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{ No. 1651

INCREASE OF LOAN BASIS OF ADJUSTED-SERVICE CERTIFICATES

FEBRUARY 17 (calendar day, FEBRUARY 18), 1931.—Ordered to be printed

Mr. SMOOT, from the Committee on Finance, submitted the following

REPORT

[To accompany H. R. 17054]

The Committee on Finance, to whom was referred the bill (H. R. 17054) to increase the loan basis of adjusted-service certificates, having had the same under consideration, report it back to the Senate without amendment and recommend that the bill do pass. Following is a copy of the report of the Committee on Ways and Means of the House:

[House Report No. 2670, Seventy-first Congress, third session]

The Committee on Ways and Means, to whom was referred the bill (H. R. 17054) to increase the loan basis of adjusted-service certificates, having had the same under consideration, report it back to the House without amendment and recommend that the bill do pass.

There have been introduced in the House some 50 or more bills bearing upon the payment of adjusted-service certificates; the first of these were introduced as early as May 28, 1929. The principles of these bills are exactly the same, so that they may be grouped into four general classes.

(a) Those that contemplate the payment of the face value of the certificates in cash.

(b) Those that contemplate payment of the basic credit, plus 6 per cent interest from 1918.

(c) Those that contemplate payment of the basic credit, interest at 4 per cent, with full 25 per cent additional credit.

(d) Those that contemplate payment on present value basis, allowing earned portion of 25 per cent credit.

The total amount of cash required to be raised by the Treasury to put into effect the first class would be \$3,409,250,000; for the second class it would require \$2,770,714,605; for the third class it would require \$2,106,250,000; and for the fourth class it would require \$1,728,770,393.

There was unanimity on the part of the committee that some kind of legislation bearing upon this question should be enacted by this Congress, and after giving full and careful consideration to all the four above-mentioned plans, the committee rejected all of them and agreed upon the bill (H. R. 17054) herewith submitted.

Under section 1 of the bill, subdivision (1) of the amendment, which was recommended to be added to section 502, provides that the loan basis of any certificate shall be not less than 50 per cent of the face value of the certificate. It also provides that the interest rate on any loan made after the subdivision takes effect shall not exceed 4½ per cent per annum compounded annually. The subdivision further makes provision whereby the possession of certificates already pledged as security for loans may be obtained by the Administrator of Veterans' Affairs for the purpose of making a further loan. The new subdivision (m) to be added to section 502 extends the authority of the Administrator of Veterans' Affairs so that in addition to making loans out of the United States Government life-insurance fund, loans may also be made out of the adjusted-service certificate fund.

Section 2 of the bill proposes an amendment to section 507 of the World War adjusted compensation act so that loans are authorized to be made out of the adjusted-service certificate fund.

Section 3 of the bill authorizes the necessary appropriations to be made for carrying into effect the purposes of the bill.

On January 1 it is estimated that there were in force and effect approximately 3,400,000 certificates, with a maturity value of about \$3,423,000,000, or, averaging a little over \$1,000 apiece. On certificates issued as of January 1, 1925, in the average case 22½ per cent of the maturity value may, under the present law, be borrowed, the total loan value approximating \$730,000,000. This bill provides for increasing this loan value to \$1,712,500,000. Approximately \$325,000,000 has been loaned on adjusted-service certificates. Of this amount approximately \$13,000,000 is represented by notes held in the adjusted-service certificate fund, \$26,000,000 in the hands of banks, and \$286,000,000 from the United States Government life-insurance fund. The total assets as of the first of the calendar year held by the adjusted-service certificate fund amounted to approximately \$771,000,000, from which provision must be made for the payment of certificates maturing on account of death, which, according to the American Experience Table of Mortality, will amount to \$21,000,000. The assets of the adjusted-service certificate fund are composed of \$756,000,000 in special Treasury notes and \$13,000,000 in notes secured by adjusted-service certificates, the remaining \$2,000,000 being represented by accrued interest.

