inserting in lieu thereof "$25,000".

(b) Section 1811 (d) (2) (A) of such title, relating to the amount of direct loans by the Veterans' Administration to veterans for purchase or construction of homes, is

amended by striking out "$17,500" and inserting in lieu thereof "$25,000".

SEC. 2. The amendments made by this Act shall take effect October 1, 1978.

[No. 98]

COMMITTEE ON VETERANS' AFFAIRS, HOUSE OF REPRESENTATIVES

VETERANS' ADMINISTRATION,
OFFICE OF THE ADMINISTRATION OF VETERANS' AFFAIRS,
Washington, D.C., March 20, 1978.

Hon. RAY ROBERTS,
Chairman, Committee on Veterans' Affairs,
House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: This will reply to your request for a report on H.R. 10268, 95th Congress, a bill "To amend title 38, United States Code, to increase the amount of a home loan which may be guaranteed by the Veterans Administration from $17,500 to $25,000."

Subsection (a) of the first section of H.R. 10268 would amend section 1810(c) of title 38, United State Code, to increase the maximum guaranty on VA home and condominium loans to $25,000.

The amount of the guaranty was increased from $12,500 to the present $17,500 by the Veterans' Housing Act of 1974 (Public Law 93-569), which was enacted December 31, 1974.

With the increases which have occurred in the price of homes and, therefore, in the amount of loans guaranteed by VA, the present $17,500 guaranty does not afford adequate protection to lenders. In Fiscal Year 1977, the average GI loan was approximately $34,500. For the first quarter of Fiscal Year 1978, the average loan amount was $37,450. Thus, lenders are currently being provided an average guaranty of 42.7 percent, a drop of almost 3 percent from the 45.3 percent coverage provided in Fiscal Year 1977. This is the lowest percentage of guaranty provided since Fiscal Year 1968 when the average guaranty fell to 42.4 percent of the average loan amount.

In Fiscal Year 1969, when the guaranty was raised to $12,500, the ratio of guaranty to loan amount was 55 percent. For Fiscal Year 1976, the first full year of the $17,500 guaranty, the average amount of guaranty represented 49.18 percent of the average loan amount.

For the first quarter of Fiscal Year 1978, even the current maximum guaranty of $17,500 covered only 42.7 percent of the $41,019 average loan amount on new and proposed homes.

At the current rate of decline in the percentage of coverage in the first quarter of Fiscal Year 1978, the average percentage of coverage could drop below 35 percent. As the average guaranty coverage declines, lenders can be expected to either limit the size of GI loans that they will make, or abandon the VA loan program. We, therefore, consider the proposed increase in the maximum guaranty to $25,000 appropriate.

Subsection (b) of the bill's first section would amend section 1811(d)(2)(A) of title 38 by changing the ratio for determining the amount of guaranty entitlement used when a direct loan is made to a veteran. The amendment would not change the maximum direct loan

amount. This is a perfecting change, consistent with the increase in the maximum guaranty.

We wish to note, as a technical matter, that subsection (b) of the bill would amend section 1811(d)(2)(A) of title 38 "by striking out '$17,500'. . . ." The figure "$17,500" appears twice in that section of the statute. We would, therefore, recommend that H.R. 10268 be amended by inserting "both times it appears" immediately after "$17,500" on line 1 of page 2 of the bill.

The amendments to be made by the bill would become effective October 1, 1978.

Enactment of H.R. 10268 would not result in any increase in general operating expenses. We estimate, however, that this measure would necessitate total 5-year increased outlays from the Loan Guaranty Revolving Fund of $4,882,000. Broken down by year, this would be:

Cost estimate, H.R. 10268, 95th Congress

Fiscal year:	*Outlays—loan guaranty revolving fund*
1979	$22,000
1980	409,000
1981	1,102,000
1982	1,568,000
1983	1,781,000
Total	4,882,000

For the foregoing reasons, the Veterans' Administration favors enactment of H.R. 10268.

We are advised by the Office of Management and Budget that there is no objection to the presentation of this report from the standpoint of the Administration's program.

Sincerely,

MAX CLELAND,
Administrator.

95TH CONGRESS
2D SESSION

H. R. 11009

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 21, 1978

Mr. BRINKLEY (for himself and Mr. ABDNOR) introduced the following bill; which was referred to the Committee on Veterans' Affairs

A BILL

To amend title 38, United States Code, to improve the mobile home loan program of the Veterans' Administration.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 1819 of title 38, United States Code, is amended—

(1) by amending subsections (a) and (b) to read as follows:

"(a) (1) Notwithstanding any other provisions of this chapter, any loan to a veteran eligible for the benefits of this chapter, if made pursuant to the provision of this section, may be guaranteed if such loan is for one of the following purposes:

"(A) To purchase a lot on which to place a mobile home already owned by the veteran.

"(B) To purchase a new or used single-wide mobile home.

"(C) To purchase a new or used single-wide mobile home and a lot on which to place such home.

"(D) To purchase a new or used double-wide mobile home.

"(E) To purchase a new or used double-wide mobile home and a lot on which to place such home.

"(2) A loan for any of the purposes described in paragraph (1) of this subsection may include an amount determined by the Administrator to be appropriate to cover the cost of necessary preparation of a lot already owned or to be acquired by the veterans, including, but not limited to, the installation of utility connections, sanitary facilities, and paving, and the construction of a suitable pad.

"(3) A loan made for the purchase of a mobile home pursuant to subparagraph (C) or (E) of paragraph (1) of this subsection may either include, or be augmented by a separate loan for, the amount to finance the acquisition of the lot plus necessary preparation of such lot.

"(b) (1) Use of entitlement under this section for the purchase of a mobile home unit shall preclude the use of remaining entitlement for the purchase of an additional

mobile home unit until the unit which secured the loan has been disposed of by the veteran or has been destroyed by fire or other natural hazard.

"(2) The Administrator shall restore entitlement to all loan guaranty benefits under this chapter for the veteran when the conditions prescribed in section 1802(b) of this title have been met.";

(2) by amending paragraph (1) of subsection (c) to read as follows:

"(1) Loans for any of the purposes authorized by subsection (a) of this section shall be submitted to the Administrator for approval prior to loan closing except that the Administrator may exempt any lender of a class listed in section 1802(d) of this title from compliance with such prior approval requirement if the Administrator determines that the experience of such lender or class of lenders in mobile home financing warrants such exemption.";

(3) by amending paragraph (3) of subsection (c) by striking out the first sentence and inserting in lieu thereof the following: "The Administrator's guaranty shall not exceed the lesser of 50 per centum of the loan amount or the maximum loan guaranty entitlement available. Payment of a claim under such guaranty shall be made only after liquidation of the security for the loan and the filing of an account with the Administrator.";

(4) by amending subsection (c) by adding at the end thereof the following new paragraph:

"(4) The amount of guaranty entitlement available to a veteran under this section shall not be more than $17,500 less such entitlement as may have been used under this section and other sections of this chapter.";

(5) by amending subsection (d) to read as follows:

"(d) (1) The maturity of any loan guaranteed under this section shall not be more than—

"(A) fifteen years and thirty-two days in the case of a loan for the purchase of a lot only;

"(B) fifteen years and thirty-two days in the case of a loan for the purchase of a single-wide mobile home only;

"(C) fifteen years and thirty-two days in the case of a loan for the purchase of a single-wide mobile home and a lot;

"(D) twenty years and thirty-two days in the case of a loan for the purchase of a double-wide mobile home only; or

"(E) twenty years and thirty-two days in the case of a loan for the purchase of a double-wide mobile home and a lot.

"(2) Nothing in paragraph (1) shall preclude the Administrator, under regulations which the Administrator shall

prescribe, from consenting to necessary advances for the protection of the security or the holder's lien, or to a reasonable extension of the term or reamortization of such loan.";

(6) by amending paragraph (4) of subsection (e) to read as follows:

"(4) the amount of the loan to be paid by the veteran is not in excess of the amount determined to be reasonable, based upon—

"(A) with respect to the portion of the loan to purchase a new mobile home, such cost factors as the Administrator considers proper to take into account,

"(B) with respect to the portion of the loan to purchase a used mobile home, the reasonable value of the property, as determined by the Administrator,

"(C) with respect to the portion of the loan to purchase a lot, the reasonable value of such lot as determined by the Administrator, and

"(D) with respect to the portion of the loan to cover the cost of necessary site preparation, an appropriate amount as determined by the Administrator;";

(7) by striking out subsection (g);

(8) by redesignating subsections (h), (i), (j),

(k), (l), (m), and (n) as subsections (g), (h), (i), (j), (k), (l), and (m), respectively;

(9) by striking out the third sentence of subsection (h) (as redesignated by paragraph (8));

(10) by striking out "subsection (i)" each time it appears in subsections (i), (j), and (l) (as redesignated by paragraph (8)) and inserting in lieu thereof "subsection (h)";

(11) by amending subsection (j) (as redesignated by paragraph (8)) to read as follows:

"(j) Subject to notice and opportunity for a hearing, the Administrator may deny guaranteed or direct loan financing of any mobile homes constructed by a manufacturer which fails or is unable to discharge its obligations under the warranty required by subsection (i) of this section; or in the case of mobile homes which are determined by the Administrator not to conform to the standards prescribed pursuant to subsection (h) of this section."; and

(12) by amending subsection (l) (as redesignated by paragraph (8)) to read as follows:

"(l) The Administrator's annual report to Congress shall include a report on operations under this section (including experience with compliance with the warranty required by subsection (i) of this section and experience regarding defaults and foreclosures) and a report on the

results of mobile home plant inspections conducted by the Department of Housing and Urban Development.".

SEC. 2. The provisions of this Act shall take effect on the ninetieth day after the date of the enactment of this Act.

[No. 104]

COMMITTEE ON VETERANS' AFFAIRS, HOUSE OF REPRESENTATIVES

VETERANS' ADMINISTRATION,
OFFICE OF THE ADMINISTRATOR OF VETERANS AFFAIRS,
Washington, D.C., March 27, 1978.

Hon. RAY ROBERTS,
Chairman, Committee on Veterans' Affairs, U.S. House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: This will respond to your request for comments on H.R. 11009, 95th Congress, a bill to amend title 38 United States Code, to improve the mobile home loan program of the Veterans' Administration. Basically the bill is designed to structure the VA's mobile home loan program in a way which closely parallels that for conventionally built homes and to make certain technical changes which would provide section 1819 of title 38, United States Code, with a more orderly format.

H.R. 11009 will eliminate the statutory maximum loan amounts which are currently contained in section 1819(d)(2) and substitute a maximum guaranty. The present VA maximums allow a veteran to obtain a VA loan of up to $12,500 for a single-wide mobile home, $20,000 for a single-wide mobile home and a suitable lot, $20,000 for a double-wide mobile home, and $27,500 for a double-wide mobile home and a suitable lot.

It was recognized at the outset of the GI loan program that most veterans, especially the young and recently discharged veterans needing a home, had not had the opportunity to save the money necessary for the down payment required to acquire a home with conventional financing. The VA guaranty was intended as a substitute for down payment ordinarily required. Thus, veterans in many instances obtain loans for the full purchase price, that is, no down payment. This concept has worked very well for over 30 years.

Following the above pattern, the GI mobile home loan program, initiated in 1970, was structured to provide veterans with no down-payment loans—subject to the loan maximums of $12,500 for single-wides and $20,000 for double-wides. However, rising costs of production, materials, and labor have increased the prices of many mobile homes to well beyond the statutory maximums established in today's law, and thereby deny veterans the opportunity to acquire mobile homes without paying substantial down payments. For example, most States have passed legislation which allows the transport of 14-foot single-wide homes within the State. As a result, the demand for these larger homes has increased substantially. The cost of many of these 14-foot mobile homes is well beyond the present maximum single-wide loan amount of $12,500. Likewise, the cost of many 12-foot wide mobile homes is above $12,500. In addition, the cost of many double-wide mo-

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bile homes is well above the maximum allowable loan amount of $20,000.

The VA presently has no maximum loan amounts in our guaranteed loan program for conventionally built homes. A veteran may purchase a conventionally built home of his choice for whatever amount he or she can afford, provided he or she has satisfactory credit and adequate income to support the loan. To make the mobile home loan program more like the conventionally built home program and allow veterans to purchase the mobile homes of their choice without down payment, we support the removal of the current statutory loan maximums.

The bill establishes the maximum guaranty applicable to the purchase of a mobile home with or without a lot at 50 percent of the loan amount but not to exceed $17,500. This latter provision is necessary to limit the amount of the VA's liability on the guaranty since the loan maximums would be removed. For example, if the loan were for $15,000, the maximum guaranty and VA's liability would be $7,500—50 percent of $15,000. If the loan were $20,000, the guaranty and VA's liability would be $10,000. On a $35,000 loan, the guaranty and VA's liability would be $17,500. On any higher loan amount the maximum guaranty and VA's liability would be $17,500, and the percentage of guaranty naturally would be less than 50 percent. This pattern or formula is similar to that set for the regular GI real estate program which, as stated previously, has worked very well for over 30 years.

It should be noted that the maximum amount of a specific loan on a new mobile home unit would be computed on such cost factors as the Administrator considers proper to take into account. In implementing this provision the VA would continue to base its determinations on the manufacturer's invoice, plus 20 percent markup and certain fees and charges listed in VA regulations. If a lot is being acquired, the purchase price or reasonable value of such lot, whichever is the lesser, could be added. If the mobile home is a used unit, the maximum loan amount would be limited to the reasonable value of the unit. The VA favors fixing the guaranty for mobile home purposes to 50 percent of the loan amount, not to exceed $17,500.

H.R. 11009 will also increase the maximum term of years for which loans are financed from 12 years and 32 days to 15 years and 32 days in the case of a loan for the purchase of a single-wide mobile home only or for the purchase of a lot. The purpose of this proposed amendment to section 1819(d) of title 38, United States Code, is to assist lower income veterans, particularly veterans of the Vietnam era, to purchase single-wide mobile homes at a lower monthly cost. To veterans in the lower income brackets, a decrease in the monthly payment of only a few dollars per month can greatly assist these veterans in qualifying for a loan to acquire a home under the GI mobile home program. At this time, no extension in the term allowed for financing double-wide mobile homes appears to be warranted. The current maximum term for financing double-wide mobile homes is 20 years and 32 days. The VA strongly favors the provision of this bill which will extend the maximum term of years for financing a single-wide

mobile home or for financing the purchase of a lot for a mobile home because this provision should be of particular benefit to lower income veterans, especially veterans of the Vietnam era.

With regard to a veteran's entitlement, the proposed bill imposes the same criteria for restoration as applies to restoration of entitlement used for conventionally built homes, that is, the home must be disposed of and the loan must be paid in full. In requiring the veteran to meet the same requirement for restoration of entitlement used for mobile homes or conventionally built homes, all veterans who obtained any kind of home loan would be treated equally. In light of the growth in the manufactured housing market and the rising cost of conventionally built housing, greater flexibility of the entitlement usage will enable more veterans to become homeowners. Additionally, the proposed bill provides that a veteran who obtains a loan under section 1819 will have the opportunity to use his or her partial or remaining entitlement. Thus, it would be possible to purchase a mobile home unit to place on a rental site and, at a later date, purchase and prepare a lot upon which to place that unit. However, the bill would require disposal of a mobile home unit obtained with a VA loan prior to obtaining a second mobile home unit with a VA loan.

To sum up, H.R. 11009, if enacted, would accomplish several major objectives. The mobile home program would become more flexible by having no dollar limitations on loan amounts, while at the same time limiting the Government's exposure to liability, increasing the term for single-wide mobile home loans, and liberalizing the use and restoration of VA entitlement for mobile homes so it is on a basis comparable to that applicable to the real estate program. It would assist veterans to obtain no down-payment loans to acquire the mobile home of their choice, with or without a lot, by removing the current maximum loan amounts and the loan maturities for single-wide mobile homes. The VA program by becoming more flexible would become more viable and attractive to lenders and would increase the availability of loan funds for GI mobile home loans. The increase in funds available for GI mobile home loans should be of particular benefit to lower income veterans, particularly those of the Vietnam era.

A detailed analysis of H.R. 11009 is attached for your ready reference. The analysis includes for your consideration, perfecting amendments to H.R. 11009 as to certain technical matters. It also includes necessary amendments to chapter 37 of title 38, United States Code, in the event that the maximum dollar amount of the guaranty for home loan purposes is increased to $25,000 by enactment of H.R. 10268, 95th Congress, being considered by your Committee.

It is estimated that enactment of this bill, with an effective date of October 1, 1978, would cost the VA approximately $56,000 the first year, with 5-year cost estimates of approximately $7,653,700. We are enclosing, for your information, 5-year cost estimates and the methodology by which such estimates were determined.

For the foregoing reasons, the Veterans' Administration favors enactment of H.R. 11009, 95th Congress, and highly recommends that the proposed amendments in the detailed analysis be given consideration.

We are advised by the Office of Management and Budget that there is no objection to the presentation of this report from the standpoint of the Administration's program.

Sincerely,

MAX CLELAND,
Administrator.

Attachment.

COST ESTIMATE—H.R. 11009, 95TH CONG.

	General operating expenses	Loan guaranty revolving fund	Total
Fiscal year—			
1979	$49,300	$6,800	$56,100
1980	221,200	166,900	388,100
1981	405,300	743,700	1,149,000
1982	669,800	1,732,000	2,401,800
1983	915,500	2,743,200	3,658,700
Total	2,261,100	5,392,600	7,653,700

FACT SHEET FOR LEGISLATION

a. Bill identification

H.R. 11009, 95th Congress.

b. Highlights of the provision

1. Section 1819(a) is amended to eliminate the requirement that the maximum guaranty must be available for a veteran to be eligible for a loan made for the purposes described in section 1819.

2. Subsection (b)(2) is amended to provide for restoration of entitlement under section 1802(b) for a veteran using entitlement for any mobile home purpose.

3. Subsection (c) is amended to provide for a maximum guaranty of $17,500.

4. Subsection (d) is amended by eliminating maximum loan amounts for the various mobile home purposes and changing maximum maturities as follows:

Type of loan:	
Lot only:	
Current sec. 1819	12 yr 32 days.
H.R. 11009	Do.
Single wide mobile home:	
Current sec. 1819	15 yr 32 days.
H.R. 11009	Do.

5. Subsection (d) is amended to eliminate the reference to the manufacturers invoice in establishing reasonable value for mobile home purposes.

	General operating expenses	Loan guaranty revolving fund	Total
Fiscal year—			
1979	$49,300	$6,800	$56,100
1980	221,200	166,900	388,100
1981	405,300	743,700	1,149,000
1982	669,800	1,732,000	2,401,800
1983	915,500	2,743,200	3,658,700
Total	2,261,100	5,392,600	7,653,700

d. Estimate of employment requirements

By 1983 an additional 49 manyears will be required.

e. Resulting changes in work units

Loan originations:	
1979	1,450
1980	5,500
1981	5,950
1982	6,150
1983	6,250
Claims processed:	
1979	3
1980	55
1981	268
1982	590
1983	885

f. Methodology

(1) Three sources of increased VA mobile home loan activity were considered.

(a) An increase due to VA market penetration for mobile homes in price ranges previously excluded for veterans. The excluded ranges include approximately 14.6 percent of the total mobile home market. An estimated 5.4 percent of the mobile home market in 1977 had prices exceeding $27,500. The total mobile home market for price ranges from 14,000 to 27,000 exceeded VA's percentage of loans in this range by 9.2 percent. The following formula was used to estimate the effect of removing the maximum price limitation:

Year	Estimated mobile home shipments	×	Market penetration	×	VA market share			
1979	300,000	×	0.146	×	0.016	=	700	(700)
1980	300,000	×	.146	×	.020	=	876	(850)
1981	300,000	×	.146	×	.023	=	1,007	(1,000)
1982	300,000	×	.146	×	.028	=	1,226	(1,200)
1983	300,000	×	.146	×	.028	=	1,226	(1,200)

(b) Raising the length of maturity on single wide mobile homes reduces the monthly housing expense by $1.14 per thousand dollars of loan amount. Based on current financial characteristics, the lowest income group, which can afford mobile homes, must have total family income of more than $7,000.

Reducing the monthly cost by 1.14 per thousand allows an estimated 96,000 additional Vietnam era veterans to afford mobile home loans.

The following formula was used to estimate the impact of this portion of the bill:

Total additional eligible times rate of Vietnam veteran participation in income groups that can afford housing.

Fiscal year	Number of eligibles	×	0.05	×	1st year lag or	2d year lag			
1979	96,000	×	0.05	×	5	× 0.016	=	384	(400)
1980	95,600	×	.05	×	5	× .178	=	4,254	(4,250)
1981	91,350	×	.05	×			=	4,446	(4,450)
1982	86,800	×	.05				=	4,334	(4,350)
1983	82,450	×	.05				=	4,122	(4,100)

(c) Additional veterans from restoration of entitlement.

Fiscal year	Current estimate		Current percent restoration	=	Additional
1979	4,200	X	0.084		352
1980	5,000				420
1981	6,000				504
1982	7,200				605
1983	7,200				605

Fiscal year 1983 additional restorations from 1st 2 years of added participation.

Total additional participants (6,200) times mobility rates (24 to 34 years old) (0.347) times rate of mobile home restoration (0.168) equals 361.

Fiscal year	Additional participants (round numbers)			
	Price increase	Extension of maturity	Restoration	Total
1979	700	400	350	1,450
1980	850	4,250	400	5,500
1981	1,000	4,450	500	5,950
1982	1,200	4,350	600	6,150
1983	1,200	4,100	950	6,250

(2) Cost of claims from increased activity.

Terminations for mobile home loans were computed according to the following schedule:

Age of loan in months	*Termination rate (percent)*
0 to 11	.2
12 to 24	3.1
25 to 36	6.5
37 to 48	5.4
49 to 60	3.8

(a) Claims from loans over 27,500 times average per claim equals cost LGRF: 1979—0 times $5,092 equals 0; 1980—9 times $5,347 equals $48,123; 1981—26 times $5,614 equals $145,964; 1982—40 times $5,895 equals $235,800; 1983—60 times $6,189 equals $371,340.

Average per claim based on a claim to average purchase price ratio of 16.2% for first quarter of 1978 and an average purchase price for loans over 27,500 of 30,000, and an average increase in purchase price of 5 % per year.

Claims from restoration and loans between 14,000 and 27,500 times average per claim equals cost LGRF: 1979—2 times 2,450 equals 4,900; 1980—26 times 3,000 equals 78,000; 1981—81 times 3,120 equals 252,720; 1982—123 times 4,350 equals 535,050; 1983—182 times 4,680 equals 851,760.

Based on the current budget projections for average mobile home claim.

(b) Claims from increased maturity times average claim equals cost LGRF: 1979—1 times 1,944 equals 1,944; 1980—20 times 2,041 equals 40,820; 1981—161 times 2,143 equals 345,023; 1982—427 times 2,251 equals 961,177; 1983—643 times 2,364 equals 1,520,052.

(c) Total outlays Loan Guaranty Revolving Fund.

1979	$6,800
1980	166,900
1981	743,700
1982	1,732,000
1983	2,743,200
Total	5,392,600

(3) General operating expense cost is based on the number of loan originations times 2.71 standard manhours per origination, number of claims times 64.18 standard manhours per claim.

The following average cost per manhour:

1979	8.92
1980	8.94
1981	9.06
1982	9.15
1983	9.25

Cost benefit analysis

Total 5-year outlays	$7,625,600
Total 5-year beneficiaries	25,300
Outlay per beneficiary	301.41

g. Other assumptions

Productivity rate of 74.5 percent based on 1979 budget. The price of mobile homes and the incomes of veterans will increase at the same rate over the 5-year period.

h. Office and individual responsible for estimates

Loan Guaranty Service, Office of the Deputy Director, Charles M. Wilhelm.

ANALYSIS OF H.R. 11009, 95TH CONGRESS

Subsection 1819(a) of title 38, United States Code, as currently written, provides that, in order to be eligible for a VA guaranteed mobile home loan, a veteran must have maximum home loan entitlement available. Additionally, it provides that the use of VA entitlement in the purchase of a mobile home precludes the use of any remaining entitlement under any other section of chapter 37 until the VA guaranteed mobile home loan has been paid in full.

Clause (1) of section 1 of the bill amends subsection 1819(a) by deleting the foregoing provisions and substituting three new paraphs. By deleting the current provisions of subsection 1819(a), the bill would essentially authorize the use of mobile home loan entitlement, notwithstanding the fact that a veteran may have previously used a portion of his entitlement.

Subsection 1819(a), as amended, enumerates the conditions under which VA guaranteed mobile home loans may be made to veterans and the limitations on such loans. In as much as these provisions are currently contained in subsections 1819(b)(1), (b)(2), and (c)(1), the change is purely technical and appears to be intended to provide section 1819 with a more simplified format.

Proposed subsection 1819(a)(3), which pertains to limitations on the use of VA guaranteed loans for the purchase of single-wide and double-wide mobile homes and mobile home lots, is worded in a way

which, in our opinion, may lead to the belief that a loan may include the purchase of two lots. It is, therefore, suggested that consideration be given to revising the proposed paragraph (a) (3) to read as follows:

"Any loan made for the purposes set forth in subparagraph (C) or (E) of paragraph (1) will be be considered as part of one loan. The transaction may be evidenced by a single loan instrument or separate loan instruments for (A) that portion of of the loan which finances the purchase of the mobile home and (B) the portion which finances the purchase of the lot, plus necessary preparation of such lot."

Clause (1) of section 1 would also amend subsections 1819(b) (1) and (b) (2) by deleting their current provisions, which have been incorporated into the proposed subsections 1819(a) (2) and (a) (3), and substituting new subsections (b) (1) and (b) (2). The new subsection 1819(b) (1) would provide that available entitlement may not be used to purchase a second mobile home if the first mobile home was purchased with a VA guaranteed loan, unless the first unit has been disposed of or destroyed.

New subsection 1819(b) (2) would extend the current authority, which provides for unlimited restoration of previously used entitlement for the purchase of conventionaly built homes and condominiums, to the purchase of mobile homes, upon satisfaction of the conditions prescribed under subsection 1802(b) of title 38, United States Code.

Clause (2) of section 1 of the bill is a perfecting amendment which would amend subsection 1819(c) (1) by deleting the listing of the eligible purposes for mobile home loans, as under the bill such listing would be found in subsection 1819(a) (1).

Clause (3) of section 1 of the bill amends subsection 1819(c) (3) which currently provides for VA guaranty of mobile home loans not to exceed 50 percent of the loan amount. The proposed amendment would limit the Administrator's liability under the guaranty to a maximum of the lesser of 50 percent of the loan amount of the maximum loan guaranty entitlement available.

Clause (4) of section 1 of the bill adds a new subsection (4) to subsection 1819(c) to define available entitlement for the purchase of a mobile home as not more than $17,500, less such entitlement as previously used. The bill appears to limit the maximum guaranty on mobile home loans to $17,500. In our opinion, a $17,500 guaranty for mobile home loans is sufficient and should remain at that level. We note that an increase in the maximum guaranty for conventionally built homes, to $25,000, is currently being considered. To carry out the purposes of this bill in limiting the mobile home loan guaranty, it may be necessary to incorporate the following amendments:

(a) on page 3, line 23, immediately after "available", insert the following: ", not to exceed $17,500";

(b) on page 4, line 6, delete "and other sections of this chapter", and in addition insert immediately before the quotation mark at the end of line 6 the following:

"Use of entitlement under sections 1810 or 1811 shall reduce entitlement available for use under this section to the same extent that entitlement available under section 1810 is reduced to less than $17,500".

Clause (5) of section 1 of the bill would amend subsections 1819(d) (1) and (d) (2) by deleting the current provisions which establish maximum loan amounts for VA guaranteed mobile home loans. This

deletion would remove all statutory loan maximums and base the maximum loan amounts on factors established by the Administrator. New subsection 1819(d)(1) would retain, with one change, the provisions of the current section which refer to maximum maturity for VA guaranteed loans. The one change in subsection 1819(d)(1)(A) would increase the maturity for single-wide mobile home loans and not only loans from 12 years and 32 days to 15 years and 32 days.

Clause (6) of section 1 of the bill would amend subsections 1819(e)(4) to eliminate the requirement, as a condition to guaranty, that the loan not exceed certain maximum loan amounts, since such loan maximums were deleted under the provisions of clause (5). The new subsection 1819(e)(4), established by clause (6) of the bill, would also require that the Administrator establish such cost factors as deemed appropriate to determine the maximum loan amount for a new mobile home.

Clause (7) of section 1 of the bill is a perfecting amendment to delete subsection 1819(g) which currently limits to one time the restoration of loan guaranty entitlement for the purchase of a mobile home. Provisions allowing unlimited restoration of entitlement, under subsection 1802(b), would be found under subsection 1819(b)(2), as amended by clause (1) of section 1 of this bill.

Clause (8) is also a perfecting amendment which redesignates the remaining subsections of 1819 as a result of the deletion of subsection (g).

Clause (9) of section 1 of the bill addresses the current requirement under section 1819 that the VA inspect the manufacturing processes of mobile homes to be sold to veterans. This proposal, which would delete such requirement, is identical to the provisions of H.R. 4341, 95th Congress, which was favorably considered in the House of Representatives on September 12, 1977.

Clauses (10), (11), and (12) contain perfecting changes to section 1819 to reflect the deletion of the requirement that the VA inspect the mobile home manufacturing process.

It should be noted that enactment of H.R. 11009 would require certain perfecting changes to section 1811 of title 38, United States Code, which relates to direct loans. Therefore, we recommend that the bill be further amended as follows:

(a) on page 6, line 18, strike out "and";

(b) on page 7, line 2, strike out the second period and insert in lieu thereof "; and"; and

(c) on page 7, between lines 2 and 3, insert the following:

"(13) by amending section 1811(d)(2)(B) of title 38, United States Code, to read as follows:

"The original principal amount of any loan made under this section, for the purposes described in section 1819 of this title shall not exceed an amount which bears the same ratio to $33,000 as the amount of guaranty to which the veteran is entitled, under section 1819 of this title, at the time the loan is made bears to $17,500. The guaranty entitlement of any veteran who heretofore or hereafter has been granted a loan under this section shall be charged with an amount which bears the same ratio of $17,500 as the amount of the loan bears to $33,000."

A number of witnesses have asked permission to file statements. Without objection, those statements will be included in the record. Without objection, we will place in the record, at the end of these hearings, such relevant materials as may be agreed upon during our proceedings.

There are many other committees proceeding at this same moment. The Armed Services Committee, on which I serve, is meeting, and so we have to pick and choose many times between important committee meetings. The ranking member, Mr. Abdnor, is at such a meeting, and Mr. Parkinson indicates that he does have a statement. Without objection, it is filed at this point in the record.

[Statement follows:]

OPENING STATEMENT OF HON. JAMES ABDNOR

Thank you Mr. Chairman. These bills that we will be receiving testimony on today are very important to the VA loan guaranty program. The cost of housing in this country has increased in leaps and bounds in the last few years. That increase has had a staggering effect on the young home buyer. You and I know the burden that these costs place on the more established people in this Nation. That burden is even heavier on those young people who are trying to get their feet on the ground. Our young veterans are facing those problems. Inflation has not eased their plight. We on the Subcommittee have attempted to provide assistance through the loan guaranty program. I do not have to expound on the effect the home loan program has had on the economy of this country. The record speaks for itself. It has come to our attention that in some parts of the country the $17,500 guaranty is not sufficient. The home loan guaranty program was established to assist veterans in finding housing suitable to their needs. The guaranty has been increased through the years when it was necessary. Once again, we see that need.

The mobile home program has not grown as quickly as I would have liked, but I believe that significant strides have been made since its inception. We have proceeded slowly because we have had to protect the interests of the veteran and the government. I think that that caution and the hard work by the Veterans Administration has laid the groundwork for a sound program. I view H.R. 11009 as a logical progression in the establishment of a program which will assist our veterans in purchasing housing that meets their needs. I look forward to listening to the testimony we are about to hear.

Mr. BRINKLEY. The first witness is Mr. J. Denis O'Toole, staff vice president for governmental affairs and legislative counsel, National Association of Homebuilders.

I should say that we have obtained special permission to sit at this time during consideration of legislation under the 5-minute rule, which is necessary under the rules of the House. We therefore are subject to interruption. We apologize for that, but we had no way of knowing that the House would convene at 10 a.m. today. This is a recent judgment of the House because normally we meet at 3 o'clock on Wednesdays in order to permit committees to function, but because of the post office bill which is under consideration, there was agreement to come in at 10 o'clock this morning. We may proceed, but we will be subject to interruptions. We are sorry about that, ask your indulgence, and we really do have a blue-ribbon list of witnesses today. We are grateful for that, and we are looking forward to hearing your testimony. Mr. O'Toole, please feel free to proceed.

STATEMENT OF J. DENIS O'TOOLE, STAFF VICE PRESIDENT FOR GOVERNMENTAL AFFAIRS AND LEGISLATIVE COUNSEL, THE NATIONAL ASSOCIATION OF HOMEBUILDERS

Mr. O'Toole. Thank you, Mr. Chairman. We appreciate the opportunity to appear here today to present the homebuilding industry's views on H.R. 10268 and H.R. 11009.

The last time that the homebuilding industry appeared before this subcommittee was in support of the enactment of the Veterans' Housing Act of 1974. We believe that this legislation has largely accomplished its goal of expanding VA home loan benefits to millions of veterans. However, if VA is to remain true to its basic responsibility of providing credit assistance to veterans for the purchase of housing, we believe that the enactment of these two bills is necessary in order to assist veterans to compete in today's marketplace for housing credit.

At the time of our last appearance, the housing industry was, along with many other sectors of our economy, experiencing its most severe financial crisis since the depression of the 1930's. Slowly, our industry has picked up momentum through 1975 and 1976, and last year we were fortunate that we had a near record level of single-family housing starts.

One of the strongest aids that our industry received from the Federal Government during this period of recovery was the VA home loan program, especially the loan guaranty program. During 1977, the number of new starts under the VA program reached a 4-year high of 130,724 starts.

Unfortunately, though, while our industry has been doing a good job of providing housing at all price levels to American families, our industry, as you pointed out, Mr. Chairman, continues to be buffeted by inflation and increased housing costs, particularly, increases in land costs, material costs, interest rates, property taxes, and utilities. All of these, unfortunately, have an impact on the veteran trying to afford to purchase a conventionally built house.

In recognition of this problem, Congress last year in the Housing and Community Development Act of 1977 increased the FHA basic single-family mortgage limits for the section 203(b) program from $45,000 to $60,000, and I also might add that they decreased the down payment requirements in order to make it easier for people in the FHA programs to buy.

Since 1974, when the maximum guaranty for conventionally constructed housing was last adjusted by law, the median sales price of conventionally financed housing increased from $35,900 in 1974 to $51,700 in January of this year, while the average price increased from $38,900 to $58,900 during the same period. So on a nationwide basis, it is very obvious that housing costs have dramatically increased over the last 4-year period.

The VA loan guaranty program and the FHA insured mortgage programs were not isolated from these cost increases. For example, the average sales price for new homes built with VA assistance increased to $44,793 in February of this year from $30,305 in 1974. The average sales price under the section 203(b) increased to $36,517

for new homes built in the last quarter of 1977 compared with the 1974 average price of $26,864.

We have also looked at some other statistics on the VA loan program which, in our judgment, adds further reasons for your enactment of these two bills. The average loan amount for the VA loan program has steadily increased during the 1974–78 period. In 1974, the overall average was $26,535, which increased to $35,682 in 1977. The average for loans on new homes increased to $39,606 from $29,415 in 1974, and for existing homes there was a comparable increase to $34,647 from $25,675.

The last figures that I am talking about are the figures that are based on what people can pay on a down payment, and that is subtracted from the average price of a VA home to give you the loan amount.

Of course, the home building industry recognizes that as the price of conventionally built housing escalates, an increasing percentage of the American public is priced out of the new home market. For those families, one alternative which increasingly is being opted for is the purchase of mobile homes. The VA offers an excellent mobile home loan program for veterans desiring this type of shelter. For this reason, we support the provisions of H.R. 11009 and recognize that the same cost factors which have been pushing up costs in the conventionally built housing market have also been at work in the mobile home market.

In 1974, the average guaranteed loan amount for a mobile home was $9,604, with an average monthly housing expense of $192. In 1977, the amount of the average guaranteed loan amount increased to $13,371, with an average monthly housing expense of $285. We recognize that there is a definite market being served by the VA mobile home loan program, as evidenced by the fact that the average veteran obtaining a mobile home loan in calendar year 1977 had a monthly income of $756 and assets of $1,332, compared to $1,038 monthly income and $4,585 of assets for veterans receiving VA loans for conventionally built homes.

Clearly, the people who can afford a conventionally built house have substantially greater financial security than those who can only afford a mobile home, but as I mentioned, this is an increasingly high percentage of the veterans' market. I think it is particularly important that first time home buyers and young families be given this opportunity to purchase and participate in the mobile home loan program.

While the thrust of our residential building activity remains in our metropolitan areas, our association is also concerned about the plight of consumers in rural America. Financial institutions in small towns and rural areas are beginning to show greater sensitivity to housing credit needs of residents in those areas, and I might mention that both the mortgage bankers and the commercial banks and the savings and loans are starting to show a lot more willingness to make loans out in our smaller towns and rural areas.

Unfortunately, this is just a beginning, and we recognize that one of the most salutary programs that operates in rural areas is the direct loan program, and this program enables veterans living in small towns in rural America to gain parity with those veterans living in our metropolitan areas.

The housing cost problems are just as severe in rural areas as they are in metropolitan areas, and for this reason we endorse what is proposed in the second section of H.R. 10268.

In conclusion, and I think this is terribly important, Mr. Chairman, we want to tell you that we believe the Veterans' Administration is doing an excellent job in assisting veterans to purchase the homes of their choice. To the degree that this choice involves single-family homes or condominiums, our industry has found the VA to be one of the best Federal agencies for service to the consumer and to the homebuilder. I want to particularly commend—I know he is in the room—Mr. Coon and all the people in the Veterans' Administration. I really cannot underscore to you what a delight it is for people in our industry to be able to work with the Veterans' Administration, compared to some of the other Federal agencies that are involved in housing. I think that this is largely, in part, a credit to what this subcommittee has done in keeping the veterans' programs relevant, in keeping their mission straightforward and providing housing and shelter to the veterans of America.

Thank you very much for the opportunity to testify today.

[Attachment to statement follows:]

SALE PRICE OF NEW HOMES SOLD

	Median	Percent change	Average	Percent change
1970	$23,400		$26,900	
1971	25,200	7.7	28,300	5.2
1972	27,600	9.5	30,500	7.8
1973	32,500	17.8	35,500	16.4
1974	35,900	10.5	38,900	9.6
1975	39,300	9.5	42,600	9.5
1976	44,200	12.5	48,000	12.7
1977	48,600	10.0	54,000	12.5
January 1978	51,700		58,900	

Source: U.S. Department of Commerce, Bureau of the Census, series C 25; NAHB Economics Department.

Mr. BRINKLEY. Thank you very much, Mr. O'Toole.

The number of housing starts is always an important economic indicator, and I think that emphasizes and underlines the importance of your role in your representative capacity as associated with the National Association of Homebuilders.

I agree with your assessment about the VA and the good job it is doing, and I am glad that Mr. Coon is in the room to hear that bouquet because sometimes you don't hear the good and hear only about the deficiencies. I am certain that Mr. Cleland will also be grateful to have heard those words from an organization such as yours.

