

SENATE COMMITTEE ON GENERAL GOVERNMENT

February 23, 1999 Hearing Room C

3:00 p.m. Tapes 25 - 27

MEMBERS PRESENT: Sen. Verne Duncan, Chair

Sen. Cliff Trow, Vice-Chair

Sen. John Lim

Sen. Marylin Shannon

Sen. Frank Shields

STAFF PRESENT: Marjorie Taylor, Administrator

Patrick Brennan, Administrative Support

MEASURE/ISSUES HEARD: Introduction of Committee Bills

SB 171 Public Hearing and Work Session

SB 169 Public Hearing and Work Session

SB 172 Public Hearing and Work Session

SB 173 Public Hearing and Work Session

SJR 2 Public Hearing

These minutes are in compliance with Senate and House Rules. Only text enclosed in quotation marks reports a speaker's exact words. For complete contents, please refer to the tapes.

TAPE/#	Speaker	Comments
TAPE 25, A		
003	Chair Duncan	Calls the meeting to order at 3:07 p.m. Opens a work session for the purpose of introducing committee bills.
<u>INTRODUCTION OF COMMITTEE BILLS</u>		

007	Sen. Trow	MOTION: Moves LC's: 3432, 3433, 3434, 3435, 2739 BE INTRODUCED as committee bills.
010	Marjorie Taylor	Committee Administrator. Gives a brief description of the committee bills being introduced.
021		VOTE: 3-0 AYE: In a roll call vote, all members present vote Aye. EXCUSED: 2 - Sen. Shannon, Sen. Shields
	Chair Duncan	The motion CARRIES.
		LC 3432 becomes SB 798. SL 3433 becomes SB 799. LC 3434 becomes SB 801. LC 3435 becomes SB 802. LC 2739 becomes SB 803.
023	Chair Duncan	Closes the work session and opens a public hearing on SB 171.
<u>SB 171 PUBLIC HEARING</u>		
028	Marjorie Taylor	Committee Administrator. Gives a brief description of SB 171.
033	Jon Mangis	Director, Department of Veterans Affairs (DVA). Testifies in support of SB 171. States that the bill would eliminate the veterans, home loan payroll deduction created in 1987. Says that the program is no longer necessary since virtually all financial institutions now offer the same service. Says only 270 employees use the payroll deduction program. Says that the veterans would be encouraged to make arrangements for payroll deductions with their financial institution so that the DVA could reallocate its accounting functions.
058	Sen. Trow	Asks if elimination of the program would impose a burden on the 270 veterans still using the program.
061	Mangis	Replies that the transition process is fairly easy. States that the department will be contacting the veterans individually before the February 2000 implementation date to assist in the process.
068	Sen. Trow	Asks how the change would be beneficial to the DVA.
072	Mangis	Replies that there is no fiscal impact, but that it would allow for better use of accounting time.

075	Sen. Lim	Asks if it was the DVA or the veterans who wanted the change to be made.
078	Mangis	Replies that the bill was introduced by the DVA. States that the bill has the support of the United Veterans Group of Oregon, the Governor's Advisory Committee, and most other veterans organizations. States that he knows of no opposition to the bill.
088	Chair Duncan	States that the bill would appear to be making only a small administrative change. Closes the public hearing on SB 171 and opens a work session on SB 171.
<u>SB 171 WORK SESSION</u>		
094	Sen. Trow	MOTION: Moves SB 171 to the floor with a DO PASS recommendation.
098	Sen. Lim	States that he would like some assurance that there are no veterans that oppose the changes made by SB 171.
103	Chair Duncan	Asks if there is anyone in the audience who has or has heard of any opposition to SB 171. States that there would appear to be universal support for the bill among the veterans present at the hearing.
111		VOTE: 4-0-1 AYE: In a roll call vote, all members present vote Aye. EXCUSED: 1 - Shannon
	Chair Duncan	The motion CARRIES. SEN. SHIELDS will lead discussion on the floor.
116	Chair Duncan	Closes the work session on SB 171 and opens a public hearing on SB 169.
<u>SB 169 PUBLIC HEARING</u>		
118	Marjorie Taylor	Committee Administrator. Gives a brief description of SB 169.
124	Jon Mangis	Director, DVA. Testifies in support of SB 169. States that the DVA manages a large mortgage company which also allows rental of veterans' properties. States that the current law is somewhat complicated in regards to veterans renting their