It will thus be seen that the principal feature of the bill is that it increases the loan value to 50 per cent of the face value of the certificates. This compares with a loan value of 53 per cent on an old line insurance policy which has been in force the same length of time as the adjusted-service certificate; in other words, on an old line insurance company's policy for \$1,000, running for the same length of time, \$530 could be borrowed, while only \$500 can be borrowed on the adjusted-service certificate.

The Treasury Department estimates that the potential cost of this legislation would be \$1,720,000,000. This estimate, of course, is based upon the assumption that the holders of the 3,397,973 certificates now in force would take full advantage of the loan value of their certificates.

It should, in fairness, be stated that there is some divergence of opinion as to the probable cost of this legislation, and estimates of the cost range from \$375,000,000 upward.

There is no way to determine accurately just what the cost will be, but the facts are that only about 48 per cent of the veterans eligible to borrow on their certificates have taken advantage of this right, and they have borrowed only about 43 per cent of the total amount available for that purpose.

If the veterans of our country have gone through the period of distress through which we have been passing in the past year and a half, with only 48 per cent of their number taking advantage of the loan feature of their adjusted-service certificates, it seems reasonable to assume that not more than 50 per cent will take advantage of the increased loaning value of their certificates under this bill.

This is borne out by the fact that while the borrowing value of all outstanding certificates for the year 1930—the worst period of distress and unemployment—was \$400,000,000, the veterans only borrowed \$90,000,000 during the year.

It would therefore seem that the greater number of the veterans holding adjusted-service certificates have a full realization of their real value at the end of the 20-year period, and of the protection afforded their dependents in the event of death in the interim, and will preserve them intact until maturity.

There is transmitted herewith letters from the Secretary of the Treasury and Gen. Frank T. Hines, of the Veterans' Administration, bearing upon the bill:

TREASURY DEPARTMENT,
Washington, February 13, 1931.

HON. WILLIS C. HAWLEY,
*Chairman Committee on Ways and Means,
House of Representatives.*

MY DEAR MR. HAWLEY: In response to your request that the Treasury comment on H. R. 17054, with particular reference to the financial requirements which it creates and the probable effects on the Government finances and public debt operations, I submit the following:

The bill amends the war adjusted compensation act by increasing the loan value of certificates up to 50 per cent of their face value. As the face value of these certificates is \$3,440,000,000, in round numbers, this proposal establishes a potential liability of \$1,720,000,000. What proportion of these loans will be demanded by the veterans can not be determined. It will depend upon the circumstances. The estimates run all the way from \$550,000,000 to \$1,000,000,000 of loans beyond those already made. The suggested use of the adjusted service certificate fund does not alter the situation as these reserves are in Treasury obligations which will need to be converted into cash by means of sales of securities to the public in order to pay cash to the veterans.

In this connection I think I should call attention to the fact that the only funds made available for meeting this liability of \$1,720,000,000 are those in the adjusted service certificate fund amounting to \$772,000,000 less \$21,000,000 which must be reserved for the payment of death claims this year. This would indicate that unless Congress is prepared to incur an obligation without providing means of meeting it, an appropriation of approximately \$1,000,000,000 is necessary.

Aside from the merit or demerit of the proposal, the important consideration is the amount of cash that can be obtained by the Treasury through borrowing without disorganizing the finances of the Government and adversely affecting the security market to which the Government must resort to cover its obligations.

This question can not be disassociated from the present financial situation of the Treasury. That position is at best a trying one at this time and the difficulty of obtaining these additional great sums can not be fairly appraised if considered alone or as if times were normal, but only if this consideration is made a part of the general picture and viewed against the background of the great financial problems already facing the Treasury.

We are confronted with a probable deficit of not less than a half billion dollars for this fiscal year which must also be made good by borrowing. The revenues

of the Government are steadily falling behind not only the figures of last year but below what we reasonably expected to receive at the beginning of this year. In addition to the normal expenditures of the Government, we have been called upon to find funds for emergency purposes of various kinds, including relief measures and an increase in public works and construction activities of the Government for purposes of increasing employment. For construction work alone we will spend this year over \$600,000,000, as compared with \$275,000,000 in 1928.