On page 3 you refer to the distinction between the FHA and the VA program. I would like to discuss, just for a moment, with you the distinction between the two programs. I would like to cover it for the record because in the full committee there was some concern that we were not raising the VA guaranty sufficiently. The judgment was made by this questioner that $25,000 was not nearly enough to cover the price of a new home.

Would you again just, in a nutshell, provide for the record your definition, your assessment, of the difference in these two programs.

Mr. O'TOOLE. Well, the basic difference is, of course, that the FHA program is an insurance program, and they insure the maximum amount of the mortgage, so that when you say that their maximum mortgage limit is $60,000, they insure all of that loan except for what amounts are required under the law in the way of a downpayment. Under the law now, that is in the neighborhood of 5 percent. So the exposure of the FHA is much greater on a loan than it is compared to the VA which offers, instead of a fully insured loan, a guaranty.

Because of the nature of the guaranty, there is a leverage factor. I think somebody from the mortgage bankers or a lender could get into this better because it is really their forte—but we are able to leverage a VA guaranty to a much higher amount. I would say that by increasing the guaranty to the neighborhood of $25,000, you are talking about a home price of somewhere in the neighborhood of $100,000 which would be financeable as a result of this change.

Generally, I think the VA program offers the veteran a better deal than FHA. An additional factor is that the lenders have the option of making a no downpayment loan, if they believe that the security and the creditworthiness of the borrower is such that they need not require a downpayment, they are free to do so. Whereas under the FHA program, there are maximum downpayment requirements required by law.

We have always found that the VA program is much more attractive because of the no downpayment or limited downpayment feature. So those are some of the salient differences.

Mr. BRINKLEY. Thank you. Ms. Lunsford? Mr. Abdnor, would you like to defer a moment?

Mr. ABDNOR. Yes.

Mr. BRINKLEY. Ms. Lunsford?

Ms. LUNSFORD. Mr. O'Toole, at what rate do you project housing to continue to escalate into the 1980's? Continued escalation is indicated in your testimony, and is certainly apparent based on current real estate cost. In this area real estate is appreciating at approximately $1,000 a month. Do you see that continuing, or does NAHB have other projections?

Mr. O'TOOLE. Well, there are two components to your question. No. 1, I think that, demographically, if you look at the people that are coming into the housing market today, they are people in the 25 to 35 age group, and we are just now starting to house the postwar baby boom. Statistically, there will be strong housing markets from now until roughly the end of the 1980's. Just as we have seen with colleges and everything else, I think that there will be a strong demand in the housing market for just conventionally built houses for somewhere in the neighborhood of around 2 million units through the end of the 1980's. Of course, whether we will be able to produce that is a function of interest, a function of materials, and other things.

The second part of your question is about what is occurring in housing costs, and that has two aspects. No. 1, I think that we will continue to see the appreciation in real estate that we have seen over the last 5 years, and I think that this will probably increase for a number of reasons, one of which is that people see investment in a single-family house as absolutely the best type of investment they can make.

Second, the problem in the United States is that we are running out of buildable, developable land, and people are very intelligent and

realize that there are only certain numbers of areas in which we can live and build our communities. If you look in the Washington, D.C., area, you see sewer moratoria and other restrictions that are put on growth. These artificial restraints tend to drive up the price of housing so that there will be a continuing escalation in housing costs.

On the other side of the housing cost problem, in my testimony I pointed out that one of the problems that the veteran faces is that housing costs keep going up, and then, of course, utility costs, property taxes, all the kinds of services that you have to finance with housing will be on the rise.

We endorse the mobile home program because it is an option for the younger serviceman or younger veteran who can't get housing any other way. But there probably are a large number of veterans who, for instance, live in our metropolitan area, who probably cannot afford to buy a house, and yet a mobile home is really not an option for them. With interest rates being in the neighborhood of 9 percent, they really cannot afford to finance a house. So possibly one thing that this committee may want to look to in the 1980's is some type of an interest reduction program to make homeownership a more viable option for some of our veterans.

Mr. BRINKLEY. Mr. Abdnor?

Mr. ABDNOR. I am sorry I am late. I guess there are too many committee meetings around here and we stretch ourselves too thin, but I appreciate you voicing your support for the bills we have under consideration. I just might ask you, while you are here, do you feel that you have any other problems beyond our legislation you would like to throw out today?

Mr. O'TOOLE. I want to underscore what a good job our industry perceives VA is doing in generally meeting the housing needs of the veterans. I think that the only additional factor I would suggest is what I just said to Ms. Lunsford, and that is that I think that you should look at the veteran who lives in our metropolitan areas who cannot really opt for a mobile home, housing costs being what they are. It seems to me you really want to address in a counterpart way what you have done for the unemployed veteran and for the young veteran who is going to college. With interest rates being as high as they are, there may be some need to consider some type of assistance program, either by an interest rate reduction or some type of a secondary loan program by VA. I don't mean a second loan program; I mean a second-mortgage-type program that you might be able to advance some down payment credit to the veteran who is really priced out of the market right now.

That is a very complicated area, and I don't want to take a lot of time on that today.

Mr. ABDNOR. Thank you.

Mr. BRINKLEY. Thank you very much. Earlier I acknowledged the amount of work that Ms. Elizabeth Lunsford does in the field of research and homework and spadework, and I neglected to say that Mr. Chuck Parkinson shares in the responsibility and also does a good job.

At this I yield to Mr. Parkinson for an acknowledgment.

Mr. PARKINSON. Thank you, Mr. Chairman. I appreciate your comments.

I would like to recognize the DAV service officers who are in the room. Previously, during the Compensation Subcommittee hearings, Mr. Montgomery, the chairman, asked them to stand. I won't do that because they are already standing. They are here for a training seminar the DAV holds for their service officers so they can assist the members of their organization as well as other veterans with questions and problems with the Veterans' Administration.

Mr. O'TOOLE. Thank you, Mr. Chairman.

Mr. BRINKLEY. Thank you.

[Witness excused.]

Mr. BRINKLEY. I think we should stand in recess until we answer the roll call, and without objection, we will shift Mr. Joeckel to the head of the witness list in order that he can be with his people who are here in Washington, the service officers. We will get to Mr. Joeckel next, followed by Mr. Benning and others on the witness list.

We will take a break at this time, and we will be back in about 10 minutes.

[Brief recess taken.]

Mr. BRINKLEY. The subcommittee will be in order, and with apologies to Mr. Benning and the witnesses to follow him. If they will defer, we will ask Mr. Joeckel to proceed at this time.

Mr. JOECKEL. Thank you, Mr. Chairman.

Mr. BRINKLEY. I should have introduced you as the assistant director of legislation with the Disabled American Veterans. You have testified before this committee before with distinction, and we welcome you today.

Mr. JOECKEL. Thank you. The DAV and I personally are grateful to you for taking the time to squeeze us into this busy schedule. In case you haven't noticed, our NSO's are here with us; 30 NSO's from all over the country are here. I might point out that they will be listening intently, and I have to be very careful today because any mistakes I make, they will readily pick up.

With that, Mr. Chairman, I would like to summarize my statement and submit its entire text for the record.

Mr. BRINKLEY. Without objection.

[Statement follows:]

STATEMENT OF CHARLES E. JOECKEL, JR., ASSISTANT NATIONAL DIRECTOR OF LEGISLATION, DISABLED AMERICAN VETERANS

Mr. Chairman and members of the subcommittee, the Disabled American Veterans appreciates this opportunity to present our views on H.R. 10268 and H.R. 11009—two bills relating to the Veterans Administration's Mobile Home and Home Loan Guaranty Programs.

As you know, Mr. Chairman, the VA loan guaranty programs have been a good investment in America and have helped millions of veterans and their families to become home owners. The success that these programs have enjoyed is due largely to the efforts of this Committee in keeping these benefits attuned to the needs of veterans.

Once again we find ourselves grateful to you and the members of the Subcommittee for your continual efforts to improve veterans' housing benefits by considering legislation to increase the amount of the guarantee provided under the VA Mobile Home and Home Loan Programs. I, therefore, wish to express the sincere appreciation of the DAV for your decision to hold these hearings.

H.R. 10268

This measure, introduced by yourself and co-sponsored by Mr. Abdnor, the Ranking Minority Member of this Committee, would increase the amount of the VA home guaranty from the current $17,500 to $25,000.

As you know, Mr. Chairman, the principal purpose of the Loan Guaranty Program is to assist eligible veterans to obtain credit for the purchase or construction of homes to be occupied by themselves and their families.

This assistance normally consists of the guarantee or insurance of loans made by private lenders and, as most veterans have not had the opportunity during their years of military service to accumulate the savings that are generally required for obtaining home loans, the credit of the Government of the United States is used as an inducement for lenders to make loans to veterans on relatively favorable terms.

You will recall, Mr. Chairman, that last year in oversight hearings held before this Committee, we requested that you seriously consider increasing the amount of the VA Home Loan Guaranty to at least $25,000. Our recommendation at that time was based on the average increase of $10,000 in the costs of new and existing homes since 1974—the last time the Congress increased the amount of the home loan guaranty.

In 1974, the average VA home loan was approximately $25,000. The $17,500 ceiling therefore easily covered the 60 percent guarantee on these loans as indicated by section 1803 of title 38, U.S. code.

Information now available, however, from the National Association of Realtors and U.S. Department of Commerce, Bureau of Census, shows that even while the Congress was increasing the VA loan guaranty from $12,500 to $17,500, the average prices of new and existing homes in 1974 had already reached $38,900 and $35,800 respectively. Accordingly, in order to obtain housing with minimum down payments and still maintain the 60 percent VA guaranty to loan ratio, veterans were restricted to purchasing homes in the $29,000 to $30,000 price range well below the national average.

The 1976 Annual Report of the Administrator of Veterans Affairs, notes that the average loan guaranteed in fiscal year 1976 was $30,475 and that the average purchase price of homes for veterans availing themselves of the loan guaranty was $31.358.

Over the same period in Fiscal Year 1976, however, the average cost nationwide of an existing home was $42,900, while new homes were $47,800 in June of 1976.

The Monthly Report for January, 1978, published by the National Association of Realtors, shows (through the month of December, 1977) that the average price of an existing home is $48,300[1] and according to the latest statistics (through November, 1977) from the U.S. Department of Commerce, Bureau of Census, the average price of a new home in the United States is $57,600.

Today, in our view, the $17,500 guaranty does not afford the same safeguard for lenders on the larger loans now being processed. As the loan amount increases, the percentage guaranteed decreases and often does not afford a reasonable opportunity for a veteran or his family to purchase the higher priced home in the current market without making a substantial down payment.

By raising the maximum guaranty to $25,000, H.R. 10268 would make smaller or no down payment loans more likely for veterans, increase the availability of mortgage financing, and enable lenders to maintain the 60-percent ratio of the guaranteed loan amount as indicated in Section 1803 of Title 38, U.S. Code.

In short, Mr. Chairman, the DAV strongly supports the enactment of H.R. 10268 as it would satisfy one of our legislative objectives (Resolution No. 442) adopted by the delegates to our most recent National Convention held in Las Vegas, Nevada, July 10–15, 1977.

H.R. 11009

As you know, Mr. Chairman, the purpose of the VA Mobile Home Loan Program is to make some form of housing available to lower income veterans, particularly, those recently discharged veterans who may not have had sufficient opportunity to establish any credit rating.

[1] Page 10, January 1978, Monthly Report, National Association of Realtors—Sales Price of Existing Single-Family Homes for the United States—Average (Mean).

Over the past few years, the Congress has held steadfast to this purpose and has enacted legislation greatly expanding and improving the VA Mobile Home Loan Program.

In order to make this program meet the needs of veterans who wish to avail themselves of the mobile home loan guaranty, the 93rd Congress enacted legislation (Public Law 93–569) which increased the maximum loan amounts for single and double-wide mobile home units; authorized the guarantee of used mobile homes; and extended entitlement to the use of the mobile home loan guaranty to any eligible veteran who had satisfactorily discharged his obligation on a previous VA loan.

Recognizing that the changes made by Public Law 93–569 did not increase the level of participation in the Mobile Home Loan Guaranty Program, the 94th Congress in enacting Public Law 94–324 increased the maximum VA mobile home loan guaranty from 30 percent to 50 percent, hoping to encourage greater participation by both veterans and lenders.

Mr. Chairman, as we indicated in oversight hearings before this Committee in June of last year, according to statistics from the Manufactured Housing Institute, the use of the VA Mobile Home Loan Guaranty has continued at about the same percentage rate as before the increase from 30 percent to 50 percent in the amount of the mobile home guarantee—generally 10 percent of all loans. At that time, we urged your consideration of legislation which would increase the maximum loan amounts for mobile homes, thus making the program more attractive to lenders and more affordable for veterans.

Accordingly, the DAV is grateful to you, Mr. Chairman, and to Mr. Abdnor for your introduction and consideration of H.R. 11009 which proposes to:

Eliminate the maximum permissable loan amounts as set forth in Section 1819 of Title 38, U.S. Code.

Establish a maximum mobile home loan guaranty entitlement of $17,500.

Increase the maximum term of years for which loans are made.

Provide for restoration of entitlement to the mobile home loan guaranty benefit each time the veteran divests himself of the title and releases the Administrator of liability for the loan.

Provide for the use of partial entitlement in the purchase of a mobile home where a veteran moves from a conventionally-built home to a mobile home.

As you know, Mr. Chairman, the current restriction on the maximum loan amount, in many instances, poses a perplexing situation for low income veterans who wish to purchase suitable housing under the VA Mobile Home Program. As the price of a mobile home increases over the maximum permissable amount of a VA loan, there must also be a corresponding increase in the veteran's down payment. Therefore, veterans who want to participate in the VA program are either discouraged or simply cannot afford to secure VA financing—thus, defeating the purpose of the VA Mobile Home Loan Guaranty.

We believe that H.R. 11009 provides a more reasonable approach for the guaranteeing to mobile home units. By establishing a loan guaranty of 50 percent of the amount of the loan up to a maximum of $17,500 more veterans will be able to purchase such housing with no or low down payments.

The DAV is extremely pleased that the pending bill also provides for the use of partial entitlement of the loan guaranty for purchase of a mobile home unit. Presently, only those veterans who have full home loan guaranty entitlement ($17,500) available under Section 1810c of Ttitle 38, U.S. Code are eligible for this benefit.

However, Section 1810c also provides that veterans may avail themselves of any previously unused loan guaranty entitlement for the purchase of conventional housing. For instance, if an eligible veteran had previously used $7,500 of his loan guaranty entitlement—and for one reason or another, the VA has not been released of this obligation—such a veteran may obtain a loan guarantee of $10,000 ($17,500 less the previously used $7,500).

Considering the large number of World War II veterans who are now approaching retirement age, we believe the "remaining entitlement" principle, which is established under other VA Loan Guarantee Programs, should be extended to those who wish to purchase "retirement" homes under the Mobile Home Loan Program.

The DAV, therefore, supports H.R. 11009 and urges this Subcommittee to give its favorable consideration to this very beneficial legislation.

This concludes my statement, Mr. Chairman, and may I again express to you and the members of the Subcommittee our sincere appreciation for giving us this opportunity to present our views on these two important measures.

STATEMENT OF CHARLES E. JOECKEL, JR., ASSISTANT NATIONAL DIRECTOR OF LEGISLATION, DISABLED AMERICAN VETERANS

Mr. JOECKEL. Mr. Chairman and members of the subcommittee, the DAV appreciates this opportunity to present our views on H.R. 10268 and H.R. 11009, two bills relating to the VA mobile home and home loan guaranty programs.

As you know, Mr. Chairman, the loan guaranty programs have been a good investment in America and have helped millions of veterans and their families to become homeowners. The success that these programs have enjoyed is largely due to the efforts of this committee in keeping these benefits attuned to the needs of veterans.

Once again we find ourselves grateful to you and the members of the subcommittee for your continued efforts to improve veterans' housing benefits by considering legislation to increase the amount of the home loan guaranty provided under the two VA programs. I, therefore, wish to express the sincere appreciation of the DAV for your decisions to hold these hearings.

H.R. 10268, introduced by yourself and cosponsored by Mr. Abdnor, would increase the amount of the VA home loan guaranty from the current amount of $17,500 to $25,000. As you know, Mr. Chairman, the principal purpose of the loan guaranty is to assist eligible veterans to obtain credit for the purchase or construction of homes to be occupied by themselves and their families.

You will recall that last year in oversight hearings held before this committee, we requested that you seriously consider increasing the amount of the home loan guaranty to at least $25,000. Our recommendation at that time was based on the average increase of $10,000 in the costs of new and existing homes since 1974, the last time the Congress increased the amount of the guaranty.

In 1974, the average VA home loan was approximately $25,000. The $17,500 ceiling therefore easily covered the 60-percent guaranty on these loans as indicated in section 1803 of title 38, United States Code.

The 1976 Annual Report of the Administrator of Veterans Affairs notes that the average loan guaranteed in fiscal year 1976 was $30,400, and that the average purchase price of homes for veterans availing themselves of the loan guarantee was $31,300.

Over the same period in fiscal year 1976, the average cost nationwide of an existing home was $42,900.

The monthly report for January 1978, published by the National Association of Realtors, shows that the average price of an existing home is $48,300, and according to the latest statistics from the U.S. Department of Commerce, the average price of a new home in the United States is $57,600.

Today, in our view, the $17,500 guaranty does not afford the same safeguard for lenders on the larger homes now being processed. As the loan amount increases, the percentage guaranteed decreases and often does not afford a reasonable opportunity for a veteran or his family to purchase the higher priced home in the current market without making a substantial downpayment.

By raising the maximum guaranty to $25,000, H.R. 10268 would make smaller or no downpayment loans more likely for veterans, increase the availability of mortgage financing, and enable lenders to

maintain the 60 percent ratio of guaranteed loans as indicated in section 1803 of title 38.

In short, Mr. Chairman, the DAV strongly supports the enactment of H.R. 10268 as it would satisfy one of our legislative objectives adopted by the delegates to our most recent national convention.

H.R. 11009 proposes several changes in the mobile home loan guaranty program. Over the past few years, the Congress has enacted legislation which has greatly improved the program. In order to make the program meet the needs of veterans who wish to avail themselves of the mobile home loan guaranty, both the 93d and 94th Congress enacted legislation which was specifically designed to encourage greater participation by both veterans and lenders.

Mr. Chairman, as we indicated in oversight hearings before this committee in June of last year, according to statistics from the Manufactured Housing Institute, the use of the VA mobile home loan guaranty has continued at about the same percentage rate as before the increase from 30 percent to 50 percent in the amount of the mobile home guaranty, generally 10 percent of all loans. At that time, we urged your consideration of legislation which would increase the maximum loan amounts for mobile homes, thus making the program more attractive to lenders and more affordable for veterans.

Accordingly, the DAV is grateful to you and to Mr. Abdnor for your introduction and consideration of H.R. 11009 which proposes, among other things, to establish a maximum mobile home loan guaranty entitlement of $17,500; provide for restoration of entitlement to the mobile home loan guaranty benefits, and to provide for the use of partial entitlement in the purchase of a mobile home.

As you know, Mr. Chairman, the current restriction on the maximum loan amount, in many instances, poses a perplexing situation for low-income veterans who wish to purchase suitable housing under the VA mobile home program. As the price of a mobile home increases over the maximum permissible amount of a VA loan, there must also be a corresponding increase in the veteran's downpayment. Therefore, veterans who want to participate in the VA program are either discouraged or simply cannot afford to secure VA financing, thus defeating the purpose of the VA mobile home loan guaranty.

We believe that H.R. 11009 provides for a more reasonable approach for the guaranteeing of mobile home units. By establishing a loan guaranty of 50 percent of the amount of the loan up to a maximum of $17,500, more veterans will be able to purchase such housing with no or low downpayments.

The DAV is extremely pleased that the pending bill also provides for the use of partial entitlement of the loan guaranty for purchase of a mobile home unit. Presently, only those veterans who have full home loan guaranty entitlement available under section 1810 of title 38 are eligible for this benefit.

However, this section also provides that veterans may avail themselves of any previously unused loan guaranty entitlement for the purchase of conventional housing.

Considering the large number of World War II veterans who are now approaching retirement age, we believe the remaining entitlement principal, which is established under other VA home loan guaranty

programs, should be extended to those who wish to purchase retirement homes under the mobile home loan guaranty program.

The DAV therefore supports H.R. 11009 and urges this subcommittee to give its favorable consideration to this very beneficial legislation.

That concludes my statement, Mr. Chairman. I would be pleased to answer any questions you may have.

Mr. BRINKLEY. Thank you very much, Mr. Joeckel. I think the organization which you represent so well, Disabled American Veterans, voices the conscience of the veterans' community, and we respect your judgment very much. We appreciate working with you and, as evidenced by this statement, you have again done your homework very well. Perhaps I make that judgment because you seem to agree with my own preliminary judgments. [Laughter.]

We are grateful for your testimony.

Mack, we are glad to have you here with us today. Do you have any questions?

Mr. FLEMING. No.

Mr. BRINKLEY. Ms. Lunsford?

Ms. LUNSFORD. No, Mr. Chairman.

Mr. BRINKLEY. Mr. Parkinson?

Mr. PARKINSON. No, sir.

Mr. BRINKLEY. Mr. Joeckel, we appreciate your testimony and we are grateful for your service officers being here today. It is always good to have some boosters in the crowd. Thanks to all of you gentlemen for being with us today.

Mr. JOECKEL. Thank you, Mr. Chairman.

[Witness excused.]

Mr. BRINKLEY. The next witness, pinch-hitting for Mr. Walter Benning, who I understand is ill and is unavoidably detained, is Mr. Raymond Weatherly, who will be testifying for the Manufactured Housing Institute.

Mr. Raymond Weatherly, will you please come around? If you have another gentleman with you, you can bring him as well.

Mr. WEATHERLY. Good morning, Mr. Chairman. With me is John Maguire, our vice president.

Mr. BRINKLEY. Welcome, Mr. Maguire, and we invite your testimony.

Mr. WEATHERLY. Mr. Benning has asked us to extend his sincere regrets, and I would like to do so at this time, and present on his behalf this testimony.

Mr. BRINKLEY. Thank you. Mr. Weatherly, would you give us the name of your employer whom you represent.

Mr. WEATHERLY. Yes, sir. I am here on behalf of the Manufactured Housing Institute.

Mr. BRINKLEY. I see. You do function directly for them?

Mr. WEATHERLY. Yes, sir. I am the director of intergovernmental relations for the Institute.

Mr. BRINKLEY. Excellent, excellent. Please feel free to proceed. Your entire written statement will appear in the record at this point.

Mr. WEATHERLY. Thank you.

[Statement follows:]

TESTIMONY OF WALTER L. BENNING, PRESIDENT, MANUFACTURED HOUSING INSTITUTE

Mr. Chairman and members of the committee, my name is Walter L. Benning and I appear before you this morning in my capacity as President of the Manufactured Housing Institute. The Institute, as you may know, is the primary trade association representing the manufacturers of mobile and modular housing.

I am pleased to have the opportunity to appear before you this morning in support of H.R. 11009, a bill to improve the mobile home loan program of the Veterans Administration. Mr. Chairman, I would also like to thank you and members of this Subcommittee for turning your attention to the serious difficulty faced by veterans, particularly Vietnam era veterans, in obtaining affordable housing.

Mr. Chairman, as you know, the bill would make several significant changes in the VA mobile home loan program. One of these changes is the provision to eliminate the maximum permissible loan amounts for which mobile home loans are made.

The bill would leave the determination of loan amount to the discretion of the VA Administrator. I believe this action is needed because of the effect of inflation which periodically pushes the price of mobile homes beyond the maximum VA loan limits. This works a hardship on the veteran.

At present, the VA program can guarantee a loan for a "single-wide" unit for only $12,500 for 12 years, and it can guarantee a loan for a "double-wide" for $20,000 for 20 years. Unfortunately, the average prices of these units have exceeded the VA limits. For example, the average 14' wide unit, now the most popular single section unit, sells for an average price of $13,468. The average price of a "double-wide" unit is now $21,312. As a result, the veteran either makes up the difference in cash, or he finances the house conventionally at higher installment interest rates of 13 percent to 14 percent and shorter terms. Removing the maximum loan amount limits, as H.R. 11009 proposes, would alleviate these problems for the veteran mobile home buyer.

Inflation has another significant effect on the operation of the VA mobile home loan program: periodic slowdowns occur when retail prices exceed the loan maximums. Congress, of course, must then act to raise the maximum loan amounts. Meanwhile, there is a lag in the system. In an inflationary economy, it seems that this problem can only get worse. Therefore, it is the Institute's thinking that by removing the loan maximums, the highest level of activity can be sustained by the VA mobile home loan program.

Mr. Chairman, as you know, another significant change called for in this legislation is the establishment of a maximum loan guaranty entitlement of $17,500. The Manufactured Housing Institute wholeheartedly supports such a change. Replacing the maximum loan amount with a loan guaranty is more realistic in terms of the manufactured housing market today. The trend is toward a wide variety of larger, more expensive units. Many will be attached to land purchased by the veteran at the same time. Hence, more flexibility will be required. The establishment of a loan guaranty will allow more flexibility for both veterans and lenders. Certainly, it will aid the veteran in qualifying for and obtaining the financing he needs.

The establishment of a loan guaranty system within the mobile home loan program, as this legislation proposes, will bring the mobile home loan program more in line with the conventional VA mortgage guaranty program. The Institute hopes that this will result in wider participation by veterans, lenders, and realtors.

In fact, the elimination of a maximum loan limit and the substitution of a loan guaranty opens the door for lenders, buyers, developers and real estate people to begin treating manufactured housing as real estate. We are already seeing the beginnings of this desirable trend as the nation finds new conventionally-built housing disappearing from the lower-priced range of the housing market. Manufactured housing is moving into that vacuum with high quality, affordable housing.

The potential veteran home buyer should be given the "equal opportunity" to select this form of housing and to purchase it in amounts and on terms as favorable to him as possible. Indeed, it is the veteran, particularly the Vietnam veteran, who deserves perhaps more than anyone else to secure adequate housing for himself and his family. Yet, it is the young veteran, who is a first-time buyer, who is being most harmed by housing inflation and left out of the housing market.

Without a house, he has no equity to protect him from inflation. Moreover he does not gain the advantage of the homeowner's tax deduction. H.R. 11009, if enacted, will go a long way toward making homeownership a reality for those recent veterans who are first-time home buyers, who have turned to the manufactured housing industry as the source of attractive, affordable housing. Therefore, Mr. Chairman, I strongly support the provision to create a maximum loan guaranty of $17,500.

Mr. Chairman, there is also a provision in the bill to increase the term of years for which loans are made from 12 years to 15 years for "single-wide" units. We are in support of this provision because it would have the effect of lowering the veteran's monthly payment. An increase in terms reflects the reality of the marketplace where the trend is toward larger, more expensive units. Without an increase in terms the veteran either makes a higher payment or must settle for a smaller unit which may be less suitable for his family.

At this point, briefly, I would like to deal with the matter of terms in general. Given the rate of inflation and the current trend toward larger more expensive units, it seems desirable that some increase in terms be granted for both "single-wide" and "double-wide" units. The situation warrants it.

In the past, the term of years for which a mobile home loan was made was based primarily on two factors: the durability of the home and the accumulation of equity in the home.

The durability of mobile homes has never been higher. The manufactured housing industry builds according to a federal standard developed and applied by the U.S. Department of Housing and Urban Development. It is a federal standard. and when Congress and the Federal agencies deal with mobile homes they should be cognizant of that fact. In any case, I can safely assert that our homes will certainly out last the terms of any loan likely to be made on them. It is time that lenders and others dispense with the question of durability as a factor in loan terms for mobile homes.

The other relevant consideration used in determining the number of years for which a loan may be made is the matter of equity accumulation. It is a principle of lending practice that loans be designed to terminate before equity is exhausted. The industry has no qualms with that principle, rather we are objecting to the manner in which equity is determined with regard to mobile homes.

Traditionally, mobile home values have been determined in accordance with valuation guidebooks, much the same as automobiles. In other words, mobile homes were seen to depreciate according to age, model year, etc., without regard to actual durability or condition, siting on land, or placement in a particular environment. Lenders, of course, made loans in accordance with depreciation schedules set forth in these guidebooks.

Fortunately, however, this has begun to change rapidly. As manufactured housing is becoming accepted as housing in the traditional sense, in fact that has become more like traditional housing, we believe the factor of guidebook depreciation will become less and less a factor in calculating equity and loan terms. We are beginning to see appreciation occur in developments where our houses are properly sited and landscaped. Indeed, the VA and FHA both now determine resale value by an appraisal method, a method which takes into account all the factors of value rather than relying solely on valuation guidebooks.

We in the industry see the trend toward appreciation developing in the near future so that longer terms will be justified in terms of true value, calculated by appraisal, and not by traditional "rules of thumb" and guidebook schedules.

A significant aspect of the matter of terms is the case of the mobile home or "double-wide" sold in combination with land. It is an old principle of law that anything attached to the land is real property. Therefore, I would like to raise the question as to why the VA program should not consider mobile and "double-wide" homes as real estate under the conventional mortgage guaranty program where the houses are permanently sited on land. This question is particularly pertinent in the case of the "double-wide" unit which may sell for as high as $30,000. With land, the buyer of such a home has an investment exceeding in cost and value of many site-built homes in existence today. Certainly in terms of quality, size, durability and value it is equivalent to the average site-built house of only a few years ago for which the VA insured the loan. We in the manufactured housing industry are concerned that the VA program does not view mobile homes with land as real estate, but rather it makes an artificial distinction based on the point of origin of the house. The question should not be how the building arrived on the site, but whether, once in place, it constitutes real estate.

The question is one of greater importance to the prospective veteran home buyer than to the manufactured housing industry. Because of its cost, conventionally built housing is fast disappearing as an option for the low and moderate income family, the first-time buyer, and particularly the Vietnam veteran. The mobile home industry is filling that need and will continue to do so. However, the young veteran who is turning to manufactured housing will never experience the same benefits of homeownership that his father had, in terms of equity, financing, and appreciation, until his choice of housing ownership is treated fully as housing in every sense.

There are other provisions of the bill which deal with the veteran's entitlement to his loan guaranty benefit. Although I have no great insight on these points, it seems only a matter of simple justice to grant the same rights to the veteran purchasing a mobile home as we granted to other veterans.

Mr. Chairman, in closing, let me compliment you and the members of this Subcommittee for producing this bill. It is among the most significant legislation to emerge concerning the VA home loan program. These are important steps which will help bring attractive housing within the financial reach of the average veteran. You, the Subcommittee, its staff and the Veterans Administration are all to be commended for your efforts.

STATEMENT OF RAYMOND J. WEATHERLY, DIRECTOR OF INTERGOVERNMENTAL RELATIONS, MANUFACTURED HOUSING INSTITUTE, ACCOMPANIED BY JOHN R. MAGUIRE, VICE PRESIDENT

Mr. WEATHERLY. Mr. Chairman and members of the subcommittee: I am pleased to have the opportunity to appear before you this morning in support of H.R. 11009, a bill to improve the mobile home loan program of the Veterans' Administration.

Mr. Chairman, I would also like to thank you and members of the subcommittee for turning your attention to the serious difficulty faced by veterans, particularly Vietnam era veterans, in obtaining affordable housing.

Mr. Chairman, as you know, the bill would make several significant changes in the VA mobile home loan program. One of these changes is the provision to eliminate the maximum permissible loan amounts for which mobile home loans are made. The bill would leave the determination of loan amounts to the discretion of the VA Administrator. I believe this action is needed because of the effect of inflation which periodically pushes the price of mobile homes beyond the maximum VA loan limits. This works a hardship on the veteran.

At present, the VA program can guarantee a loan for a single-wide unit for only $12,500 for 12 years. It can guarantee a loan for a double-wide for $20,000 for 20 years. Unfortunately, the average prices of these units have exceeded the VA limits. For example, the average 14-wide unit, now the most popular single section unit, sells for an average price of $13,468. The average price of a doublewide unit now is $21,312. As a result, the veteran either makes up the difference in cash or he finances the house conventionally at higher installment interest rates of 13 to 14 percent and shorter terms. Removing the maximum loan limits, as H.R. 11009 proposes, would alleviate these problems for the veteran mobile home buyer.

Inflation has another significant effect on the operation of the VA mobile home loan program: Periodic slowdowns can occur when retail prices exceed the loan maximums. Congress, of course, must then act to raise the maximum loan amounts. Meanwhile, there is a lag in the system.

In an inflationary economy, it seems that this problem can only get worse. Therefore, it is the Institute's thinking that by removing the loan maximums, the highest level of activity can be sustained by the VA mobile home loan program.

Mr. Chairman, as you know, another significant change called for in this legislation is the establishment of a maximum loan guaranty entitlement of $17,500. The Manufactured Housing Institute wholeheartedly supports such a change. Replacing the maximum loan amount with a loan guaranty is more realistic in terms of the manufactured housing market today.

The trend is toward a wide variety of larger, more expensive units. Many will be attached to land purchased by the veteran at the same time. Hence, more flexibility will be required. The establishment of a loan guaranty will allow more flexibility for both veterans and lenders. Certainly, it will aid the veteran in qualifying for and obtaining the financing he needs.

The establishment of a loan guaranty system within the mobile home loan program, as this legislation proposes, will bring the mobile home loan program more in line with the conventional VA mortgage guaranty program. The Institute hopes that this will result in wider participation by veterans, lenders, and realtors.

In fact, the elimination of a maximum loan limit and the substitution of a loan guaranty opens the door for lenders, buyers, developers, and realtors to begin treating manufactured housing as real estate. We are already seeing the beginnings of this desirable trend as the Nation finds new conventionally built housing disappearing from the lower priced range of the housing market. Manufactured housing is moving into that vacuum with high quality, affordable housing.

The potential veteran home buyer should be given the equal opportunity to select this form of housing and to purchase it in amounts and on terms as favorable to him as possible. Indeed, it is the veteran, particularly the Vietnam veteran, who deserves, perhaps more than anyone else, to secure adequate housing for himself and his family.

Yet it is the young veteran who is a first time buyer who is being most harmed by housing inflation and left out of the housing market. Without a house, he has no equity to protect him from inflation. He does not gain the advantage of the homeowner's tax deduction.

H.R. 11009, if enacted, will go a long way toward making homeownership a reality for those recent veterans who are first time home buyers, who have turned to the manufactured housing industry as the source of attractive, affordable housing. Therefore, Mr. Chairman, we strongly support the provision to create a maximum loan guaranty of $17,500.

Mr. BRINKLEY. I am sorry to interrupt. The bells have sounded again, and I must recess the subcommittee until I can go and respond to them.

Again, I wish to tell the people who are here that we had no way of knowing in advance that we would be meeting today. Normally, on Wednesdays the House convenes at 3 p.m. Because of the legislative turn of events, we have gone in at 10 a.m. this morning, and we are genuinely regretful that we are off and on again. But please be patient with us, and we will be back immediately upon voting.

Mr. WEATHERLY. Thank you, Mr. Chairman.

Mr. BRINKLEY. Please stand by.

[Brief recess taken.]

Mr. BARNARD. Mr. Weatherly, if you would, you can continue your testimony, please, sir.

Mr. WEATHERLY. Thank you, sir.

At the point where we took a break, I will from that point summarize. We had spoken in support of the provision to increase the loan guaranty to $17,500.

The testimony continues on and speaks in support of a provision to increase the maximum terms for loans on a single-wide from 12 to 15 years. We feel that is equitable, that the trend is toward larger units, and without such an increase the veteran will either pay a large downpayment or settle for a smaller unit.

We will address briefly the matter of terms in general here for a moment. Traditionally, in this industry, the terms of a loan were calculated on two factors, primarily: the durability of the home and the accumulation of equity. The lenders in general and the VA and whatnot have been cognizant of these historical trends and have tended to calculate them similarly.

The matter of durability is one which we think should no longer be a factor as it has been in the past, simply because the homes are now constructed to a Federal standard, and it is our thinking that where they are constructed to a Federal standard, the Federal Government, in its part, should be cognizant of that fact. In considering long terms, the durability of the homes has never been higher.

As to the matter of equity accumulation, which is a part of the consideration in the development of long terms, historically, the valuation of a mobile home has been determined in terms of valuation guidebooks, depreciation schedules. We are beginning to see that change as units which are properly sited and landscaped appreciate in value.

We think that the factor of appreciation which is developing now as the manufactured house moves into the low-income housing market to replace the traditional home which is no longer available in those price ranges, that the matter of appreciation and the accumulation of equity should be addressed in a determination of what terms are adequate for financing a mobile home.

Particularly pertinent is the case of the double-wide home which is on land. It is a home which may cost upwards of $30,000 with land, and by virtue of its construction and appearance is equal in virtually every respect to homes in the same price range which the VA insured under its conventional program just a few years ago and still does. We believe, as a result of the fact of appreciation, the fact that many of them are being sold in conjunction with land and placed on land, that that should warrant the committee's consideration of whether the mobile home on land, particularly the double-wide on land, should not be treated under the VA conventional mortgage guaranty program.

As a matter of fact, it is an old principle of real estate law, I am told, that whatever is attached to the land is real property, and we are developing housing here which is going onto real property, which is being sited, which is being attached to land, and which is not treated

as real estate by the VA and other agencies as well, but in this case by the VA.

That is, given the increase in the price of these homes, that we are in an inflationary economy, and given that they are attached to the land, it seems reasonable that at some point we should begin to consider that this is in fact real estate and should be eligible for consideration under the conventional VA mortgage guaranty program.

The other provisions of the bill we spoke in support of pertain to the veteran's entitlement to the VA loan guaranty. We feel that it is a matter of simple justice that the veteran be given the same rights in the mobile home program as he, or she, receives in the conventional program, and these provisions would do this, and we support them.

There is a companion bill, H.R. 10268, which pertains to the conventional mortgage guaranty program. It would increase the guaranty from $17,500 to $25,000. As a part of the total housing industry in this country, we would be remiss if we did not comment on that. We would like to speak in support of it.

A recent Harvard-MIT study from a joint center on urban studies predicted that by 1981, the median price of a new single-family site-built home would be $78,000. That is only 3 years away, and that is the median. The average undoubtedly would be much higher than that. It seems, in that context, that an increase in the maximum guaranty under the conventional program to $25,000 is warranted, and we would like to speak in support of it.

I would like to thank the chairman and the subcommittee for their consideration of the problems that the veterans have had in procuring affordable housing. We thank you for this opportunity to appear.

We would be happy to answer any questions that you may have.

Mr. BRINKLEY. Mr. Weatherly, we appreciate your testimony. Ms. Lunsford had reviewed it earlier and said it was sort of a backbone that we ourselves would have written, and so we appreciate your comments, and they shall be respected and blended in with the other testimony that we shall receive. Hopefully we will move out right away on the legislation after the mark-up. You are excused at this time.

Mr. WEATHERLY. Thank you, Mr. Chairman.

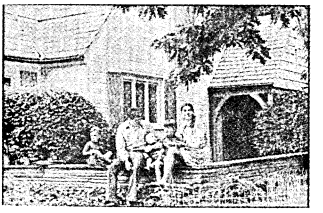
[Witnesses excused.]

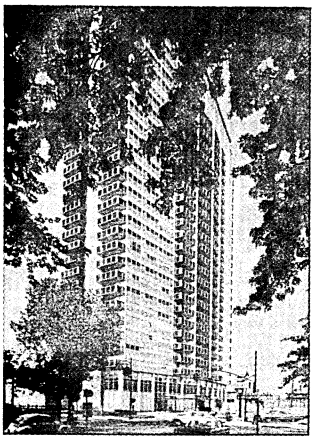
Mr. BRINKLEY. Our next witness is Mr. John Courson.

