Senate Bills 34 and 35, supplemental materials

From: Hoeft Nicole [...]
Sent: Tuesday, March 19, 2013 3:03 PM
To: Sen Olsen
Cc: Ross Cheyenne
Subject: SB 34 and 35 Workgroup recap

Good afternoon Senator,

Thank you for facilitating yesterday's Home Loan workgroup meeting. Below is some background information about the state of the Home Loan Program in the 1980's and what was/has been done to correct the problem.

Please let me know if any further information would be helpful in communicating the outcome of the workgroup.

Background on the situation that the Department faced back in the 1980s.

- Oregon was experiencing a severe economic downturn and declining real estate property values;
- In a period of 5 years, the Loan Program went from $125 million in positive equity to a negative ($110) million deficit (1982 to 1987);
- At one time, ODVA had over $6 billion of outstanding debt comprising over 90% of all of Oregon's entire general obligation backed debt; (as a comparison to today, ODVA's outstanding debt is approximately $300 million; or 1/20th of the size it was in the mid-1980s);
- Long term program cash flows projected over a $700 million deficit in future years.

Description of the factors/flaws that led to the difficulties ODVA was experiencing in the 80's.

- Loan underwriting standards were unconventional and "loose";
- No mortgage insurance was required on high loan to value loans;
- Debt was not properly structured (bonds had been issued without [or with minimal] call features; bonds had shorter terms than the life of the mortgages; etc.);
- Previous illegal Loan Program reserve diversions resulted in significantly diminished program equity to weather the economic recession;
- Mortgage rates set below the cost of funds and the costs to operate the program;
- ODVA had an excessive operational cost structure given the amount of originations being made;
- Over $400 million of non-amortizing loans occurred as a result of litigation requiring ODVA to extend the life of certain loans when interest rate increases were implemented.

What was/has been done to cure or alleviate these problems:

- ODVA worked closely with a Governor's Task Force and the State Treasurer's Office to address its problems;
- Interest rates were raised 1% on over $3.5 billion of ODVA's existing variable rate loan portfolio;
- Adopted industry standard loan underwriting criteria;

- Began requiring mortgage insurance on higher loan to value loan originations;
- Received a payback of ODVA's constitutionally dedicated program reserves that were illegally diverted;
- Restructured the ODVA's outstanding debt; and also redeemed/refunded those high cost bond issues that did have some form of early redemption provisions;
- Significantly cut operational costs by closing offices and laying off personnel;
- Subsequent Loan Program diversions of its reserves for non-Loan Program purposes were initial stopped but unfortunately began again in the 1991-93 biennium and have continued through the 2011-13 biennium. The continued significant diversion of program reserves for non-loan program purposes are not sustainable which is why the Governor's Balanced Budget has proposed to shift $1.6 million of these diversions back to the State General Fund.

Nicole Hoeft | Public Information Manager | Oregon Department of Veterans' Affairs
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