If the bill in its present form becomes law, the funds to be provided must be raised either in the first instance or at a comparatively early date by long-term bond issues. The Treasury even without this burden, is already in a difficult position. A statement of the public-debt situation will make this entirely clear. There is at present outstanding a short-term debt of approximately \$2,800,000,000, which under existing circumstances is already too large. On March 15 next \$1,109,000,000 of old obligations mature. In June, 1932, \$1,933,000,000 of first Liberty loan bonds become callable, of which \$536,000,000 bear $4\frac{1}{4}$ per cent interest. In October, 1933, \$6,268,000,000 of fourth Liberty loan $4\frac{1}{4}$ per cent bonds become callable. Irrespective of the desirability of retiring the \$536,000,000 first Liberty loan $4\frac{1}{4}$ per cent bonds and the \$6,268,000,000 of fourth $4\frac{1}{4}$ per cent Liberty loan bonds because of the high interest rate they bear, it is obvious that refunding operations must be undertaken in 1933, since it is unthinkable that \$6,268,000,000 of obligations should be allowed to mature in the single year 1938. It is evident, therefore, that important refunding operations must be undertaken both in the immediate and in the near future.

On June 30 our short-term debt amounted to something over \$3,000,000,000. At that time it was reasonable to anticipate that ordinary debt retirements through sinking fund, foreign repayments, and other smaller amounts, would permit the reduction of the short-term debt by about \$1,800,000,000 in the 3-year period ending June 30, 1933. Present indications are that there will be no decrease in the public debt but rather an increase this fiscal year, and a very material cut in the estimated debt-retirement figures for 1932 and 1933. So that in the 3-year period the public debt will be reduced by probably not more than \$800,000,000 or \$900,000,000, leaving a short-term debt outstanding on June 30, 1933, of approximately \$2,200,000,000.

This is altogether too large an amount in view of the necessity of making provision for the fourth Liberty loan bonds in October, 1933. At least a billion dollars should be refunded some time before that date. If to this be added \$700,000,000 or more required for loans on adjusted service certificates, it becomes apparent that, leaving out of consideration the first $4\frac{1}{4}$ per cent Liberty loan bonds, it will become necessary to undertake in the course of the next 28 months, exclusive of those of March 15 next, refunding operations to the extent of \$1,000,000,000, and, in addition, to raise \$700,000,000 more or less of new money which directly or indirectly must be obtained through the medium of long-term securities.

Coming to the operations that must be conducted next March, if the Treasury is obliged to borrow \$400,000,000 to take care of the potential loans that may have to be made until the June quarter day, the Treasury will be obliged to offer a billion and a half of securities in a single month, of which \$1,100,000,000 will be of a refunding character and \$400,000,000 will have to be sold to new buyers to obtain additional funds.

The Treasury wishes earnestly to call attention of the committee to the cumulative effect of all these factors which make the problem of current financing extraordinarily difficult, particularly in view of the desirability of the Government's not making too great demands upon the investment market at this time. I regret that I can not, in view of the situation explained above, approve of the Treasury assuming the obligations imposed by this bill.

I can not too urgently recommend that this measure should have reconsideration in order that it should be placed upon a basis which will not damage our whole financial position.

Sincerely yours,

A. W. MELLON,
Secretary of the Treasury.

VETERANS' ADMINISTRATION,
Washington, February 13, 1931.

HON. WILLIS C. HAWLEY,
Chairman Ways and Means Committee,
House of Representatives, Washington, D. C.

MY DEAR MR. CHAIRMAN: In compliance with your request I herewith submit a report on bill H. R. 17054.

There are outstanding in force and effect approximately 3,400,000 adjusted-service certificates with a maturity value of \$3,423,000,000 and a loan value of, in round numbers, \$730,000,000. The bill proposes to increase this loan value to \$1,711,500,000. It is estimated that there are outstanding loans aggregating some \$325,000,000, about \$13,000,000 of which is held in the adjusted-service certificate fund, approximately \$26,000,000 is in the hands of banks, and the remainder, or \$286,000,000 is held by the United States Government life-insurance fund. Notes in the adjusted-service certificate fund may be considered as an effect, but so far as the Government is concerned, obligations in the hands of the banks and the Government life insurance fund must not be considered for any purpose as paper which may not be presented to the adjusted-service certificate fund for redemption. There is in the adjusted-service certificate fund \$771,000,000; however, there must be set aside from that sum \$21,000,000, which is the probable amount, according to the American Experience Table of Mortality, which will be payable during the current year because of certificates maturing on account of death. The assets of the adjusted-service certificate fund are composed of \$756,000,000 in special Treasury notes and \$13,000,000 in notes secured by adjusted-service certificates, the remaining \$2,000,000 being represented by accrued interest.