Mr. Courson is from Michigan. He is executive vice president of Fort Wayne Mortgage Co. in Birmingham, Mich. He has a long and distinguished record in this field. We welcome your testimony today and invite you to proceed. Your written statement will appear in the record at this point.

[Statement follows:]

MBA





STATEMENT OF
JOHN A. COURSON
of the
MANUFACTURED HOUSING SUBCOMMITTEE
MORTGAGE BANKERS ASSOCIATION OF AMERICA
before the
SUBCOMMITTEE ON HOUSING
COMMITTEE ON VETERANS' AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
on

HR 10268, INCREASING THE VA HOME LOAN GUARANTY AMOUNT

and

HR 11009, AMENDING THE VA MOBILE HOME LOAN PROGRAM

March 22, 1978

MORTGAGE BANKERS ASSOCIATION OF AMERICA
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YOUR COMMUNITY GROWS ON MORTGAGE FINANCE

Mr. Chairman and Members of the Subcommittee, my name is John A. Courson. I am Executive Vice President of the Fort Wayne Mortgage Company of Birmingham, Michigan and I am the immediate past Chairman of the of the Manufactured Housing Subcommittee of the Mortgage Bankers Association of America*. MBA is the trade association of this Nation's mortgage banking industry. Accompanying me are Burton C. Wood, MBA's Legislative Counsel, and Peter Kaplan, the Senior Director for Management Services.

We appreciate the opportunity to appear before you today to testify on HR 10268, a bill to increase the amount of the Veterans Administration home loan guaranty from $17,500 to $25,000 and HR 11009, a bill to improve the VA mobile home program.

*The Mortgage Bankers Association of America is the only nationwide organization devoted exclusively to the field of mortgage and real estate finance. MBA's membership is comprised of mortgage originators, mortgage investors, and a variety of industry related firms. Mortgage banking firms, which make up the largest portion of the total membership engage directly in originating, financing, selling, and servicing real estate mortgage loans. Mortgage investors acquire mortgage loans from originators for their investment portfolios. Members include:

- Mortgage Banking Companies
- Life Insurance Companies
- Commercial Banks
- Mutual Savings Banks
- Savings and Loan Associations
- Pension Funds
- Mortgage Brokers
- Title Companies
- Private Mortgage Insurers
- State Housing Agencies
- Investment Bankers
- Real Estate Investment Trusts

MBA headquarters is located at 1125 15th Street, N. W., Washington, D.C. 20005; Telephone: (202) 785-8333.

Mortgage bankers have always been heavily involved with the VA loan program. Our most recent complete figures reveal that in 1976 mortgage bankers originated over 75 percent of all VA residential single-family loans, more than three times as many as any other lender group.

Year	Mortgage Banker VA Closed ($ Millions)	Total VA Loans Closed ($ Millions)	% Mortgage Bankers of Total (%)
1976	$9,051	$11,992	75.5
1975	6,767	9,622	70.3
1974	6,113	8,234	74.2
1973	4,962	7,577	65.5
1972	4,928	7,749	63.5
1971	4,126	6,830	60.4
1970	2,588	3,845	67.3

Source*

Most, if not all, of these loans were originated for sale, either as whole loans or as Government National Mortgage Association (GNMA) mortgage-backed securities, to institutional investors, such as mutual savings banks, savings and loan associations and commercial banks. Typically, the mortgage banking industry continues to service these loans either directly for the purchasing institutional investor or for the GNMA security pools. Thus, our industry maintains a close personal relationship with the homeowning veteran who, as a consequence, often turns again to us when he wishes to purchase a new home.

INCREASE IN VA HOME LOAN GUARANTY

MBA supports the provision of HR 10268 which would increase the amount of a home loan that may be guaranteed by the Veterans Administration from $17,500 to $25,000. One of the economic constants of the present day housing picture is an ever increasing upward movement in housing costs. The following table graphically illustrates this with respect to veterans' housing.

*Source: Adapted from HUD's "Gross Mortgage Flows" series, VA's "Loan Guaranty Highlights," and MBA's Mortgage Banking Loans Closed and Servicing Volume.

VA PRIMARY HOME LOAN PROGRAM

Date	VA Guarantee Amount	House Prices		VA Average Loan Amount		VA Guarantee As Percent of VA Av. Loan Amt.	
		New	Existing	New	Existing	New	Existing
April 1968	$ 7,500	$20,254	$19,800	$16,721	$16,412	44.8%	45.7%
May 1968	12,500	20,401	16,868	19,937	16,498	62.7**	75.8 **
May 1969	"	22,154	17,948	21,609	17,533	57.8	71.3 **
May 1970	"	24,293	19,167	23,570	18,601	53.0	67.2 **
May 1971	"	24,735	20,524	24,189	21,048	51.6	59.4
May 1972	"	25,708	22,423	25,130	21,924	49.7	57.0
May 1973	"	26,548	22,783	25,995	22,424	48.0	55.7
May 1974	"	29,454	28,778	26,149	25,585	47.8	48.7
Dec. 1974	17,500	31,968	30,759	27,173	26,261	64.4**	66.6 **
Dec. 1975	"	35,681	34,316	30,031	29,261	58.3	59.8
Dec. 1976	"	38,956	37,446	32,270	31,413	54.2	55.7
Dec. 1977	"	43,472	37,617	41,239	36,323	42.4	48.2

Source*

The last ten years have seen the average cost of new housing financed by VA loans increase from $20,401 to $43,472—an increase of 116 percent. This large increase cannot help but have a severe adverse effect on veterans, particularly younger veterans seeking shelter for their families and anxious to avail themselves of their VA entitlement.

It is interesting to note that for the same ten-year period, new home prices, as measured by the Census Bureau—and this covers not only VA housing but also FHA and conventionally financed new housing—have increased from $24,500 to $57,600, a 135 percent increase. Thus the prospective veteran home buyer is at an even more serious disadvantage with respect to escalating housing costs.

Congress has recognized this fact by increasing periodically the VA loan guaranty amount to adjust to the economic reality of soaring land, labor and material costs. As HR 10268 proposes, the time has come once again for Congress to make this vital adjustment.

*Source: VA's Loan Guaranty Highlights

**It should be noted that there is a 60% limit on the amount of a VA guaranty and these figures are used for illustrative purposes.

Any increase in the present limit will encourage institutional investors to purchase VA loans. We find that lenders generally limit the maximum amount of a VA loan they will purchase to a multiple of the amount of the VA guaranty. Thus, a higher guarantee effectively allows the maximum mortgage amount to increase several times the increase in the guaranty amount.

As may be noted in the table, on page 3 of this testimony, in May of 1968, after Congress increased the loan guaranty amount from $7,500 to $12,500, the VA guarantee as a percentage of the average VA loan amount was 62.7 percent on a new home. This percentage gradually declined to 47.8 percent in May of 1974. At that time, Congress increased the amount of the guaranty to $17,500 and the percentage of the guaranty in relation to the average loan amount rose to 64.4 percent. Today, that rate has dropped once again to its lowest level in over a decade—42.4 percent. This puts today's veterans at a tremendous disadvantage vis-a-vis their counterparts of only four years ago.

To re-establish the approximate ratio of a two-thirds loan guarantee amount to the mortgage amount, the present $17,500 guaranty should be increased to at least $25,000—an increase of $7,500.

VA MOBILE HOME LOAN PROGRAM

MBA supports the provision of HR 11009 which would greatly improve the VA mobile home loan guarantee program.

I should like to mention briefly my own personal involvement with respect to mobile home financing. Our company is one of the major lenders participating in the

*These figures are subject to the 60% limit on the amount of the VA loan guaranty.

government-backed mobile home loan programs. During our participation in these programs it has become increasingly prevalent that "top line" mobile home units are eliminated from financing under the programs by virtue of the costs of such homes.

Costs have increased significantly over the past several years, not only because of the general rise in material and labor costs experienced by the national economy as a whole, but also as a result of construction standards promulgated by the federal government that were implemented during 1976. As a result of these increases, many mobile homes that could previously qualify for VA financing are now ineligible because prevailing prices exceed present VA loan limits. This circumstance has meant that many veterans are now unable to utilize their entitlements to finance mobile home purchases under the Veterans Administration's mobile home program. The present maximum loan amounts of $12,500 for single-wide units and $20,000 for double-wide units are just not realistic.

If the present maximum loan amounts are not increased, the unrealistically low levels will continue to eliminate more mobile homes from eligibility for VA guaranteed financing. Fewer veterans will be able to use the VA program or will be required to make excessive and unreasonable downpayments that are beyond their financial capabilities.

Current economic data indicate that the average price of a mobile home unit will outstrip the VA loan limits during 1978. Since 1970 the average annual increase in the retail price of a mobile home unit (all sizes) has been 13 percent. Applying this rate of increase to the present VA loan limit, it is readily apparent that the average priced single or double wide mobile home unit will not qualify for the VA program by the end of 1978:

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	Average Price		
	1976*	1977**	1978**
Single wide	10,500	11,865	13,407
Double wide	17,500*	19,775	22,345

MBA believes that enactment of HR 11009 is imperative particularly in view of the fact that the Housing and Community Development Act of 1977 (P.L. 95-128) now contains provisions increasing the maximum loan limits for FHA Title I Mobile Home Loans. The limits are increased from $12,500 to $16,000 on single-wide units and from $20,000 to $24,000 for double wides. And just as important, the 1977 Act extends the terms for single-wides to 15 years and double-wides to 23 years. Obviously, if the VA program is going to continue to be able to service the American veteran, its loan limits and terms will have to be increased.

MBA believes that the mobile home loan guaranty program should parallel the housing opportunities of the single-family loan guaranty program. To this end, the maximum loan limits for the mobile home program should be removed entirely. However, if the limits are removed, the Congress may wish to consider providing a dollar maximum limit on the amount of the guaranty while leaving the percentage amount the same. This would be comparable to the regular single-family program.

I want to stress that the elimination of the maximum loan limit is only part of the answer. If a reasonable and sufficient loan term is not available for the veteran, then monthly payments on the larger loan amounts will be prohibitive. What

* Source: Manufactured Housing Institute.

** Projection based on application of a 13 percent annual average retail price increase for all size units as determined from Mobile Home Institute data for the years 1970 thru 1976.

has been provided the veterans through larger loan amounts will be taken away by their inability to qualify for the monthly payments required for single-wides under the present 12 year loan term. An increase in this single-wide loan term to a maximum of 15 years is appropriate and consistent with the concept of eliminating the maximum loan limit.

Under the regular single-family loan guaranty program, there is no limit to the successive number of VA loans a veteran may receive so long as each loan is repaid and his or her eligibility restored. Under the mobile home program, a veteran may not receive more than two successive loans regardless of repayment of the previous loans. We believe that this inconsistency should be eliminated.

Another inconsistency present in the program today is the inability of the mobile home purchaser who is a veteran to make use of the partial entitlement which he or she is able to use under the single-family program. We support the provision of HR 11009 removing this barrier.

We appreciate the opportunity to appear before your Subcommittee and I should be happy to answer any questions you might have.

Thank you.

STATEMENT OF JOHN A. COURSON, PAST CHAIRMAN, MANUFACTURED HOUSING SUBCOMMITTEE, MORTGAGE BANKERS ASSOCIATION OF AMERICA

Mr. COURSON. Thank you, Mr. Chairman.

Mr. Chairman and members of the subcommittee: My name is John Courson, and I am the executive vice president of Fort Wayne Mortgage Co. of Birmingham, Mich., and I am the immediate past chairman of the Manufactured Housing Subcommittee of the Mortgage Bankers Association of America.

MBA is the trade association of this Nation's mortgage banking industry.

Accompanying me today on my right is Mr. Burton Wood, MBA's legislative counsel, and on my left is Mr. Peter Kaplan, the senior director for management services.

We appreciate the opportunity to appear before you today to testify on H.R. 10268, a bill to increase the amount of the Veterans' Administration home loan guaranty from $17,500 to $25,000, and H.R. 11009, a bill to improve the VA mobile home program.

Mortgage bankers have always been heavily involved with the VA loan program. Our most recent complete figures reveal that in 1976, mortgage bankers originated over 75 percent of all VA residential single-family loans, more than three times as many as any other lender group.

Most, if not all, of these loans were originated for sale either as whole loans or as GNMA mortgage-backed securities to institutional investors such as mutual savings banks, savings and loan associations, and commercial banks.

Typically, the mortgage banking industry continues to service these loans either directly for the purchasing institutional investor or for the GNMA security pools. Thus our industry maintains a close personal relationship with the homeowning veteran who, as a consequence, often turns again to us when he wishes to purchase a new home.

MBA supports the provision of H.R. 10268, which would increase the amount of a home loan that may be guaranteed by the Veterans' Administration from $17,500 to $25,000. One of the economic constants of the present day housing picture is an ever-increasing upward movement in housing costs.

The table that is included in my testimony illustrates this with respect to VA housing, and I would like to call to the subcommittee's attention the fact that the table that appears on page 3, the percentages which exceed 60 percent, are for illustrative purposes only, since of course there is a 60-percent limit on the VA guaranty amount.

The last 10 years have seen the average cost of new housing financed by VA loans increase from $20,401 to $43,472, which is an increase of 116 percent. This large increase cannot help but have a severe adverse effect on veterans, particularly younger veterans seeking shelter for their families and anxious to avail themselves of their VA entitlement.

It is interesting to note that for the same 10-year period, new home prices, as measured by the Census Bureau, and this covers not only VA housing but also FHA and conventionally financed new housing, have increased from $24,500 to $57,600, an increase of 135 percent. Thus the

prospective veteran home buyer is at an even more serious disadvantage with respect to escalating housing costs.

Congress has recognized this fact by increasing periodically the VA loan guaranty amount to adjust to the economic reality of soaring land, labor, and material costs. As H.R. 10268 proposes, the time has come again for Congress to make this vital adjustment.

Any increase in the present limit will encourage institutional investors to purchase VA loans. We find that lenders generally limit the maximum amount of a VA loan they will purchase to a multiple of the amount of the VA guaranty. Thus a higher guaranty effectively allows the maximum mortage amount to increase several times the increase in the guaranty amount.

As may be noted in the table on page 3 of this testimony, in May 1968, after Congress increased the loan guaranty amount from $7,500 to $12,500, the VA guaranty as a percentage of the average VA loan amount was 62.7 percent on a new home. This percentage gradually declined to 47.8 percent in May 1974. At that time, Congress increased the amount of the guaranty to $17,500 and the percentage of the guaranty in relation to the average-loan amount rose to 64.4 percent.

Today, that rate has dropped once again to its lowest level in over a decade, 42.4 percent. This puts today's veterans at a tremendous disadvantage vis-a-vis their counterparts of only 4 years ago.

To reestablish the approximate ratio of a two-thirds loan guaranty amount to the mortgage amount, the present $17,500 guaranty should be increased to at least $25,000, an increase of $7,500.

MBA supports the provision of H.R. 11009 which would greatly improve the VA mobile home loan guaranty program. I should like to mention briefly my own personal involvement with respect to mobile home financing. Our company is one of the major lenders participating in the Government-backed mobile home loan program. During our participation in these programs, it has become increasingly prevalent that top line mobile home units are eliminated from financing under the programs by virtue of the costs of such homes.

Costs have risen significantly over the past several years, not only because of the general rise in material and labor costs experienced by the national economy as a whole, but also as a result of construction standards promulgated by the Federal Government that were implemented during 1976.

As a result of these increases, many mobile homes that could previously qualify for VA financing are now ineligible because prevailing prices exceed present VA loan limits. This circumstance has meant that many veterans are now unable to utilize their entitlement to finance mobile home purchases under the Veterans' Administration mobile home program. The present maximum-loan amounts of $12,500 for singlewide units and $20,000 for doublewide units are just not realistic.

If the present maximum-loan amounts are not increased, the unrealistically low levels will continue to eliminate more mobile homes from eligibility for VA-guaranteed financing. Fewer veterans will be able to use the VA program or will be required to make excessive and unreasonable downpayments that are beyond their financial capabilities.

Current economic data indicate that the average price of a mobile home unit will outstrip the VA loan limits during 1978. Since 1970, the average annual increase in the retail price of a mobile home unit has been 13 percent. Applying this rate of increase to the present VA loan limit, it is readily apparent that the average-priced single or doublewide mobile home unit will not qualify for the VA program by the end of 1978.

MBA believes that the enactment of H.R. 11009 is imperative, particularly in view of the fact that the Housing and Community Development Act of 1977 now contains provisions increasing the maximum-loan limits for FHA title I mobile home loans. The limits are increased from $12,500 to $16,000 on singlewide units and from $20,000 to $24,000 for doublewides. And just as important, the 1977 act extends the terms for singlewides to 15 years and doublewides to 23 years. Obviously, if the VA program is going to continue to be able to service the American veteran, its loan limits and terms will have to be increased.

The MBA believes that the mobile home loan guaranty program should parallel the housing opportunities of the single-family loan guaranty program. To this end, the maximum-loan limits for the mobile home program should be removed entirely. However, if the limits are removed, the Congress may wish to consider providing a dollar-maximum limit on the amount of guaranty while leaving the percentage amount the same. This, then, would be comparable to the regular single-family program.

I want to stress that the elimination of the maximum loan limit is only part of the answer. If a reasonable and sufficient loan term is not available for the veteran, then monthly payments on the larger loan amounts will be prohibitive. What has been provided the veteran through larger loan amounts will be taken away by their inability to qualify for the monthly payments required for singlewides under the present 12-year loan term. An increase in this singlewide loan term to a maximum of 15 years is appropriate and consistent with the concept of eliminating the maximum loan limit.

Under the regular single-family loan guaranty program, there is no limit to the number of successive VA loans a veteran may receive, so long as each loan is repaid and his or her eligibility restored. Under the mobile home program, a veteran may not receive more than two successive loans regardless of repayment of the previous loans. We believe that this inconsistency should be eliminated.

Another inconsistency present in the program today is the inability of the mobile home purchaser who is a veteran to make use of the partial entitlement which he or she is able to use under the single-family program. We support the provision of H.R. 11009 removing this barrier.

We appreciate the opportunity, Mr. Chairman, to appear before your subcommittee, and I will be happy to answer any questions.

Mr. BRINKLEY. Thank you, Mr. Courson. It seems that in your statement you have also drawn into focus things that do need adjusting and which this committee is addressing.

I noticed you are from Birmingham, Mich. I thought Birmingham was in Alabama. [Laughter.]

Mr. COURSON. So does the post office, Mr. Chairman. [Laughter.]

Mr. BRINKLEY. Yes, sir.

Only one question do I have, on page 3, I believe it is, of your testimony. You do point to the percentage figures, and you note that under the VA guaranty law the maximum is 60 percent——

Mr. COURSON. Yes, sir.

Mr. BRINKLEY [continuing]. Notwithstanding the higher percentage figures there noted.

Mr. COURSON. Yes, sir.

Mr. BRINKLEY. Mr. Abdnor?

Mr. ABDNOR. I have no questions. Maybe Mr. Parkinson does.

Mr. PARKINSON. Yes, Mr. Chairman, I have a couple of questions.

Mr. Courson, in your dealings with the mobile home program, do you think that if H.R. 11009 is enacted it will create more interest in the lending field and get more people into it?

Mr. COURSON. I think it will. The problem, of course, is that with the limits that we are dealing with now, a lender that would be participating in the VA mobile home program who may be in the conventional program now has a cap on the type of units that he can finance, so he is really forced into a lower line manufactured home, and that certainly has been a detriment to encouraging lenders to come into the program. By removing those limits, they will be stepping in; yes.

Mr. PARKINSON. Just as general information for the record, in your experience, about how long does it take to process a VA loan?

Mr. COURSON. Well, I have to answer that two ways because there are two ways of processing a VA loan. One is on a prior approval basis, whereby the application and credit documents are submitted to the regional VA office for approval, and that process in our office has taken anywhere from 3 to 4 weeks.

The second way is through automatic approval by the lender. After a lender has demonstrated to the loan guaranty division of the VA that it has the proper expertise and staff and ability to process these loans it can then apply for and be granted automatic approval which, as you are aware, then allows the lender to make the credit decision, and then subsequently fund the loan. That obviously speeds the process, and in our office we can cut approximately a week off of that processing time.

Mr. PARKINSON. One more question. On page 4 you note that most lenders use a multiple. For the record, could you give us what that multiple is at this time?

Mr. COURSON. Yes, the normal industry standard for that multiple is four times the guaranty.

Mr. PARKINSON. Thank you.

Mr. BRINKLEY. Thank you, Chuck. Mr. Cornell?

Mr. CORNELL. No questions.

Mr. BRINKLEY. Mr. Fleming?

Mr. FLEMING. No questions.

Mr. BRINKLEY. Ms. Lunsford?

Ms. LUNSFORD. Mr. Courson, would you comment on the VA's method of appraising mobile homes or setting a value on new mobile homes? Is the 100 percent plus 20 valuation sufficient?

Mr. COURSON. I'll answer, first, that I think the advance is sufficient; 120 percent of the manufacturer's invoice, in our opinion, is sufficient.

Second, I think that the appraisal program that is really still in its infancy is something that is very important to the mobile home indus-

try. It is my opinion that the utilization of rating books, if you will, or of books that are published periodically trying to establish a value on a mobile home is really a fallacy. It is very difficult, unless you have an actual appraisal of that unit, just as on a site-built home, to determine the fair market value of that unit, and I think that the appraisal program will continue to grow and become a very important part of the industry. I think the VA should be complimented on taking on that task because it is a big task, and it is cutting territory that has not been moved into before. It certainly has been appropriate, and I see it as growing in its function.

Ms. LUNSFORD. Thank you.

Mr. BRINKLEY. Thank you very much. Hove a good trip, godspeed.

[Witness excused.]

Mr. BRINKLEY. The next witness will be Mr. Oakley Hunter, chairman of the board and president of the Federal National Mortgage Association, and at this time Mr. Cornell will assume the Chair until 12:30, at which time we will recess until 2 o'clock. We will continue at this time with Mr. Cornell chairing the subcommittee until 12:30.

Mr. CORNELL. Mr. Hunter, you may proceed as you will.

STATEMENT OF OAKLEY HUNTER, CHAIRMAN OF THE BOARD AND PRESIDENT, FEDERAL NATIONAL MORTGAGE ASSOCIATION

Mr. HUNTER. Thank you. My name is Oakley Hunter. I am chairman of the board and president of the Federal National Mortgage Association.

My appearance here brings back some fond memories. In one of my several careers, I was a Member of Congress, shortlived, but very interesting and very rewarding. My first assignment was the Veterans' Affairs Committee, and I sat up there for two terms. It was "Tiger" Teague who was my mentor, not only on the committee, but he introduced me to the gym club and taught me how to play paddle ball. [Laughter.]

I ask permission to incorporate my statement in full into the record—I am going to omit parts of it for the sake of brevity—and then I also ask permission to include with it an analysis of the regulations proposed by HUD governing the operations of FNMA.

Mr. CORNELL. Without objection, they will be included in the record.

Mr. HUNTER. Thank you.

[Statement follows:]

STATEMENT OF OAKLEY A. HUNTER, CHAIRMAN OF THE BOARD AND PRESIDENT, FEDERAL NATIONAL MORTGAGE ASSOCIATION

Mr. Chairman and Members of the Subcommittee, my name is Oakley Hunter. I am Chairman of the Board and President of the Federal National Mortgage Association (FNMA).

I am pleased to have this opportunity to appear before the Subcommittee to state our company's views on the two bills now under consideration—H.R. 10268, which would increase the VA home loan guaranty from $17,500 to $25,000 and H.R. 11009, which would improve the VA mobile home loan program.

In addition, I want to comment briefly on the proposals which have been put forth by the Secretary of the Department of Housing and Urban Development (HUD) to amend the existing HUD regulations concerning the operations of FNMA. These proposed regulations exceed the HUD Secretary's limited regulatory authority over FNMA and threaten to disrupt FNMA's secondary market

operations. Such a disruption would be seriously detrimental not only to home owners, including a very substantial number of veterans, to whom FNMA provides an important source of mortgage credit, but to the home building and housing finance industries as well.

Since this is the first time that FNMA has appeared before this Subcommittee, it may be helpful for me to explain briefly what FNMA is, what it does, and the significant contribution that it makes by providing a steady and dependable source of mortgage money, particularly when interest rates are moving up, to the veterans who use the VA home loan guaranty program.

Originally FNMA was within the Federal Government. In the Housing and Urban Development Act of 1968, the Congress reconstituted FNMA as a Federally chartered, but privately owned and managed corporation. Under its Charter Act, a Federal statute, FNMA is subject to specific, but limited, governmental regulation. Its sole purpose, as stated in the Charter Act ,is to "provide supplementary assistance to the secondary market for home mortgages by providing a degree of liquidity for mortgage investments, thereby improving the distribution of investment capital available for home mortgage financing." FNMA accomplishes this statutory purpose by purchasing from primary mortgage lenders, such as mortgage bankers, commercial banks, savings and loan associations and mutual savings banks, among others, residential mortgages and financing these purchases with the sale of common stock and corporate debt to the investing public.

FNMA operates entirely with its own funds; it gets no Federal appropriations or subsidies, and none of its securities are insured in any way by the Federal Government. Unlike any other large residential mortgage investor, it pays full Federal corporate income taxes. For the period from January 1, 1969 through December 31, 1977 FNMA has provided $762 million in Federal corporate income taxes.

The Secretary of the Treasury, at his discretion, may under the Charter Act buy FNMA obligations, if necessary, up to a maximum outstanding at any one time of $2.25 billion. This authority has not been used since 1969 when FNMA was still in transition to the private status it achieved in 1970.

Under Section 302(b)(1) of the Charter Act, FNMA is authorized to purchase and sell mortgages "guaranteed under the Servicemen's Readjustment Act of 1944 or chapter 37 of title 38, United States Code * * *."

From January, 1973 through December 31, 1977 FNMA has purchased in excess of $7.3 billion in VA mortgages. This has meant housing for over 275,000 veterans and their families. As of the end of last year, FNMA's home mortgage portfolio totalled $28.5 billion, of which over $9.3 billion, or 33 percent, was in VA guaranteed loans.

I cite these figures to support the point that a viable FNMA secondary market operation, such as that which has been carried out since 1968, is important to the residential mortgage market generally, and to some 450,000 veteran home owners specifically. This is all the more true in times when interest rates are rising and mortgage money is "tight," as in 1974 when FNMA purchased $2.3 billion in VA loans.

Let me turn now to H.R. 10268. The VA loan guaranty amount was last increased by the Congress in 1974 when the then $12,500 limit was increased to $17,500. Since then, as everyone including the veterans know, housing prices have increased. Between June 1974 and January 1978, the average price of new homes has increased over 45 percent and existing home prices have risen almost 40 percent. This has been recognized legislatively by the Congress in other housing programs. For example, in the 1977 Housing and Community Development Act, the Congress increased the dollar limit under the Federal Housing Administration's Section 203(b) program from $45,000 to $60,000. The lending limit applicable to Federal savings and loan associations under Section 5(c) of the Home Owners' Loan Act of 1933 has been liberalized, and the dollar limitations applicable to conventional mortgages eligible for purchase by both FNMA and the Federal Home Loan Mortgage Corporation were increased.

The increase in the VA loan guaranty amount as proposed in H.R. 10268 is, in our judgement, fully supportable. FNMA strongly supports the prompt enactment and early implementation of H.R. 10268, in order to help veterans meet the increased costs of housing.

H.R. 11009 relates to VA's mobile home loan program. FNMA recognizes the increasingly important role that manufactured housing is playing in meeting the shelter needs of a large segment of our population, including the veteran and his family.

In July 1976, FNMA began a detailed study of the feasibility of its providing secondary market financing for loans secured by manufactured housing. That study is now progressing, and barring unforeseen complications, it will be completed about March, 1979. The purpose of our study is to define and quantify the risk for this type of mortgage lending in an effort to bring financing terms for these units more in line with real estate practices.

Our study is being conducted in two phases, the first of which is now completed. FNMA has compiled detailed information on financing programs, both Federal and conventional, that are available for this type of housing. We have studied in depth the industry's current practices for determining unit value, for credit underwriting, and for loan servicing. Our lawyers have analyzed the legal considerations implicit in financing housing units secured by a chattel mortgage rather than a real estate mortgage. Out of this part of our study we have developed some specific assumptions.

The second phase of our study, now under way, consists basically of testing our assumptions against actual situations, particularly in terms of the risk to the secondary market lender. We want to see how specific characteristics of the borrowers, the loan and the manufactured unit contribute to risk. Also we need to be able to assess risk as a factor of our yield requirement i.e. the necessary return to the investor. Further, we need to determine the factors that go into the cost of servicing a loan secured by a manufactured housing unit, as well as to study how the market value of these units can be established and whether it is possible to estimate the period of effective use and finally how to estimate their durability.

Until our study is completed, FNMA prefers to postpone any comment on legislation relating to manufactured housing. Should this Subcommittee so desire, we will be pleased to share our study with you when it is completed.

Let me now turn to what FNMA believes to be a most important matter—the impact of the proposed HUD regulations on the VA loan guaranty program.

HUD's proposed regulations would disrupt the operations of FNMA and undermine its capacity to support the secondary market in VA guaranteed mortgages.

First, these regulations contain a series of mandatory credit allocation provisions, which set quotas for inner-city, existing housing and low-income family loan purchases. These provisions clearly exceed the Secretary's statutory authority and will seriously impair FNMA's operations. In order to meet the HUD set quotas, FNMA would have to abandon its forward commitment procedure, whereby FNMA allows mortgage lenders to buy commitments from FNMA for a large block of mortgage credit, without identifying individual loans. Eliminating this insurance against upward interest rate movements would cripple the thinly capitalized mortgage banking industry, which is the primary originator of VA guaranteed and FHA insured loans.

Second, the mandatory credit allocation requirements will force FNMA to discriminate against loans from the moderate-income rural and suburban homebuyers who are the mainstay of the VA programs but whose needs are not recognized by the HUD regulations.

Third, as even some HUD's supporters have admitted, the mandatory credit allocation provisions will result in increased interest costs for the average homebuyer. The veteran and his family seeking to buy a home will pay the price of HUD's excessive intervention into the operation of the secondary mortgage market.

Finally, converting FNMA's purchase authority to a multiple of purchases in each of the HUD quota categories would damage FNMA's ability to respond quickly and efficiently to cyclical shortages in overall mortgage credit as it has done in the past.

The new regulations burden not only FNMA's mortgage purchase activities but also its capacity to raise capital. FNMA has made a significant contribution to the overall availability of mortgage credit, by generating up to two-thirds of its funds from non-traditional mortgage investors. The proposed regulations pose a threat to FNMA's access to the capital markets and are sure to raise its borrowing costs—hence the mortgage interest rates paid by the homebuyers it serves.

Provisions of the regulations such as those barring FNMA's sale of convertible debentures, an instrument specifically authorized by Congress, and limiting its short-term debt will restrict FNMA's access to the lowest cost sources of capital in many situations. The requirement for 15-day prior notice to HUD of the terms of FNMA debt instruments can put FNMA at a serious competitive disadvantage in the capital market.

The Secretary's assertion of authority to decrease FNMA's debt-to-capital ratio may be a precursor to a demand that FNMA sell mortgages. Timing is a most critical factor in any substantial sale of mortgages; otherwise a sale may simply soak up mortgage credit and push up interest rates, particularly in a market like the one we now have.

The proposed regulations pose a clear and present danger to FNMA's continued capacity to provide support for the secondary mortgage market. These regulations represent a move towards government domination of a major corporation financed entirely with private capital. Such a move seriously damages the credibility of the Federal Government's commitment of cooperation with private enterprise.

The regulations also represent an attempt by HUD to renege on the promise made by Congress to FNMA's investors in the Housing Act of 1968—a commitment that the shareholders would control the corporation's policies—a promise kept by all four of the current HUD Secretary's predecessors.

FNMA has, since the early 1970's, been concerned with the revitalization of our cities. We have in place and functioning a nationwide affirmative urban lending program as well as a pilot housing program in St. Louis. To encourage and facilitate the participation of local lenders in urban revitalization, we have modified existing programs and have initiated new ones to meet the particular needs of the urban situation.

FNMA believes that as a Federally chartered, private corporation, it has been and will continue to proceed properly in trying to meet the problems of our cities and its approach is far preferable to a series of governmental regulations which are, in many instances, unworkable in practice and of dubious legality.

FNMA is proud of its track record in all segments of the mortgage market including cities, existing housing, housing for moderate income families, and lastly, but certainly not least, housing for the thousands of veterans across the country.

FNMA can and will continue our efforts to help the veteran homeowner. With your support, we will fulfill the promise of the 1968 Charter Act.

Mr. HUNTER. I am pleased to have this opportunity to appear before the committee and to comment on the two bills now under consideration, H.R. 10268, which would increase the VA loan guaranty from $17,500 to $25,000, and H.R. 11009, which would improve the VA mobile home loan program.

In addition, I want to comment briefly on the proposals which have been put forth by the Secretary of the Department of Housing to amend the existing HUD regulations concerning the operations of the corporation. These proposed regulations, in our opinion, exceed the Secretary's limited regulatory authority over FNMA and threaten to disrupt its secondary mortgage market operations.

Such a disruption would be seriously detrimental, not only to homeowners, including a very substantial number of veterans, to whom FNMA provides an important source of mortgage credit, but to the homebuilding and housing finance industries as well.

Since this is the first time that FNMA has appeared before this subcommittee, it might be helpful for me to explain briefly what FNMA is, what it does, and the significant contribution that it makes by providing a steady and dependable source of mortgage money, particularly when interest rates are moving up, to the veterans who use the VA home loan guaranty program.

Originally, FNMA was a part of the Federal Government. In the Housing and Urban Development Act of 1968, the Congress reconstituted FNMA as a federally chartered but privately owned and privately managed corporation. Under its Charter Act, which is a Federal statute, FNMA is subject to specific but limited Government regulation. Its sole purpose, as stated in the Charter Act, is to provide supplementary assistance to the secondary market for home mortgages by pro-

viding a degree of liquidity for mortgage investments, thereby improving the distribution of investment capital available for home mortgage financing.

FNMA accomplishes this statutory purpose by purchasing mortgages from primary lenders; in other words, FNMA does not deal directly with the home buyer, but buys residential mortgages from primary lenders such as mortgage bankers, commercial banks, savings and loan associations, mutual savings banks, and life insurance companies from time to time, among others. FNMA finances these purchases through the sale of common stock to the public and also to the sellers of the mortgages to it.

Through the borrowing of funds in rather substantial amounts from the investing public, FNMA operates entirely with its own funds. The corporation gets no Federal appropriations or subsidies. None of its securities are insured or guaranteed in any way by the Federal Government. Unlike any other large residential mortgage investor, FNMA pays full Federal corporate income taxes. There are no provisions in the law for any special tax treatment for FNMA. FNMA pays about half of its income in Federal corporate income taxes. FNMA is not objecting; it just wants to make the point that it is proud to be a taxpayer.

The Secretary of the Treasury has in his discretion, authority to lend money to FNMA or to buy its debentures up to a limit of $2.25 billion. But FNMA has conducted its business in such a way that since 1969, when FNMA was still in the transition from Government to private status, this authority has not been used. It has operated without recourse to any Treasury borrowing.

With regard to FNMA's part in the veterans' loan guaranty program, from January 1973, through December 31 of this last year, 1977, FNMA has purchased in excess of $7.3 billion in VA mortgages, and this means housing for over 275,000 veterans and their families. As of the end of last year, FNMA's home mortgage portfolio, as distinguished from apartments and hospitals and the like, totaled about $28.5 billion, of which over $9.3 billion, or 33 percent, as in VA-guaranteed loans.

I cite these figures to support the point that a viable FNMA secondary market operation, such as that which has been carried out since 1968, is important to the residential mortgage market generally and to some 450,000 veteran homeowners. This is all the more true in times when interest rates are rising and mortgage money is what we call "tight," as in 1974, when FNMA purchased about $2.3 billion in VA loans, and that is about 90,000 units.

Now, let me turn to H.R. 10268. The loan guaranty amount was last increased in 1974, when it went from $12,500 up to $17,500. Since then, as everyone including the veteran knows, and it has been stated here this morning, housing prices have increased. FNMA is very much aware of this because it keeps a close track of it. The average price of a new home between June 1974, and Jauanry 1978, has increased over 45 percent, and existing home prices have risen almost 40 percent.

This has been recognized legislatively by the Congress in other housing programs. For example, in the 1977 Housing and Community Development Act, the Congress increased the dollar limit on the FHA 203(b) program from $45,000 to $60,000. The lending limit applicable

to Federal savings and loan associations under section 5(c) of the Home Owners' Loan Act of 1933 has been liberalized. The dollar limitations applicable to conventional mortgages eligible for purchase by both FNMA and the Federal Home Loan Mortgage Corporation were increased.

So, the increase in the VA loan guaranty amount as proposed in this legislation, in FNMA's judgment, is fully supportable. FNMA strongly supports the prompt enactment and early implementation of this bill in order to help veterans meet the increased costs of housing.

The other bill relates to the VA mobile home loan program. FNMA recognizes the increasingly important role that manufactured housing is playing in meeting the shelter needs of a large segment of our population, including the veteran and his family.

Back in July 1976, FNMA began a very detailed study of the feasibility of its providing secondary-market financing for loans secured by manufactured housing. That study is now progressing. Barring unforeseen complications, it will be completed—I am sorry to say it is going to take about another year. Our target date is March 1979. Miss Betty Carey, who is heading up that study, is here today with me because she is making every effort to gather as much information as she possibly can. The purpose of the study is to define and quantify the risk for this type of mortgage lending.

I will skip over to the bottom of page 6 because until the study is completed, FNMA prefers to postpone any comment on the legislation relating to manufactured housing. If your committee wishes, FNMA will be pleased to share its study with you when it is completed. It will be very comprehensive and, as a matter of fact, it is costing FNMA quite a bit of money, but we think it is well worth the effort.

I would like to turn now to what FNMA believes to be a most important matter. That is the impact of the proposed HUD regulations on FNMA in terms of the VA loan guaranty program. HUD's proposed regulations would disrupt the operations of FNMA and undermine its capacity to support the secondary market in VA-guaranteed mortgages.

First, these regulations contain a series of mandatory credit allocation provisions which set quotas for inner-city, existing housing, and low-income family loan commitments and purchases. These provisions, we believe, clearly exceed the Secretary's statutory authority and will seriously impair FNMA's operations. To meet the HUD-set quotas, FNMA would have to abandon its forward commitment procedure, whereby FNMA allows mortgage lenders to buy commitments from FNMA for a large block of mortgage credit, without identifying individual loans.

Eliminating this insurance—this hedge—against upward interest rate movements would cripple the thinly capitalized mortgage banking industry, which is the primary originator of VA-guaranteed and FHA-insured loans.

Second, the mandatory credit allocation requirements will force FNMA to discriminate against loans for the moderate-income rural and suburban home buyers who are the mainstay of the VA programs but whose needs are not recognized by these proposed regulations.

Third, as even some HUD supporters have admitted, the mandatory credit allocation provisions will result in increased interest costs for the average home buyer. The veteran and his family seeking to buy a home will pay the price of HUD's excessive intervention into the operation of the secondary mortgage market.

Finally, converting FNMA's purchase authority to a multiple of commitments and purchases in each of the HUD-quota categories would damage FNMA's ability to respond quickly and efficiently to "cyclical" shortages in overall mortgage credit as it has done in the past.

I will move on to the middle of page 9.

