

HB

20

1/30/75

COMMITTEE REPORT

FINANCE

HOUSE

Mr. Speaker:

Date February 3, 1975

The Committee on Commerce has had House Bill 20

under consideration. A Majority of the members of the Committee

() recommends it DO PASS

() recommends it DO NOT PASS

() recommends it DO PASS WITH ATTACHED AMENDMENT(S)

() recommends it BE REPLACED WITH CS FOR _____ AND THAT

CS FOR _____ DO PASS

() "and" recommends it BE REFERRED TO THE _____

COMMITTEE

() reports it back WITHOUT RECOMMENDATION

(-) "other" _____

Members signing the Majority report:

[Signature] _____

[Signature] _____

[Signature] _____

Members NOT concurring in the Majority report:

_____ recommends:

_____ recommends:

_____ recommends:

_____ recommends:

_____ recommends:

[Signature] Chairman

STATE OF ALASKA
Inter-Department Route Slip

TO:
MAIL STATION NUMBER 3101
ATTENTION Rep Bob Bradley

- | | |
|--|--|
| <input type="checkbox"/> Approval | <input type="checkbox"/> Note & Return |
| <input type="checkbox"/> Signature | <input type="checkbox"/> Initial & Return |
| <input type="checkbox"/> Comment | <input type="checkbox"/> Return As Requested |
| <input type="checkbox"/> Contact Me | <input type="checkbox"/> Return For Approval |
| <input type="checkbox"/> Prepare Reply | <input type="checkbox"/> Necessary Action |
| <input type="checkbox"/> For Your File | <input checked="" type="checkbox"/> Your Information |

Remarks: Bob - Points 2 (uses
A state) & 3 (Example)
are key in this summary
BM

FROM:
DEPARTMENT Commerce
BY David Miller DATE 2/12/75

FACT SHEET
ON
STATE VETERANS' LOANS
7% vs 8%

1. Present Inventory
 - a. Present "book" value of State owned Veteran's loans: \$48.1 million.
 - b. Present average interest rate of State portfolio: 6.5% (net)
 - c. Present average interest rate (assumed) in the money market: 9%
 - d. Present "market" value of State portfolio: \$35.6 million
 - e. Loss to the State: \$12.5 million

2. Ongoing Inventory
Average: \$36 million a year.
Assumption: Money market at 9%

\$36 MILLION

Market Value at end of yr.	7%	8%	Loss to the State
1st	\$27 million	\$30.6 million	\$ 3.6 million
2nd	20.25	26.0	5.75
3rd	15.2	22.1	6.9
			<u>\$16.25 million</u>

3. Impact on Veteran
 - a. Assume \$55,000 home loan
 - b. Assume \$19,000 income
 - c. Fact: difference between 7% & 8% = \$480 a year in interest.
 - d. Assume 28% combined Federal & State tax bracket.
 - e. Net \$ impact on average veteran = \$480 x .72% = \$345 per year.

4. Conclusion
 - a. Veteran's loans at 7% vs 8% costing State average of \$5.42 million per year.
 - b. Impact on individual Veteran averages \$345 per year.
 - c. Veteran's loan of 8% still below prevailing market rate.

The Matter of Veteran Loan Interest Rates

1. The purpose of the veterans' loans program is making low interest loans to returning veterans for the purchasing, building and remodelling of homes and businesses and multi-dwellings, and in a more limited sense for personal reasons.
2. The program has functioned exceptionally well since 1946 without expense to the taxpayers of the State. The interest received from the loans has paid all operating costs and made modest profits over the years.
3. Increasing interest rates from 7% to 8% is a 14 1/4% increase which is clearly inflationary at a time when inflation in all other areas has already reduced the standard of living for millions of Americans. All of Alaska's citizens have been affected by higher food costs, service increases, utility charges and every other commercial fee.

The increases in taxes and insurance costs have been higher than other rising cost of living items. Not only has the millage rate been increased in most localities, but the value of the real estate has escalated far beyond the original cost to the owner. Higher valuation has required more insurance coverage to insure replacement cost. Landlord's premiums have increased along with other costs.