		property. States that the bill would remove certain restrictive statutes and allow for more flexibility in creating rental agreements.
155	Chair Duncan	States that there would always be the option for future legislatures to reinstate the strict criteria in the event that there are abuses of the system.
160	Sen. Trow	Asks why the restrictive criteria were put into law in the first place.
164	Mangis	Replies that the program was developed for returning World War II veterans. States that the program's original criteria no longer work for the way that today's society operates. States that the bill would allow the DVA to work with veterans on a one-to-one basis.
188	Sen. Trow	Asks if there is any known opposition to the bill.
190	Mangis	Replies that he knows of no opposition to the bill.
192	Chair Duncan	Closes the public hearing on SB 169 and opens a work session on SB 169.
<u>SB 169 WORK SESSION</u>		
197	Sen. Lim	MOTION: Moves SB 169 to the floor with a DO PASS recommendation.
199		VOTE: 5-0 AYE: In a roll call vote, all members present vote Aye.
	Chair Duncan	The motion CARRIES. SEN. LIM will lead discussion on the floor.
220	Chair Duncan	Closes the work session on SB 169 and opens a public hearing on SB 172.
<u>SB 172 PUBLIC HEARING</u>		
228	Jon Mangis	Director, DVA. Testifies in support of SB 172. States that there was a moratorium placed on veterans home loans in 1986, which was lifted in 1992. States that the program was redesigned at that time to correspond to Fannie Mae guidelines. Says that SB 172 would offer the full loan amount offered under the Fannie Mae guidelines, rather than the 75% currently offered by the DVA. Says

		that the maximum loan rate would increase to \$240,000, which would be the most benefit to veterans living in the Portland metro area.
262	Sen. Trow	Asks if the change would increase the risk incurred by the DVA.
266	Mangis	Replies that there would be no increased risk. Says that there would be no change to the credit standards or mortgage insurance requirements. States that the problems that plagued the program before 1986 no longer exist and that the same guidelines are used by other lending institutions.
283	Sen. Trow	Asks if there are other lenders who are opposed to the change that the bill would make.
285	Mangis	Replies that he believes that they are in favor of the change.
287	Chair Duncan	Asks for the dollar value of the average loan offered by the DVA.
290	Mangis	Replies that the average loan offered is about \$110,000. States that the rising cost of housing in the Portland Metro area is effectively pricing many families out of the city.
294	Sen. Lim	Asks if the practice of giving 100% loans is unusual. States that lending institutions do not usually give loans for the full value of a property.
303	Tom Cowan	Deputy Director, DVA. States that the Fannie Mae criteria set the maximum amount allowed at 95%. Says that the borrower must meet Fannie Mae guidelines for income in order to qualify for a loan of a particular dollar amount.
320	Sen. Lim	Asks if the DVA feels that there is no risk from increasing the maximum loan percentage to 100%.
324	Cowan	Replies that the bill would only allow loans up to 100% of the Fannie Mae loan allowance, which is based upon indexes of housing cost across the United States.
343	Sen. Trow	Asks why the loan percentage was originally set at 75%.
347	Mangis	States that the DVA restarted the program conservatively due to the problems that had existed prior to the program being shut down in 1986. Says that the DVA currently makes loans similar to any lending institution.
363	Sen. Trow	Asks if most commercial lending institutions make loans at 100%.
365	Mangis	Replies that not all lending institutions do, but that the differences among such institutions are based upon their clientele.