We feel that the proposed regulations pose a clear and present danger to FNMA's continued capacity to provide support for the secondary-mortgage market. These regulations represent a move toward Government domination of a major corporation which is financed entirely with private capital. We believe that such a move seriously damages the credibility of the Federal Government's commitment of cooperation with private enterprise.

Furthermore, the regulations represent an attempt by the Department to renege on a promise made by the Congress to FNMA's investors in the Housing Act of 1968, which is a commitment that the shareholders would control the corporation's policies, subject to reasonable regulation, a promise which has been kept by all four—actually five—of the current HUD Secretary's predecessors.

We are not in any way underestimating or minimizing the importance of the problem of revitalization of our cities and the problem of providing housing for low- and moderate-income families. Actually, about 21 percent of our portfolio is in mortgages for low- and moderate-income family housing. At one point we had either committed to buy or had bought about 90 percent of all the FHA section 236 mortgages, which was the major Government thrust in recent years to meet the problem of rental housing for low- and moderate-income families.

FNMA now has a number of programs underway. We do not in any way minimize the importance of the inner-city problem, but we don't think that these proposed regulations are the way to meet that problem. We think that FNMA with its program is on the right track. We are proud of our track record in all segments of the mortgage market, including cities, existing housing for moderate-income families, and, importantly to this committee, housing for thousands of veterans across the country.

I will say that FNMA can and will continue its efforts to help the veteran homeowner, and with your support, we will fulfill the promise of the 1968 Carter Act under which we operate. Thank you.

Mr. CORNELL. Thank you, Mr. Hunter.

When you were talking about the achievements of Fannie Mae, the thought came to me that you might want to give some advice to the Postal Service. [Laughter.]

I noted that you stressed, of course, your opposition to the HUD series of mandatory credit allocations which set the quotas for inner-city and low-income populations. I presume that you have informed HUD of your views in regard to these regulations. Is that correct?

Mr. HUNTER. Yes, we have done that.

Mr. CORNELL. And I understand that the Veterans Administration would like to study what you have said and the manner in which the HUD regulations would affect VA housing before the VA responds. This will be valuable to us when we get the VA reaction to these HUD regulations, and how they would affect veterans' housing.

Mr. Abdnor, do you have any questions?

Mr. ABDNOR. Thank you, Mr. Chairman. First I want to thank you for the endorsement of the pending bills. We think they will make a substantial contribution to the home loan guaranty program. We certainly have appreciated the part FNMA has played in the past. We all are interested in seeing that veterans receive decent housing conditions.

I, too, am concerned, particularly after listening to you, Mr. Hunter, about what would happen under all these regulations. Are they in effect now?

Mr. HUNTER. No, they are proposed. They have been published. We have until, I believe, April 27 to respond. Of course, all interested parties have until that time to respond, after which——

Mr. ABDNOR. How did these happen to come about?

Mr. HUNTER. Pardon?

Mr. ABDNOR. How did they happen to come about? Were you aware that this kind of——

Mr. HUNTER. There had been talk about additional regulation. Of course FNMA has been subject right along to specific regulation by the Secretary. But these proposed regulations are all-encompassing; they actually are tantamount to giving to the Department almost complete control of our operations. We did not know anything about the content of the proposals until they were actually published. It took HUD, as I understand it, about 9 months to write them, but at no time during that period were we asked a single question about the content.

Mr. ABDNOR. That was my next question: Were you even consulted? I mean in 1969 you became a completely independent group. I suppose you really felt that you didn't have any real ties of jurisdiction and HUD didn't have any jurisdiction over you. That has been the general feeling, hasn't it?

Mr. HUNTER. Well, FNMA's transition out of government to its private status was completed in May 1970. There are specific regulatory authorities given to the Secretary in the FNMA Charter Act. For example, the limit on our borrowing authority must be set by the Secretary. The Secretary must approve our issuance of securities.

But these specific authorities actually go to the financial soundness of the corporation and do not go to the interference or participation in the day-to-day operations or the business judgments which Congress gave to the corporation, its directors, and its stockholders.

Now, in order that the interest of the Government be manifest, and I believe that was because FNMA had been a part of HUD, the law provided that 5 of the 15 directors of the corporation would be appointed by the President of the United States. We feel these Presidential appointees give the Federal Government an opportunity to express itself as far as the management of FNMA is concerned, and that is the proper outlet or the proper way of manifesting the Government interest, outside of the specific regulations.

Mr. ABDNOR. Thank you. Mr. Chairman, do you mind if I ask a couple of other questions?

Mr. CORNELL. Go ahead.

Mr. ABDNOR. If FNMA's ability to purchase VA-guaranteed mortgages is encumbered by the HUD regulations, what avenues of financing are left open to veterans who want to buy a home? I mean, what is the total number of loans you buy, one-third, wasn't it?

Mr. HUNTER. Well, yes, about one third of our——

Mr. ABDNOR. That is a lot.

Mr. HUNTER. One-third of our portfolio, some $9.3 billion.

Mr. ABDNOR. That is an awful lot of the veterans, so where do they go?

Mr. HUNTER. Well, among the sources akin to us, there is the Federal Home Loan Mortgage Corporation, now called the Mortgage Corporation. Then, of course, there are the commercial banks and the thrift institutions. But, impairing our ability to participate fully will have a substantial adverse impact upon the funding of VA mortgages.

I always want to make the point that FNMA is not in any sense seeking to shirk its responsibility to do everything that it can to help with the problems in the inner city. When there are programs in operation concerning low- and moderate-income-family housing, as in the case of the FHA sections 235 and 236, FNMA was right there ready and willing to buy, and buying.

But, at this moment there is not too much going on in the way of Federal housing programs, or FHA programs, or otherwise. There is a pickup taking place. It is easy enough to say, "make loans"; it is not that easy to actually consummate the transactions.

If FNMA made every effort possible, I would say in the next year or so, it will be difficult to generate more than $1 billion of inner-city loans, of low- and moderate-income-family loans. On an allocation basis, the proposed regulations would mean that FNMA would only be allowed $2.3 billion outside of this area.

Now this year, FNMA will most likely, without interference, be buying in the neighborhood of $8 billion in mortgages. FNMA will be taking care of all the needs or all the demands made upon it in the inner city, but at the same time, it has the capacity to provide financing for housing to veterans and others throughout the country, irrespective of location.

Mr. ABDNOR. Well, you know, so many inner-city problems—I was just listening to a commentary the other day—might have been caused by some of our Government programs. I am wondering why they are always trying to correct something if the Federal Government, both Congress and HUD, are maybe at a crossroad here where we are trying to facilitate purchase of veterans' loans, and they come along with new rulings like HUD is proposing that do just the opposite. Here we are working against each other again. Don't you think that could become a real possibility, knowing the intention of this committee is to try to facilitate regular loans for——

Mr. HUNTER. Correct, there is a——

Mr. ABDNOR. Then come along, and you get directions from another group, telling you something completely different from what we are trying to do.

Let me ask another question. You testified that FNMA started out, as we said a moment ago, in the Federal Government. You contend it is now private; nevertheless, why should not FNMA support inner-

city housing? You have pretty well answered that. But I wanted to reiterate it.

On page 9 of your testimony, you mention the convertible debenture. Have you used this type of financing, and what success have you had with it?

Mr. HUNTER. Well, FNMA is privately capitalized and it has to have so much equity in relation to the amount it borrows. In other words, it has to maintain a certain debt-to-capital ratio. FNMA did issue $250 million in convertible debentures to the public. That $250 million, and with the leverage FNMA is permitted, with that additional equity base, FNMA was able to borrow over $6 billion which it put into mortgages.

Now this convertible debenture offering, at the time, was determined to be a very effective way of raising capital at the lowest cost to FNMA and, of course, it had the effect of keeping FNMA's mortgage interest rates down. Now for some reason or other unknown to me because the question has never been asked of us, the proposed regulations say FNMA shall not issue any more convertible debentures.

Now this convertible debenture offer was approved by the Treasury which, incidentally, does have control over the amount, the time, and the interest rate and maturities of all of FNMA debt issues. As a matter of fact, FNMA feels this is a satisfactory arrangement. We agree with it; we feel it is sufficient.

But we are at a loss to understand why these regulations, arbitrarily and without explanation, say no more convertible debenture issues. FNMA should have at all times the opportunity to explore and utilize every possible means of raising the money it needs in equity capital to enlarge its borrowing authority and in turn make it an adequate source of supplemental mortgage funds, particularly in times of tight credit.

As a matter of fact, the authority to issue convertible debentures was specifically given to FNMA by Congress. It is in the FNMA Charter Act.

Mr. ABDNOR. How long have you had that?

Mr. HUNTER. Since 1968.

Mr. ABDNOR. This endeavor is getting to be a bigger and bigger thing, it sounds like.

On page 8 you stated that converting a FNMA purchase authority to a multiple of purchases in each of the HUD quota categories would damage FNMA's ability to respond quickly and effectively to the cyclical shortages in overall mortgage credit as it has been done in the past.

Earlier in your statement, you said that FNMA had purchased $2.3 billion in VA loans in 1974. Had the HUD regulations been in effect in 1974, would you have been able to purchase that much?

Mr. HUNTER. Did you say 1974?

Mr. ABDNOR. Yes.

Mr. HUNTER. 1974. FNMA actually bought about $2 billion in these FHA section 236 and section 235 mortgages, which are FHA insured for low- and moderate-income families.

Now that was actually the year of greatest activity, and FNMA was fully participating. But if this allocation of credit was in effect

at that time, the maximum that FNMA could have bought would have been $6 billion. Actually, it bought $7 billion in mortgages. Now what that means is that FNMA would not have been able to buy as many veterans' loans as it did in 1974. That was an optimum year, because FNMA has never before or since bought that many low- and moderate-income family mortgages because they haven't been available.

The point is that it is not certain at any particular time what the low- and moderate-income mortgage market is going to be. FNMA feels it should make every effort to help out with inner-city lending and with low- and moderate-income family loans, but it doesn't think that these markets should be allowed to affect adversely FNMA's lending in other areas of the country and meeting the needs of the American home buyers generally, when it has the capacity to do it.

Mr. ABDNOR. Well, let me say at this time—the bell has been ringing, and you have been very kind, Mr. Chairman—this has been very helpful to me. I know that FNMA is a very important part of housing and loans, and I have never really understood it, nor do I profess to really understand it now, but I do have a little better insight. I have been wondering as I read the papers about what these new regulations could mean. I have also read some comments by your organization.

I am looking forward to hearing the VA and want to have their comments on this. I just thank both you and you, Mr. Chairman, for giving me all this time. Thank you.

Mr. CORNELL. Do you have any questions, Mr. Fleming?

Mr. FLEMING. I have two questions. No. 1 is you indicated that if the subcommittee desired, you would be happy to share with the subcommittee your study results, although that is at some point in 1979. Would you please do that?

Mr. HUNTER. Well, as a matter of fact, we may have material now that, if it would be helpful to you, would be available. The study is in two parts. The first part I think is about completed. The second part is necessary before we can have a final judgment in the matter. But there may be material now that would be helpful to you. I will talk to Ms. Carey about that. She is the one who could discuss it fully with you.

Mr. FLEMING. Mr. Hunter, although you have covered it here in your statement quite well, would you please share with the subcommittee, by way of a follow-up letter, two or three things. No. 1 is, would you submit to the subcommittee the proposed regulation in question here by the Secretary of HUD.

No. 2 is a letter directed to the subcommittee chairman in response to those regulations. Now you indicated you had until April 26 to officially respond to the proposed regulations.

Mr. HUNTER. Correct.

Mr. FLEMING. When do you think you would have your comments in response to the regulations ready to be submitted?

Mr. HUNTER. About the middle of April. Of course, we have done a number of preliminary drafts setting out our comments, which contain a great deal of basic material.

I asked and was granted permission to include an analysis which was recently done by an outside independent consultant, which I think

would be very helpful. We will provide that also to the Veterans' Administration.

Mr. FLEMING. All right. At whatever point you feel that you can, would you give us a copy of your official comments?

Mr. HUNTER. Yes; just as soon as we are ready with them.

Mr. FLEMING. Would you, before that time, direct a letter to the subcommittee chairman outlining the specifics of how you think the proposed regulations would adversely impact on the VA housing programs, to a larger degree than what you have done in your statement? I think that would be very helpful to the subcommittee.

Mr. HUNTER. Thank you. We will be glad to do that.

Mr. FLEMING. Thank you, sir.

Ms. LUNSFORD. Mr. Chairman, I would just simply ask that the record be left open in case the subcommittee has additional questions to present to Mr. Hunter.

Mr. CORNELL. Thank you. Do you feel that the mandatory credit allocation requirements would have a particular impact on the purchase of mobile homes for veterans?

Mr. HUNTER. Of course, we are not buying them now. We are undertaking this study to determine the advisability of getting into this field. We have become involved to an extent with the FHA in its program. We are very much aware of the fact that manufactured housing is a source of housing for a great many people in this country.

Assuming that we get into this business, I can say that the regulations definitely would impact our capacity to be of service in this area.

Mr. CORNELL. I noted, particularly, however, that you are not going to have mobile homes in the inner-city.

Mr. HUNTER. Because the mobile homes are not in the inner-city.

Mr. CORNELL. Yes; it's not an inner-city thing. That is what I was referring to.

Well, thank you very, very much, Mr. Hunter.

[Witness excused.]

Mr. CORNELL. The subcommittee will stand in recess until 2 o'clock. We have several votes coming up on the floor.

[Whereupon, at 12:20 p.m., the hearing was adjourned, to reconvene in the same place at 2 p.m., the same day.]

The following information was submitted for the record relative to how the proposed HUD regulations, governing operations of the Federal National Mortgage Association, could adversely impact on FNMA's mortgage financing of VA home loan guaranties:

FEDERAL NATIONAL MORTGAGE ASSOCIATION,
Washington, D.C., April 4, 1978.

Hon. JACK BRINKLEY,
Chairman, Subcommittee on Housing, Committee on Veterans' Affairs, U.S. House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: I am writing to you, first to thank you for the privilege of appearing before your Subcommittee on March 22 to discuss the impact of the HUD proposed regulations on FNMA's ability to continue to serve those veterans wishing to purchase their homes using the VA home loan guaranty program in conjunction with FNMA mortgage financing. Secondly, I want to comply with the request made of me by the Committee's counsel, Mr. Mack Fleming.

FNMA wil file its formal comments to the HUD proposal sometime about the middle of the month, and at that time I will send the Subcommittee a copy of our

response. In the interim, the comments that follow may be of interest to you and the other Members of the Subcommittee and will elaborate on my presentation to the Subcommittee.

FNMA believes these regulations, if finally adopted without substantial change, will seriously interfere with its ability to assist those veterans seeking to use the VA home loan guaranty program in conjunction with mortgage financing provided by FNMA. (See Attachment #1, entitled Critique of Proposed Regulations Governing the Operations of the Federal National Mortgage Association.)

In the nine year period from calendar 1969 through 1977, FNMA purchased 482,558 VA guaranteed home loans, totalling almost $11.4 billion. These purchases represent 18 percent of all the home loans guaranteed by the VA during this period, and 16 percent of the dollars involved. As of December 31, 1977, FNMA's single family mortgage portfolio totalled $28.5 billion, of which $9.3 billion, or 33 percent, was in VA guaranteed home loans. This represents housing for some 450,000 veterans and their families.

If these HUD proposed regulations are finally adopted without substantial change, FNMA believes that they will, in effect, wrest control of the company from its fifteen member Board of Directors (ten of whom are elected annually by the stockholders and five of whom are appointed by the President of the United States) and will place control of the company under HUD. The financial risk, however, will continue to be borne by the company's more than 35,000 stockholders and the thousands who have invested in its debt obligations.

Not only would this transfer of control be contrary to the expressed intent of the Congress in taking FNMA out of Government, but it would seriously disrupt the mortgage market to the detriment of home buyers, including thousands of veterans, home builders, real estate people, mortgage lenders and the holders of FNMA stock and debt.

As an example of the regulatory excess that HUD proposes, there is an allocation system set forth in the proposed regulations which would direct that at least 30 percent of FNMA's total mortgage purchases involve housing for low and moderate income families.

"Housing for low and moderate income families" is defined in the draft regulations to include specified FHA insured and HUD subsidized programs, plus "any single-family dwelling purchased at a price below the then current median price for such housing in the Standard Metropolitan Statistical Area, or county not in such Area . . ." Thus, except to the extent that VA mortgages fall "below the then current median price for such housing" they would be nonconforming mortgages.

We believe that HUD has no legal authority to impose this 30 percent purchase quota. Of almost equal importance, the quota means that the dollar volume of the mortgages, including VA mortgages, that FNMA buys in any calendar year is not dictated by the needs of the mortgage market (as required by FNMA's statute), but will now be dictated on the basis of administrative fiat by the volume of mortgages on low and moderate income housing offered to FNMA for purchase. (FNMA does not itself originate mortgages, but buys them from primary lenders.)

For example, if FNMA is to buy $8 billion in mortgages to meet the market demands in 1978, $2.4 billion of these purchase *must be* for low and moderate income housing. But, if only $1 billion of such mortgages can be purchased by FNMA, then, regardless of the statutory requirement that FNMA meet mortgage market needs, and the needs of all mortgagors, including veterans, FNMA can buy only $3.33 billion mortgages in total. The result, though obviously inequitable and unnecessary, is clear. Many homeowners, including many veterans, simply may not be able to buy homes because FNMA will not be able to support the market to the extent it not only could but has in the past.

This allocation system—this HUD determined quota—would force FNMA to change drastically the manner in which it now operates. Currently, FNMA issues forward commitments to lenders to purchase mortgages at specific interest rates. These lenders, however, are not obligated to deliver the mortgages under the commitments but rather they are free to sell the mortgages elsewhere if they can do so at a better price. If the HUD regulations as now proposed are implemented, delivery of mortgages no longer will be optional but will have to be mandatory so that FNMA can be sure it will meet the HUD determined quota. This change will be particularly onerous for mortgage banking firms and the

homeowners seeking finance from these firms, since these are the firms that normally obtain FNMA commitments prior to originating loans, and these are the firms that primarily originate the VA guaranteed home loans.

Also, if FNMA is forced by the proposed regulations to go to a system of mandatory delivery of loans, the veteran buying a home will be the one hurt. Under a mandatory delivery procedure, the veteran or other home buyer will not be able to take advantage of any drop in mortgage interest rates that may occur between the data the FNMA commitment is issued and the date (usually not more than four months later) when the mortgage is delivered.

In testimony before your Subcommittee on Housing on March 22, the witness for the Mortgage Bankers Association of America, the nationwide trade organization of mortgage banking firms, stated, "Our most recent complete figures reveal that in 1976 mortgage bankers originated over 75 percent of all VA residential single-family loans, more than three times as many as any other lender group."

The regulations as now drafted also impact on FNMA's ability to borrow money in the capital markets. Funds that FNMA uses to buy mortgages from local lenders, such as the mortgage banker, would be unnecessarily restricted. The result inevitably will be an increase in the corporation's borrowing costs, which will be reflected in the eventual cost to the home buyer (including the veteran) whose mortgage is purchased by FNMA.

In summary, FNMA believes that these proposed regulations will adversely impact on its ability to provide the financial assistance it is now capable of furnishing to those veterans who wish to use the VA home loan guaranty program, and who need to avail themselves of FNMA financing. To support this statement, I am attaching a copy of a study (Attachment #2) recently completed by FNMA's Office of Corporate Planning. This study, as you will note, is based on 1970 data. The reason for this is simple. Data relating to the classification called for in the proposed regulations—"the then current median price of such housing in the Standard Metropolitan Statistical Area or county not in such Area" is not available anywhere. In this regard, see the attached letter from the Bureau of Census, dated March 17, 1978 (Attachment #3). The study points out some of the practical problems involved in complying with these regulations and concludes "that FNMA's ability to purchase loans guaranteed by the Veterans Administration could be severely restricted by the proposed HUD regulation requiring that 30% of FNMA's purchases be for homes designated for low and moderate-income families." The study also notes that "FNMA activity would be restricted in twenty-six individual states because only a limited number of VA loans in those states fall below the median value for housing in the state . . . Whenever less than 30% of the VA loans fall below the state median, even if FNMA were to purchase all of the below-median loans, it could not potentially purchase all of the VA loans originated in that state."

"In the twenty-six restricted states, a total of 25,789 loans would be ineligible for purchase—even if FNMA were to purchase all below-median value loans in those states."

As Mr. Fleming requested I am enclosing a copy of the HUD proposed regulations (Attachment #4).

If you or any Committee Member, or the staff have any questions on our operations vis-a-vis the VA loan guaranty program or on how these proposed regulations will impact on that program, I hope you will call me.

Sincerely,

OAKLEY HUNTER.

Enclosures.

ATTACHMENT

MEMORANDUM

Washington, D.C., March 21, 1978.

To: Oakley Hunter, Chairman of the Board and President.
From: Thomas A. Ronzetti, Vice President Corporate Planning.
Subject: Analysis of Possible Impact of HUD Regulations on FNMA Purchases of Home Loans Guaranteed by the Veteran's Administration.

SUMMARY

Our analysis of the Veterans Administration Loan Guaranty Files indicates that FNMA's ability to purchase loans guaranteed by the VA could be severely

restricted by the proposed HUD regulation requiring that 30 percent of FNMA's purchases be for homes designated for low and moderate-income families. The proposed regulation applies equally to all categories of FNMA purchases (FHA, VA and Conventional).

ASSUMPTIONS

Although a lack of complete information makes it technically impossible to evaluate the precise impact of the regulations, the Department of Corporate Planning has made several assumptions which permit the use of the VA's Loan Guaranty Files to estimate possible effects.

First, practical considerations of time and cost required that the state be treated as the fundamental unit of comparison and not SMSA and county. Second, the median value of all single-family housing units on ten acres or less as reported in the 1970 Census by state was used as a proxy for the local "current median price of housing."

RESULTS

Within each state, all of the VA guaranteed, single-family loans originated in 1970 were reviewed and a determination was made as to whether or not the purchase price of the mortgaged property was below the state median value. All fifty states and the District of Columbia were included. On a national basis, 54,265 loans of a total of 155,413 loans fall below their respective state median. This represents 34.9 percent of all single-family loans guaranteed by the VA in the country in 1970. These results appear to indicate that FNMA should have little difficulty in meeting the 30 percent low and moderate-income restriction within the category of VA loans.

However, in actual application to FNMA's operations, there could be seriously disruptive effects. Within the overall figure there is a great deal of variability on a state-by-state basis. For example, in the State of Alaska in 1970, only one VA loan was made below the median value of housing in that State while in Connecticut, 79 percent of the VA loans were below the state median value. This is of concern to FNMA since local credit market conditions determine the geographical distribution of FNMA purchases, not the overall national distribution of new loan originations.

The extent of this potential disruption can be seen in the State of Texas, where only 16.5 percent (2,193 loans of a total 13,306) of the VA loans were made on properties below the $12,000 state median value. Thus, even if FNMA were to buy all 2,193 below-median value loans, it would only be able to purchase a total of 5,117 loans above the median. This would leave 5,996 loans ineligible for purchase if FNMA were to apply the 30 percent rule within the State of Texas alone.

The nature of FNMA's responsibility for providing a degree of supplementary liquidity implies that purchases will tend to be concentrated from time to time in individual states or groups of states where credit availability is short. Thus, it is reasonable to look at what the effects of imposing the 30 percent limit on a state-by-state basis for only VA loans would be. At this level, the regulation would have a very restrictive effect on FNMA's purchase activity. FNMA activity would be restricted in twenty-six individual states because only a limited number of VA loans in those states fall below the median value for housing in the state. (See Table 1.) Whenever less than 30 percent of the VA loans fall below the state median, even if FNMA were to purchase all of the below-median loans, it could not potentially purchase all the VA loans originated in that state.

In the twenty-six restricted states, a total of 25,789 loans would be ineligible for purchase—even if FNMA were to purchase all below-median value loans in those states.

CONCLUSION

An analysis of the VA Loan Guaranty Files indicates that because FNMA's VA loan purchase activity tends to cluster geographically in the areas currently experiencing a shortage of mortgage funds, the proposed HUD regulation on total purchases will very likely cause a restriction of total VA loan purchases by FNMA. Only if all VA loan purchase activity were distributed geographically in the exact same proportions as total VA loan originations, at all times, would the imposition of these regulations not cause a restriction of FNMA purchases.

THOMAS A. RONZETTI,
Vice President for Corporate Planning.

TABLE 1.—STATES IN WHICH FNMA PURCHASES OF VA LOANS COULD BE RESTRICTED IF REGULATIONS WERE APPLIED TO INDIVIDUAL STATES

State	1970 census median value of single family housing units	Total VA S/F loans in 1970	Percent below State median value	Loans which would be ineligible for purchase	Percent of total loans in State ineligible
Alabama	$12,000	2,471	9.91	1,654	67
Alaska	22,700	278	.35	275	99
Arizona	16,300	2,456	18.64	929	38
Arkansas	10,500	499	9.41	342	69
Florida	15,000	3,815	11.08	2,405	63
Georgia	14,600	5,303	14.48	2,743	52
Idaho	14,100	59	13.55	32	54
Kentucky	12,600	739	16.64	329	45
Louisiana	14,600	2,181	19.07	794	36
Maryland	18,700	4,557	25.36	704	15
Mississippi	11,200	1,080	9.16	750	69
Missouri	14,400	2,054	27.45	174	8
Montana	14,000	325	24.30	62	19
Nebraska	12,400	1,210	16.69	537	44
New Mexico	13,000	419	11.93	252	60
North Carolina	12,800	4,832	13.30	2,689	56
North Dakota	13,000	297	22.89	70	24
Oklahoma	11,100	1,668	17.92	671	40
Oregon	15,400	139	21.58	39	28
South Carolina	13,000	1,992	13.25	1,112	56
South Dakota	11,400	136	16.17	63	46
Tennessee	12,500	3,039	19.87	1,026	34
Texas	12,000	13,306	16.48	5,996	45
Virginia	17,100	7,634	22.34	1,947	26
Washington	18,500	3,538	28.77	144	4
West Virginia	11,300	310	25.16	50	16

Source: Office of Corporate Planning, March 1978.

ATTACHMENT

[4210-01]

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT—OFFICE OF THE SECRETARY

[24 CFR Part 81]—[Docket No. R-77-509]

REGULATIONS GOVERNING OPERATIONS OF THE FEDERAL NATIONAL MORTGAGE ASSOCIATION

Proposed Rulemaking

Agency: Federal National Mortgage Association (FNMA).

Action: Proposed rule.

Summary: The Secretary proposes to revise existing Part 81 to: 1. Require from FNMA certain reports on a regular basis, 2. provide for certain examinations and audits, 3. impose certain standards upon FNMA's mortgage market transactions, and 4. make minor technical changes to the existing book-entry regulations. The Secretary has determined that there is a need to develop a regulatory framework for FNMA operations in furtherance of national housing goals.

Comment due date: March 27, 1978.

For further information contact: Irving P. Margulies, Room 10244, Office of General Counsel, Department of Housing and Urban Development, 451 Seventh Street SW., Washington, D.C. 20410, 202-755-7203.

Supplementary information

Title III of the National Housing Act, 12 U.S.C. 1723(a) (Charter Act), created FNMA in order to establish a secondary market for home mortgages. Section 309(h) empowers the Secretary to "* * * make such rules and regulations as shall be necessary and proper to insure that the purposes of (Title III) are accomplished."

The Secretary has determined that there is a need to develop a regulatory framework for FNMA operations. This Notice, therefore, proposes to expand Part 81 in order to provide for reports, audits and examinatons of FNMA and to impose upon FNMA's mortgage market transactions certain requirements in furtherance of national housing goals, including, but not limited to, that of pro-

viding adequate housing for low and moderate income families. Section 309(h).

As revised, Part 81 would consist of five subparts: A—General Provisions, B—Operations of FNMA, C—Reporting Requirements, D—Examination and Audits, and E—Book-Entry Procedures for FNMA Securities. Subpart E would consist of existing 24 CFR 81.6 through 81.14, unchanged except for renumbering of its sections and updating of the references to FNMA, which is presently cited as the corporation. There follows a section-by-section discussion of the proposed new provisions for Part 81.

In Subpart A, § 81.1 describes the scope of the part and § 81.2 sets forth eight definitions of terms that are used throughout these regulations. Attention is drawn especially to the definition of "Housing for Low and Moderate Income Families" which would include: (1) Any housing financed by a mortgage loan insured by FHA under Sections 221(d)(2), 221(d)(3), 221(d)(4), 235, or 236 of the National Housing Act; (2) any housing project having 25 percent or more of its units eligible for rental assistance under Section 8 of the United States Housing Act of 1937, and (3) any single-family dwelling purchased at a price below the current median price for such housing in the Standard Metropolitan Statistical Area, or county not in such area, in which the dwelling is located.

In Subpart B, § 81.11 would outline, in general, the Secretary's statutory authority to regulate FNMA operations. Section 81.12, paragraph (a), concerns common stock purchases by FNMA mortgage sellers and servicers. Subparagraph (a)(1) would approve FNMA's determination that sellers of mortgages not be required to purchase common stock, thus codifying the present temporary suspension of that requirement. Subparagraph (a)(2) would approve FNMA's determination that each mortgage servicer be required to own one share of common stock for each $100,000, or fraction thereof, of FNMA-held mortgages purchased after September 1, 1969, and serviced by such servicer. The present requirement is one share for each $10,000 of mortgages serviced. Subparagraph (a)(3) would provide that common stock shall be sold for a price equal to the issue price as determined by FNMA with the Secretary's approval.

Subparagraph (a)(3) would also provide for at least 15 days notice before changing the issue price, and it specifies information that must accompany a request to the Secretary for approval of such a change. Notice is presently required, but there is no provision for Secretarial approval. Paragraph (b) contains provisions permitting FNMA to limit or deny pre-emptive rights to shareholders for stock issuances other than those under paragraph (a). This provision is unchanged in substance from present requirements except that reference to convertible debt issuances has been eliminated. Paragraph (c) sets forth existing requirements for shareholder resolutions concerning pre-emptive rights. Paragraph (d) contains the present requirement for Secretarial approval of any stock issuance other than one to servicers in accordance with paragraph (a); however, the existing provision for approval of debt securities convertible into common stock is omitted. It would be necessary to request approval of stock issuances at least 30 days before the proposed issue date and to include the information set forth in paragraph (d).

Section 81.13 is reserved for future regulation.

Section 81.14 would govern issuance of obligations by FNMA. Paragraph (a) sets forth the statutory authority for such regulation. Under paragraph (b), FNMA could issue obligations (except as provided in paragraph (d)) only with the prior written approval of the Secretary. However, FNMA would be prohibited from issuing any obligation convertible into common stock. Paragraph (c) would require FNMA to submit a request for approval at least 15 days prior to the proposed date of issuance of obligations, accompanied by certain specified materials. Paragraph (d) would give automatic approval for issuance of discount notes of 180 days or less, up to an aggregate outstanding principal amount of $2,000,000,000.

Section 81.15 would regulate the maximum debt-to-capital ratio for FNMA. Under Section 304(b) of the Charter Act, FNMA's debt-to-capital ratio may not exceed 15 to 1, unless allowed by the Secretary: Paragraph (a) would fix a maximum debt-to-capital ratio of 25 to 1, the ratio set by the present regulations. Paragraph (b) would prohibit FNMA from issuing any general obligations (under section 304(b) of the Charter Act) if such issuance would cause the maximum ratio to be exceeded. The paragraph omits the present provisions that allow automatic increases in the maximum ratio to accommodate reductions in capital, surplus, or reserves or to accommodate refinancing of subordinated debt with general obligations. Paragraph (c) would allow FNMA to submit written requests for Secretarial approval of higher debt-to-capital ratio. Paragraph (d)

would provide for decreases in the maximum ratio by the Secretary after notice to FNMA and a reasonable opportunity to comment on such proposed action.

Section 81.16 would govern FNMA's transactions in conventional mortgages, implementing the approval authority contained in Section 302(b)(2) of the Charter Act. Paragraph (a) would provide for the Secretary's approval for FNMA to purchase, service, sell, and otherwise deal in conventional home mortgages and unit mortgages, subject to the limitations and requirements contained in other provisions of the section. Home mortgages are those secured by single-family dwellings; unit mortgages are those secured by condominium or PUD units. Paragraphs (b) and (c) would codify the present limitations now found in the FNMA conventional Selling Contract supplement with respect to loan-to-value ratio and maximum principal amount. Paragraph (d) would require that a certain percentage of commitments for the purchase of conventional mortgages made by FNMA in any calendar year be for mortgages on property located in a central city or cities in a Standard Metropolitan Statistical Area. Paragraph (e) would require that a certain percentage of commitments for the purchase of conventional mortgages made by FNMA in any calendar year be for mortgages on properties improved by a previously occupied home. In the case of both paragraphs (d) and (e), the percentage requirements would be 10 percent of the dollar amount of purchase commitments made during 1978 and 30 percent for 1979 and subsequent years. In addition, both paragraphs would provide for Secretarial suspension of the percentage requirements in critical economic situations.

Section 81.17 would implement the Secretary's authority set forth in Section 309(h) of the Charter Act to require that a reasonable portion of FNMA's mortgage purchases be allocated to mortgages for financing housing for low and moderate income families as defined in § 81.2(g). There is no comparable provision in the present regulations. Paragraph (b) would require at least 30 percent of FNMA's mortgage purchases in any calendar year to consist of mortgages on low and moderate income family housing.

In § 81.18, Paragraph (b) would require FNMA to obtain Secretarial approval of a revised statement of home mortgage underwriting guidelines to make clear that it does not practice unlawful discrimination in the purchases of mortgages. Paragraph (c) would provide for review of and comment on any amendments to such guidelines by Secretary.

Section 81.19 would impose equal employment opportunity requirements on FNMA and its contractors and vendors. The provisions of this section are drawn from E.O. 11246, which requires similar provisions to be included in Government contracts.

Subpart C would impose certain reporting requirements on FNMA to implement Section 300(h) of the Charter Act. Section 81.21 sets forth a citation of this statutory authority.

Section 81.22 would require for the first time that FNMA submit certain reports concerning its secondary market operations. Paragraph (a) would require FNMA to develop and update a general plan for the conduct of its secondary market operations, covering a period of at least 3 years. The plan, with annual revisions as appropriate, would be submitted to the Secretary during the month of November of each year. Paragraph (b) would require FNMA to submit a report on loan purchases and sales by December 15 of each year, with actual data for the Federal fiscal year just ended and projected data for the current calendar year, the following calendar year, and the current Federal fiscal year. Paragraph (c) would require FNMA to submit, by December 15 of each year, a budget plan for its secondary market operations for the following year.

Section 81.23 would require FNMA to submit detailed reports on its activities and operations to the Secretary. Paragraph (a) specifies 23 different types of reports which would be required on a regular basis. The information to be required for each such report is described in Appendix A to Part 81. It is contemplated that Appendix A would be amended from time to time. Paragraph (b) would contain requirements for the signing of reports by FNMA officers and submission of copies.

Section 81.24 would require FNMA to submit to the Secretary, prior to each commitment auction, an estimate of the dollar amounts of purchase commitments it expects to issue in each auction.

Section 81.25 would require FNMA to submit to the Secretary a copy of the complete minutes of each meeting of the Board of Directors and each meeting of a committee.

Section 81.26 would provide for such further reports and other information on FNMA activities as the Secretary may request in writing from time to time.

Subpart D would contain provisions relating to examinations and audits by HUD. Section 81.32 provides for examination of FNMA's books, records, and documents by duly authorized representatives of the Secretary. Section 81.33 provides for an annual HUD audit of FNMA's affairs.

Interested persons are invited to submit written comments, views or data regarding this proposed rule to the Rules Docket Clerk, Office of the General Counsel, Room 5218, Department of Housing and Urban Development, 451 Seventh Street, SW., Washington, D.C. 20410. Communications should refer to the above docket number and title. All such submissions received on or before March 27, 1978, will be considered before adoption of a final rule. A copy of each communication will be available for public inspection during regular business hours at the above address.

A Finding of Inapplicability respecting the National Environmental Policy Act of 1969 has been made in accordance with HUD Handbook 1390.1. A copy of this Finding of Inapplicability will be available for public inspection during regular business hours at the address set forth in the preceding paragraph.

The requirements of E.O. 11821 regarding economic impact have been complied with.

Title 24, Subtitle A is proposed to be amended by revising Part 81 to read as follows:

PART 81—REGULATIONS GOVERNING OPERATIONS OF THE FEDERAL NATIONAL MORTGAGE ASSOCIATION

Subpart A—General Provisions

Sec.

Subpart B—Operations of FNMA

Subpart C—Reporting Requirements

Subpart D—Examinations and Audits

Subpart E—Book-Entry Procedures for FNMA Securities

Appendix A—FNMA Reporting Requirements to the Secretary of Housing and Urban Development.

SUBPART A—GENERAL PROVISIONS

§81.1 Scope of part

This part contains a codification of regulations relating to FNMA issued by the Secretary, as authorized by the Charter Act. Subpart A contains definitions relating to this entire part. Subpart B contains regulations governing the operations of FNMA. Subpart C contains regulations requiring FNMA to prepare and submit certain reports on its activities to the Secretary on a regular basis. Subpart D contains regulations governing examinations and audits of FNMA by the Secretary. Subpart E contains regulations governing book-entry procedures for FNMA securities and related matters.

§ 81.2 Definitions

As used in this part, the term—

(a) "Charter Act" means the Federal National Mortgage Association Charter Act (Title III of the National Housing Act, 12 U.S.C. 1716, et seq.).

(b) "FNMA" means the Federal National Mortgage Association.

(c) "Secretary" means the Secretary of Housing and Urban Development and, where appropriate, any person delegated by the Secretary to perform a particular function for the Secretary.

(d) "Debt-to-capital ratio" means the ratio of (1) the aggregate principal amount outstanding at any one time of obligations issued by FNMA under Section 304(b) of the Charter Act to (2) the sum of FNMA's capital, capital surplus, general surplus, reserves, undistributed earnings, and the total outstanding principal amount of obligations issued by FNMA under Section 304(e) of the Charter Act.

(e) "Home mortgage" means a mortgage loan secured by real property upon which is located a dwelling unit designed for residential use for not more than one family, which real property is held by the borrower in fee simple or on a leasehold extending at least 10 years beyond the maturity of the mortgage.

(f) "Unit mortgage" means a mortgage loan secured by real property consisting of a dwelling unit designed for residential use for not more than one family in a condominium or planned unit development project, which real property is held by the borrower in fee simple or on a leasehold extending at least 10 years beyond the maturity of the mortgage. A unit mortgage is secured by the dwelling unit itself and an individual interest in the common areas of the project or membership or a stock interest in an association having title to the common areas of the project.

(g) "Housing for low and moderate income families" means—

(i) Any housing financed by a mortgage loan insured by FHA under Sections 221(d)(2), 221(d)(3), 221(d)(4), 235, or 236 of the National Housing Act;

(ii) Any housing project in which 25 percent or more of the units are eligible for rental assistance under Section 8 of the United States Housing Act of 1937; and

(iii) Any single-family dwelling purchased at a price below the then current median price for such housing in the Standard Metropolitan Statistical Area, or county not in such Area, in which the dwelling is located.

(h) "conventional," when used to describe a mortgage loan, means not insured or guaranteed by the United States or any agency thereof.

