

**INTERIM REPORT OF THE
JOINT SUBCOMMITTEE STUDY OF
ALTERNATIVES TO CONVENTIONAL MORTGAGE
LENDING METHODS FOR RESIDENTIAL LOANS
TO
THE GOVERNOR
AND
THE GENERAL ASSEMBLY OF VIRGINIA**



HOUSE DOCUMENT NO. 34

**COMMONWEALTH OF VIRGINIA
DEPARTMENT OF PURCHASES AND SUPPLY
RICHMOND**

1978

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HUGH P. FISHER, III

**Interim Report of the
Joint Subcommittee Study of
Alternatives to Conventional Mortgage
Lending Methods for Residential Loans**

To

The Governor and the General Assembly of Virginia

Richmond, Virginia

December, 1977

To: Honorable Mills E. Godwin, Jr., Governor of Virginia

and

The General Assembly of Virginia

I. INTRODUCTION

This report is the result of the study directive contained in House Joint Resolution No. 180 as passed by the 1977 Session of the General Assembly of Virginia as follows:

HOUSE JOINT RESOLUTION NO. 180

Requesting that a Joint Subcommittee of the Corporations, Insurance and Banking Committee of the House of Delegates and the Commerce and Labor Committee of the Senate study variable interest rates on certain loans from lending institutions.

WHEREAS, the general instability in the nation's economy has resulted in a decrease in the availability of money for residential housing and has caused a general increase in the interest charged thereon to fluctuate drastically; and

WHEREAS, the economic forecasters do not foresee that the economy

will stabilize within the immediate future; and

WHEREAS, such economic conditions and resulting high interest rates contractually bind purchasers of homes to high interest rates for the duration of the contract, even though the rate may decline during such contractual period; and

WHEREAS, some states have adopted legislation allowing lending institutions to vary the interest rate chargeable on residential loans on the basis of increases or decreases in the prime rate; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the Corporations, Insurance and Banking Committee of the House of Delegates and the Commerce and Labor Committee of the Senate are requested to appoint a Joint Subcommittee to study the feasibility of permitting lending institutions to establish variable interest rates or other alternatives to conventional mortgage lending methods for residential loans.

The Joint Subcommittee shall consist of ten members: three members from each of the aforementioned committees, two persons representing the interests of the lending community, and two persons chosen from the Commonwealth at large. Legislative appointments shall be made by the chairmen of the respective committees. Non-legislative appointments shall be divided between the two chairmen.

The Joint Subcommittee shall conclude its study and propose such legislation as it may determine to be within the best interests of the Commonwealth.

Pursuant to the study directive the Chairman of the House Corporations, Insurance and Banking Committee appointed Delegates A. L. Philpott, of Bassett; Thomas W. Moss, of Norfolk; and Robert E. Harris, of Fairfax. Ms. Barbara Bitters of Richmond and Mr. Carl A. S. Coan, Jr. of Falls Church were also named as non-legislative appointees by the Chairman of the House Committee. The Chairman of the Senate Commerce and Labor Committee appointed Senators J. Harry Michael, Jr. of Charlottesville, Edward M. Holland of Arlington and Joseph T. Fitzpatrick of Norfolk. Non-legislative appointees by the Senate Chairman were J. William Doswell of Richmond and William J. Fanney of Norfolk. At the organizational meeting of the Joint Subcommittee Delegate A. L. Philpott was elected Chairman of the Subcommittee and Senator Joseph T. Fitzpatrick was elected Vice-Chairman. L. Willis Robertson, Jr. and Hugh P. Fisher, III of the Division of Legislative Services served as staff for the Subcommittee.

II. COURSE OF STUDY

At the organizational meeting of the Joint Subcommittee the members received statements from Delegate Carrington Williams, who was the patron of House Joint Resolution No. 180, Mr. Mark W. Sauers, President of the Virginia Savings and Loan League, Mr. Richard Tilghman, representing the

Virginia Bankers Association, Mr. J. T. Lindley, an economist, Mr. James H. Hammond, Jr., an accountant and the Commissioner of Banking, Mr. Sidney A. Bailey. In addition, the members received a substantial amount of written material concerning the concept of alternative mortgage instruments and how it was working in the State of California.

The testimony presented at the meeting was favorable to the concept of alternative methods of financing residential loans, because it was the belief of the speakers that more mortgage money would be available for Virginia and more Virginians could qualify for a mortgage loan if some alternatives to the present fixed rate and term mortgage were authorized for use by Virginia financial institutions.