381	Chair Duncan	Closes the public hearing on SB 172 and opens a work session on SB 172.
<u>SB 172 WORK SESSION</u>		
387	Sen. Shannon	MOTION: Moves SB 172 to the floor with a DO PASS recommendation.
390		VOTE: 5-0 AYE: In a roll call vote, all members present vote Aye.
	Chair Duncan	The motion CARRIES. SEN. SHANNON will lead discussion on the floor.
405	Chair Duncan	Closes the work session on SB 172 and opens a public hearing on SB 173.
TAPE 26, A		
<u>SB 173 PUBLIC HEARING</u>		
009	Jon Mangis	Director, DVA. Testifies in support of SB 173. States that the bill would allow mortgage brokers to originate DVA loans. States that when the program was reopened in 1991 the DVA began allowing financial institutions across the state in order to avoid having to staff numerous offices or force all borrowers to travel to Salem. States that 69.8% of DVA loans are currently originated by savings and loans, banks, or mortgage bankers and then purchased by the DVA. Says that the bill would add mortgage brokers to the list of institutions that are allowed to originate DVA loans. States that he knows of no objection to the changes that the bill would make.
034	Sen. Trow	Asks if mortgage brokers are generally considered to be lending institutions.
037	Mangis	Replies that unlike most lending institutions, which use their own money to provide loans, mortgage brokers contract with other sources for loan funds and then buy the loan.
040	Sen. Trow	Asks if redefining mortgage brokers as lending institutions will complicate their status in ways unrelated to veterans loans.
045	Cowan	Replies that there would be no such problems, as the change would be related solely to the provision of veterans loans.

050	Mangis	States that mortgage brokers would also need to meet all of the state requirements for lending institutions.
053	Sen. Lim	Asks what entity licenses mortgage brokers.
056	Mangis	Replies that mortgage brokers are licensed by the Department of Insurance and Finance.
062	John McCulley	Representative, Oregon Association of Mortgage Brokers (OAMB). States that the OAMB supports SB 173.
065	David Kroger	President, OAMB. Testifies in support of SB 173 (EXHIBIT A). States that mortgage brokers assume the duty of servicing loans from other financial institutions in exchange for pay. Says that mortgage brokers offer the convenience of flexible hours and home visits that are not offered by institutions such as banks.
091	Sen. Lim	Asks if mortgage brokers charge more or less than other lending institutions.
094	Kroger	Replies that statute sets maximum charges for the DVA program.
098	Sen. Lim	Asks if it is the consumer or the lending institution that pays the mortgage broker.
101	Kroger	Replies that the consumer must pay the fee.
103	Sen. Trow	Asks if other lending institutions will object to mortgage brokers being allowed to make DVA loans.
106	Kroger	Replies that he knows of no objection and that the Mortgage Bankers Association of Oregon supports the bill. Says that the state and the financial institutions are the ones that will continue to fund the transactions.
115	Chair Duncan	Closes the public hearing on SB 173 and opens a work session on SB 173.
<u>SB 173 WORK SESSION</u>		
120	Sen. Trow	MOTION: Moves SB 173 to the floor with a DO PASS recommendation.
125		VOTE: 4-0-1 AYE: In a roll call vote, all members present vote Aye.