SUBPART B—OPERATIONS OF FNMA

§ 81.11 General

Section 309(h) of the Charter Act provides the Secretary with general regulatory power over FNMA and directs the Secretary to make such rules and regulations as shall be necessary and proper to insure that the purposes of the Charter Act are accomplished. In addition, the Charter Act requires the approval of the Secretary with respect to certain of FNMA's operations and activities. Finally, the Charter Act specifically authorizes the Secretary to require that a reasonable portion of FNMA's mortgage purchases be related to the national goal of providing adequate housing for low and moderate income families. This subpart contains regulations, implementing the foregoing authority, which govern certain of the operations and activities of FNMA.

§ 81.12 Issuance of common stock

(a)(1) Section 303(c) of the Charter Act directs FNMA to issue shares of its common stock to each seller of mortgages to FNMA who makes capital contribu-

tions to FNMA. Under section 303(b) of the Charter Act, such capital contributions may be required by FNMA in such amounts as may be determined from time to time by FNMA with the approval of the Secretary. The Secretary hereby approves the determination of FNMA that, on and after April 1, 1978, FNMA shall no longer require any capial contributions to be made by such sellers.

(2) Section 303(c) of the Charter Act directs FNMA to require each servicer of its mortgages to own a minimum amount of FNMA common stock, as determined from time to time by FNMA with the approval of the Secretary. The Secretary hereby approves the determination of FNMA that, on and after April 1, 1978, FNMA shall require each servicer of its mortgages to own one share of its common stock (stated value of $6.25) for each $100,000, or fraction thereof, of the aggregate outstanding principal balances of all mortgages held by FNMA which have been purchased subsequent to September 1, 1968, and which are then serviced by such servicer for FNMA.

(3) Section 303(c) of the Charter Act also authorizes FNMA to issue additional shares of stock in return for appropriate payments into capital or capital and surplus. Such shares shall be sold for an amount equal to the issue price determined from time to time by FNMA with the written approval of the Secretary. Prior to April 1, 1978, FNMA shall obtain the written approval of the Secretary for the issue price which is to be in effect on that date. Thereafter, any request for approval of a change in the issue price shall be submitted to the Secretary in writing not less than 15 days prior to the proposed effective date of such change. Such request for approval shall contain the following information:

(i) The current issue price;

(ii) The proposed new issue price and the proposed effective date thereof;

(iii) The issue prices in effect for the preceding two years and dates such issue prices were in effect;

(iv) The book value per share of common stock at the end of each calendar quarter during the preceding two years; and

(v) The net income per share of common stock for each calendar quarter during the preceding two years.

(b) For any and all stock other than stock issued pursuant to paragraph (a)(2) of this section, FNMA is authorized to adopt a shareholder resolution, governing all such issues and sales of shares of its common stock, which permits FNMA to provide for or limit or deny to shareholders preemptive rights in all purchases of issues of such stock. Such resolution shall be effective with respect to each such issue from and after the date of adoption thereof and until expressly repealed or amended by a subsequent resolution duly adopted in accordance with the procedures set forth in paragraph (c) of this section.

(c) The shareholder resolution authorized by paragraph (b) of this section shall be made in the following manner.

(1) The Board of Directors of FNMA shall adopt the proposed resolution setting forth the language thereof and directing that it be submitted to a vote at a meeting of shareholders of FNMA which may be either an annual or a special meeting.

(2) Written notice setting forth the proposed resolution or a summary of it shall be given to each shareholder of record entitled to vote thereon within the time and in the manner provided for notices of meetings of shareholders in the bylaws of FNMA.

(3) At such meeting a vote of the shareholders entitled to vote thereon shall be taken on the proposed resolution. The proposed resolution shall be adopted upon receiving the affirmative vote of the affirmative vote of the holders of at least two-thirds of the shares of FNMA which are outstanding and entitled to vote thereon.

(d) Except as provided in paragraph (a) of this section, FNMA shall not issue any stock without the prior written approval of the Secretary. Any request for such approval shall be submitted to the Secretary in writing not less than 30 days prior to the date on which FNMA proposes to issue such stock. Such request for approval shall contain the following information:

(1) The proposed date of issuance and amount of the stock to be issued;

(2) The proposed use of proceeds, including the amount to be used for repayment of maturing debt and the amount to be used for each other purpose; and

(3) FNMA's assessment as to current conditions in the capital market and the effect of the proposed issuance thereon.

§ *81.13* [*Reserved*]

§ *81.14 Issuance of obligations*

(a) Section 309(h) of the Charter Act provides that no stock, obligation, security, or other instrument shall be issued by FNMA without the prior approval of the Secretary. Section 311 of the Charter Act provides that all issuances of stock, obligations, securities, participations, or other instruments by FNMA shall be made only with the approval of the Secretary.

(b) Except as is otherwise provided in paragraph (d) of this section, FNMA shall not issue any obligation, security, or other debt instrument without obtaining the prior written approval of the Secretary in accordance with the procedure set forth in paragraph (c) of this section. FNMA shall not issue any obligation, security, or debt instrument convertible into common stock.

(c) Not less than 15 days prior to the proposed date of issuance of any obligations, securities, or other debt instruments, FNMA shall submit to the Secretary a written request for approval of such issuance. Such request for approval shall be accompanied by a copy of any communication submitted to the Secretary of the Treasury requesting his approval of such issuance, as required by subsection (b), (d), or (e) of section 304 of the Charter Act, and shall provide the following information with respect to the proposed issuance of obligations, securities, or other debt instruments:

(1) The proposed date of issuance, interest rate or rates, maturity or maturities, and principal amount;

(2) Whether the debt is to be secured by mortgages or subordinated to other obligations;

(3) The proposed use of proceeds, including the amount to be used for repayment of maturing debt and the amount to be used for each other purpose;

(4) A computation showing that any applicable limitation (as set forth in section 304(b) or section 304(e) of the Charter Act) will not be exceeded as a result of the proposed issuance; and

(5) FNMA's assessment as to current conditions in the capital market and the effect of the proposed issuance thereon.

(d) The approval of the Secretary is hereby given for FNMA to issue discount notes with maturities not in excess of 180 days, in a total principal amount not in excess of $2,000,000,000 outstanding at any one time.

§ *81.15 Debt-to-capital ratio*

(a) Under section 304(b) of the Charter Act, FNMA's debt-to-capital ratio may not exceed 15 to 1, unless a greater maximum ratio is fixed by the Secretary. The maximum debt-to-capital ratio for FNMA is hereby fixed at 25 to 1.

(b) FNMA shall not issue any obligations under section 304(b) if such issuance would cause FNMA's debt-to-capital ratio to exceed the maximum ratio fixed in paragraph (a) of this section.

(c) Any request by FNMA to fix a higher maximum debt-to-capital ratio shall be submitted in writing to the Secretary, together with a justification for such increase (including possible alternatives thereto) and supporting financial data, not less than 30 days prior to the proposed effective date of such increase.

(d) The Secretary may decrease the maximum ratio fixed in paragraph (a) of this section, if it is determined that such action is warranted by FNMA's current financial condition and that such action will not be detrimental to the holders of FNMA obligations issued under section 304(e) of the Charter Act. In such event, the Secretary shall give FNMA written notice of the proposed decrease and a reasonable opportunity to comment thereon, prior to any action by the Secretary.

§ *81.16 Transactions in conventional mortgages*

(a) Section 302(b)(2) of the Charter Act authorizes FNMA, with the approval of the Secretary, to engage in certain transactions with conventional mortgages, for the purposes set forth in section 301(a) of the Charter Act. Subject to the limitations and requirements contained in this section, the approval of the Secretary is hereby given for FNMA to purchase, service, sell, and otherwise deal in conventional home mortgages and unit mortgages.

(b) FNMA shall not purchase any conventional home mortgage if the outstanding principal balance of the mortgage at the time of purchase exceeds 80 percent of the value of the property securing the mortgage, unless one of the following requirements is met;

(1) The seller of the mortgage retains a participation interest therein of not less than 10 percent;

(2) For such period and under such circumstances as FNMA may require, the seller of the mortgage agrees to purchase or replace the mortgage upon demand of FNMA in the event that the mortgage is in default; or

(3) That portion of the unpaid principal balance of the mortgage which is in excess of 75 percent of the value of the security property is insured by a mortgage insurer acceptable to FNMA.

(c) FNMA shall not purchase any conventional home mortgage if the outstanding principal balance of the mortgage at the time of purchase exceeds: (1) 90 percent of the value of the property securing the mortgage or (2) $75,000 ($112,500, if the property securing the mortgage is located in Alaska or Hawaii); except that a home mortgage or a unit mortgage insured as provided in paragraph (b)(3) of this section may be purchased with a loan-to-value ratio not in excess of 95 percent if the unpaid principal balance thereof does not exceed $60,000 ($90,000, if the property securing the mortgage is located in Alaska or Hawaii).

(d)(1) Except as otherwise provided in subparagraph (2) of this paragraph, in each calendar year beginning with 1978, of the commitments to purchase conventional home mortgages made by FNMA during such calendar year, not less than the following percentage of the aggregate principal balance of the mortgages represented by such commitments shall consist of mortgages secured by properties located in a central city or cities in a Standard Metropolitan Statistical Area:

(i) For 1978, 10 percent;

(ii) For 1979 and subsequent years, 30 percent.

(2) The requirements set forth in subparagraph (1) of this paragraph may be suspended by the Secretary upon a determination that economic conditions have resulted in a reduction in volume of home construction or acquisition which threatens seriously to affect the economy and to delay the achievement of national housing goals. In such event, the commitments made by FNMA for the purchase of conventional home mortgages during the period of such suspension shall not be included in computing the percentage requirements of subparagraph (1) of this paragraph.

(e)(1) Except as otherwise provided in subparagraph (2) of this paragraph, in each calendar year beginning with 1978, of the commitments to purchase conventional home mortgages made by FNMA during such calendar year, not less than the following percentage of the aggregate principal balance of the mortgages represented by such commitments shall consist of mortgages secured by property improved by a previously occupied home:

(i) For 1978, 10 percent;

(ii) For 1979 and subsequent years, 30 percent.

(2) The requirements set forth in subparagraph (1) of this paragraph may be suspended by the Secretary upon a determination that economic conditions have resulted in a reduction in volume of home construction or acquisition which threatens seriously to affect the economy and to delay the achievement of national housing goals. In such event, the commitments made by FNMA for the purchase of conventional home mortgages during the period of such suspension shall not be included in computing the percentage requirements of subparagraph (1) of this paragraph.

§ 81.17 Mortgages on housing for low and moderate income families

(a) Section 309(h) of this Charter Act authorizes the Secretary to require that a reasonable portion of FNMA's mortgage purchases be related to the national goal of providing adequate housing for low and moderate income families, but with reasonable economic return to FNMA.

(b) In each calendar year beginning with 1978, FNMA shall purchase mortgages on housing for low- and moderate-income families in an aggregate principal amount equal to not less than 30 percent of the aggregate principal amount of all mortgages purchased by FNMA during such calendar year.

§ 81.18 Home mortgage underwriting guidelines

(a) This section is adopted pursuant to the general regulatory power vested in the Secretary by the first sentence of section 309(h) of the Charter Act.

(b) On or before May 1, 1978, FNMA shall submit to the Secretary for approval revised home mortgage underwriting guidelines. These underwriting guidelines shall make clear that, in purchasing conventional mortgages, FNMA will not decline to purchase any mortgage loan, or discriminate in the fixing of

the amount, interest rate, duration, or other terms or conditions of any mortgage loan that FNMA will purchase: (1) Because of the race, color, religion, sex, marital status, or national origin, (i) of the borrower, (ii) of any persons associated with the borrower in connection with such mortgage loan or the purposes thereof, or (iii) of the present or prospective owners, lessees, tenants, or occupants of the dwelling or dwellings securing such mortgage loans; or (2) because of (i) the racial or ethnic composition of the area in which the property which would secure the mortgage loan is located or (ii) the age of the area or the housing stock in such area.

(c) After adoption of revised home mortgage underwriting guidelines approved by the Secretary, FNMA shall not amend them without submitting a copy of any proposed amendment to the Secretary for review and comment thereon, not less than 30 days prior to the adoption of any such amendment.

§ 81.19 Equal employment opportunity

(a) This section is adopted pursuant to the general regulatory power vested in the Secretary by the first sentence of section 309(h) of the Charter Act.

(b) FNMA shall not discriminate against any employee or applicant for employment because of race, color, religion, sex, or national origin. FNMA shall take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, color, religion, sex, or national origin. Such action shall include, but not be limited to, the following:

(1) Employment, upgrading, demotion, or transfer;
(2) Recruitment or recruitment advertising;
(3) Layoff or termination;
(4) Rates of pay or other forms of compensation; and
(5) Selection for training programs.

(c) FNMA shall post, in conspicuous places available to employees and applicants for employment, notices setting forth the provisions of paragraph (b) of this section.

(d) FNMA shall, in all solicitations or advertisements for employees placed by it or on its behalf, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex, or national origin.

(e) FNMA shall send to each labor union or representative or workers with which it has a collective bargaining agreement or other contract or understanding, a notice, to be provided by the Secretary, advising the labor union or workers' representative of FNMA's obligations under this section, and shall request that such union or representative post copies of the notice in conspicuous places available to employees and applicants for employment.

(f) FNMA shall comply with all provisions of Executive Order 11246, and of the applicable rules, regulations, and orders of the Secretary of Labor promulgated thereunder.

(g) FNMA shall furnish all information and reports required by Executive Order 11246, and by the applicable rules, regulations, and orders of the Secretary of Labor promulgated thereunder, and shall permit access to its books, records, and accounts by the Secretary and by the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.

(h) FNMA shall include the provisions of paragraphs (b) through (g) of this section in every contract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to section 204 of Executive Order 11246, so that such provisions will be binding upon each contractor or vendor. FNMA will take such action with respect to any contract or purchase order as the Secretary may direct as a means of enforcing such provisions, including sanctions for noncompliance. In the event FNMA becomes involved in, or is threatened with, litigation with a contractor or vendor as a result of such direction by the Secretary, FNMA may request the United States to enter into such litigation to protect the interest of the United States.

Subpart C—Reporting Requirements

§ 81.21 General

Section 309(h) of the Charter Act provides that the Secretary may require FNMA to make reports on its activities as the Secretary deems advisable. This subpart contains a codification of the requirements of the Secretary as to the information on FNMA's activities to be provided in reports submitted to the Secretary.

§ *81.22 Secondary market operations*

(a) No later than July 1, 1978, FNMA shall develop a general plan for the conduct of the secondary market operations authorized by the Charter Act. The plan shall contain FNMA's proposed method for (1) providing liquidity for mortgage lenders, (2) conducting its stabilization functions (both bringing new sources of mortgage funds into mortgage investments and generally being a net purchaser of mortgage loans in periods of credit stringency and a net seller of mortgage loans in periods of credit ease), (3) transferring mortgage funds from areas of capital surplus to areas of capital shortage (both on a national basis and within Standard Metropolitan Statistical Areas), and (4) providing support for sound market-rate government insured mortgages for low and moderate income housing. The plan shall cover a period of at least three years, and FNMA shall revise it annually as appropriate. Such plan, as revised, shall be submitted to the Secretary during the month of November of each year.

(b) On or before December 15 of each year, FNMA shall submit to the Secretary a report setting forth the dollar volume of its loan purchases and sales during the Federal fiscal year just ended, and its loan holdings at the end of such Federal fiscal year, together with projections of these data for the current calendar year, the following calendar year, and the current Federal fiscal year. Such data shall be in form appropriate for inclusion in the Special Analyses of the Budget of the United States Government. The data shall distinguish between loans on one-to-four family homes and loans on multifamily projects containing five or more dwelling units.

(c) On or before December 15 of each year, FNMA shall submit to the Secretary a budget plan for its secondary market operations for the following year. This plan shall include the following information for each of the calendar quarters during such year, with separate figures given for FHA-insured, VA-guaranteed, and conventional loans in the data relating to home loans:

(1) Estimated commitments to purchase home mortgage loans expected to be (i) offered to and (ii) accepted by FNMA under the Free Market System auctions and otherwise;

(2) Estimated FNMA purchases and sales of home mortgage loans;

(3) Estimated commitments to purchase multifamily residential or other project loans expected to be (i) offered to and (ii) accepted by FNMA;

(4) Estimated purchases and sales of multifamily residential and other project loans;

(5) Estimated amounts expected to be borrowed through issuance of debt securities, other than discount notes, (i) for repayment of maturing debt securities and (ii) for expected loan purchases.

§ *81.23 Regular reports*

(a) FNMA shall submit to the Secretary on a regular basis such reports on the activities and operations of FNMA as are prescribed in this paragraph. Each such report shall contain the information required for the activity or operation which is the subject of the report, as specified in Appendix A to this part (and as it may be amended from time to time).

(1) A report on each auction of commitments to purchase loans shall be submitted promptly after the date of each such auction;

(2) A report on stand-by commitments issued during each month shall be submitted within 5 days after the end of each such month;

(3) A report on status of borrowing authority as of the end of each month shall be submitted within 5 days after the end of each such month;

(4) A report on delinquencies, defaults, and foreclosure actions during each month shall be submitted within 10 days after the end of each such month;

(5) A statement of indebtedness as of the end of each calendar quarter shall be submitted within 5 days after the end of each such calendar quarter;

(6) A statement of loan portfolio as of the end of each calendar quarter shall be submitted within 10 days after the end of each such calendar quarter;

(7) A report on each issuance of long-term securities shall be submitted promptly after the completion of each such issuance;

(8) A report on short-term securities (discount notes or other securities with maturities under one year) isued during each calendar quarter shall be submitted within 5 days after the end of each such calendar quarter;

(9) A report on investor groups purchasing FNMA securities issued during each calendar quarter shall be submitted within 10 days after the end of each such calendar quarter;

(10) A report on the age distribution of the properties financed by mortgage loans purchased by FNMA during each calendar quarter shall be submitted within 10 days after the end of each such calendar quarter;

(11) A report on the geographic location of the properties financed by the mortgage loans purchased by FNMA during each calendar quarter shall be submitted within 20 days after the end of each such calendar quarter;

(12) A report on average yields of home mortgage loans purchased by FNMA during each calendar quarter shall be submitted within 20 days after the end of each such calendar quarter;

(13) A report on average yields of project loans purchased by FNMA during each calendar quarter shall be submitted within 20 days after the end of each such calendar quarter;

(14) A report on the lender groups from whom mortgage loans were purchased during each calendar quarter shall be submitted within 20 days after the end of each such calendar quarter;

(15) A report on the mortgage loans on multifamily residential properties and non-residential properties acquired by FNMA during each month shall be submitted within 10 days after the end of each such month;

(16) A report on mortgage loans sold by FNMA during each calendar quarter shall be submitted within 10 days after the end of each such calendar quarter;

(17) A report on the average yields at which mortgage loans were sold during each calendar quarter shall be submitted within 10 days after the end of each such calendar quarter;

(18) A report on FNMA's holdings of security investments as of the end of each calendar quarter shall be submitted within 5 days after the end of each such calendar quarter;

(19) A report on the composition of revenues received by FNMA during each calendar quarter shall be submitted within 10 days after the end of each such calendar quarter;

(20) A report on the composition of expenditures made by FNMA during each calendar quarter shall be submitted within 10 days after the end of each such calendar quarter;

(21) A statement of the net income earned by FNMA during each calendar quarter shall be submitted within 10 days after the end of each such calendar quarter;

(22) A report on the distribution of the holdings of FNMA common stock as of the end of each calendar quarter shall be submitted within 20 days after the end of each such calendar quarter;

(23) A report on the market price of FNMA common stock for each month shall be submitted within 5 days after the end of each such month.

(b) Each report required to be submitted to the Secretary under the provisions of this section shall be signed by a Principal Officer of FNMA. In addition, one copy of each such report shall be sent to the Assistant Secretary-FHA Commissioner, and one copy shall be sent to the General Counsel of HUD.

§ 81.24 Estimates of amount of purchase commitments at FNMA auctions

Prior to the close of business on the last business day prior to the day on which FNMA is scheduled to hold commitment auctions, FNMA shall submit to the Secretary an estimate of the dollar amounts of purchase commitments it expects to issue in its FHA-VA mortgage auction and in its conventional mortgage auction.

§ 81.25 Minutes of meetings

Within 10 days after each meeting of the Board of Directors of FNMA and each meeting of any committee of FNMA, including the Executive Committee, FNMA shall submit to the Secretary a copy of the complete minutes of each such meeting.

§ 81.26 Other reports

In addition to the reports and information required by the other provisions of this subpart, FNMA shall furnish to the Secretary such further reports and other information concerning its activities as the Secretary may request in writing from time to time.

Subpart D—Examinations and Audits

§ 81.31 General

Section 309(h) of the Charter Act provides that the Secretary may examine and audit the books and financial transactions of FNMA. This subpart provides for such examinations and audits.

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§ 81.32 *Examination of books, records, and documents*

FNMA shall, at all times during its regular business hours and at its several offices, make its books, records, and documents relating to its operations and financial transactions available for examination by duly authorized representatives of the Secretary.

§ 81.33 *Annual audit of FNMA*

Each calendar year, following the submission of the report by FNMA's independent auditors on FNMA's financial statements, duly authorized representatives of the Secretary shall conduct an audit of FNMA's affairs for the preceding calendar year, including such tests of FNMA's accounting records and such other auditing procedures as they may consider necessary in the circumstances.

Subpart E—Book-entry Procedures for FNMA Securities

§ 81.41 *Definitions*

As used in this subpart, the term—

(a) "Reserve bank" means a Federal Reserve Bank and its branches acting as Fiscal Agent of FNMA and, when indicated, acting in its individual capacity or as Fiscal Agent of the United States.

(b) "FNMA security" means any obligation of FNMA (except short-term discount notes and obligations convertible into shares of common stock) issued under 12 U.S.C. 1719 (b), (d), and (e) in the form of a definitive FNMA security or a book-entry FNMA security.

(c) "Definitive FNMA security" means a FNMA security in engraved or printed form.

(d) "Book-entry FNMA security" means a FNMA security in the form of an entry made as prescribed in this part on the records of a Reserve bank.

(e) "Pledge" includes a pledge of, or any other security interest in, FNMA securities as collateral for loans or advances or to secure deposits of public moneys or the performance of an obligation.

(f) "Date of call" is, with respect to FNMA securities issued under 12 U.S.C. 1719(d) and (e), the date fixed in the authorizing resolution of the Board of Directors of FNMA on which the obligor will make payment of the security before maturity in accordance with its terms, and, with respect to FNMA securities issued under 12 U.S.C. 1719(b), the date fixed in the offering notice issued by FNMA.

(g) "Member bank" means any national bank, State bank, or bank or trust company which is a member of a Reserve bank.

§ 81.42 *Authority of Reserve bank*

Each Reserve bank is hereby authorized, in accordance with the provisions of this part, to:

(a) Issue book-entry FNMA securities by means of entries on its records which shall include the name of the depositor, the amount, the loan title (or series) and maturity date;

(b) Effect conversions between book-entry FNMA securities and definitive FNMA securities;

(c) Otherwise service and maintain book-entry FNMA securities; and

(d) Issue a confirmation of transaction in the form of a written advice (serially numbered or otherwise) which specifies the amount and description of any securities, that is, loan title (or series) and maturity date, sold or transferred, and the date of the transaction.

§ 81.43 *Scope and effect of book-entry procedure*

(a) A Reserve bank as Fiscal Agent of FNMA may apply the book-entry procedure provided for in this part to any FNMA securities which have been or are hereafter deposited for any purpose in accounts with it in its individual capacity under terms and conditions which indicate that the Reserve bank will continue to maintain such deposit accounts in its individual capacity, notwithstanding application of the book-entry procedure to such securities. This paragraph is applicable, but not limited, to securities deposited:

(1) As collateral pledged to a Reserve bank (in its individual capacity) for advances by it;

(2) By a member bank for its sole account;

(3) By a member bank held for the account of its customers;

(4) In connection with deposits in a member bank of funds of States, municipalities, or other political subdivisions; or

(5) In connection with the performance of an obligation or duty under Federal, State, municipal, or local law, or judgments or decrees of courts.

The application of the book-entry procedure under this paragraph shall not derogate from a adversely affect the relationships that would otherwise exist between a Reserve bank in its individual capacity and its depositors concerning any deposits under this paragraph. Whenever the book-entry procedure is applied to such FNMA securities, the Reserve bank is authorized to take all action necessary in respect of the book-entry procedure to enable such Reserve bank in its individual capacity to perform its obligations as depositary with respect to such FNMA securities.

(b) A Reserve bank as Fiscal Agent of the corporation may apply the book-entry procedure to FNMA securities deposited as collateral pledged to the United States under Treasury Department Circulars Nos. 92 and 176, both as revised and amended, and may apply the book-entry procedure, with the approval of the Secretary of the Treasury, to any other FNMA securities deposited with a Reserve bank, as Fiscal Agent of the United States.

(c) Any person having an interest in FNMA securities which are deposited with a Reserve bank (in either its individual capacity or as Fiscal Agent of the United States) for any purpose shall be deemed to have consented to their conversion to book-entry FNMA securities pursuant to the provisions of this part, and in the manner and under the procedures prescribed by the Reserve bank.

(d) No deposits shall be accepted under this section on or after the date of maturity or call of the securities.

§ *81.44 Transfer or pledge*

(a) A transfer or pledge of book-entry FNMA securities to a Reserve bank (in its individual capacity or as Fiscal Agent of the United States), or to the United States, or to any transferee or pledgee eligible to maintain an appropriate book-entry account in its name with a Reserve bank under §§ 81.41 through 81.48 is effected and perfected, notwithstanding any provision of law to the contrary, by a Reserve bank making an appropriate entry in its records of the securities transferred or pledged. The making of such an entry in the records of a Reserve bank shall:

(1) Have the effect of a delivery in bearer form of definitive FNMA securities;

(2) Have the effect of a taking of delivery by the transferee or pledgee;

(3) Constitute the transferee or pledgee a holder; and

(4) If a pledge, effect a perfected security interest therein in favor of the pledgee. A transfer or pledge of book-entry FNMA securities effected under this paragraph shall have priority over any transfer, pledge, or other interest, heretofore or thereafter affected or perfected under paragraph (b) of this section or in any other manner.

(b) A transfer or a pledge of transferable FNMA securities, or any interest therein, which is maintained by a Reserve bank (in its individual capacity or as Fiscal Agent of the United States) in a book-entry account under §§ 81.41 through 81.48, including securities in book-entry form under § 81.43(a)(3), is effected, and a pledge is perfected, by any means that would be effective under applicable law to effect a transfer or to effect and perfect a pledge of the FNMA securities, or any interest therein, if the securities were maintained by the Reserve bank in bearer definitive form. For purposes of transfer or pledge hereunder, book-entry FNMA securities maintained by a Reserve bank shall, notwithstanding any provision of law to the contrary, be deemed to be maintained in bearer definitive form. A Reserve bank maintaining book-entry FNMA securities either in its individual capacity or as Fiscal Agent of the United States is not a bailee for purposes of notification of pledges of those securities under this paragraph, or a third person in possession for purposes of acknowledgment of transfer thereof under this paragraph. Where transferable FNMA securities are recorded on the books of a depositary (a bank, banking institution, financial firm, or similar party, which regularly accepts in the course of its business FNMA securities as a custodial service for customers, and maintains accounts in the names of such customers reflecting ownership of or interest in such securities) or account of the pledgor or transferor thereof and such securities are on deposit with a Reserve bank in a book-entry account, hereunder, such depositary shall, for purposes of perfecting a pledge of such securities or effecting delivery of such securities to a purchaser under applicable provisions of law, be the bailee to which notification of the pledge of the securities may be given or the third person in possession from which acknowledgment of the holding of the

securities for the purchaser may be obtained. A Reserve bank will not accept notice or advice of a transfer or pledge effected or perfected under this paragraph, and any such notice or advice shall have no effect. A Reserve bank may continue to deal with its depositor in accordance with the provisions of this part, notwithstanding any transfer or pledge effected or perfected under this paragraph.

(c) No filing or recording with a public recording office or officer shall be necessary or effective with respect to any transfer or pledge of book-entry FNMA securities or any interest therein.

(d) A Reserve bank shall, upon receipt of appropriate instructions, convert book-entry FNMA securities and deliver them in accordance with such instructions; no such conversion shall affect existing interest in such FNMA securities.

(e) A transfer of book-entry FNMA securities within a Reserve bank shall be made in accordance with procedures established by the Reserve bank not inconsistent with this part. The transfer of book-entry FNMA securities by a Reserve bank may be made through a telegraphic transfer procedure.

(f) All requests for transfer or withdrawal must be made prior to the maturity or date of call of the securities.

§ 81.45 Withdrawal of FNMA securities

(a) A depositor of book-entry FNMA securities may withdraw them from a Reserve bank by requesting delivery of like definitive FNMA securities to itself or on its order to a transferee.

(b) FNMA securities which are actually to be delivered upon withdrawal may be issued either in registered or in bearer form.

§ 81.46 Delivery of FNMA securities

A Reserve bank which has received FNMA securities and effected pledges, made entries regarding them, or transferred or delivered them according to the instructions of its depositor is not liable for conversion or for participation in breach of fiduciary duty even though the depositor had no right to dispose of or take other action in respect of the securities. A Reserve bank shall be fully discharged of its obligations under this part by the delivery of FNMA securities in definitive form to its depositor or upon the order of such depositor. Customers of a member bank or other depositary (other than a Reserve bank) may obtain FNMA securities in definitive form only by causing the depositor of the Reserve bank to order the withdrawal thereof from the Reserve bank.

§ 81.47 Registered bonds and notes

No formal assignment shall be required for the conversion to book-entry FNMA securities of registered FNMA securities held by a Reserve bank (in either its individual capacity or as Fiscal Agent of the United States) on the effective date of this part for any purpose specified in § 81.43(a). Registered FNMA securities deposited thereafter with a Reserve bank for any purpose specified in § 81.43 shall be assigned for conversion to book-entry FNMA securities. The assignment, which shall be executed in accordance with the provisions of Subpart F of 31 CFR Part 306, so far as applicable, shall be to "Federal Reserve Bank of———, as Fiscal Agent of the Federal National Mortgage Association, for conversion to book-entry FNMA securities."

§ 81.48 Servicing book-entry FNMA securities; payment of interest; payment at maturity or upon call

Interest becoming due on book-entry FNMA securities shall be charged to the general account of the Treasurer of the United States on the interest due date and remitted or credited in accordance with the depositor's instructions. Such securities shall be redeemed and charged to the general account of the Treasurer of the United States on the date of maturity, call or advance refunding, and the redemption proceeds, principal and interest, shall be disposed of in accordance with the depositor's instructions.

§ 81.49 Treasury Department regulations; applicability to FNMA

The provisions of Treasury Department Circular No. 300, 31 CFR Part 306 (other than Subpart O), as amended from time to time, shall apply, insofar as appropriate, to obligations of FNMA for which a Reserve bank shall act as Fiscal Agent of FNMA and to the extent that such provisions are consistent with agreements between FNMA and the Reserve banks acting as Fiscal Agents of FNMA. Definitions and terms used in Treasury Department Circular No. 300

should read as though modified to effectuate the application of the regulations to FNMA.

PATRICIA ROBERTS HARRIS,
Secretary, Housing and Urban Development.

APPENDIX A.—FNMA REPORTING REQUIREMENTS TO THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT

INTRODUCTION

Pursuant to § 81.23 of Title 24 of the Code of Federal Regulations, the Federal National Mortgage Association (FNMA) is required to submit certain regular reports to the Secretary. These reporting requirements are prescribed in this Appendix. They are designed to cover FNMA's current mode of operations. They may be amended from time to time as the mode of operations changes or as new data needs emerge because of changing economic or financial circumstances or because of changes in the informational needs of the Secretary in the discharge of her responsibilities.

All dollar figures shall be in millions of dollars, unless otherwise specified.

1. *Auctions of Commitments to Purchase Loans.* Prompty following each Free Market System auction of commitments to purchase home mortgage loans, the FNMA shall submit to the Secretary the results of such auctions, including the following information (with separate data for FHA insured-VA guaranteed and conventional loans and also total loans:

(a) Date of auction.
(b) Total number of offers received.
(c) Total dollar value of offers received.
(d) Number of competitive offers received.
(e) Number of non-competitive offers received.
(f) Dollar value of non-competitive offers received.
(g) Highest yield offer.
(h) Lowest yield offered.
(i) Average yield offered.
(j) Median yield offered.
(k) Total value offered by mortgage companies.
(l) Total value offered by commercial banks.
(m) Total value offered by savings and loan associations.
(n) Total value offered by mutual savings banks.
(o) Total value offered by other lender groups.
(p) Total value offered by all lender groups.
(q) Number of offers received from sellers who made two or more offers.
(r) Number of such sellers who made two or more offers.
(s) Dollar value of offers received from sellers who made two or more offers.

In addition, this report should provide the following information on the offers that are accepted:

(a) Date of auction.
(b) Number of offers accepted.
(c) Dollar value of offers accepted.
(d) Highest yield accepted.
(e) Lowest yield accepted.
(f) Average yield accepted.
(g) Median yield accepted.
(h) Acceptances received by mortgage companies.
(i) Acceptances received by commercial banks.
(j) Acceptances received by savings and loan associations.
(k) Acceptances received by mutual savings banks.
(l) Acceptances received by other lender groups.
(m) Acceptances received by all lender groups.
(n) Number of offers accepted from sellers who made two or more offers.
(o) Dollar value of these offers accepted from sellers who made two or more offers.

2. *Stand-by Commitments.* Not later than five days following the close of each month, the FNMA shall submit to the Secretary a tabulation of convertible stand-by commitments issued during the month for home and project mortgage loans, including the following data (with separate figures for (a) FHA insured

home loans, (b) VA guaranteed loans, (c) conventional home loans and (d) FHA issued project loans):

(a) Month, year.
(b) Number of commitments issued.
(c) Dollar value of commitments issued.
(d) Highest yield required.
(e) Lowest yield required.
(f) Average yield.
(g) Median yield required.

3. *Status of Borrowing Authority.* Not later than five days following the close of each month, the FNMA shall submit to the Secretary an end-of-month statement of the Status of Borrowing under Section 304(b) of the FNMA Charter Act, including the following information:

(a) Month, year.
(b) Maximum debt authorized.
(c) Per (Date of latest authorization).
(d) Debt outstanding.
(e) Balance available.
(f) Expected debt repayments over next 30 days.
(g) Amount available to accommodate outstanding and new commitments (e plus f).
(h) Commitments outstanding.
(i) New commitments expected to be accepted during next 30 days.
(j) Balance remaining (g minus (h plus i)).
(k) Expected drawdowns against outstanding commitments during next 30 days.

4. *Delinquencies, Defaults and Foreclosures.* Not later than ten days following the end of each month, FNMA shall submit to the Secretary a statement of delinquencies, defaults and foreclosure actions of the mortgage loans held in the FNMA portfolio. The statement shall include the following data, with separate information for FHA insured home loans, VA guaranteed loans, conventional home loans, FHA insured project loans and total loans:

(a) Month, year.
(b) Number of home loans held at beginning of the month.
(c) Number of home loans with one monthly debt service payment due at the end of the month.
(d) Number of home loans with two monthly debt service payments due at the end of the month.
(e) Number of home loans with three or more monthly debt service payments due at the end of the month.
(f) Number of home loans assigned, replaced, or foreclosed during the month.

5. *Statement of indebtedness.* Not later than 5 days following the end of each calendar quarter, the FNMA shall submit to the Secretary a statement of its indebtedness, as of the end of the quarter. The statement should include:

(a) Quarter, year.
(b) Discount notes due within 1 year.
(c) Debentures and bonds due within 1 year.
(d) Convertible capital debentures due after 1 year.
(e) Other debentures and bonds due after 1 year.
(f) Total bonds, notes, debentures due.
(g) Discount notes coming due during the coming quarter.
(h) Debentures and bonds coming due during the coming quarter.

6. *Statement of loan portfolio.* Not later than ten days following the end of each calendar quarter, the FNMA shall submit to the Secretary a statement of its loan portfolio, as of the end of the quarter. The statement should include:

(a) Quarter, year.
(b) FHA insured home loans held.
(c) VA guaranteed home loans held.
(d) Conventional home loans held.
(e) Total home loans held.
(f) Project loans held.
(g) Total mortgage loans held.

Subschedules shall also be included to show the amounts of FHA insured loans held under the following programs:

Home loans held under the following programs: (a) Section 203; (b) Section 221; (c) Section 232; (d) Section 235; (e) Other FHA insured home loans.

Project loans held under the following programs: (a) Section 207; (b) Section 221(d)(3) Below Market Rate Program; (c) Section 221(d)(4); (d) Section 236; (e) Section 232 plus 242; (f) All other FHA insured project loans.

7. *Long-term security sales.* Promptly following the sale of each issue of long-term debt securities, the FNMA shall submit to the Secretary the following information:

(a) Date of offering.
(b) Delivery date.
(c) Maturity date.
(d) Maturity period (in years and months).
(e) Amount of issue.
(f) Interest rate or yield (if not issued at par).
(g) List of the dealer firms comprising the selling group.
(h) The amount of securities initially allocated for sale to each member of the selling group.
(i) The amount of securities actually sold by each member of the selling group (after allowance for any reallocations).
(j) A calculation of the distribution shares for each member of the selling group.
(k) Cost of printing the securities.
(l) Newspaper and other advertising costs.
(m) Bond counsel fee or fees.
(n) Commissions paid for sale of securities.
(o) Commission per security (also indicate differential commissions and discounts. If any).
(p) Copies of agreements between FNMA fiscal agent and members of selling group.

8. *Short-term security sales.* Not later than 5 days following the end of each quarter, FNMA shall submit to the Secretary a tabulation of all short-term discount notes or other securities with maturities under one year issued during the quarter, including the following information:

(a) Week of offering.
(b) Maturity period (in days), average maturity, if multiple issues.
(c) Amount issued during week.
(d) Interest rate or yield (if not issued at par), average yield if multiple issues during week.
(e) The dealer firms that comprised each selling group.
(f) The amount of securities actually sold by each member of the group during the quarter.
(g) A calculation of the distribution shares of the sales volume for each member of the selling group during the quarter.

9. *Investors purchasing FNMA security issues.* Not later than 10 days following the end of each calendar quarter, the FNMA shall submit to the Secretary a tabulation showing which investor groups purchased the securities issued by FNMA during the quarter. Separate figures should be shown for purchases of long-term securities and short-term securities as well as total securities purchased by each of the following investor groups:

(a) Commercial banks (excluding trust departments).
(b) Mutual savings banks.
(c) Savings and loan associations.
(d) Life insurance companies.
(e) State and local government retirement funds.
(f) State and local governments.
(g) Private, noninsured pension funds.
(h) Credit unions.
(i) Bank administered personal trusts and estates.
(j) Fire and casualty insurance companies.
(k) Nonfinancial corporations.
(m) Retained by members of selling group classified by the Federal Reserve
(l) Individuals and others.
bank of New York as "Government Security Dealers."
(n) Retained by other members of selling group not so classified.

10. *Age distribution of properties financed.* Not later than 10 days following the end of each calendar quarter, the FNMA shall submit to the Secretary a tab-

ulation showing the age distribution of the properties financed by loans purchased by FNMA during the quarter, broken down as follows:

(a) Under 24 months;
(b) 24–60 months;
(c) 5–10 years;
(d) 10–20 years;
(e) 20 years or more.

NOTE.—This quarterly distribution by age of property should be provided separately for: (a) Conventional home loans, (b) VA-guaranteed home loans, (c) FHA section 203 insured loans, (d) all other FHA insured home loans, (e) subsidized FHA insured multifamily project loans, and (f) nonsubsidized project loans.