The next meeting of the Subcommittee consisted of a public hearing at which spokesmen for the State Corporation Commission, the Virginia Savings and Loan League and the Virginia Bankers Association presented the Subcommittee with more detailed information on the problems of implementing a program of alternatives to the present system of home financing in Virginia

The Joint Subcommittee attended a seminar on alternative mortgage instruments presented by the Virginia Savings and Loan League and heard experts on the California experience with variable rate mortgages. Mr. Sidney A. Bailey, Commissioner of Banking for the State of Virginia, presented the Joint Subcommittee with a research paper recommending possible indices to be used with any variable rate mortgage authorized for use in the Commonwealth.

III. RECOMMENDATION

1. That the work of the Joint Subcommittee be continued until there is adequate State or federal experience upon which to base a decision on this issue. (See Appendix I of this report for proposed resolution continuing study).

IV. REASON FOR RECOMMENDATION

While the members of the Joint Subcommittee received a large volume of information on the issues involved in this study, the following two problems remained unsolved in the minds of the members:

1. The consequences of authorizing alternative mortgage instruments for use in Virginia without the benefit of any widespread experience with the use of alternative mortgage instruments in the United States.

2. The disagreement on the proper index or trigger for use with a variable rate mortgage.

California is the only state from which any credible experience concerning variable rate mortgages could be obtained and the membership

of the Joint Subcommittee felt that more experience with the concept was necessary before Virginia's financial institutions were authorized to offer such instruments. There was also no consensus of opinion found as to what index should be used to trigger a change in a variable rate mortgage. The designation of a proper index was deemed to be of critical importance because such an index must be acceptable to the national secondary mortgage market to insure the purchase of Virginia loans and the flow of mortgage money into the Commonwealth.

The members of the Joint Subcommittee considered several alternatives to the present fixed rate and term mortgage instruments including: the variable rate mortgage, the graduated payment mortgage, the reverse annuity, the renegotiable mortgage and the deferred interest mortgage. However, there is no comprehensive experience available on the results of the use of these alternatives in the national mortgage money markets and many of these plans are used in conjunction with an index or trigger and there is no agreement among the experts as to what the index or trigger should include.

V. CONCLUSION

In light of the findings of the Joint Subcommittee, it was felt that at the present it would be premature to recommend the authorization of the use of alternative mortgage instruments in the Commonwealth. Therefore, the Joint Subcommittee has recommended that the General Assembly, by resolution, authorize the continuation of the study of alternative mortgage instruments by the members of the Joint Subcommittee until adequate State or federal experience with this issue becomes available.

Respectfully submitted,

A. L. Philpott, Chairman

Joseph T. Fitzpatrick, Vice-Chairman

Thomas W. Moss

Robert E. Harris

Barbara Bitters

Carl A. S. Coan, Jr.

J. Harry Michael, Jr.

Edward M. Holland

J. William Doswell

William J. Fanney

APPENDIX I

HOUSE JOINT RESOLUTION NO.....

Continuing the Joint Subcommittee of the Corporations, Insurance and Banking Committee of the House of Delegates and the Commerce and Labor Committee of the Senate study of alternatives to conventional mortgage lending for residential loans

WHEREAS, at the nineteen hundred seventy-seven Session of the General Assembly House Joint Resolution No. 180 was passed; and

WHEREAS, House Joint Resolution No. 180 directed a Joint Subcommittee of the House Corporations, Insurance and Banking Committee and the Senate Commerce and Labor Committee to study the feasibility of permitting lending institutions to establish variable interest rates or other alternatives to conventional mortgage lending methods for residential loans in Virginia; and

WHEREAS, the Joint Subcommittee has made a diligent study of the issues involved in the directive contained in House Joint Resolution No. 180; and

WHEREAS, it is the recommendation of the Joint Subcommittee that the study be continued until there becomes available adequate state or federal experience upon which to base a decision on this issue; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the work of the Joint Subcommittee of the House Corporations, Insurance and Banking Committee of the House of Delegates and the Commerce and Labor Committee of the Senate to study alternatives to conventional mortgage lending for residential loans is continued with the present members to continue the study when additional state or federal experience becomes available.

Upon receipt of new information, the Joint Subcommittee shall conclude its study and propose such legislation as it may determine to be within the best interest of the Commonwealth.