The number of veterans who will avail themselves of an additional loan privilege is problematical, and the amount of cash funds necessary to give effect to this bill is necessarily dependent upon the number of applicants for these loans.

Yours very truly,

FRANK T. HINES, *Administrator.*

CHANGES IN EXISTING LAW

In compliance with paragraph 2a of Rule XIII of the Rules of the House of Representatives, changes in the World War adjusted compensation act, as amended, made by the bill are shown as follows: Existing law proposed to be omitted is inclosed in black brackets; new matter is printed in italics; existing law in which no change is proposed is shown in roman.

LOAN PRIVILEGES

SEC. 502. (a) A loan may be made to a veteran upon his adjusted-service certificate only in accordance with the provisions of this section.

(b) Any national bank, or any bank or trust company incorporated under the laws of any State, Territory, possession, or the District of Columbia (hereinafter in this section called "bank"), is authorized, after the expiration of two years after the date of the certificate, to loan to any veteran upon his promissory note secured by his adjusted-service certificate (with or without the consent of the beneficiary thereof) any amount not in excess of the loan basis (as defined in subdivision (g) of this section) of the certificate. The rate of interest charged upon the loan by the bank shall not exceed, by more than 2 per centum per annum, the rate charged at the date of the loan for the discount of 90-day commercial paper under section 13 of the Federal reserve act by the Federal reserve bank for the Federal reserve district in which the bank is located. Any bank holding a note for a loan under this section secured by a certificate (whether the bank originally making the loan or a bank to which the note and certificate have been transferred) may sell the note to, or discount or rediscount it with, any bank authorized to make a loan to a veteran under this section and transfer the certificate to such bank. Upon the indorsement of any bank, which shall be deemed a waiver of demand, notice, and protest by such bank as to its own indorsement exclusively, and subject to regulations to be prescribed by the Federal Reserve Board, any such note secured by a certificate and held by a bank

shall be eligible for discount or rediscount by the Federal reserve bank for the Federal reserve district in which the bank is located. Such note shall be eligible for discount or rediscount whether or not the bank offering the note for discount or rediscount is a member of the Federal Reserve System and whether or not it acquired the note in the first instance from the veteran or acquired it by transfer upon the indorsement of any other bank. Such note shall not be eligible for discount or rediscount unless it has at the time of discount or rediscount a maturity not in excess of nine months exclusive of days of grace. The rate of interest charged by the Federal reserve bank shall be the same as that charged by it for the discount or rediscount of 90-day notes drawn for commercial purposes. The Federal Reserve Board is authorized to permit, or on the affirmative vote of at least five members of the Federal Reserve Board to require, a Federal reserve bank to rediscount, for any other Federal reserve bank, notes secured by a certificate. The rate of interest for such rediscounts shall be fixed by the Federal Reserve Board. In case the note is sold, discounted, or rediscounted the bank making the transfer shall promptly notify the veteran by mail at his last known post-office address.

(c) If the veteran does not pay the principal and interest of the loan upon its maturity, the bank holding the note and certificate may, at any time after maturity of the loan but not before the expiration of six months after the loan was made, present them to the director. The director may, in his discretion, accept the certificate and note, cancel the note (but not the certificate), and pay the bank, in full satisfaction of its claim, the amount of the unpaid principal due it, and the unpaid interest accrued, at the rate fixed in the note, up to the date of the check issued to the bank. The director shall restore to the veteran, at any time prior to its maturity, any certificate so accepted, upon receipt from him of an amount equal to the sum of (1) the amount paid by the United States to the bank in cancellation of his note, plus (2) interest on such amount from the time of such payment to the date of such receipt, at 6 per centum per annum, compounded annually.