11. *Geographic location of properties financed.* Not later than 20 days following the end of each calendar quarter, the FNMA shall submit to the Secretary a tabulation showing the geographic location of the properties financed by the loans purchased by FNMA during the quarter, broken down as follows:

(a) In central city, broken down by census tracts within the city;
(b) In suburbs (inside SMSA (standard metropolitan statistical area), but outside corporate boundaries of central city);
(c) In rural area (outside of SMSA).

NOTE.—This quarterly distribution by geographic location of property should be provided separately for: (a) Conventional home loans, (b) VA-guaranteed home loans, (c) FHA section 203 insured loans, (d) all other FHA insured home loans, (e) subsidized FHA multifamily project loans and (f) nonsubsidized project loans.

12. *Yields on home loans purchased.* Not later than 20 days after the end of each calendar quarter, the FNMA shall submit to the Secretary a tabulation showing the average yield (gross of loan servicing) of the home mortgage loans purchased during the quarter. If the loans were purchased via a GNMA Tandem Plan, the purchase price and yield should reflect the effective price at which the loans were purchased.

NOTE.—This quarterly distribution by average yield should be provided separately for: (a) Conventional loans, (b) Va-guaranteed loans, (c) FHA section 203 insured loans, (d) all other FHA insured loans, as well as for (e) total home loans.

13. *Yields on project loans purchased.* Not later than 20 days after the end of each calendar quarter, the FNMA shall submit to the Secretary a tabulation showing the average yield (gross of loan servicing) at which project loans were acquired. If the loans were acquired via a GNMA tandem plan, the acquisition-price and yield should reflect the effective price at which the loans were acquired.

This quarterly tabulation of average yield should be provided separately for: (a) Section 236 projects, (b) other projects carrying below market interest rates, (c) all other FHA-insured project loans, as well as (d) total FHA-insured project loans.

14. *Sellers of mortgage loans.* Not later than 20 days after the end of each calendar quarter, the FNMA shall submit to the Secretary a tabulation of the lender groups from whom mortgage loans were purchased during the quarter, with separate information for home mortgage loans and projected loans. The lender groups include:

(a) Mortgage companies;
(b) Commercial banks;
(c) Mutual savings banks;
(d) Savings and loan associations;
(e) Government National Mortgage Association;
(f) Other Federal credit agencies (or federally sponsored agencies);
(g) All other financial institutions;
(h) Total institutions and agencies.

15. *Acquisitions of multifamily and nonresidential mortgage loans.* Not later than 10 days following the end of each month, the FNMA shall submit to the Secretary a tabulation of the mortgage loans on multifamily residential properties (containing five or more dwelling units) and nonresidential properties (hospitals and other nonresidential properties) acquired during the month showing the program breakdown of FHA insured loans as follows: (a) Section 207: (b) section 220; (c) section 221 market rate; (d) section 221 below market rate; (e) section 232; (f) section 234; (g) section 236; (h) section 242; (i) total FHA-insured project loans.

16. *FNMA loan sales.* Not later than 10 days after the end of each calendar quarter, the FNMA shall submit to the Secretary a tabulation showing the institution and agency groups to which mortgage loans were sold during the quarter, with separate data for: (a) Home mortgage loans and (b) project mortgage loans. The groups include: (a) Mortgage companies; (b) commercial banks; (c) mutual savings banks; (d) savings and loan associations; (e) Government National Mortgage Association; (f) Other Federal credit agencies for federally sponsored agencies); (g) all other financial institutions; (h) Total financial institutions and agencies.

17. *Yields on loans sold.* Not later than 10 days after the end of each quarter the FNMA shall submit to the Secretary a tabulation of the average yield at which mortgage loans were sold during the quarter. Separate average yields should be provided for: (a) Conventional home loans, (b) VA-guaranteed loans, (c) FHA section 203 insured loans, (d) all other FHA-insured home loans, (e) subsidized FHA insured multifamily project loans, and (f) all other FHA project loans.

18. *FNMA security investments.* Not later than 5 days after the end of each calendar quarter, the FNMA shall submit to the Secretary a tabulation of its holdings to security investments as of the end of the quarter, showing the following:

(a) Quarter, year;
(b) Holdings of Treasury bills and other allegations maturing in less than 1 year;
(c) Holdings of Treasury securities maturing in 1 year or more;
(d) Holdings of securities issued by Federal agencies or federally sponsored agencies maturing in less than 1 year;
(e) Holdings of securities issued by Federal agencies or federally sponsored agencies maturing in 1 year or more;
(f) Holdings of any other securities, including Government-guaranteed securities;
(g) Total security holdings.

19. *Composition of revenues.* Not later than 10 days after the end of each calendar quarter, the FNMA shall submit to the Secretary a tabulation of the revenues received (measured in thousands of dollars) during the quarter, including the following:

(a) Quarter, year;
(b) Interest and discounts on home mortgage loans;
(c) Interest and discounts on project mortgage loans;
(d) Income from investments in securities;
(e) Commitment fees for home mortgage loans;
(f) Commitment fees for project mortgage loans;
(g) Capital gains on sales of mortgages;
(h) Compensation for services performed for Government National Mortgage Association;
(i) Foreclosure claims collected;
(j) Other income (explain in footnotes);
(k) Total revenues.

In addition, the quarterly report should also show a breakdown of the commitment fees, measured in thousands of dollars, as follows:

(a) Underwriting revenue fees;
(b) Offer fees for competitive free market system bids;
(c) Commitment fees for free market system offers accepted;
(d) Proceeding fees for convertible standby commitment offers;
(e) Commitment fees for convertible standby commitment offers accepted;
(f) Commitment fees upon delivery of a nonconverted convertible standby commitment;
(g) Commitment fees upon receipt of a conversion of convertible standby commitments.

20. *Composition of expenditures.* Not later than 10 days after the end of each calendar quarter, the FNMA shall submit to the Secretary a tabulation of its expenditures (measured in thousands of dollars) during the quarter, including the following:

(a) Quarter, year;
(b) Interest cost on discount notes;
(c) Interest cost on all other debt securities;
(d) Capital losses on sales of mortgages;

(e) Loan servicing fees paid to servicers of home mortgage loans;
(f) Loan servicing costs attributable to project mortgage loans holdings;
(g) Actual losses suffered because of foreclosure actions;
(h) Provision for possible future losses on mortgage portfolio (amounts credited to reserves for losses);
(i) Costs attributable to fiscal agent department and other costs associated with issuance of debt securities;
(j) Costs associated with sale or issuance of common stock;
(k) Payments to transfer agents and registrars for FNMA securities;
(l) Payments to independent public auditors;
(m) Payments for office space and equipment;
(n) Salary payments to principal FNMA officers identified on page 31 in the 1976 annual report (or their predecessors or successors);
(o) Other salaries and expenses for FNMA staff;
(p) Other expenses (explain in table footnotes);
(q) Total expenditures.

21. *Calculation of net income.* Not later than 10 days after the end of each calendar quarter, the FNMA shall submit to the Secretary a tabulation of the net income earned during the quarter and to its distribution (measured in thousands of dollars), including the following:
(a) Quarter, year;
(b) Total revenues (line k of Question 19);
(c) Total expenditures (line q of Question 20);
(d) Net income (line b minus line c);
(e) Adjusted net income before taxes (adjustments for nondeductible items listed in response to Question 20 plus other adjustments, which should be explained in footnotes to table);
(f) Federal income taxes paid or payable;
(g) Transfers to retained earnings;
(h) Dividend payments.

22. *Holdings of common stock.* Not later than 20 days after the end of each calendar quarter, the FNMA shall submit to the Secretary a tabulation showing the distribution of the holdings of FNMA's outstanding common stock, as of the end of the quarter, including the following:
(a) Quarter, year;
(b) Number of shares held by sellers of mortgage loans;
(c) Number of shares held by financial institutions;
(d) Number of shares held by individuals;
(e) Number of shares held by security dealers;
(f) Number of shares held by others;
(g) Total number of shares outstanding.

23. *Common stock prices.* Not later than 5 days after the end of each month, the FNMA shall submit to the Secretary a tabulation of the market price of FNMA's common stock, showing the following:
(a) Month, year;
(b) Highest market price;
(c) Lowest market price;
(d) Range between highest and lowest price;
(e) Average market price.

[FR Doc. 78-4965 Filed 2-23-78; 8:45 am]

HOUSING: GENERAL

APRIL 28, 1978.

Hon. MAX CLELAND,
Administrator of Veterans Affairs, Veterans Administration,
Washington, D.C.

DEAR MR. ADMINISTRATOR: During recent hearings before the Subcommittee on Housing, Mr. Oakley Hunter, Chairman of the Board and President, Federal National Mortgage Association, expressed concern about the impact of HUD proposed regulations on FNMA's ability to continue to serve those veterans wishing to purchase their homes using the VA home loan guaranty program in conjunction with FNMA mortgage financing.

Following the hearings, Mr. Hunter wrote a letter to the Chairman of the Subcommittee, the Honorable Jack Brinkley, in further referencce to his testimony. I am attaching a copy of Mr. Hunter's letter and would appreciate your

comments as to whether or not veterans could be adversely affected by the proposed HUD regulations and any other response pertaining to Mr. Hunter's comments.

Mr. Hunter has indicated that as of December 31, 1977, FNMA's single family mortgage portfolio totaled $28.5 billion, of which $9.3 billion, or 33 percent, was in VA guaranteed home loans. According to Mr. Hunter, this represents housing for some 450,000 veterans and their families; therefore, if FNMA is holding $9.3 billion of VA paper, the obvious question is who would purchase this paper if it is not done by FNMA.

I would appreciate your early response to Mr. Hunter's testimony and the issues addressed in his letter to the Chairman of the Subcommittee on Housing.

Sincerely,

RAY ROBERTS, *Chairman.*

VETERANS ADMINISTRATION,
OFFICE OF THE ADMINISTRATOR OF VETERANS AFFAIRS,
Washington, D.C., July 19, 1978.

HON. RAY ROBERTS,
Chairman, Committee on Veterans' Affairs, House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: This is in response to your letter of April 28, 1978, concerning certain proposed regulations of the Department of Housing and Urban Development (HUD), which relate to the operations of the Federal National Mortgage Association (FNMA).

By statute the Secretary of HUD has certain regulatory authority over the activities of FNMA. The proposed regulations, in our view, represent internal matters of HUD and FNMA, and thus we believe that it would be inappropriate for VA to comment on the specific merits of the proposed regulation.

Nevertheless, on receipt of your letter, we asked the General Counsel of HUD to give us her views as to what extent, if any, the proposed HUD regulations would affect FNMA's ability to continue to provide secondary market support for the VA home loan guaranty program in light of the comments in the letter on the subject from Mr. Oakley Hunter, Chairman of the Board and President of FNMA, to Congressman Brinkley. Enclosed is a copy of the reply received by VA from the General Counsel of HUD, which we believe is responsive to the issue.

While we recognize that there are differing views concerning the effects the regulations, if adopted, would have on the operations of FNMA, we are confident that the Secretary of HUD would not adopt any measures that would have an adverse effect on the support rendered through the secondary market operations of FNMA to the guaranteed home loan program of the Veterans Administration.

Your interest in this matter is appreciated.

Sincerely,

MAX CLELAND, *Administrator.*

Enclosure.

THE GENERAL COUNSEL OF HOUSING AND URBAN DEVELOPMENT,
Washington, D.C., July 3, 1978.

Re: Questions how the proposed HUD regulations would affect FNMA's ability to continue to serve veterans.

MR. GUY H. MCMICHAEL III,
General Counsel, Veterans Administration, Washington, D.C.

DEAR MR. MCMICHAEL: Thank you for the opportunity to respond to Mr. Oakley Hunter's April 4, 1978 letter to Congressman Jack Brinkley regarding HUD's proposed regulations affecting FNMA.

We disagree with Mr. Hunter's interpretation of the impact the proposed rules will have on FNMA's ability to serve the housing needs of veterans. In fact, we believe that the regulations may cause FNMA to commit a greater proportion of its total mortgages purchase outlay to VA-guaranteed mortgages, and we believe that the regulations fully comport with the purposes and goals of the VA home loan guarantee program.

Mr. Hunter's comments reflects some misunderstanding concerning the effect of the proposed requirements that a certain percentage of the mortgages purchased by FNMA be secured by loans on existing housing, central-city housing,

or housing for low and moderate income families. In fact FNMA's primary function is to act as a credit allocator. The corporation was formed by the Congress and provided with significant economic benefits from the federal government in order to enable the corporation to attract investment capital, at very favorable interest rates, away from other areas and into investment in home mortgage financing. One of FNMA's most important purposes is to improve the geographical distribution of mortgage funds from capital surplus areas to capital shortage areas. (Sec. 301 of the Charter Act).

The percentage requirements contained in the proposed regulations are designed to assure that a fair portion of the credit which FNMA allocates goes into urban areas which are known to be capital short. It is evident that this provision will be beneficial to a large number of veterans. Many of the homes for which young veterans can qualify are in a price range or neighborhood targeted by the regulations for special attention by FNMA. The remaining 70% of FNMA's expenditures may be allocated in any way FNMA sees fit, as long as the requisite underwriting guidelines are met.

The resulting credit distribution system under the proposed regulations makes 100% of FNMA's mortgage purchase funds potentially available to veterans' mortgages, with 30% of such funds actually programmed to the areas and type of housing most readily affordable by young veterans. There is no reason, therefore, why the housing needs of greater numbers of veterans might not be served by FNMA under the proposed regulations.

Mr. Hunter contends that the optional mortgage delivery procedure would be made mandatory by the regulations and would disrupt the present free market auction system.

The regulations are not intended to require mandatory delivery of commitments to FNMA or to disrupt the auction system. The regulations do not attempt to prescribe a method by which FNMA should assure that a certain percentage of its mortgage purchases are secured by central city housing. Industry representatives have suggested several methods whereby the purpose of the Charter Act could be accomplished by a cooperative FNMA management without disrupting the current auction system. These suggestions include, *inter alia*, separate auctions of commitments to be used in central cities, or special central city programs of the type FNMA is now conducting on a pilot basis. In reviewing the comments submitted on the proposed regulations and preparing final regulations, we will closely examine these suggestions and other alternative methods of assuring that, without impairing the functioning of the present auction, credit shortage areas have credit made available to them.

Mr. Hunter states that the proposed regulations will adversely affect FNMA's ability to borrow money on the capital markets and will thus drive up home buying costs. There is no evidence whatever that an increase in borrowing costs will be made to occur and, in fact, the regulations should have the effect of making FNMA a leader in reducing interest rates, thus benefiting the veteran and other home buyers.

Finally, as to Mr. Hunter's contention that the control over FNMA exerted by the regulations exceeds HUD's statutory authority, it is our opinion that the proposed regulations are specifically authorized by the FNMA Charter Act. Enclosed for your information is a copy of a memorandum entitled "FNMA Fact Sheet." This document sets out the statutory authority for the proposed regulations as well as the pertinent legislative history of the FNMA Charter Act. This analysis should clarify for you our understanding of Congress' intent in vesting regulatory and FNMA oversight responsibilities in this Department, and the reasons for carrying out and fulfilling that Congressional purpose through these proposed regulations.

Please let us know if we can provide you with any further information concerning the proposed regulations.

Sincerely,

RUTH T. PROKOP.

Enclosure.

FNMA FACT SHEET

On Friday, February 24, 1978, the Department of Housing and Urban Development issued proposed regulations governing the operations of the Federal National Mortgage Association. The final date for public comment on the proposed regulations is April 26, 1978.

I. BACKGROUND

The Federal National Mortgage Association (FNMA) was originally created by Congress as a wholly-owned Government corporation to serve three distinct functions:

(i) to furnish additional liquidity for home mortgage investments and thereby improve the distribution of mortgage investment funds (the secondary market operations function);

(ii) to provide Government assistance for selected types of home mortgages originated under special housing programs designed to provide housing of acceptable standards for segments of the population unable to obtain adequate housing, or for home mortgages generally if necessary to retard or stop a decline in home-building activities which threatens the stability of a high level national economy (the special assistance function); and

(iii) to manage and liquidate in an orderly manner the portfolio of Federally owned mortgages (the management and liquidating function).

As part of the Housing and Urban Development Act of 1968, Congress divided FNMA into two separate institutions: the Government National Mortgage Association (GNMA) was to remain a Federal agency and perform the specific assistance and the management and liquidating functions of the old FNMA. The "new" FNMA which was to operate as a privately owned—"government sponsored corporation"—and carry out the secondary market operations of the old FNMA. [S. Rep. No. 809, 90th Cong., 1st Sess., P. 79 (1967).]

II. 1968 ACT REQUIREMENTS

In creating the new FNMA in 1968, Congress carefully considered the public purposes which the hybrid corporation was to achieve by the conduct of its secondary market operations. Four purposes were intended by Congress:

(i) that FNMA provide liquidity for mortgage lenders;

(ii) that it brings new sources of mortgage funds into mortgage investments;

(iii) that it distribute mortgage funds from capital surplus areas to capital shortage areas; and

(iv) that FNMA provide support for sound market-rate mortgages for low and moderate income housing.

Congress was unwilling to rely solely on FNMA to ensure that the secondary market operations entrusted to it were conducted so as to accomplish the public purposes intended by the 1968 legislation. The Charter Act vested specific regulatory authority in the Secretary of Housing and Urban Development to approve:

Any issuance of FNMA stock, obligations, securities, participations, or other instruments [Sec. 309(h) and Sec. 311];

The amount of non-refundable capital contributions required by FNMA to be made by each mortgage seller [Sec. 303(b)];

The level of FNMA's stock retention requirements imposed on each servicer of its mortgages [Sec. 303(c)];

Any incurrence of debt by FNMA that exceeds fifteen times the sum of its capital, capital surplus, general surplus, reserves and undistributed earnings [Sec. 304(b)];

Payment of cash dividends to FNMA's stockholders [Sec. 303(c)]; and

FNMA's purchase, servicing, sale or lending on the security of, or otherwise dealing in, conventional mortgages [Sec. 302(b)(2)].

In addition, Congress authorized the Secretary of Housing and Urban Development to require "that a reasonable portion of the corporation's mortgage purchases be related to the national goal of providing adequate housing for low and moderate income families, but with reasonable economic return to the corporation." [Sec. 309(h)].

To assure that the public purposes of the Charter Act were carried out, Congress vested general regulatory powers in the Secretary of Housing and Urban Development:

"The Secretary of Housing and Urban Development shall have *general regulatory power* over the Federal National Mortgage Association and shall make such rules and regulations as shall be necessary and proper to insure that *the purposes of this title* [*the Charter Act*] *are accomplished.*" (Underscoring added.) [Sec. 309(h).]

The principal statement of Congressional intent with regard to HUD's basic authority to oversee FNMA is set forth at p. 82 of the Senate Report:

"... The Secretary would have general regulatory powers over FNMA to assure that the *purposes* of the Charter Act are served. The issuance of all secu-

rities or obligations by FNMA would have to receive the prior approval of the Secretary. Through this and other authority, the Secretary would participate in the decision-making process as to the level of mortgage purchases at various times. In addition, the Secretary could require that a reasonable portion of FNMA's mortgage purchases be related to housing for low and moderate income families, but with reasonable economic return. These mortgages could involve, for example, those insured under the proposed section 235 homeownership program and the proposed section 236 rental and cooperative housing program, or those insured under the proposed section 237 credit assistance program. *These mortgages would bear interest at the market rate.*

"It is the intent of the committee that the regulatory powers of the Secretary will not extend to FNMA's internal affairs, such as personnel, salary, and other usual corporate matters, *except* where the exercise of such powers is necessary to protect the financial interests of the Federal Government or as otherwise necessary to assure that the *purposes* of the FNMA Charter Act are carried out . . ." (Underscoring added.) [Senate Report No. 1123, p. 82, May 15, 1968; virtually identical language appears in House Report No. 1585, p. 71, June 25, 1968.]

The Secretary's regulatory authority is referred to elsewhere in the Charter Act. Thus, language contained in Section 308(b) makes clear the Congressional intent that the policy-making power of the FNMA Board of Directors would be subject to regulatory limitations set by the Secretary of HUD.

In addition to the specific and general regulatory powers granted to the Secretary of HUD, the Charter Act vests certain powers in the President of the United States and the Secretary of the Treasury. Section 308(b) of the Charter Act authorizes the President of the United States to appoint five public members to the fifteen-member Board of Directors of the Corporation (with ten Board members o be elected by the shareholders). Certain powers traditionally vested in shareholders of private corporations are vested in the President of the United States, who can remove any FNMA Director (both public and private) for cause. (Sec. 308(b).) Section 304 of the Charter Act gives the Secretary of the Treasury approval authority over the time of issuance, the maturity, and the rate of interest of obligations issued by FNMA. This authority was given to Treasury so that issuances of FNMA obligations, which may compete in the money markets with borrowings by the Treasury and Federal agencies, can be coordinated by Treasury with such other borrowings.

In return for the imposition of Governmental oversight over FNMA's activity, and to enable it to conduct its secondary market operations profitably, yet in a manner consistent with the performance of the corporation's public purpose responsibilities, Congress gave FNMA certain benefits not normally available to private corporations:

All of the assets and liabilities of its 30-year-old profitable predecessor were transferred to FNMA intact, thereby giving it the benefit of the predecessor corporation's "good will" and providing it with a substantial head start over potential competitors [Sec. 302(a)(2)(B)];

A $2.25 billion Treasury backstop authority was provided for FNMA's debt issuances, thereby significantly enhancing its credit standing and enabling it to maintain an extraordinary debt to capital ratio [Sec. 302(c)];

FNMA obligations were made lawful investments and security for all fiduciary, trust, and public funds, thus enhancing FNMA's ability to sell its obligations [Sec. 311];

FNMA was given exemption from all state taxation (with the exception of real property taxes) [Sec. 309(c)(2)];

FNMA debt securities and stock issuances were made exempt from registration, reporting, and prospectus requirements imposed by the Securities and Exchange Commission [Sec. 311]; and

FNMA was permitted to use the Federal Reserve Banks as fiscal agents, thereby reinforcing the attitude of investors that FNMA obligations are supported by the Federal Government [Sec. 309(g)].

The cumulative effect of the foregoing benefits was to provide FNMA with the ability to borrow money at the "agency rate"—the rate of interest paid on obligations issued by Federal Government agencies and instrumentalities, such as the Federal Land Banks and the Federal Home Loan Banks. In fact, the interest rate paid by FNMA on its obligations is only slightly higher than the rate borne by U.S. Treasury bonds and notes of like maturities, which are direct obligations of the Federal Government. Because of its ability to borrow at the very favorable "agency rate," FNMA possesses a competitive advantage that assures it a virtual monopoly as a secondary market facility for mortgages.

III. CURRENT STATUS

From 1968 to the present, FNMA has accepted the benefits of the "agency rate" and prospered. FNMA's assets have increased from approximately $6 billion in 1968 to over $39 billion today—making it one of the largest corporations in the United States. If present growth trends persist, within a decade FNMA could become the largest U.S. corporation in terms of assets. The public benefits conferred by Congress on FNMA has made possible its phenomenal growth rate.

During this period of explosive growth, successive Secretaries of HUD, for a variety of reasons, opted not to formally regulate the activities of the corporation. In many cases, activities of the corporation which Congress had made subject to regulation received routine rubber-stamp approval.

HUD's prior neglect of its regulatory responsibilities has led FNMA to conclude—erroneously—that the "sine qua non" for its existence is the conduct of its secondary market operations with the exclusive goal of maximizing its profits. In other words, FNMA views itself not as an integral instrument of national housing policy, as Congress intended, but as a private profit center which need fulfill only its self-determined purpose.

This view—based on a serious misreading of the Charter Act—is the essence of the current dispute between FNMA and HUD. FNMA management argues that FNMA must oppose Government oversight since it will interfere with the corporation's duty to maximize shareholder profits. Yet FNMA management enjoys the Government benefits provided by the Charter Act (which clearly enhance the profits of the corporation) while they assert that they are unwilling to discharge the public purpose responsibilities Congress imposed as the price of these benefits. They want the privileges and not the responsibilities—continuing to prosper from Congressionally mandated benefits while refusing to recognize public purpose obligations.

Current HUD regulation of FNMA is perfunctory. There has been no prior attempt by HUD to develop the regulatory framework which would formalize and clarify the relationship between the Federal National Mortgage Association and HUD that Congress established in 1968. In fact, most specific actions relating to the Department's approval and oversight functions, such as the approval of FNMA's dealing in conventional mortgages, have been exercised informally through personal correspondence and meetings between the Secretary of HUD and the President of FNMA.

HUD's proposed regulations would, therefore, for the first time, establish and formalize the statutory relationship between FNMA and HUD as intended by the Congress. Moreover, it would set up an ongoing process under which the current and future Secretaries of HUD could discharge their statutory duties to oversee the operations of FNMA.

Both the House and Senate Committee reports accompanying the Housing and Urban Development Act of 1968 state that the legislation establishing the new FNMA gives the Secretary of Housing and Urban Development "general regulatory authority over FNMA" and both add:

"The new FNMA would be a 'Government-sponsored private corporation' regulated by the Secretary of the Department of Housing and Urban Development, and would have a status analogous to that of the Federal land banks and the Federal home loan banks" [S. Rep. No. 1123, 90th Cong. 2d Sess., p. 79 (1968).]

The Senate report also includes the following:

"The committee feels that adequate safeguards have been provided to assure that the privately owned FNMA will continue the secondary mortgage market operations *in a manner consistent with the best interests of the public* . . . Finally, the Secretary's regulatory powers over FNMA would be sufficient to protect against abuses of the public interest." (Underscoring added.) [S. Rep. No. 1123, 90th Cong. 2 Sess., p. 82 (1968).]

Before the proposed regulations were issued on February 24, 1978, Congress had indicated dissatisfaction with HUD's failure to exercise general oversight responsibility over FNMA. At hearings before the Senate Committee on Banking, Housing, and Urban Affairs, Senator Proxmire stated:

". . . FNMA's charter is entirely clear that it has public responsibilities including the support of low and moderate income housing. The conduct of these responsibilities is to be overseen through the appointment of one-third of the FNMA board of directors by the President of the United States and, more importantly, through oversight by HUD."

". . . It is the Committee's impression that, in the case of FNMA, this public oversight function has been neglected by HUD, leaving this massive corporation to conduct its affairs in any manner it sees fit."

As a result of these and subsequent hearings involving FNMA's operations held in June, 1977, Senator Proxmire issued a "Memorandum Regarding the Policies and Performance of the Federal National Mortgage Association" which described seven major areas of congressional concern with FNMA's policies and performance. The seven areas were:

(1) FNMA policies affecting urban lending;
(2) Internal issues affecting FNMA's management and board of directors;
(3) FNMA's freedom-of-information policies;
(4) FNMA's policies on the sale of mortgages;
(5) FNMA's borrowing policies;
(6) Pricing policies under the FNMA auction system; and
(7) Pricing and other policies affecting HUD-subsidized mortgages.

These specific Congressional concerns prompted the Secretary of HUD to establish the long neglected regulatory framework necessary to implement the intent of Congress that FNMA conduct its secondary market operations in a manner consistent with its public purpose responsibilities.

IV. THE PROPOSED REGULATIONS

The proposed HUD regulations of February 24, 1978, simply formalize a process by which the current Secretary of HUD and future Secretaries of HUD can exercise the authority to regulate FNMA that Congress vested in the Department. Those instances in which the FNMA Charter Act requires Secretarial approval of specific FNMA activities (heretofore handled informally) will be subject to a regular procedure.

Existing HUD regulations governing FNMA require reports by FNMA as the Secretary may request. The proposed rule sets up definitive and regular reporting requirements.

The new reporting requirements in the proposed rule are long overdue. These reports will assure that the Secretary has the necessary data to carry out her oversight functions. With very few exceptions, the reports cover only areas of FNMA's operations as to which the corporation is now providing information either to HUD, other Federal agencies, or Congress.

The annual audit of FNMA required to be conducted by HUD under the proposed rule implements specific statutory language. Existing HUD regulations provide generally for HUD audits and the availability of FNMA books to the Secretary upon request. HUD has not conducted a FNMA audit during the last ten years.

The proposed regulations require that FNMA disclose to HUD, at least one day prior to each of its so-called "free market" auctions, the dollar amount of commitments it intends to accept. This requirement can easily be met, and will in no way hamper FNMA's auction procedure. Indeed, it will provide valuable information that can be used by HUD and Congress to assess the concerns expressed by various groups as to the validity of the "free market" procedure.

Section 309(h) of the Act requires that "a reasonable portion of the corporation's mortgage purchases be related to the national goal of providing adequate housing for low and moderate income families, but with reasonable economic return to the corporation." To implement this statutory mandate, the new regulations would require that 30 percent of the mortgages purchased by FNMA be secured by housing for low and moderate income families. Housing for low and moderate income families is very broadly defined in the regulations to include almost all FHA-VA mortgages available for purchase and any conventional, FHA, or VA mortgage on a house that sells for less than the median sales price in its area.

The proposed regulations would also require that a specific annual percentage (10 percent in 1978, and 30 percent thereafter) of FNMA's commitments to purchase conventional loans be secured by central city properties. The "Purposes" section of the FNMA Charter Act (Sec. 301) makes it clear that FNMA's secondary market activities are intended and expected to improve "the distribution of investment capital available for home mortgage financing." This Department believes that, in the current housing market, this provision calls for some redistribution of mortgage funds into central city areas, which are now (and have been for some time) chronically short of mortgage funds.

V. FALSE AND MISLEADING REPRESENTATIONS BY FNMA

Recently, FNMA published and distributed a Mailgram to all of its Servicer-Sellers and other groups interested in FNMA's secondary market activities. which deliberately misleads the reader as to the content of HUD's proposed regulations.

(1) FNMA asserts that HUD's requirement relating to the purchase of a percentage of loans on low and moderate income housing does not carry the limitation that this activity must provide a "reasonable economic return" to the corporation. In fact, that limitation is quoted verbatim from the statute in Section 81.17 of the proposed regulations.

(2) In contrast to misleading FNMA assertions, HUD is not requiring FNMA to perform the special assistance functions vested by law in GNMA. The proposed regulations do not require FNMA to purchase anything but sound, market rate mortgages. HUD intends that FNMA comply fully with Section 304(a) (1) of the Charter Act, which requires that "the operations of the corporation . . . shall be confined, so far as practicable, to mortgages which are deemed by the corporation to be of such quality, type, and class as to meet, generally, the purchase standards imposed by private institutional mortgage investors"; i.e., "within the range of market prices for the particular class of mortgages involved as determined by the corporation." Contrary to FNMA's public statements, HUD's proposed regulations will not increase its corporate risk as a result of transactions in low and moderate income loans or in central city properties.

(3) FNMA has asserted that the requirement that a certain percentage of the commitments it sells be for properties in central cities, or for existing housing constitute "a form of redlining." The percentage requirements contained in the proposed regulations are low when compared to the statement of Oakley Hunter, President of FNMA, before a Congressional committee in December, 1976, that "more than 80 percent of our mortgage purchases for 1974, 1975 and thus far in 1976 have been related to resales of existing homes." Mr. Hunter continued:

". . . we have demonstrated our commitment to the cause of revitalizing the older neighborhoods in our cities and it is my belief that the problems of the cities are the number one domestic problem facing the country.

"We would like to work with the Committee and its Subcommittee, particularly on problems of housing finance, including the problems of urban lending. We believe we can be of help to the Congress."

FNMA's public statements to the Congress in December, 1976, indicate its willingness to address the same Congressional concerns which HUD's proposed regulations seek to address. It is inconsistent for FNMA to now rail at and misrepresent regulations which ask it to do no more than it said it was willing to do. In this regard, Senator Proxmire's Memorandum of November, 1977, states:

". . . FNMA should encourage the participation of private lenders in *sound* conventional urban lending, and . . . to do so will require an affirmative effort to overcome, through both actual loan standards and positive rhetoric, many biases and erroneous assumptions which have been commonly accepted in the past. This does not mean that FNMA or the Federal Government should begin a campaign to encourage reckless lending in urban areas. It does suggest, however, that responsible, respected institutions like FNMA should place greater direct emphasis on encouraging prudent urban activity by the lending community.

"FNMA has, in many of its public relations and other actions, argued for a similar attitude change among lenders in recent years. We are interested in knowing whether FNMA considers it desirable to back up this message with revised standards for its own mortgage portfolio. If so, we are open to any FNMA suggestions for accomplishing such revisions in a manner which is efficient and unburdensome to the appraiser and the other participants in the process. . . ." (Underscoring added.)

HOUSING: GENERAL

JULY 20, 1978.

HON. MAX CLELAND,
Administrator of Veterans Affairs,
Veterans Administration,
Washington, D.C.

DEAR MR. ADMINISTRATOR: Thank you for your letter of July 19 with enclosed copy of a letter from the General Counsel of the Department of Housing and

Urban Development to Mr. McMichael in reference to a question I proposed regarding HUD regulations and the adverse impact, if any, such regulations would have on FNMA's ability to continue to serve veterans.

I appreciate having this opinion from the General Counsel of the Department of Housing and Urban Development. I certainly expected the General Counsel to come to the conclusions she has in reference to the HUD proposed regulations; however, the letter does not answer the question I raised in my letter to you dated April 28. I am not really concerned with whether or not HUD feels the proposed regulations would have an adverse impact on veterans housing programs. I am more interested in whether or not you feel the HUD proposed regulations would adversely impact on programs within your jurisdiction. In your letter dated July 19 you indicate "we are confident that the Secretary of HUD would not adopt any measures that would have an adverse effect on the support rendered through the secondary market operations of FNMA to the guaranteed home loan program of the Veterans Administration." What I would like from you is a complete review and analysis of the HUD regulations and have you tell me that it is your judgment the proposed regulations, after such proper review and analysis, will not adversely affect veterans throughout the country.

Sincerely,

RAY ROBERTS, *Chairman.*

VETERANS ADMINISTRATION,
OFFICE OF THE ADMINISTRATOR OF VETERANS AFFAIRS,
Washington, D.C., August 30, 1978.

Hon. RAY ROBERTS,
Chairman, Committee on Veterans' Affairs,
House of Representatives,
Washington, D.C.

DEAR MR. CHAIRMAN: This refers to your letter of July 20 in which you asked for additional comment concerning the proposed HUD regulations affecting FNMA and their impact on the VA's Loan Guaranty program.

On August 14, 1978, HUD published in the Federal Register final regulations which have been revised from those originally proposed.

Revisions and modifications have been made in almost every section of the proposed regulations, specifically those sections which previously imposed absolute percentage requirements on the issuance of commitments in central cities, and absolute percentage requirements for purchases of low and moderate-income mortgages. These sections have been revised to impose goals for the purchase of mortgages in each of these areas. It was these matters in the proposed regulations in particular that FNMA felt would affect the VA home loan programs as expressed in the letter of April 14, 1978, from Mr. Oakley Hunter, Chairman of the Board of President of FNMA, to the Chairman of the Subcommittee on Housing.

Based on the revised regulations, we believe that FNMA will continue to provide effective secondary market support to the home loan programs of the Veterans Administration, and that veterans will not be adversely affected by the regulations.

Sincerely,

MAX CLELAND, *Administrator.*

FEDERAL NATIONAL MORTGAGE ASSOCIATION,
Washington, D.C., October 18, 1978.

Hon. JACK BRINKLEY,
Chairman, Subcommittee on Housing,
House Committee on Veterans' Affairs,
House of Representatives,
Washington, D.C.

DEAR MR. CHAIRMAN: Operating in conjunction with the VA's home loan guaranty program, FNMA's secondary residential mortgage market activities are a significant factor in helping to provide needed home financing for many thousands of veterans all across our country.

It was for this reason that FNMA strongly supported before your Subcommittee the increase in the loan guaranty program from $17,500 to $25,000. Now that this increase has been enacted into law as a part of the Veterans' Housing

Improvement Act of 1978, I want you to know that FNMA is moving immediately to implement this new statutory change and is so advising each of those mortgage lenders with which it does business.

Since FNMA purchases VA guaranteed mortgages with maximum original loan amounts of four times the amount of the guaranteed portion, mortgages of up to and including $100,000 are now eligible for FNMA purchase immediately upon delivery in accordance with our existing procedures.

We are pleased to be able to make this change in our mortgage purchasing program, and we congratulate you as Subcommittee Chairman for moving this needed legislation through the Congress.

Sincerely,

OAKLEY HUNTER.

HEARING TO RECEIVE TESTIMONY ON H.R. 10268 AND H.R. 11009

WEDNESDAY, MARCH 22, 1978—AFTERNOON

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING,
COMMITTEE ON VETERANS' AFFAIRS,
Washington, D.C.

The subcommittee met, pursuant to adjournment, at 2 p.m., in room 340, Cannon House Office Building, Hon. Jack Brinkley (chairman) presiding.

Mr. BRINKLEY. The subcommittee will be in order.

Mr. Richard W. Johnson, Jr., assistant staff director, National Capital Office, Non-Commissioned Officers Association of the United States of America. Time being of the essence, we appreciate your being here and available to testify early. We will proceed at this time.

Mr. JOHNSON. Thank you, Mr. Chairman. My statement is brief, and I will try to present it as quickly as possible.

STATEMENT OF RICHARD W. JOHNSON, JR., ASSISTANT STAFF DIRECTOR, NATIONAL CAPITAL OFFICE, THE NON-COMMISSIONED OFFICERS ASSOCIATION OF THE UNITED STATES OF AMERICA

Mr. JOHNSON. Mr. Chairman, I am Richard W. Johnson, Jr., assistant staff director of the National Capital Office of the Non-Commissioned Officers Association of the United States of America.

On behalf of my association, its officers, members, and directors, I extend my appreciation for inviting me here today as their spokesman.

Mr. Chairman, the more than 150,000 members of NCOA strongly support both legislative proposals being considered here this afternoon. The first bill, H.R. 10268, if passed, will increase the VA home loan guaranty from $17,500 to $25,000 on conventional loans.

The second bill, H.R. 11009, if passed, will make several changes in the law governing the purchase of mobile homes by veterans. The major changes will include eliminating the maximum permissible loan amounts on single- and double-wide mobile homes, establishing a loan guaranty maximum of $17,500, providing authority to extend the repayment period from 12 to 15 years where the loan is for the purchase of a lot, a single-wide mobile home or a single-wide mobile home and lot, and allowing veterans to reuse their loan eligibility once they have satisfactorily repaid or liquidated their obligation.

My association, in conjunction with the Marine Corps League, some years ago recommended that veterans who had satisfied their obligations under VA loans should be allowed to reuse their loan entitlement.

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In the same spirit, we believe that restoring the loan privilege to veterans who have purchased mobile homes and subsequently relieved themselves and the Veterans Administration of liability in that loan should have their VA loan eligibility reinstated.

With regard to the other provisions of H.R. 11009, NCOA notes with concern mobile home industry projections that a single-wide mobile home will cost an average of $13,407 during 1978, while a double-wide mobile home will cost $23,345. Currently, the law limits loans on these homes to $12,500 and $20,000 respectively.

As this disparity grows, fewer and fewer veterans and service members will be able to buy mobile homes. Removing these arbitrary loan limits in favor of prescribing a maximum guaranty limitation is the most reasonable alternative. Yet even removing the loan limits is not the complete answer. Although eligibles may qualify for higher loans, they may not qualify for monthly payments held high by the 12-year loan repayment provision of the current law.

Therefore, it is also necessary to extend the loan repayment period from 12 to 15 years to reduce monthly payments. These changes would be consistent with those recently made by the Department of Housing and Urban Development in programs that are very similar to the VA mobile home purchase program.