		EXCUSED: 1 - Shannon
	Chair Duncan	<p>The motion CARRIES.</p> <p>SEN. TROW will lead discussion on the floor.</p>
130	Chair Duncan	Closes the work session on SB 173 and opens a public hearing on SJR 2.
<u>SJR 2 PUBLIC HEARING</u>		
135	Jon Mangis	Director, DVA. Testifies in support of SJR 2. States that the bill has widespread support of veterans who feel that it is important to acknowledge veterans from the post-Vietnam period. Says that SJR 2 would allow post-Vietnam veterans to procure DVA loans. States that HJR 7 (1944) created the veterans loan program in Oregon for veterans of World War II. Says that the program was extended to Korean War veterans by HJR 14 (1952) and Vietnam War veterans by HJR 9 (1968). States that only veterans who entered the service prior to 1977 are currently eligible for DVA loans. States that there is a 30 year limit, meaning that World War II and Korean War veterans are no longer eligible and that Vietnam veterans are losing eligibility on a day- to-day basis.
180	Mangis	States that the United States has continued to send soldiers to conflicts around the world since the end of the Vietnam war. States that soldiers serve in volatile areas that are not war zones as well. Says that the National Guard and Reserves are currently trained for deployment abroad as well. States that SJR 2 would allow post-Vietnam veterans to procure DVA loans if they meet certain criteria of service.
215	Chair Duncan	Asks Mr. Mangis to explain the difference between active duty and active duty for training.
220	Mangis	States that there are individuals that enter the Reserves for training purposes only. Says that those individuals are currently excluded from receiving DVA loans. Says that SJR 2 would allow veterans who served in active duty, but lack the necessary days of service to qualify for a loan, to count their training for purposes of qualification towards a loan.
285	Mangis	States that Jon Chandler of the Oregon Home Builders Association asked for his name to be mentioned in support of SJR 2.
292	Sen. Trow	Asks how many additional veterans would be eligible for DVA loans by SJR 2.
295	Mangis	Replies that there would be approximately 64,000 veterans made eligible by SJR 2.

300	Sen. Trow	Asks for an estimate of the number who might decide to take advantage of the program should it be extended to them.
305	Mangis	Replies that a rough estimate would be approximately 20% over a period of years. States that the program has ignored many individuals since the end of the Vietnam War, but that many of those individuals have already settled into housing on their own. States that the DVA no longer refinances existing loans.
340	Sen. Trow	Asks if the DVA has received many requests for loans by those who are not currently eligible but would be made eligible by SJR 2.
344	Mangis	Replies that there are many such individuals and that they are usually disappointed to find that they do not qualify.
362	Sen. Lim	Asks if there are any other states with similar laws and, if so, what impact have those laws had.
368	Mangis	Replies that there are only five states that have the authority to make veterans loans through their state veterans' departments; Oregon, California, Texas, Wisconsin, and Alaska. States that Oregon's program is most similar to that of California. Says that these five are the only states that meet a certain Internal Revenue Service (IRS) requirement and are allowed to make veterans home loans.
396	Sen. Lim	Asks if the families of veterans who died while in service would qualify for a veterans home loan.
400	Mangis	Replies that the Oregon State Constitution provides for the spouse of such an individual, provided that the person died while serving before 1977.
TAPE 25, B		
002	Sen. Lim	Asks if SJR 2 would change the policy with regards to the spouses of veterans as well.
003	Mangis	Replies that it would qualify both the veterans and their spouses, as described.
005	Sen. Shannon	Asks if the widows would qualify.
007	Mangis	Replies that they would, if their spouse was killed or died while serving in active duty.
013	Charles Smith	Director, Debt Management Division, Oregon State Treasury. Testifies in support of SJR 2 (EXHIBIT B). Says that state bonding funds the loans granted to veterans. States that the States Debt Bond Advisory Commission oversees the