(d) If the veteran fails to redeem his certificate from the director before its maturity, or before the death of the veteran, the director shall deduct from the face value of the certificate (as determined in section 501) an amount equal to the sum of (1) the amount paid by the United States to the bank on account of the note of the veteran, plus (2) interest on such amount from the time of such payment to the date of maturity of the certificate or of the death of the veteran, at the rate of 6 per centum per annum, compounded annually, and shall pay the remainder in accordance with the provisions of section 501.

(e) If the veteran dies before the maturity of the loan, the amount of the unpaid principal and the unpaid interest accrued up to the date of his death shall be immediately due and payable. In such case, or if the veteran dies on the day the loan matures or within six months thereafter, the bank holding the note and certificate shall, upon notice of the death, present them to the director, who shall thereupon cancel the note (but not the certificate) and pay to the bank, in full satisfaction of its claim, the amount of the unpaid principal and unpaid interest, at the rate fixed in the note, accrued up to the date of the check issued to the bank; except that if, prior to the payment, the bank is notified of the death by the director and fails to present the certificate and note to the director within fifteen days after the notice, such interest shall be only up to the fifteenth day after such notice. The director shall deduct the amount so paid from the face value (as determined under section 501) of the certificate and pay the remainder in accordance with the provisions of section 501.

(f) If the veteran has not died before the maturity of the certificate, and has failed to pay his note to the bank or the Federal reserve bank holding the note and certificate, such bank shall, at the maturity of the certificate, present the note and certificate to the director, who shall thereupon cancel the note (but not the certificate) and pay to the bank, in full satisfaction of its claim, the amount of the unpaid principal and unpaid interest, at the rate fixed in the note, accrued up to the date of the maturity of the certificate. The Director shall deduct the amount so paid from the face value (as determined in section 501) of the certificate and pay the remainder in accordance with the provisions of section 501.

(g) The loan basis of any certificate at any time shall, for the purpose of this section, be an amount which is not in excess of 90 per centum of the reserve value of the certificate on the last day of the current certificate year. The reserve value of a certificate on the last day of any certificate year shall be the full reserve required on such certificate, based on an annual level net premium for twenty

years and calculated in accordance with the American Experience Table of Mortality and interest at 4 per centum per annum, compounded annually.

(h) No payment upon any note shall be made under this section by the director to any bank, unless the note when presented to him is accompanied by an affidavit made by an officer of the bank which made the loan, before a notary public or other officer designated for the purpose by regulation of the director, and stating that such bank has not charged or collected, or attempted to charge or collect, directly or indirectly, any fee or other compensation (except interest as authorized by this section) in respect of any loan made under this section by the bank to a veteran. Any bank which, or director, officer, or employee thereof who, does so charge, collect, or attempt to charge or collect any such fee or compensation shall be liable to the veteran for a penalty of \$100, to be recovered in a civil suit brought by the veteran. The director shall upon request of any bank or veteran furnish a blank form for such affidavit.

(i) The Director of the United States Veterans' Bureau is authorized, through such officers and at such regional offices, suboffices, and hospitals of the United States Veterans' Bureau as he may designate, and out of the United States Government life insurance fund established by section 17 of the World War Veterans' act, 1924, as amended, to make loans to veterans upon their adjusted-service certificates in the same amounts and upon the same terms and conditions as are applicable in the case of loans made under this section by a bank, and the provisions of this section shall be applicable to such loans; except that the rate of interest shall be 2 per centum per annum more than the rate charged at the date of the loan for the discount of ninety-day commercial paper under section 13 of the Federal reserve act by the Federal reserve bank for the Federal reserve district in which is located the regional office, suboffice, or hospital of the United States Veterans' Bureau at which the loan is made, but in no event shall the rate of interest exceed 6 per centum per annum.

(j) For the purpose of enabling the director to make such loans out of the United States Government life insurance fund the Secretary of the Treasury is authorized to loan not exceeding \$25,000,000 to such fund with interest at the rate of 4 per centum per annum (beginning on the date the check for each amount loaned to a veteran is paid by the Treasurer of the United States), compounded annually, on the security of bonds held in such fund.