Increasing costs of conventional homes are making the $17,500 loan guaranty inadequate. The average price of a home in the United States in January exceeded $56,900, according to the Federal Home Loan Bank Board. The Board also noted several areas of the country where average prices of homes exceeded $70,000 and $80,000.

Veterans with large families and servicemen in high cost-of-living areas, particularly those who cannot afford substantial downpayments, find themselves unable to buy a home. Why? Because they are unable to obtain conventional financing without a substantial downpayment, and VA loans are not available on houses that expensive. Washington is a fine example of this type of market.

H.R. 10268 will tremendously ease this problem and give veterans who can afford a large monthly payment on big loans, but not the sizable downpayments required for conventional financing, a chance to purchase homes commensurate with their needs.

To extend very briefly on one point, Mr. Chairman, I think it is important to point out that VA home loans affect both veterans and inservice personnel, and especially the younger inservice personnel in the mobile home market.

Going back for just a minute to the beginning of my statement where we have talked about a reinstatement of VA loan eligibility, our Association finds this very, very important. As young servicemen are being transferred from station to station, a reinstatement of their eligibility would considerably ease the housing problems that are being experienced by young servicemen today.

Again, Mr. Chairman, NCOA strongly supports both the measures currently under consideration. I thank you for allowing me this opportunity to share with you the views of my association. I will be happy to answer any questions you may have at this time.

Mr. BRINKLEY. Thank you, Mr. Johnson. I believe that this is the first time that your association has testified before the subcommittee.

Mr. JOHNSON. In several years.

Mr. BRINKLEY. We certainly welcome you and appreciate your statement. We are glad that you had a keen interest in this, and we appreciate the points that you have made.

In particular, with reference to the inservice personnel, a lot of people think we are talking about an all-veteran market. It is not true. We have active duty members who have needs and perhaps most need in this area, so I am glad that you chose to emphasize that, and this committee will take note of it.

Mr. JOHNSON. I think it is particularly important on the reinstatement provision of the law, Mr. Chairman, because as military people are transferred, they have to liquidate on their last home and then they have to buy a new home. Young servicemen, particularly, who find a mobile home or a manufactured home a particularly attractive buy because of its low price, are being handicapped now by not being able to use their VA loan eligibility again and again and again as the older serviceman, who is more established and is buying conventional homes, has the opportunity to do.

Mr. BRINKLEY. The perspective that you represent is an important one, and is different from many of the others who have testified. We are grateful for that meaningful contribution.

Mr. JOHNSON. Thank you very much, sir.

Mr. BRINKLEY. Ms. Lunsford, do you have any questions?

Ms. LUNSFORD. I have one question. Mr. Johnson, since military personnel are very transient, what normally happens to the mobile home when a veteran is transferring from one duty station to another? Does the home transfer with the veteran, is it sold on site, or do you know of instances where it is abandoned—I understand that such instances do occur?

Mr. JOHNSON. I think that you find more and more today a desire to liquidate on a mobile home. In other words, a serviceman does not want to pick it up in the mobile home concept and hook a tractor to it and tow it to his next duty station. It has become more attractive to sell it, perhaps, even to his own replacement who is moving into a new duty station; in other words, leaving it there in that same area for somebody else to assume the loan or to buy out his equity, if he has any, or to at least take over the payments on such homes.

Ms. LUNSFORD. Therefore, restoration of entitlement really aids the man who transfers from one station to another frequently.

Mr. JOHNSON. Exactly, exactly.

Mr. BRINKLEY. Mr. Parkinson?

Mr. PARKINSON. I have no questions.

Mr. BRINKLEY. Mr. Fleming?

Mr. FLEMING. No questions.

Mr. BRINKLEY. Again, Mr. Johnson, we are grateful to you and hope you will come back to see us.

Mr. JOHNSON. Thank you very much, sir.

[Witness excused.]

Mr. BRINKLEY. The next witness is Mr. Gerald Biddulph. He is vice president in charge of housing, Fleetwood Enterprises, Inc., Riverside, Calif. He is accompanied by Mr. William H. Lear, vice president and general counsel. We are grateful for your patience, and we welcome you here today and invite your testimony. Your entire written statement will be included in the record at this point.

[Statement follows:]

PREPARED STATEMENT OF GERALD G. BIDDULPH, VICE PRESIDENT IN CHARGE OF HOUSING, FLEETWOOD ENTERPRISES

Mr. Chairman and members of the subcommittee, my name is Gerald G. Biddulph. I am Vice President in charge of Housing at Fleetwood Enterprises, Inc. in Riverside, California. In addition, I have been active in several of the trade associations in the manufactured housing industry, including the Manufactured Housing Institute (MHI) and the Western Manufactured Housing Institute (WMHI), and am on the Board of Directors of the National Association of Home Manufacturers (NAHM). Accompanying me today is William H. Lear, Fleetwood's Vice President and General Counsel.

For your information, Fleetwood Enterprises, Inc. is one of the largest national manufacturers of housing. During 1977 we produced almost 20,000 housing units, including single-, double- and triple-width units as well as homes built to various state and uniform building codes. Our sales from housing products alone last year year totalled approximately $245,000,000 and our units were built in a total of 29 manufacturing plants in 15 States and Canada.

We appreciate this opportunity to appear before you to discuss the Veterans Administration's home loan programs and specifically the two bills currently being considered by the Subcommitte, H.R. 11009 and H.R. 10268. We have been closely associated with the VA's mobile home loan program since its inception. While it is difficult to establish with certainty how many of our homes have been financed under the program, it is our belief that we have had more homes financed by VA than any other manufacturer. We know that we have been in close contact with VA representatives over the years and we especially appreciate the efforts of Bob Coon and George Alexander in working with our industry for the betterment of the program and the goal of providing sound, low-cost housing to veterans. Our financial group has devoted much time and effort to making our plants and dealers fully aware of the VA program and in persuading lenders to participate in the program.

We have also developed numerous materials and published articles on the VA program. A copy of one such article, authored by our Corporate Credit Manager, David J. Leichey, will be submitted for the record along with a kit we developed for use by our dealers in promoting the VA program. Our activities were recognized recently in a commendation presented by the VA to our Dave Leichey for his " * * * outstanding support and professional contributions * * * to the VA mobile home loan program.

We commend the VA and its staff for their continuing efforts to make this program more viable and to increase its acceptance among veterans, financing sources and industry manufacturers and dealers. We also apreciate the efforts of the major lenders, some of whom are represented here today, to spread the gospel and to increase acceptance of the program.

We believe that improvements in the mobile home program such as the 50% guarantee and increases of the maximum loan terms have been extremely helpful. Yet VA loans are the financing device on only approximately 2 percent of the homes which we sell. Apparently, then, the program can still be made even better. We believe that the bill before the Subcommittee contains a number of significant provisions which will further this effort.

Obviously, the most important provision in H.R. 11009 is the bill's treatment of the loan limits. We believe replacement of the maximum loan amount with a maximum guarantee entitlement is a strong positive step toward parity with the home loan program. Establishment of the maximum guarantee at $17,500 should be sufficient to cover most of our houses at this time. In our opinion, this change has been made necessary by inflationary pressures and the market trends over the past few years. While the VA loan limits have been increased in recent years, they have again become inadequate to provide financing for many of the homes we produce. Perhaps the following examples will illustrate this point.

Our single-wide mobile home, including an average selection of optional features, sell at wholesale to our dealers at prices ranging from approximately $6800 to $10,800. Our multisectional homes, also with a reasonable option package, range in wholesale prices to our dealers from approximately $14,500 to $23,500. We are generally somewhere in the middle of the price spectrum in the industry on a national basis. Certainly, there are manufacturers who offer smaller, more spartan and less expensive homes. In addition, there are a number of manufacturers who sell homes priced well above those we manufacture. This is especially true in California where the double-wide predominates and prices generally are at the high end of the spectrum.

As you know, the VA has placed a limit on loans covered by the program so that the maximum financed amount on a home cannot exceed 120 percent of the manufacturer's invoice. Therefore, if we forget for the moment the existing loan limits, the ranges of maximum financed amounts on our homes are approximately $7600 to $13,000 for single-wides and approximately $17,400 to $28,000 for multiwidth homes. It is obvious that a fairly sizable number of our homes cannot be financed under the VA program without a down payment, in some cases a rather large one. This is especially true in the case of multiwidth homes (double-wides and triplewides) where the current limit is $20,000 and many of our models, with the addition of options and extra items, set up costs and the dealer's profit, are priced above the limit. Thus, we have the anomalous situation that a program which was intended to allow younger, lower income veterans to purchase decent, affordable housing without requiring a substantial down payment, actually requires the veteran to make such a down payment. Even worse, in practice this means that the larger, higher priced units, which generally will have a greater potential for appreciation usually must be financed conventionally by the veteran, which may mean that he cannot purchase such a home. It is our feeling that the loan limits generally restrict the veterans's choice to a lower priced home which often gives him less long-term equity and, more important, makes it hard to buy a home large enough to meet his family requirements.

We believe that the elimination of the loan limits will go a long way to resolving this problem. We would not be honest if we did not comment that our preference would be that the bill provide total parity with the home loan program by providing for the same maximum loan guarantee entitlement as is proposed in H.R. 10268. However, we admit that the proposed maximum entitlement of $17,500 should be sufficient at this time to permit lenders to finance the homes we build through the VA program without requiring a substantial down payment by the veteran. Of course, with the current rate of inflation the maximum must be reviewed from time to time to make sure that it continues to be adequate.

We are also in agreement with the provision of the bill which increases the maximum term for the purchase of a lot or a single-wide home to 15 years and 32 days. The key factor in determining whether a house is really affordable for the veteran is the monthly payment. The extension of the term of the loan permits the monthly payment to be reduced. From our own knowledge, and also our review of prior testimony before this Subcommittee, we are satisfied that single-wide homes being built today when properly cared for will last well beyond 15 years. In fact, we are aware of cases where homes we built 18, 20 and 22 years ago, to far less demanding standards, are in use today as family residences.

Finally, we are pleased to note the inclusion in H.R. 11009 of a number of provisions which reduce the disparity in treatment of the homes which we build as compared to those produced using other construction methods. In this regard, we note the proposal to eliminate the restriction on the veteran's restoration of the guarantee entitlement, which restriction has no counterpart in the conventional program. We also strongly support the bill's provision concerning partial entitlements and the other proposed technical amendments to the program.

We should comment on one problem in the mobile home loan program that does not exist in the home loan program, which we believe deserves study by the VA and the Subcommittee. One of the reasons cited in prior testimony why the VA program, successful as it is, has not reached even more veterans is a relatively low level of dealer participation. We agree with witnesses at previous hearings that reasons for this problem include a continuing need for education, a general fear of "red tape", delays in receiving payment from the VA, etc. However, in addition, conversations with some of our dealers lead us to believe that the VA's restriction which provides that the maximum financed amount may not exceed 120 percent of the manufacturer's invoice price is another signifiant factor in discouraging dealer participation. We are aware of no similar requirement in the conventional program, which relies on appraisals to determine the maximum loan. While we have no hard data to back up our assertion, we are told by some dealers that the 120-percent figure is not enough to cover the cost of installation of the home, dealer service, overheads, dealer profit and extras purchased by the homeowner. This means that in many cases a fair-sized downpayment must be charged to cover the excess. Since there is no comparable requirement under conventional mobile home programs, this can lead the dealer to recommend con-

ventional financing, which generally is more costly to the veteran. We recommend that the VA and this Subcommittee consider the question of whether the "120-percent limitation" is really appropriate in today's environment. Perhaps long-term answer is appraisal, as is done with site-built homes. For now, an increase in the 120-percent may be sufficient.

Finally, we turn to HR 10268. We believe the Subcommittee should include the manufactured homes we build, when attached to permanent foundations, in the VA home loan program. In this regard, we are focusing on our multisectional homes which are built to the demanding HUD Mobile Home Standards and, in some cases, also to comply with state or regional building codes such as BOCA, UBC and SBCC. Our homes are houses in every major respect. When they are attached to permanent foundations and sited on private land owned or controlled by the consumer, it is becoming more and more recognized that they become real estate, just a do houses constructed by other methods. Slowly but surely more states are taking action in recognition of this situation.

We are filing for the record and will provide at the hearing a package of photographs of our homes which have been sold in several states, attached to permanent foundations, placed on land owned or being purchased by the homeowner, treated as real property and, in most cases, financed in the same manner as site-built homes. I believe that one look at the photographs will explain why these houses have received this treatment. They are homes which are being cared for by their owners and will appreciate in value. Specific comments concerning a few of these homes might be helpful.

The Davis house, located in Illinois, was placed on a permanent foundation on property owned by the Davis family, neatly landscaped and a two-car garage was attached. We are told that the home was financed conventionally for 20 years at 8½ percent.

The Thomas house, located in Indiana, was placed on a permanent foundation and numerous improvements including a garage, were added by the owner. The Thomas's made a substantial down payment, so had no need for a long-term loan.

The Holmes house, located in Illinois, was purchased on a speculative basis by one of our dealers for future resale. It was placed on a permanent foundation, a porch was added and the last we heard the home is for sale at a price of $34,500 including the land. It is our understanding that the dealer has available on the house a 90-percent mortgage for 20 years at a low rate of interest.

The Carpenter house, located in central Georgia, is also on a permanent foundation on land owned by the Carpenters. The owners have added a carport and swimming pool, which should enhance the value of their property.

The point of these photographs, aside from showing off some of our homes in good settings, is to present real live examples today of situations where our homes, placed on permanent foundations, are treated as real estate and can be financed in the same manner as site-built homes. In fact, we are aware of many cases where our homes, when placed on private property and permanently sited, are treated as real estate in jurisdictions where this is possible and financed conventionally at low, simple-interest rates for periods longer than customary mobile home financing. The following table, based on a telephone survey made last October, was provided to the VA in early March. It demonstrates the extent to which our homes are located on private lots and the financing possibilities when this is done.

Plant location	Homes place on private lots (percent	Number of active dealers	Number of dealers with long-term mortgage financing
Douglas, Ga	90	50	15 (20 to 25 yr, 9 percent).
Emporia, Kans	99	38	20.
Lexington, Miss	100	22	15 (20 to 30 yr, 9 to 9¼ percent).
Westmoreland, Tenn	95	53	9 (20 yr, 8½ to 9½ percent).
Bowling Green, Ohio	90	36	10 (15 to 20 yr, 8½ to 9½ percent.)
Rocky Mount, Va	95	32	17 (20 to 30 yr, 8¾ to 9¾ percent).
Woodland, Wash	50	47	37 (25 yr and over; up to 9¾ percent).
Nampa, Idaho	50	55	25 (18 to 25 yr).

The potential of this development appears obvious. These relatively low-priced permanent houses, if financed at low rates with a low down payment,

can provide tremendous value to veterans and help accomplish the purposes of the VA home loan program.

It is well known that our houses are built to a stringent Federal code with detailed factory inspection. A comparison of this code to the BOCA Single Family Dwelling Code, which will be submitted for the record, demonstrates that there are limited real differences between these codes. In our opinion, there is no necessity that these homes also be built to meet engineering bulletins and HUD minimum property standards to be eligible for conventional VA financing. To the extent that the inclusion of these homes in the VA program requires an amendment to the VA home loan program, we urge the Subcommittee to consider and propose such an amendment. We believe this will benefit the program and the veteran.

Once again, we thank you for the opportunity to appear before you. We will be happy to answer any questions you might have.

STATEMENT OF GERALD G. BIDDULPH, VICE PRESIDENT, GROUP HOUSING, FLEETWOOD ENTERPRISES, INC., ACCOMPANIED BY WILLIAM H. LEAR, VICE PRESIDENT AND GENERAL COUNSEL

Mr. BIDDULPH. Thank you very much, Mr. Chairman. My name is Gerald G. Biddulph. As was previously stated, I am vice president in charge of housing at Fleetwood Enterprises, Inc., headquartered in Riverside, Calif. In addition, I have been active in several of the trade associations in the manufactured housing industry, including MHI, WMHI, which is the Western Manufactured Housing Institute, and in addition, I am on the board of directors of the National Association of Home Manufacturers.

Accompanying me today is William H. Lear, who is Fleetwood's vice president and general counsel.

For your information, Fleetwood is one of the largest national manufacturers of housing. During 1977 we produced almost 20,000 housing units, including single-, double-, and triple-wide units, as well as homes built to various State and uniform building codes. Our sales from housing products alone last year totaled approximately $245 million, and our units were built at a total of 29 manufacturing plants in 15 States and Canada.

We appreciate very much the opportunity to appear before you to discuss the Veterans Administration home loan program, and specifically, the two bills currently being considered by the subcommittee, H.R. 11009 and 10268.

We have been closely associated with the VA's mobile home loan program since its inception. While it is difficult to establish with certainty how many of our homes have been financed under the program, it is our belief that we have had more homes financed by VA than any other manufacturer. We know that we have been in close contact with VA representatives over the years, and we especially appreciate the efforts of Bob Coon and George Alexander in working with our industry for the betterment of the program and the goal of providing sound, low cost housing to veterans.

Our financial group also has devoted much time and effort to making our plants and dealers fully aware of the VA program and in persuading lenders to participate in the program. We have also developed numerous materials and published articles on the VA program. A copy of one such article, authored by our corporate credit manager, David Leichey, has been submitted for the record, along with a kit we de-

veloped for use by our dealers in promoting the VA program. Our activities were recognized recently in a commendation presented by the VA to our Dave Leichey for his outstanding support and professional contributions to the VA mobile home loan program.

We commend the VA and its staff for their continuing efforts to make this program more viable and to increase its acceptance among veterans, financing sources, and industry manufacturers and dealers. We also appreciate the efforts of the major lenders, some of whom are represented here today, to spread the gospel and increase acceptance of the program.

We believe that improvements in the mobile home program such as the 50-percent guaranty and increases of the maximum loan terms have been extremely helpful. Yet VA loans are the financing device on only approximately 2 percent of the homes which we sell. Apparently, then, the program can still be made even better. We believe that the bill before the subcommittee contains a number of significant provisions which will further this effort.

Obviously, the most important provision in H.R. 11009 is the bill's treatment of the loan limits. We believe replacement of the maximum loan amount with a maximum guaranty entitlement is a strong positive step towards parity with the home loan program. Establishment of the maximum guaranty at $17,500 should be sufficient to cover most of our houses at this time.

In our opinion, this change has been made necessary by inflationary pressures and market trends over the past few years. While the VA loan limits have been increased in recent years, they have again become inadequate to provide financing for many of the homes we produce. Perhaps the following examples will illustrate this point.

Our single-wide homes, including an average selection of optional features, sell at wholesale to our dealers at prices ranging from $6,800 to $12,000 and more. Our multi-section homes, also with reasonable option packages, range in wholesale price to our dealers from approximately $14,500 to $25,000 and sometimes higher.

The average wholesale selling price for a single-wide home is approximately $10,500. The average selling price for our multi-sectional homes is approximately $18,000. There are manufacturers in the industry who offer smaller, more spartan, and less expensive homes. In addition, there are a number of manufacturers who sell homes priced well above those that we manufacture. This is especially true in California, where the double-wide predominates and prices generally are at the high end of the spectrum.

As you know, the VA has placed a limit on loans covered by the program so that the maximum amount financed cannot exceed 120 percent of the manufacturer's invoice. Therefore, if we forget for a moment about the existing loan limits, the average maximum financed amounts for our single wides will work out to be at least $12,600, and for our double wides, at least $21,600.

It is obvious that a fairly sizable number of our homes cannot be financed under the VA program without a sizable down payment. This is especially true in the case of the multiwidth homes where the current loan limit is $20,000. Many of our models, as indicated above, with the addition of options and extra items, set-up costs and the dealer's profit, are priced above the limit. Thus we have the anomalous situa-

tion that a program which was intended to allow younger, lower-income veterans to purchase decent, affordable housing without requiring a substantial down payment, actually requires the veteran to make that substantial down payment.

Even worse, in practice this means that the larger, high-priced units, which generally will have a greater potential for appreciation, usually must be financed conventionally by the veteran, which may mean that he cannot purchase such a home. It is our feeling that the loan limits generally restrict the veteran's choice to a lower priced home which often gives him less long-term equity and, more importantly, makes it hard to buy a home large enough to meet his family's requirements.

We believe that the elimination of the loan limits will do a great deal to resolve this problem. We are also in agreement with the provision of the bill which increases the maximum term for the purchase of a lot or a single-wide mobile home to 15 years and 32 days. The key factor in determining whether a house is really affordable for the veteran is the monthly payment. The extension of the term of the loan permits the monthly payment to be reduced. From our own knowledge, and also our review of prior testimony before this subcommittee, we are satisfied that single-wide homes being built today, when properly cared for, will last well beyond 15 years. In fact, we are aware of cases where homes we built 18, 20, and 22 years ago, to far less demanding standards, are in use today as family residences.

Finally, we are pleased to note the inclusion in H.R. 11009 of a number of provisions which reduce the disparity in treatment of the homes which we build as compared to those produced using other construction methods. In this regard, we note the proposal to eliminate the restriction on the veteran's restoration of the guaranty entitlement, which restriction has no counterpart in the conventional program. We also strongly support the bill's provision concerning partial entitlements and the other proposed technical amendments.

We should comment on one problem in the mobile home loan program that does not exist in the home loan program, which we believe deserves study by the VA and the subcommittee. One of the reasons cited in prior testimony why the VA program, successful as it is, has not reached even more veterans is a relatively low level of dealer participation. We agree with witnesses at previous hearings that reasons for this problem include a continuing need for education, a general fear of redtape, delays in receiving payment from the VA, et cetera.

However, in addition, conversations with some of our dealers lead us to believe that the VA's restriction which provides that the maximum financed amount may not exceed 120 percent of the manufacturer's invoice price is another significant factor in discouraging dealer participation. We are aware of no similar requirements in the conventional program, which relies on onsite appraisal to determine the value of the home being financed and, therefore, the maximum loan amount.

While we have no hard data to back up our assertion, we are told by some of our dealers that the 120-percent figure is not enough to cover the cost of installation of the home, dealer service, overhead, dealer profits, and some extras purchased by the homeowner. This means that in many cases a fair-sized downpayment must be charged to cover the excess.

Since there is no comparable requirement with conventional mobile home programs, this can lead the dealer to recommend conventional financing, which generally is more costly to the veteran. We recommend that the VA and this subcommittee consider the question of whether the 120-percent limitation is really appropriate in today's environment. Perhaps, long term, the answer may be onsite appraisal, as is done with site-constructed homes. For now, an increase in the 120 percent may be sufficient.

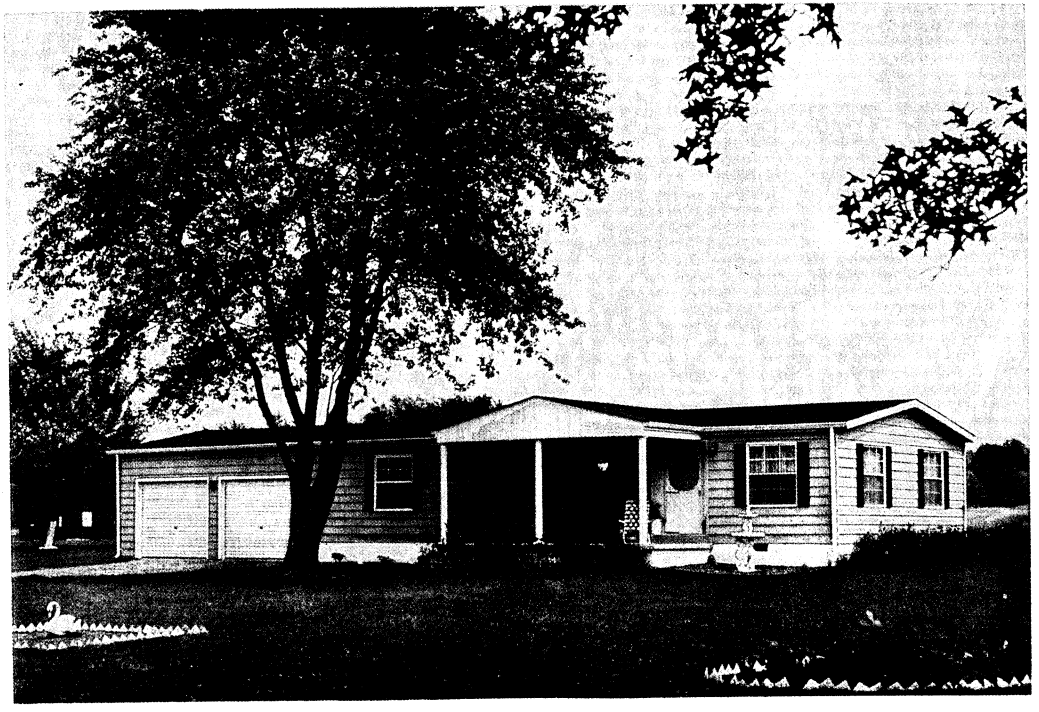
Finally, we turn to H.R. 10268. We believe the subcommittee should include the manufactured homes we build, when attached to permanent foundations, in the VA home loan program. In this regard, we are focusing on our multisectional homes which are built to the demanding HUD mobile home standards and, in some cases, also to comply with State or regional building codes such as BOCA, UBC, and the Southern Building Code.

Our homes are homes in every major respect. When they are attached to permanent foundations and sited on private land owned or controlled by the consumer, it is becoming more and more recognized that they become real estate, just as do houses constructed by other methods. Slowly but surely, more States are taking action to recognize this situation.

We have filed for the record and have provided a package of photographs of our homes which have been sold in several States, attached to permanent foundations, placed on land owned or being purchased by the homeowner, treated as real property and, in most cases, financed in the same manner as site-built homes.

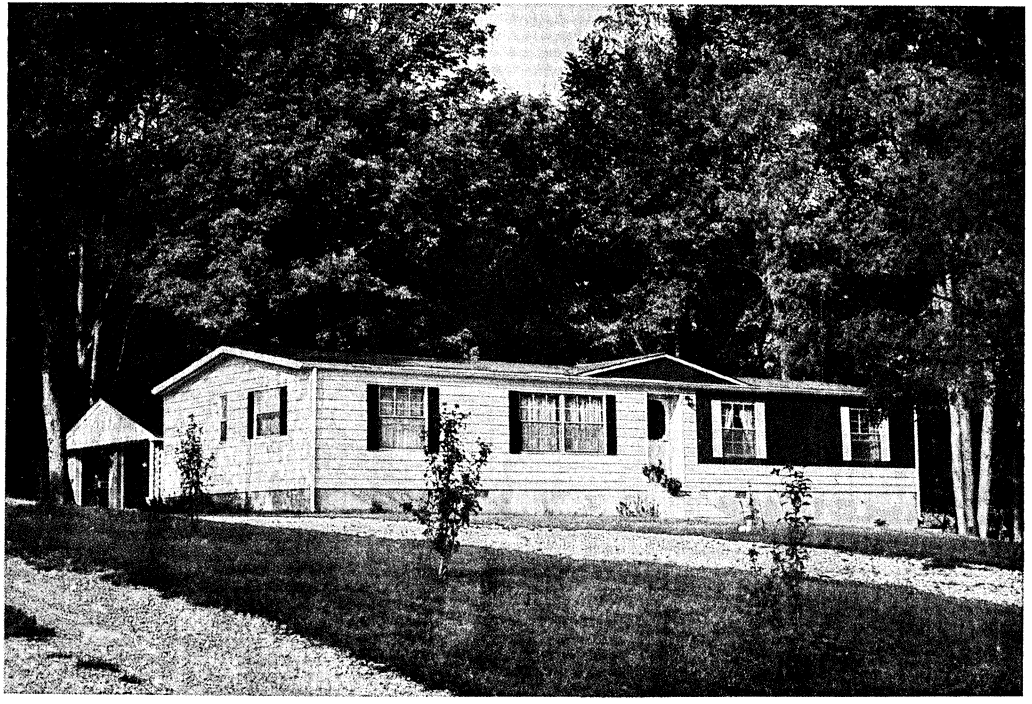
I believe that one look at the photographs will explain why these homes have received this treatment. They are homes which are being cared for by their owners and will appreciate in value. Specific comments concerning a few of these homes might be helpful.

[Pictures follow:]



Glenbrook®
Manufactured by Glenbrook Homes of Tennessee, Inc.
a subsidiary of Fleetwood Enterprises, Inc.

Mr. & Mrs. William Davis · Marion, Illinois



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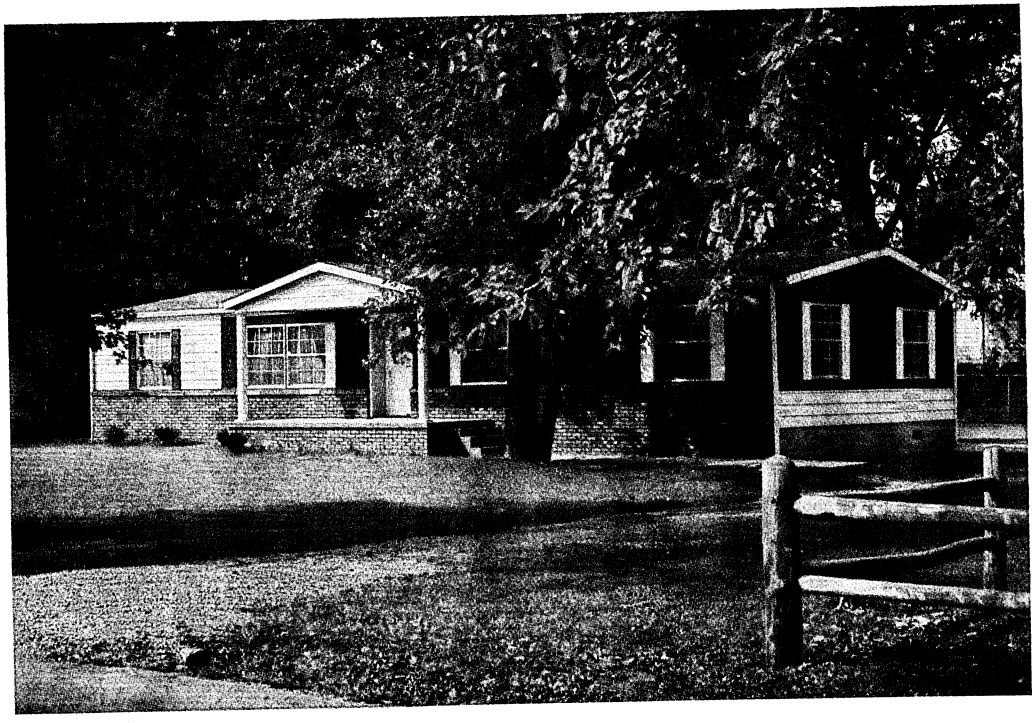
Mr. & Mrs. Mervin Thomas · Charlestown, Indiana



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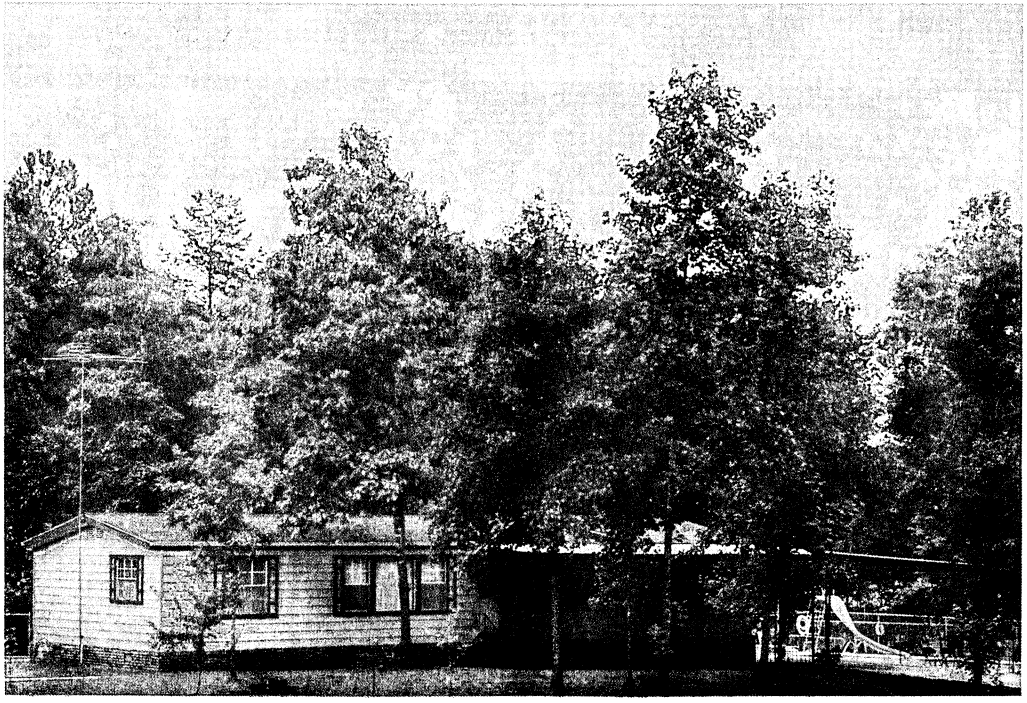
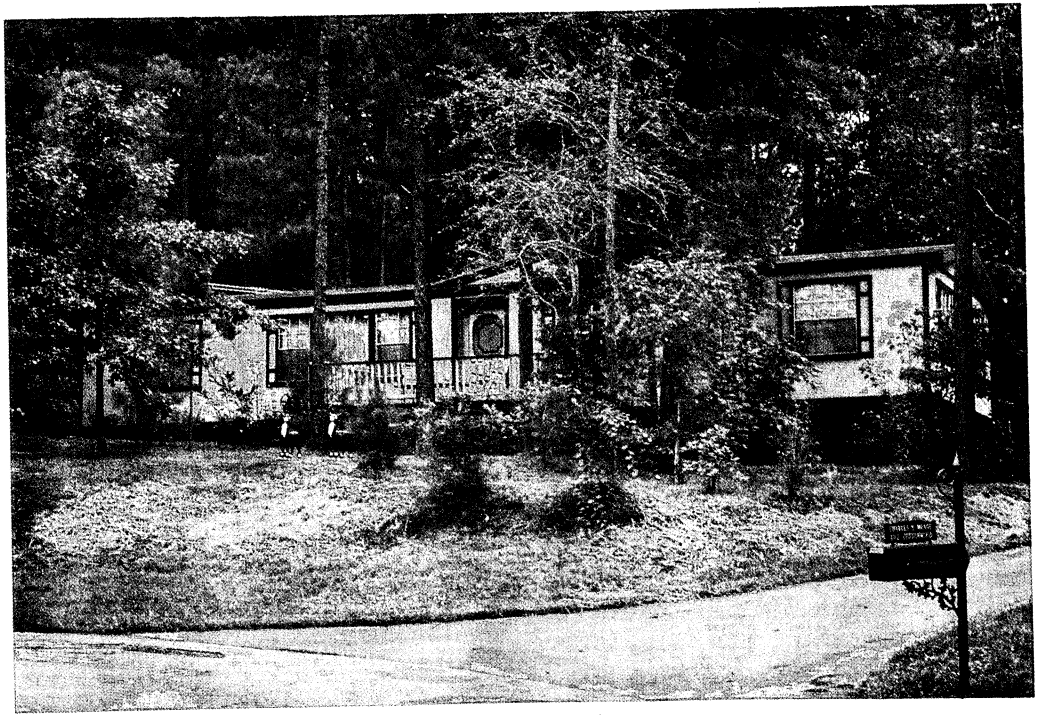
Mr. Sherlock Holmes · Marion, Illinois



Fleetwood®

Manufactured by Fleetwood Homes of Georgia, Inc.
a subsidiary of Fleetwood Enterprises, Inc.

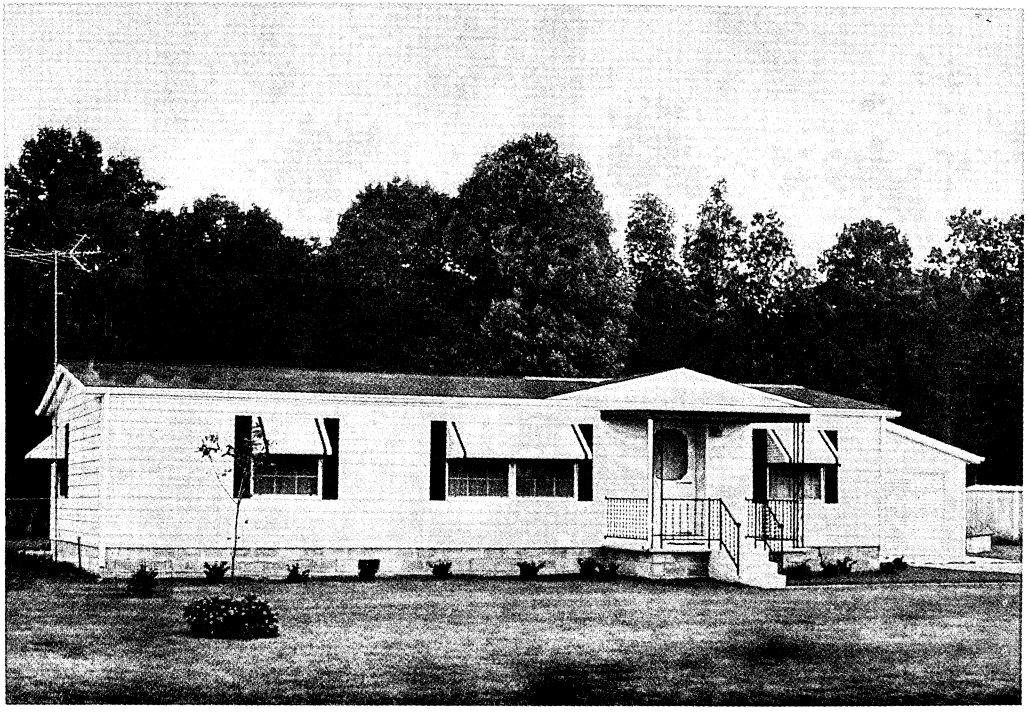
Mr. & Mrs. Roy A. Carpenter · Stockbridge, Georgia



Fleetwood®

Manufactured by Fleetwood Homes of Georgia, Inc.
a subsidiary of Fleetwood Enterprises, Inc.

Mrs. Charles H. Meade - Stockbridge, Georgia



Glenbrook®

Manufactured by Glenbrook Homes of Tennessee, Inc.
a subsidiary of Fleetwood Enterprises, Inc.

Mr. Perry Deschamp - Pekin, Indiana

Mr. BIDDULPH. One of the photographs is a photograph of a home owned by the Davises, located in Illinois, placed on a permanent foundation on property owned by the Davises and neatly landscaped, with an attached two-car garage. We are told that the home was financed conventionally for 20 years at 8.5 percent interest.

The Thomas home is located in Indiana. This home was placed on a permanent foundation, and numerous improvements, including a garage, were added by the owner. The Thomases made a substantial downpayment, so had no need for a long-term loan.

The Holmes house, which is the one with the brick front, is located in Illinois. It was purchased on a speculative basis by one of our dealers for future resale. It was placed on a permanent foundation, a porch was added, and the last we heard the home was for sale at a price of $34,500 including land. It is our understanding that the dealer had available on the home a 90-percent mortgage for 20 years at a low rate of interest.

The Carpenter house, located in central Georgia, is also on a permanent foundation on land owned by the Carpenters. The owners have added a carport and swimming pool, which should enhance the value of the property.

The point of these photographs, aside from showing off some of our homes in good settings, is to present real live examples today of situations where our homes, placed on permanent foundations, are treated as real estate and can be financed in the same manner as site-built homes.