		loan program. Says that DVA bonds are considered "self supporting," which means that the capacity for the bond program is set by the quality of management of the system.
050	Sen. Trow	Asks if there will be any impact upon the state's bond rating in the event of a substantial increase in bonding resulting from the implementation of SJR 2.
056	Smith	Replies that there will be no effect, since they will be self-supported and financed separately from other state bonds. States that appropriately made loans backed by bonds will not endanger the state's credit rating.
063	Chair Duncan	Asks if the Bond Advisory Commission has discussed the changes that would be made by SJR 2.
065	Smith	Replies that it has. Says that the commission felt that the best strategy was to look at the program management and the biennial review of the program by the legislature.
075	Chair Duncan	Asks if the inclusion of post-Vietnam War veterans was discussed.
079	Smith	Replies that the consideration of self supporting programs inherently considered the loans that would be granted to the post-1977 veterans.
082	Sen. Shields	Asks if the Treasury Department sees any potential benefits from SJR 2.
090	Smith	Replies that an expansion of the program would encourage home ownership and the construction and furniture trades.
100	Sen. Shields	Asks if there is any way to estimate the number of loans that may be made.
103	Smith	Replies that he does not keep track of the program, except in a financial capacity.
108	Sen. Lim	Asks if the state will be able to maintain its AA bonding rate if it makes the changes proscribed in SJR 2.
114	Smith	Replies that a well structured program such as the DVA loan program will not impact the state's bond rating.
115	Chair Duncan	Asks if the veterans home loan program is part of the calculation process for state bond rating.
118	Smith	Replies that in the past it has always been an issue in regards to bond rating. Says that the recovery and restructuring of the program has made it only a minor issue with the bond rating agencies.

140	Genoa Ingram	Representative, Oregon Association of Realtors (OAR). Testifies in support of SJR 2. States that the OAR president is an "enthusiastic supporter" of veterans issues. Says that support for SJR 2 is one way that the OAR can show support for Oregon's veterans.
155	Jack Magnuson	Legislative Chairman, American Legion Department of Oregon. Testifies in support of SJR 2.
165	Ron Harlan	Legislative Officer, Departments of Oregon Veterans of Foreign Wars and Oregon Military Order of Purple Heart. Testifies in support of SJR 2. States that the post-Vietnam veterans have been treated as non-veterans. Says that passage of SJR 2 would be a step towards recognizing their service for their country. Says that the bill would also help the building industry.
185	Robert Hagan	Major, United States Army Reserve. Testifies in support of SJR 2 (EXHIBIT C). States that he is not eligible for an Oregon Veterans' home loan, despite 19 years of active duty in the Reserve. Gives a personal testimonial of his experience as a Reserve officer in the post-Vietnam War era.
235	Hagan	Continues to discuss the issues surrounding post-Vietnam War veterans. States that all members of the armed forces live with the possibility that they could be sent into dangerous situations. States that there have been numerous battle operations in the past 22 years.
275	Hagan	States that service in excess of 180 consecutive days usually makes members of the Reserves eligible for additional benefits and adds that, consequently, Reservists are often asked to serve for 179 consecutive days. States that standard military practice prevents many Reservists from attaining active duty status.
310	Hagan	Continues to offer a personal testimonial regarding his service in the Army National Guard and Reserves.
357	Hagan	States that he is not eligible for an Oregon Veterans' home loan, despite being a 19 year veteran and a 44 year resident of the state of Oregon. States that passage of SJR 2 would offer a great benefit to those who have served their nation since 1977.
388	Dave Parker	Past-National President, Paralyzed Veterans of America; past-Chair, the United Veterans Groups of Oregon; past-Chair Governor's Advisory Committee; past-Commandant, Marine Corps League. Testifies in support of SJR 2. States that it is no easier to serve in the military today than it was during any of the past conflicts for which veterans have been rewarded in part with the veterans loan program.
TAPE 26, B		
012	Dave Barrows	President, Oregon League of Financial Institutions; Representative, United Financial Lobby. Testifies in opposition to SJR 2. States that the proposal is bad public policy and that it has been defeated before by previous legislatures. States