(k) The disbursing officers of the United States Veterans' Bureau shall be allowed credit in their accounts for all loans made in accordance with regulations and instructions of the director.

(l) *For the purpose of this section the loan basis provided in subdivision (g) shall at no time be less than 50 per centum of the face value of the certificate, and in no event shall the rate of interest on any loan made after this subdivision takes effect exceed 4½ per centum per annum, compounded annually. If at the time of application to the Administrator of Veterans' Affairs for a loan the principal and interest on or in respect of any prior loan under this section have not been paid in full by the veteran (whether or not the loan has matured), then, on request of the veteran, the Administrator shall (1) pay or otherwise discharge such unpaid principal and so much of such unpaid interest (accrued or to accrue) as is necessary to make the certificate available for use as security for the new loan and (2) deduct the same from the then existing loan basis of the certificate.*

(m) *Loans made by the Administrator of Veterans' Affairs under this section may at his option be made out of the United States Government life insurance fund, or out of the adjusted service certificate fund created under section 505.*

* * * * *

SEC. 507. All amounts in the fund shall be available for payment, by the [Director] Administrator, of adjusted-service certificates upon their maturity or the prior death of the veteran, [and] for payments under section 502 to banks on account of notes of [veterans.] veterans, and for making loans authorized by section 502, as amended.

The following sections of the World War adjusted compensation act, as amended, are not specifically amended by the bill, but are merely set forth in this report for the information of Members of the House:

SEC. 201. The amount of adjusted service credit shall be computed by allowing the following sums for each day of active service, in excess of 60 days, in the military or naval forces of the United States after April 5, 1917, and before July 1, 1919, as shown by the service or other record of the veteran: \$1.25 for each

day of oversea service, and \$1 for each day of home service; but the amount of the credit of a veteran who performed no oversea service shall not exceed \$500, and the amount of the credit of a veteran who performed any oversea service shall not exceed \$625.

* * * * *

SEC. 501. The director, upon certification from the Secretary of War or the Secretary of the Navy, as provided in section 303, is hereby directed to issue without cost to the veteran designated therein a nonparticipating adjusted service certificate (hereinafter in this title referred to as a "certificate") of a face value equal to the amount in dollars of 20-year endowment insurance that the amount of his adjusted-service credit increased by 25 per centum would purchase, at his age on his birthday nearest the date of the certificate, if applied as a net single premium, calculated in accordance with accepted actuarial principles and based upon the American Experience Table of Mortality and interest at 4 per centum per annum, compounded annually. The certificate shall be dated, and all rights conferred under the provisions of this title shall take effect, as of the first day of the month in which the application is filed, but in no case before January 1, 1925. The veteran shall name the beneficiary of the certificate and may from time to time, with the approval of the director, change such beneficiary. The amount of the face value of the certificate (except as provided in subdivisions (c), (d), (e), and (f) of section 502) shall be payable out of the fund created by section 505 (1) to the veterans 20 years after the date of the certificate, or (2) upon the death of the veteran prior to the expiration of such 20-year period, to the beneficiary named; except that if such beneficiary dies before the veteran and no new beneficiary is named, or if the beneficiary in the first instance has not yet been named, the amount of the face value of the certificate shall be paid to the estate of the veteran. If the veteran dies after making application under section 302, but before January 1, 1925, then the amount of the face value of the certificate shall be paid in the same manner as if his death had occurred after January 1, 1925.

* * * * *

SEC. 505. There is hereby created a fund in the Treasury of the United States to be known as "The adjusted-service certificate fund", hereinafter in this title called "fund". There is hereby authorized to be appropriated for each calendar year (beginning with the calendar year 1925 and ending with the calendar year 1946) an amount sufficient as an annual premium to provide for the payment of the face value of each adjusted-service certificate in twenty years from its date or on the prior death of the veteran, such amount to be determined in accordance with accepted actuarial principles and based upon the American Experience Table of Mortality and interest at 4 per centum per annum, compounded annually. The amounts so appropriated shall be set aside in the fund on the first day of the calendar year for which appropriated. The appropriation for the calendar year 1925 shall not be in excess of \$100,000,000.