4. Vietnam veterans are just completing their education and finding employment in Alaska. Many are just starting families, and

this is what the increased interest rate would mean to them:

a) on a 50,000 dollar loan for 25 years, payments at 7% for P&I are \$353 per month. At 8% payments are \$385 per month, a difference of \$32 per month or \$384 per year. This is a substantial amount of money.

b) The total cost of a \$50,000 home at 7% for 25 years is \$105,900. At 8% the cost is \$115,500, almost \$10,000 more.

c) This additional money should be savings for emergencies, education costs for children, or to improve their "quality of living."

d) There is a very important item that must be considered in any loan program that affects the veteran, the community in which the property is located, and the state money involved. The maintenance of a home requires constant expenditures for labor and materials to insure the value of the property will not depreciate. The extra interest cost could very well jeopardize this critical element. A reduction in regular maintenance generally costs more to the veteran in emergency situations that could impair his ability to repay the loan. History shows that the last time interest rates were increased the delinquency rate was the highest in the history of the program.

5. Benefits of the low interest rate program have been many and the general citizenry of Alaska have profited along with the veteran population.

a) It has stimulated home construction, repair and housing in

general. In most cases home building has been with the veterans labor. The tax base needed to build schools, provide utilities, and maintain communities has been enhanced not only by the cost of new construction, but by the value of individual labor. Merchants have sold the materials for building and furnishing, transportation companies hauled the materials, laborers and skilled mechanics have been paid for plumbing, heating, electrical and carpentry costs.

b) The veteran and his family have had a higher standard of living or "quality of life" if you please, as a result of the fruits of his labor.

c) Housing is critical in Alaska and has been throughout the history of the territory and the state. Thousands of units built under the veterans loan program have aided in alleviating that shortage. It is not enough but it has helped. Housing is still in short supply in every area of the state.

d) The remote areas of Alaska have been specially aided by the program. Loans in 60 small communities have reaped untold benefits for the rural community residents. Again, not sufficient help, but a great assist in a cash short state.

e) Veterans have gone to school, paid emergency bills that could have caused financial disaster, built businesses. They proved their "quality of life" through use of low interest veterans' loans.

6. The action to increase interest rates is taken at a time when nationally interest rates are being reduced. Economists

have admitted that the reduction of home building in the U.S. have created a depression. It has also created a housing shortage that results in higher housing costs to those persons in the lower income groups who can least afford it. The returning veterans who are just finding employment are in the worst crunch. Every \$35 creates a reduction in living standards.

Alaska is facing a period of population growth that exceeds any prior period of history of the state.

Housing costs have skyrocketed in the pipeline impact area because of lack of units being built during the national policy of "tight money" and high interest rates. We will not catch up by discouraging building and reducing the money supply.

This is a time to encourage individual effort in home building, improve prospects for the small businessman and encourage individual production.

7. There is no need to improve the profit picture of the Veterans loan program. In FY 1974 the net profit was \$267,000. In the first 6 months of FY 1975, the net profit was approximately \$200,000. The program pays all operational expense and enjoys a good reputation in the state.

8. The claim that a 1% increase will make \$400,000 additional net profit is not realistic. Assuming that the loans will be sold and the Vets Revolving Fund will get 1/2 of 1% for servicing it could take \$80 million in loans to generate a gross of \$400,000.

Actually if the program loans \$25 million in FY 1975 at 1%

it will generate \$125,000 in gross income in service fees for the program. If it made 50 million in loans which is not likely, but is possible then \$250,000 would be generated in gross income from service fees. \$250,000 is 1% of \$25 million. This amount will make 2 1/2 business loans of \$100,000; 4 multi-dwelling loans of \$60,000; or 5 home loans of \$50,000 each. The benefits do not support the adverse affects on the majority of veterans in reducing their "quality of life".

9. The most important point is that every dollar invested in veterans loans has been spent in Alaska for the citizens and veterans of Alaska. The state receives a good interest rate on the investment in veterans loans. There is a cash flow of more than \$500,000 per month back to the general fund in principal and interest on this investment. It generates business and tax base.

10. It is not a time to discourage housing, and business starts in Alaska by increasing interest rates or penalizing Vietnam Veterans. It is a time to encourage the veterans of Alaska to utilize their personal labors and efforts to build better homes and businesses to the benefit of all Alaskans.