		that Mr. Mangis has done an excellent job in reforming the DVA. States that, in the past, the DVA cost the state billions of dollars due to poor management, impacting every district. Says that SJR 2 would not necessarily cause economic problems again.
050	Barrows	Says that the program was originally created to offer a benefit for those who sacrificed years of their lives by serving in World War II. States that everyone who has served since 1977 has done so as a volunteer, whereas many who served previously did so under conscription. Says that 44 states have not made an effort to provide home loans to veterans above and beyond those offered by the Federal Department of Veterans Affairs. States that all veterans receive benefits from the federal government for their service, including home loans. States that the program was intended for those who volunteered, including Reservists. States that Oregon should not reward individuals who join the military for school loans or trade skills.
111	Sen. Lim	Asks for the list of groups that Barrows represents through the United Financial Lobby.
114	Barrows	Says that not all of the members of the Lobby oppose SJR 2, but says that a majority of them do, which prompted the group to take a united stance in opposition. Recites the list of groups represented: <ul style="list-style-type: none"> • Tim Martinez, Oregon Bankers Association • Pam Leavitt, Oregon Credit Union League • Brian Daugherty, U.S. Bank • Jim and Matt Markee, Oregon Mortgage Bankers Association • Paul Cosgrove, Oregon Small Finance Companies
132	Sen. Shields	Asks if there is a way to dispel the notion that the opposition is related to a desire to prevent the addition of the DVA as competition.
144	Barrows	Replies that there is a competition factor, but that it is not as much of a worry as it was when the DVA offered loans at extremely low rates. States that the proponents may seek to use SJR 2 as a springboard for changing federal regulations regarding veterans' benefits. States that the primary opposition to SJR 2 is policy related rather than economically related.
183	Sen. Trow	Asks if the veterans currently unqualified for Oregon DVA loans are eligible for federal veterans home loans.
188	Barrows	Replies that the 44 states without state-run programs participate in the federal program and get their loans from financial institutions via the Federal DVA.
200	Sen. Trow	Asks if the rates are lower in the state programs than the federal program.
204	Barrows	Replies that the rates are comparable between the two programs.
207	Mangis	States that the federal loan program gives veterans a certificate of eligibility

		usable at any lending institution. States that there is no rate assigned for the loan by the certificate and that the veteran negotiates the rate with the financial institution.
222	Sen. Trow	Asks if veterans get a better deal than other loan applicants.
225	Mangis	Replies that the loan is guaranteed by the government, sometimes in spite of past credit problems.
230	Barrows	States that the large number and variety of lending institutions makes it possible for veterans to shop around for preferable rates.
240	Mangis	Says that a denial issued by one lending institution will often close the door to the individual everywhere.
247	Barrows	Says that the role of the DVA as a "lender of last resort" is what caused the problems that the state suffered the first time with the veterans program.
262	Mangis	States that there were many bad loans made during the 1970s. States that veterans came to the state, at the time, due to the poor economy. States that there were many economic factors that had impact on the bond rating of the state during the 1970s.
298	Barrows	Concurs with Mr. Mangis' statements.
303	Chair Duncan	Says that SJR 2 will be brought back for another hearing and potential work session at a later date. States that he has a possible conflict of interest as a retired reserve colonel and veteran loan program participant.
325	Hagen	Describes the benefits which he has received through the federal veterans program. States that there is a penalty for refinancing or moving to another house through the Federal DVA.
355	Walter Crews	Legislative Representative, Noncommissioned Officers Association; Secretary/Treasurer, Korean War Veterans Association of Oregon. Testifies in support of SJR 2. Offers a personal testimonial. States that volunteering for military service is just as honorable as being drafted and should earn the same benefits.
TAPE 27, A		
005	Sen. Lim	Asks for more information regarding how the problems related to the DVA loan program impacted the financial institutions of Oregon during the 1970s and 1980s.

010	Sen. Trow	Asks for a report from financial institutions regarding the potential financial impact of passage and implementation of SJR 2.
015	Chair Duncan	Closes the public hearing on SJR 2 and adjourns the meeting at 4:55 p.m.

Submitted By, Reviewed By,

Patrick Brennan, Marjorie Taylor,
Administrative Support Administrator

EXHIBIT SUMMARY

A ñ SB 173, testimony, David Kroger, 2 pp.

B ñ SJR 2, testimony, Charles R. Smith, 1 p.

C ñ SJR 2, testimony, Robert Hagan, 3 pp.