Last October, we did a survey of our plants located outside of Florida and California which were producing primarily double-wides. There were a total of eight plants involved in this quick survey. We found that an estimated 84 percent of the homes produced by these plants were being placed on private property; 44 percent of the dealers that were carrying these homes had available to them some form of long-term mortgage finance.

The potential for this appears obvious. These relatively low-priced permanent homes, if financed at low rates with a low downpayment, can provide tremendous value to veterans and help accomplish the purposes of the VA home loan program.

It is well known that our homes are built to a stringent Federal code with detailed factory inspection. A comparison of this code to the BOCA Single Family Dwelling Code has been submitted for the record. This comparison demonstrates that there are limited real differences between these codes. In our opinion, there is no necessity that these homes also be built to meet engineering bulletins and the HUD minimum property standards to be eligible for regular VA financing.

To the extent that the inclusion of these homes in the VA program requires an amendment to the VA home loan program, we urge the subcommittee to consider and propose such an amendment. We believe that this will benefit the program and the veteran.

Once again, we thank you for the opportunity to appear before you, and we will be happy to respond to any questions which you might have.

Mr. BRINKLEY. I would like to direct your attention to the house in central Georgia. What kind of manufactured house is it? Is it manu-

factured in Georgia or is it transported to Georgia. If it is transported, then how and from where?

Mr. BIDDULPH. That home is manufactured in Douglas, Ga. It is sold under the brand name "Fleetwood." That particular home contains three bedrooms, and two full baths. It has a total of 1,440 square feet of floor area, and is built to comply with the Federal mobile home construction standards.

Mr. BRINKLEY. I am just not quite sure what manner of creature it is, though. Is it a double-wide?

Mr. BIDDULPH. Yes; it is a double-wide.

Mr. BRINKLEY. It is? So, therefore, it is carried over the streets in sections?

Mr. BIDDULPH. That is correct; in two sections.

Mr. BRINKLEY. To its present site?

Mr. BIDDULPH. Yes.

Mr. BRINKLEY. Where is that located?

Mr. BIDDULPH. That one is located in Stockbridge, Ga.

Mr. BRINKLEY. I wish we had some of those up here in the District of Columbia. It is very nice.

What about in Georgia? Is that not eligible for VA financing under the stick-built housing program once it is permanently attached to the land?

Mr. BIDDULPH. No; it is not, only under the mobile home VA program. In order to qualify for the VA conventional home financing, the home has to comply with the minimum property standards, which involves substantial administrative difficulties and some production difficulty. We have found a significant market for homes built to the Federal mobile home standards and used in the same fashion as that home is.

Mr. BRINKLEY. Of course, under Georgia law, it is a part of the realty.

Mr. BIDDULPH. Yes.

Mr. BRINKLEY. Therefore it is sort of, I suppose, in limbo.

Mr. BIDDULPH. That is correct. One of the real problems is that regulations and financing practices that have developed involving the mobile home industry have treated our products as personal property. As more and more of our homes are being permanently sited on permanent foundations and becoming, by all definitions, real estate, we are having a difficult time in getting the changes required in the regulations to properly recognize the fact that they are legally real estate.

Mr. BRINKLEY. And you recognize that legislation which we are considering today does nothing to change that.

Mr. BIDDULPH. I am aware of that. I merely suggest that you might look into it and consider it.

Mr. BRINKLEY. One further question, please. With reference to page 5 of your testimony, you speak of 120 percent of the manufacturer's invoice price as being a significant factor in discouraging dealer participation, and you say sometimes that the practical effect of that is to require of the purchaser a rather hefty downpayment.

Mr. BIDDULPH. Yes.

Mr. BRINKLEY. How would you change that?

Mr. BIDDULPH. I would look at increasing the 120 percent initially to something like 125 to 130. The hefty downpayment has been caused

because of the low loan limits resulting from the 20-percent limitation. Many dealers are able to achieve a greater mark-up by using other alternate financing sources, so they can therefore achieve greater profitability.

Mr. BRINKLEY. Very good. We certainly appreciate that testimony. Ms. Lunsford, do you have any further questions?

Ms. LUNSFORD. Mr. Biddulph, would you cite for the record some of the differences between a house built to the HUD structural engineering bulletin or minimum property standards and the house which Congressman Brinkley pointed to.

Mr. BIDDULPH. Structurally, let me first of all say that we expend a great deal of administrative time and engineering time in justifying our designs as complying with the Federal mobile home standard and also getting the approval from the various design approval agencies [DAPIA's] utilized under the Federal Mobile Home Safety and Construction Act.

First, in building a home that complies with the minimum property standards or a structural engineering bulletin, there is a great deal of additional engineering and administrative work required to get approval from HUD that it meets the minimum property standards. We have such an engineering bulletin; we have not used it very extensively.

The structural differences involve primarily the framing in the walls and the type of roof trusses that we use. Differences are caused by the fact that the Federal mobile home standard is a performance standard, which means that you can demonstrate through performance testing that a home will meet the required loads, whereas the minimum property standards or the structural engineering bulletin is based strictly on engineering calculations and does not take into effect the actual performance of the components.

The final result of this is that more material is required in a structure which meets the minimum property standards than is required in a structure which meets the Federal mobile home standards, even though the structure does not end up being any stronger, because of the techniques that we use.

These are two of the primary differences in the structural aspects. In addition to that, we have to consider the administrative difficulty.

Mr. BRINKLEY. We appreciate that.

Mr. Parkinson?

Mr. PARKINSON. I have no questions.

Mr. BRINKLEY. Mr. Fleming?

Mr. FLEMING. No questions.

Mr. BRINKLEY. I am sorry that we have to be fairly abbreviated. We appreciate your views on these two bills, and the prognosis looks very good. We salute you for providing that very important commodity of housing for our people. It looks like your business is going to be good in the days ahead.

Mr. BIDDULPH. Thank you, Mr. Chairman. We appreciate the opportunity.

Mr. BRINKLEY. Thank you both. Mr. Lear.

Mr. LEAR. Mr. Chairman, I do need the large copies that I used. Unfortunately, these are our only copies. We filed the smaller copies for the record.

Mr. BRINKLEY. Yes, I see. Very well, they are very handsome.

[Witnesses excused.]

Mr. BRINKLEY. Next is Mr. Donald Shirk, senior vice president, Western Federal Savings & Loan Association, and president of Shelter America Corp., Denver, Colo. We welcome you. Please have a chair and share with us your thoughts.

Mr. SHIRK. Thank you, Mr. Chairman.

STATEMENT OF DONALD G. SHIRK, SENIOR VICE PRESIDENT, WESTERN FEDERAL SAVINGS & LOAN ASSOCIATION, PRESIDENT, SHELTER AMERICA CORP.

Mr. SHIRK. My name is Donald G. Shirk, and as you mentioned, sir, I am a senior vice president of Western Federal Savings of Denver and the president of Shelter America Corp., a mortgage banking firm specializing in mobile home loans.

I represent only these two firms, but I believe that the U.S. Savings League has submitted a letter to this committee which is in substantial agreement with the remarks I am about to make.

First, I would like to speak to that portion of H.R. 11009 which has to do with the maximum-permissible loan amounts on mobile home loans. Our long experience in the VA mobile home program shows that as the prices increase, the number of mobile home loans that can qualify for the VA program decreases. The obvious reason for this is that the artificial limits applied to the VA mobile home loans are current in the market place for only a short period of time.

The process in increasing these limits results in delays that cause serious damage to the momentum of the VA mobile home program. Our experience has been that since 1970, the program has been substantially deterred by the failure to keep the advance limits in tune with the market place. In the period of 1973 to 1974 and at the present time, the program's ability to serve the veteran has been severely curtailed by these artificial limits. Currently, the veteran is required to make substantial downpayments or is forced to finance the purchase of his mobile home conventionally at a much higher interest rate, usually 13 to 14 percent.

Another alternative for the veteran is to buy a lesser home than his needs require, thereby allowing his purchase to fit the VA format. The home, unfortunately, does not meet the needs and requirements of his family.

We finance 32 floor-plan dealers. In the months of July and August 1977, 45 percent of these homes floor-planned by our firm could not have been sold VA because of the cost of the units.

In some ways, the VA mobile home program has really never gotten off the ground. We happen to be the largest VA lender in the United States and feel very familiar with the advantages and disadvantages of this program. I believe the program can be a viable program for the benefit of both the veteran and the industry. However, these limits have crippled the program and have destroyed any impetus that the program might have gained. The limits should be removed, which would benefit the veteran.

Second, I would like to speak to the question of increasing the term. Many authorities have been quoted on their opinion of depreciation

of a mobile home. I am not an authority, but I have an opinion. In the next year or so we will suddenly discover that mobile homes may depreciate only slightly or possibly not at all. Today Western Federal sells 1970 to 1974 model year repossessed homes for more than they originally sold for. I believe that if a veteran owns the land on which the home is sited, the value of the home actually increases much like real estate in recent years. The maximum term of a singlewide could justifiably and safely be increased to 15 years on the singlewide unit.

In our short 7 years in the mobile home finance business, the increasing quality and construction standards of the mobile home have been astounding. Today's single-wide homes can easily warrant 15-year financing.

This bill extends the maximum loan guaranty entitlement to the amount of $17,500. I believe that this is entirely adequate, and the effective guaranty of the top 50 percent of the loan or $17,500, whichever is less, should be substantial enough to induce new lenders into the market.

I am particularly interested in the provision which provides for the use of partial entitlement. In many energy cities of the West, it is virtually impossible to obtain conventional housing. Many of these workers have come into these areas and have used a portion of their VA entitlement to purchase a previous home. This would allow them to purchase housing adequate for their family, if the lender feels secure in relying upon the remaining guaranty. This, of course, is done every day in the stick-built industry and I would think it would be a great step forward in fairly equating the mobile home program with the VA stick-built housing benefits.

It seems only right that a veteran's entitlement should be restored each time the veteran sells his mobile home and the loan is paid in full. Again, this aligns closely with those provisions of the stick-built program.

I recommend wholeheartedly that the committee refer this bill in its present form to the full House Veterans' Affairs Committee. The VA mobile home program could be a great service to the mobile home industry and the veterans of the United States if this bill is passed with these forward-thinking provisions.

VA mobile home loans are really not available in many States in the country due to lack of manufacturer, dealer, and lender interest. This bill would enable the program to go forward in a progressive, sustained manner with little additional risk to the VA.

Finally, I understand that this bill will take effect on the 90th day after the enactment of this Act. The only change that I would recommend in this entire bill is that this section should be amended to read that this act is immediately effective on the date of enactment. Additional delays in bringing this bill to fruition to me are intolerable. The provisions of this bill should have been enacted at least 6 months ago to be in any way current with what is happening in the mobile home financing area.

The FHA increased their limits the week of November 7, 1977, which in many areas made the VA program noncompetitive. Any further delay would mean that the VA program would be revised virtually 1 year after the FHA program. How can dealers and manu-

facturers be encouraged to have confidence in the vialibility of the VA mobile home program with a delay of this type?

By the provisions of this bill this situation would not occur in the future, but at this period in time the VA program is not competitive with any other type of mobile home financing, and some of the veterans of the United States are being deprived of probably the most important benefit to them, which is the adequate housing of their families.

I urge that the committee very carefully review this delay. True, the VA field offices will have additional workloads, but the amendments of this bill, while they are very important to the success of this program, nevertheless have little change in the processing procedures that are now used by the VA.

I would be remiss in not expressing my appreciation for the cooperation of Bob Coon and George Alexander and to, especially, Rex Johnson, chief loan guaranty officer of Colorado and Wyoming, and his wonderful staff. We have been delighted with the support of the VA and their dedication to serving the veterans of the United States. They have assisted us in every way possible and have made our VA program successful.

I appreciate the opportunity to appear before this subcommittee and will be happy to answer any questions that you might have. Thank you very much.

Mr. BRINKLEY. Thank you very much. I don't have any questions, but I ceratinly appreciate your enthusiasm about moving on out with this program and your support of the bills and the recommendation of them to the full committee.

I noticed that you say once they are enacted by the Congress and signed by the President that they, in your opinion, should be immediately effective. I asked Ms. Lunsford about that, and she said, "Well, we might need a little time to formulate certain forms and rules and regulations to be promulgated by VA." I told her that she sounded something like a bureaucrat. [Laughter.]

Mr. Coon might tell us some practical things, though, that are necessary to be done. Otherwise, it might be well to modify that provision of the bill.

Mr. SHIRK. With all respect, sir, if it is a 90-day delay, then the 1978 mobile home financing season is over, and so if you want to have any benefit to this bill in 1978, it would need to be enacted immediately on passage.

Mr. BRINKLEY. Well, we, of course, hope that it will be beneficial immediately upon passage in a prospective manner in the plans of people, and that means all people, both sellers and buyers. We notice FHA and we compete with them in a sense. They get out in front of us sometimes, and we get out in front of them on other occasions.

But it is to the advantage of the American people, I think, to keep them roughly comparable and to be working in tandem, and your comparison and analogies, I think, are quite good.

Mr. SHIRK. Thank you, sir.

Mr. BRINKLEY. We are glad you have come all the way from Denver, Colo., to be with us, and thank you again for your patience.

Mr. SHIRK. I appreciate it.

Mr. BRINKLEY. Ms. Lunsford, do you have any questions?

Ms. LUNSFORD. I would only like to say thank you very much to Mr. Shirk for serving in an advisory capacity, along with the VA, John Carson and Gene King in the early development of this legislation. You certainly were a tremendous help. Thank you.

Mr. SHIRK. You are welcome.

Mr. Parkinson?

Mr. PARKINSON. I have only one question. It is obvious that you deal a lot with the coal and oil boom towns in the West.

Mr. SHIRK. Yes, sir, that is right.

Mr. PARKINSON. Could you give us an idea, for the record, what percentage of those mobile homes are financed or loans are made by you that are VA.

Mr. SHIRK. What percentage of our loans are being——

Mr. PARKINSON. Yes, about what percentage of those are VA?

Mr. SHIRK. It used to be 75 percent of our loans were VA. Now it is 25 percent. It is just because the format does not fit——

Mr. PARKINSON. Right. Now, if we make the increase which H.R. 11009 proposes, do you have a projection of what it might be?

Mr. SHIRK. We prefer the VA program. We prefer the people involved in this program, and I would say that, for instance, we have 200 loans a month, that—now it is we have 25 VA; we would have 100, 125 VA, and anybody active in the program, the 120-percent advance is superior to that of the FHA; it is only 113 percent. With the enactment of these provisions, this program would be a very aggressive, viable program that we would make a lot of loans, I will tell you that.

Mr. PARKINSON. Thank you, Mr. Chairman.

Mr. BRINKLEY. Thank you, Mr. Parkinson. Thank you, Mr. Shirk.

Mr. SHIRK. Thank you.

[Witness excused.]

Mr. BRINKLEY. Last, but far from least, Mr. Robert C. Coon, Director, Loan Guaranty Service, Veterans Administration, who is accompanied by Mr. Glass, Mr. Alexander, and Mr. Malone. We invite you all to come to the table.

I notice already from your statement, Mr. Coon, that you have provided a thoughtful analysis of the legislation under consideration, and I want you to know that your expertise and your refinement offered is appreciated. It is something like the 4–H motto: "To make the best better". It seems that our intent is going in the same direction. We look forward to working with you in that refinement when we take the bill to the full committee.

At this time it is a pleasure to hear from you, and we thank you for your patience in waiting. Mr. Coon?

STATEMENT OF ROBERT C. COON, DIRECTOR, LOAN GUARANTY SERVICE, VETERANS ADMINISTRATION, ACCOMPANIED BY ALBERT W. GLASS, GEORGE ALEXANDER, AND WILLIAM MALONE

Mr. COON. Thank you, Mr. Chairman. It is a pleasure to have the opportunity to appear before the subcommittee and to present the views of the VA on the two bills affecting the VA's loan guaranty program, H.R. 10268 and H.R. 11009.

I have with me my deputy, Mr. Al Glass, on my left, and my staff assistant for Manufactured Housing, George Alexander, on my right. Sitting immediately behind me is, our assistant general counsel, Mr. Grady Malone.

I think, Mr. Chairman, the unanimity of opinion today on these bills is rather unique. I haven't heard any opposition whatsoever. I could just say that the VA also favors both bills, with certain minor technical amendments on the mobile home bill. But before I go on, I do want to thank particularly, Mr. Shirk of Western Federal, Mr. Jerry Biddulph of Fleetwood, and Mr. John Courson of the MBA, not just for their statements today but for their assistance in helping make our program work and even more, I think, for their valuable advice on how to make it better. In other words, we have a program and we try and make it work. It isn't working as well as any of us would like, and these gentlemen have been most helpful in their suggestions on how to make it better.

The first bill I would discuss, Mr. Chairman, is H.R. 10268, which would increase VA's maximum home loan guaranty from $17,500 to $25,000. Before turning to the merits, I would like to make a few remarks on how the VA guaranty works and how larger loans are affected by the maximum guaranty amount.

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

Under present law, home loans may be guaranteed up to 60 percent of the amount of the loan, but not to exceed $17,500. Therefore, Mr. Chairman, only loans which do not exceed $29,166 are guaranteed for the full 60 percent of the loan amount. Loans over that amount are guaranteed for whatever percentage the maximum guaranty—which, under present law, is $17,500—is to the original loan amount. For example, Mr. Chairman, a $70,000 loan would carry a 25-percent guaranty, as $17,500 is one-fourth, or 25 percent, of $70,000, so that all loans over $29,166 or more carry an initial maximum guaranty of $17,500.

Under the basic law, section 1803(b) of title 38, United States Code, however, the Administrator's liability decreases pro rata as the loan is repaid. Thus on a loan for $29,166, which carries the maximum 60-percent guaranty, when the loan balance is reduced to $25,000, the guaranty would be 60 percent of this unpaid balance, or $15,000. In the case of a $70,000 loan which, as I noted a few moments ago, Mr. Chairman, carries a 25-percent guaranty, when the loan balance is reduced to $60,000, the Administrator's liability would also be $15,000, which is 25 percent of $60,000.

If, Mr. Chairman, the maximum guaranty is increased to $25,000, as proposed by H.R. 10268, loans of up to $41,667 will be provided a guaranty of 60 percent of the loan amount. Loans above that amount would, as at present, carry a smaller percentage of guaranty. Since, however, $25,000 instead of $17,500 would be used to determine the percentage of guaranty, lenders would receive greater protection on loans of a given size.

For example, a $70,000 loan would carry a 35.71-percent guaranty rather than 25 percent. VA's liability would continue to decrease pro rata as the loan is repaid. There would be no change in that. Therefore, in the example I cited previously, a loan with an original principal of $70,000 and an outstanding balance of $60,000, the Administrator's maximum liability would be 35.71 percent of this balance or $21,426, as opposed to $15,000 under the current law.

Accordingly, Mr. Chairman, enactment of H.R. 10268 would assure a greater degree of protection on loans over $29,166 and thereby continuing participation of lenders in the program. This, of course, benefits veterans, since it makes more mortgage funds available, making it easier for veterans to obtain GI home loans.

The amount of the guaranty was increased from $12,500 to the present $17,500 by the Veterans' Housing Act of 1974, which was enacted December 31, 1974.

Mr. Chairman, as a result of the increases which have occurred in the price of homes and, therefore, in the dollar amount of loans guaranteed by VA, since 1974 the present $17,500 guaranty does not afford adequate protection in the eyes of many lenders. In fiscal year 1977, the average GI loan was approximately $34,500. For the first quarter of fiscal year 1978, the average loan amount was $37,450. Thus lenders are currently being provided an average guaranty of 42.7 percent, a drop of almost 3-percent from the 45.3 percent coverage provided in fiscal year 1977. This, Mr. Chairman, is the lowest percentage of guaranty provided since fiscal year 1968.

At the current rate of decline in the percentage of coverage in the first quarter of fiscal year 1978, the average percentage of guaranty could drop below 35 percent. As the average guaranty coverage declines, Mr. Chairman, lenders can be expected to either limit the size of GI loans that they will make or abandon the VA loan program altogether.

As a technical matter, Mr. Chairman, we wish to note that subsection (b) of the bill would amend section 1811,(d)(2)(A) of title 38, "by striking out $17,500." The figure, "$17,500," appears twice in that section of the statute. We would, therefore, recommend that H.R. 10268 be amended by inserting, "both times it appears," immediately after, "$17,500," on line 1 of page 2 of the bill.

Mr. Chairman, enactment of H.R. 10268 would not result in any increase in the Veterans Administration's general operating expenses. We estimate, however, that this measure would necessitate total 5-year increased outlays from the loan guaranty revolving fund of $4,882,000.

For all the foregoing reasons, Mr. Chairman, the Veterans Administration favors enactment of H.R. 10268. Would you care to ask questions at this point on this particular bill, or would you prefer that I continue?

Mr. BRINKLEY. I think so. I don't really have any questions, but I think that this is a very valuable summary that you have provided for the subcommittee and for the record, as you have taken us right through what the loan is, what it does do, how it has changed and presently exists, and what its prognosis is, the forecast.

Concerning the technical matter to which you refer, I think that that would be the better approach, and I am certain that we will proceed along those lines.

Mr. COON. We will be pleased to work with counsel if Ms. Lunsford chooses.

Mr. BRINKLEY. Splendid.

At this point, Mr. Parkinson, do you have any questions?

Mr. PARKINSON. No, sir.

Mr. BRINKLEY. Ms. Lunsford?

Ms. LUNSFORD. No questions.

Mr. BRINKLEY. If you will proceed, Mr. Coon.

Mr. COON. The other measure I will discuss, of course, is H.R. 11009, which is intended to improve the Veterans Administration mobile home loan program.

Basically, H.R. 11009 is designed to structure the VA's mobile home loan program in a way which closely parallels that for conventionally built homes and to make certain technical changes which would provide section 1819 of title 38, United States Code, with a more orderly format.

H.R. 11009 would eliminate the provisions currently in section 1819(d)(2) of title 38 which set maximum amounts for mobile home loans. At present, the size of a VA-guaranteed mobile home loan is limited to $12,500 if the veteran is purchasing a single-wide mobile home, $20,000 for a single-wide mobile home and a suitable lot, $20,000 for a double-wide mobile home, and $27,500 for a double-wide mobile home and a suitable lot.

In contrast, Mr. Chairman, there is no limit on the size of a VA-guaranteed loan a veteran may obtain to purchase a conventionally built home, provided the amount the veteran borrows does not exceed the reasonable value of the property being purchased and the veteran can qualify for the loan from a credit standpoint.

Mr. Chairman, it was recognized at the outset of the GI loan program that most veterans, especially the young and recently discharged veterans needing a home, had not had the opportunity to save the money necessary for the downpayment required to acquire a home with conventional financing. The VA guaranty was intended as a substitute for the downpayment ordinarily required by lenders. As a result, many veterans have been able to purchase homes with no downpayment. This concept has worked very well for over 30 years.

VA regulations permit veterans to obtain no downpayment mobile home loans, provided the purchase price of the home and lot, if any, do not exceed the maximum loan amounts. Rising costs of production, materials, and labor have increased the prices of many mobile homes to well beyond the statutory maximums established in today's law and thereby deny veterans the opportunity to acquire mobile homes without paying substantial downpayments. Removal of the statutory loan maximums would permit many veterans to purchase the mobile homes of their choice with the help of a 100-percent GI loan. We, therefore, support the removal of the current statutory maximums.

The mobile home guaranty would remain at 50 percent under H.R. 11009. The bill, however, would set up a maximum mobile home guaranty amount of $17,500. This provision is necessary to limit the amount of the VA's liability on the guaranty, since the loan maximums would be removed.

The mobile home loan guaranty would, therefore, work in the same manner as with other VA-guaranteed loans, as I explained earlier in

connection with my discussion of H.R. 10268. As I stated previously, this concept has worked very well for over 30 years, and we can see no reason why it should not work equally well on mobile home loans.

H.R. 11009 will also increase the maximum term of years for which loans are financed from 12 years and 32 days to 15 years and 32 days in the case of a loan for the purchase of a single-wide mobile home only or for the purchase of a lot. The purpose of this proposed amendment is to assist lower income veterans, particularly veterans of the Vietnam era, to purchase single-wide mobile homes at a lower monthly cost. To veterans in the lower income brackets, a decrease in the monthly payment of only a few dollars per month can be of great assistance. The Veterans Administration favors this provision of the bill.

In addition, Mr. Chairman, H.R. 11009 would make several changes with regard to a veteran's entitlement to mobile home loan benefits. The bill imposes the same criteria for restoration of entitlement which are now applied to loans for conventionally built homes; that is, the home must be disposed of and the loan must be paid in full. All veterans who obtained any kind of home loan would, therefore, be treated equally. In light of the growth in the manufactured housing market and the rising cost of conventionally built housing, greater flexibility of the entitlement usage will enable more veterans to become homeowners. Additionally, the bill provides that a veteran who obtains a loan under section 1819 will have the opportunity to use his or her partial or remaining entitlement.

In summary, Mr. Chairman, H.R. 11009 would accomplish several major objectives. The mobile home program would become more flexible by having no dollar limitations on loan amounts; the term for single-wide mobile home loans would be increased; and the use and restoration of entitlement for this program would be liberalized. This program would, therefore, become more viable and attractive to lenders and would increase the availability of loan funds for GI mobile home loans. This should be of particular benefit to lower income veterans, particularly those of the Vietnam era.

Mr. Chairman, I am attaching to the printed text of this statement and ask your permission to insert into the record at the end of my testimony an analysis of H.R. 11009. Included in that analysis are a number of proposed technical amendments to the bill which you may wish to consider.

Mr. BRINKLEY. Without objection, that shall be included in the record.

Mr. COON. Thank you, sir.

[Analysis follows:]

ANALYSIS OF H.R. 11009, 95TH CONGRESS

Subsection 1819(a) of title 38, United States Code, as currently written, provides that, in order to be eligible for a VA guaranteed mobile home loan, a veteran must have maximum home loan entitlement available. Additionally, it provides that the use of VA entitlement in the purchase of a mobile home precludes the use of any remaining entitlement under any other section of chapter 37 until the VA guaranteed mobile home loan has been paid in full.

Clause (1) of section 1 of the bill amends subsection 1819(a) by deleting the foregoing provisions and substituting three new paragraphs. By deleting the current provisions of subsection 1819(a), the bill would essentially authorize the use of mobile home loan entitlement, notwithstanding the fact that a veteran may have previously used a portion of this entitlement.

Subsection 1819(a), as amended, enumerates the conditions under which VA guaranteed mobile home loans may be made to veterans and the limitations on such loans. In as much as these provisions are currently contained in subsections 1819(b)(1), (b)(2), and (c)(1), the change is purely technical and appears to be intended to provide section 1819 with a more simplified format.

Proposed subsection 1819(a)(3), which pertains to limitations on the use of VA guaranteed loans for the purchase of single-wide and double-wide mobile homes and mobile home lots, is worded in a way which, in our opinion, may lead to the belief that a loan may include the purchase of two lots. It is, therefore, suggested that consideration be given to revising the proposed paragraph (a)(3) to read as follows:

"Any loan made for the purposes set forth in subparagraph (C) or (E) of paragraph (1) will be considered as part of one loan. The transaction may be evidenced by a single loan instrument or separate loan instruments for (A) that portion of the loan which finances the purchase of the mobile home and (B) the portion which finances the purchase of the lot, plus necessary preparation of such lot."

Clause (1) of section 1 would also amend subsections 1819(b)(1) and (b)(2) by deleting their current provisions, which have been incorporated into the proposed subsections 1819(a)(2) and (a)(3), and substituting new subsections (b)(1) and (b)(2). The new subsection 1819(b)(1) would provide that available entitlement may not be used to purchase a second mobile home if the first mobile home was purchased with a VA guaranteed loan, unless the first unit has been disposed of or destroyed.

New subsection 1819(b)(2) would extend the current authority, which provides for unlimited restoration of previously used entitlement for the purchase of conventionally built homes and condominiums, to the purchase of mobile homes, upon satisfaction of the conditions prescribed under subsection 1802(b) of title 38, United States Code.

Clause (2) of section 1 of the bill is a perfecting amendment which would amend subsection 1819(c)(1) by deleting the listing of the eligible purposes for mobile home loans, as under the bill such listing would be found in subsection 1819(a)(1).

Clause (3) of section 1 of the bill amends subsection 1819(c)(3) which currently provides for VA guaranty of mobile home loans not to exceed 50 percent of the loan amount. The proposed amendment would limit the Administrator's liability under the guaranty to a maximum of the lesser of 50 percent of the loan amount or the maximum loan guaranty entitlement available.

Clause (4) of section 1 of the bill adds a new subsection (4) to subsection 1819(c) to define available entitlement for the purchase of a mobile home as not more than $17,500, less such entitlement as previously used. The bill appears to limit the maximum guaranty on mobile home loans to $17,500. In our opinion a $17,500 guaranty for mobile home loans is sufficient and should remain at that level. We note that an increase in the maximum guaranty for conventionally built homes, to $25,000, is currently being considered. To carry out the purposes of this bill in limiting the mobile home loan guaranty, it may be necessary to incorporate the following amendments:

(a) On page 3, line 23, immediately after "available," insert the following: ", not to exceed $17,500;"

(b) On page 4, line 6, delete "and other sections of this chapter," and in addition insert immediately before the quotation mark at the end of line 6 the following:

"Use of entitlement under sections 1810 or 1811 shall reduce entitlement available for use under this section to the same extent that entitlement available under section 1810 is reduced to less than $17,500."

Clause (5) of section 1 of the bill would amend subsections 1819(d)(1) and (d)(2) by deleting the current provisions which establish maximum loan amounts for VA guaranteed mobile home loans. This deletion would remove all statutory loan maximums and base the maximum loan amounts on factors established by the Administrator. New subsection 1819(d)(1) would retain, with one change, the provisions of the current section which refer to maximum maturity for VA guaranteed loans. The one change in subsection 1819(d)(1)(A) would increase the maturity for single-wide mobile home loans and lot only loans from 12 years and 32 days to 15 years and 32 days.

Clause (6) of section 1 of the bill would amend subsections 1819(e)(4) to eliminate the requirement, as a condition to guaranty, that the loan not exceed

certain maximum loan amounts, since such loan maximums were deleted under the provisions of clause (5). The new subsection 1819(e)(4), established by clause (6) of the bill, would also require that the Administrator establish such cost factors as deemed appropriate to determine the maximum loan amount for a new mobile home.

Clause (7) of section 1 of the bill is a perfecting amendment to delete subsection 1819(g) which currently limits to one time the restoration of loan guaranty entitlement for the purchase of a mobile home. Provisions allowing unlimited restoration of entitlement, under subsection 1802(b), would be found under subsection 1819(b)(2), as amended by clause (1) of section 1 of this bill.

Clause (8) is also a perfecting amendment which redesignates the remaining subsections of 1819 as a result of the deletion of subsection (g).

Clause (9) of section 1 of the bill addresses the current requirement under section 1819 that the VA inspect the manufacturing processes of mobile homes to be sold to veterans. This proposal, which would delete such requirement, is identical to the provisions of H.R. 4341, 95th Congress, which was favorably considered in the House of Representatives on September 12, 1977.

Clauses (10), (11), and (12) contain perfecting changes to section 1819 to reflect the deletion of the requirement that the VA inspect the mobile home manufacturing process.

It should be noted that enactment of H.R. 11009 would require certain perfecting changes to section 1811 of title 38, United States Code, which relates to direct loans. Therefore, we recommend that the bill be further amended as follows:

(a) On page 6, line 18, strike out "and ;"

(b) On page 7, line 2, strike out the second period and insert in lieu thereof " : and ;" and

(c) On page 7, between lines 2 and 3, insert the following:

"(13) By amending section 1811(d)(2)(B) of title 38, United States Code, to read as follows:

"The original principal amount of any loan made under this section, for the purposes described in section 1819 of this title shall not exceed an amount which bears the same ratio to $33,000 as the amount of guaranty to which the veteran is entitled, under section 1819 of this title, at the time the loan is made bears to $17,500. The guaranty entitlement of any veteran who heretofore or hereafter has been granted a loan under this section shall be charged with an amount which bears the same ratio of $17,500 as the amount of the loan bears to $33,000."

Mr. COON. We estimate that enactment of H.R. 11009 would cost the VA approximately $56,000 the first year, with 5-year cost estimates of approximately $7,653,700.

For the foregoing reasons, the Veterans Administration favors enactment of H.R. 11009, although we request that you consider the technical changes suggested in the analysis filed in the record.

Now this concludes my statement, Mr. Chairman. I will be glad to try to answer any and all questions you may wish to ask.

Mr. BRINKLEY. Thank you, Mr. Coon. I think that you have been a very good scholar and that you have done my work for me, since I think that I could take your statement and go to the full committee and also to the House floor and just go right by it with a few modest changes.

Mr. COON. Will you have any trouble getting it through the Senate, Mr. Chairman? [Laughter.]

Mr. BRINKLEY. Well, that might present a problem, but I don't think so. It is certainly simple and persuasive, and I just don't believe that we should have any problems with it. The technical change we shall certainly review and engraft upon our bill.

I did want to ask you about the enactment clause, should we remove the 90-day provision and have it come into effect upon the President's signature; should the effective date of the legislation be 90 days after the President's signature or not?

Mr. COON. Well, as you indicated to Mr. Shirk, Mr. Chairman, upon enactment of the law, of course we must draft amendments to the regulations; they must be published in the Federal Register for 30 days' notice in order to give the public an opportunity to comment. Then those comments have to be considered, and then we have to come out with our final regulations.

If we had an assurance as to the exact language of the enrolled bill, and I know of no way in which the committee could give such assurance, we could start work in advance. The problem with this is that if the Senate, for example, should make changes—and it has to go back to conference or something of this sort—then our work would have gone for naught, and we would have to start all over again.

Mr. BRINKLEY. That is true, and sometimes——

Mr. COON. We do need a little leadtime, although I agree with Mr. Shirk that the sooner this bill is enacted and we can make it effective, the better off we will all be.

Mr. BRINKLEY. Well, we will all drive toward that, and sometimes the wheels of progress do grind a little too slowly to suit any of us, but there is one thing that should be said for the record here. Mr. Fleming, what did you say about the Budget Act? I think it should be——

Mr. FLEMING. Well, this would be an extension of an existing entitlement, would it not, Mr. Coon? What we are talking about here would be an extension of existing entitlement or a liberalization of an entitlement program?

Mr. COON. Well, so far as restoration of entitlement is concerned, it is just making the rules the same as those applying to the regular GI program.

Mr. FLEMING. Yes; but it is liberalization of a current program.

Mr. COON. Yes; as to mobile home loans.

Mr. FLEMING. Any extension of an existing entitlement or a creation of a new entitlement under the Budget Act, Mr. Chairman, would require an effective date of October 1, was my point, not whether or not you could get it out in time or whether it should be done immediately or what not.

Mr. COON. I see.

Mr. FLEMING. It is just that under the Budget Act we cannot have an existing entitlement liberalized or a new entitlement created before the first day of the new fiscal year. That is the reason I asked you. This is the liberalization of an existing entitlement, there is no question about it, it seems to me.

Mr. COON. Well, it is not an extension or liberalization of initial entitlement.

Mr. FLEMING. Not of initial entitlement.

Mr. COON. But I would have to admit that it is a liberalization insofar as restoration of used entitlement is concerned.

Mr. FLEMING. Mr. Chairman, let me just say this——

Mr. COON. I am not sure of the application of the Budget Act to a situation of this type.

Mr. FLEMING. The Budget Act, even if it is technically an existing or a liberalization of existing entitlement or what not under the Budget Act, it would apply, but, Mr. Chairman, what I will do is check this with the Parliamentarian's office, and based on the ruling by the Par-

liamentarian, we can make the effective date at whatever time you would suggest.

Mr. BRINKLEY. Very good. Even if there should be a lag in the forms or otherwise, we can all drive toward the same goal.

Mr. Parkinson?

Mr. PARKINSON. I have no questions.

Mr. BRINKLEY. Ms. Lunsford?

Ms. LUNSFORD. Mr. Coon, is the decision whether or not to consider double-wides permanently affixed to the land as realty and therefore financed under the site-built program basically an administrative decision? Would that not be an appropriate area for consideration at this time, since you do have that authority should you decide to use it?

Mr. COON. I think perhaps the best way to answer that would be to say that under our existing mobile home program, under current law, we, of course, have the authority to guarantee a mobile home plus lot plan. We refer to them as combination loans. This can be either a single-wide mobile home plus lot or a double-wide mobile home plus lot.

I think probably you are referring to Mr. Biddulph's remarks in his statement?

Ms. LUNSFORD. Yes.

Mr. COON. I think the difference really relates to the cost of financing. Under the combination mobile home loan that I mentioned, the maximum interest rate on the mobile home part of the loan, the unit, is 12 percent APR, whereas the interest rate on the lot would be at the current GI loan rate of 8¾ percent.

And I think, too, it has something to do with which code the mobile home is built under. There must be a dozen or more different codes in this country to which a mobile home may be built, depending on where it is going to be sold. Many of the States have industrialized building codes. How many are there?

Mr. ALEXANDER. Twenty-two of them.

Mr. COON. Twenty-two States have industrialized building codes for manufactured homes. Then there is the BOCA code, the Uniform Building Code, the Southern Building Code, the new HUD Mobile Home Code, and there is the Minimum Property Standards, so that in some cases it comes down to a classification as to what code has this particular mobile or modular home been built. This affects the financing terms.

There is considerable thought, I think as expressed by Mr. Biddulph, that if a manufactured home is built to the HUD mobile home standard, that it should be acceptable—if it is permanently attached to a lot—for financing as a regular home; in other words, the same as a stick-built home, 8¾ percent, 30-year, no-downpayment loan, as contrasted to 20 years, 12 percent APR on the mobile home unit, and 8¾ percent on the lot. Obviously, if it could be classified as real estate for all purposes, the monthly payments would be lower and more people could qualify to purchase that home.

I might say that in my view the manufactured housing industry has been changing very, very rapidly in the last 10 years, and even more so in the last 5. There is a trend toward the view that if it meets a code which is acceptable in the State in which the mobile home is going to

be located, such as BOCA, Uniform, Southern, the HUD standard, and if it is firmly attached to land it ought to be treated as real estate for all purposes including financing. When I say "for all purposes," I am including such things as taxation, assessment, homestead, veterans' exemption, and all the things that go with stick-built homes, depending on the laws of the various States.

We have for many, many years, of course, piggybacked with HUD on the Minimum Property Standards for stick-built homes. It is no secret, of course, that the homebuilders have been contending for several years that the MPS's are no longer necessary, that over the course of recent years the cities and counties in this country have upgraded their building codes and enforced or implemented their inspection systems to try and assure that those codes are being met, and that there is no need for the Federal MPS standards. Another point is that Minimum Property Standards only apply to federally assisted housing. In other words, the lender financing a loan on a new house with a conventional loan need pay no attention to the Federal MPS standards. The builder need only comply with a code that is acceptable in the State where the house is located.

It is a rather complex problem, and I am not prepared at this moment to say what the outcome ought to be. But I think down the road we are going to have one standard, somehow or other.

Mr. Brinkley. We are grateful and glad of the VA support for these two bills, Mr. Coon, we appreciate your testimony and, as I say, your patience. Your statement is an excellent statement, and it always is that way when you surround yourself with good people such as Albert Glass, and George Alexander, and William Malone. We are glad to have each of you here today, and it is good to work with you.

If there is nothing further, is there anything further from counsel, gentlemen?

[No response.]

Mr. Brinkley. The subcommittee will stand in recess until call of the Chair.

[Whereupon, at 3:08 p.m., the hearing was concluded.]

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