

AMENDED IN SENATE MAY 1, 1997

SENATE BILL

No. 785

Introduced by Senator Johnson

February 26, 1997

An act to amend Sections 987.87 and 988.2 of the Military and Veterans Code, relating to veterans.

LEGISLATIVE COUNSEL'S DIGEST

SB 785, as amended, Johnson. Cal-Vet loans.

Existing law provides for farm and home purchase benefits for qualifying veterans under the Veterans' Farm and Home Purchase Act of 1974, and subsequent acts. Existing law establishes the maximum purchase price of a home, the maximum costs of construction of a home, and establishes requirements relating to the purchaser's payment responsibilities, including, but not limited to, the requirement that the purchaser pay interest at a rate determined by the department pursuant to a prescribed procedure.

Existing law requires the department to set the rate of interest to be paid by purchasers at an amount established by a $\frac{2}{3}$ vote of the California Veterans Board with the approval of the Veterans' Finance Committee of 1943. Existing law requires the board and the committee to periodically, at least once a year, make a finding as to the rate of interest to be charged.

This bill would delete the $\frac{2}{3}$ vote requirement, and would, instead, require that the department, within 60 days of receipt of the survey of the financial condition of the Division of Farm and Home Purchases required at the close of each fiscal year

by an independent public accounting firm of recognized standing as provided under the various veterans bond acts, to report to the board and the committee regarding the recommended rate of interest to be approved by the board and the committee, and would make conforming changes, and other related changes of a technical, nonsubstantive nature.

~~Existing law requires that the total amount of any installment be raised or lowered to reflect any change in the effective rate of interest, and allows the department to adjust or postpone any installment payment for good cause pursuant to prescribed provisions of law.~~

~~This bill would delete the requirement that the amount of any installments be lowered to reflect any decrease in the effective rate of interest, and would delete the provision permitting the department to postpone any installment payment for good cause.~~

Existing law authorizes the department to advance to any purchaser sums for certain purposes, including, but not limited to, paying taxes and assessments, or making certain improvements, and requires that all of the money advanced to a purchaser be added to the deferred principal of the purchaser's account and bear the same interest at the same rate.

This bill would, instead permit any of the money so advanced be added to the deferred principal of the purchaser's account bearing the same interest at the same rate.

Existing law provides that the advanced moneys may be in addition of the maximum price of the farm or home pursuant to prescribed provisions of the Veterans' Farm and Home Purchase Act of 1974.

This bill would provide that the advanced moneys may be in addition of the maximum price of the farm or home pursuant to the Veterans' Farm and Home Purchase Act of 1974, and acts supplementary thereto.

Existing law, with certain exceptions, prohibits requirement of an impound or trust account for the payment of taxes, insurance, or other purposes relating to real property, as a condition of a real property sale or loan.



This bill would permit any money required by the department to be paid for the purpose of taxes, insurance premiums, and other charges when they become due to be maintained by the department using the escrow accounting method in accordance with lending industry standards and the laws governing escrow accounts of this type.

Vote: majority. Appropriation: no. Fiscal committee: yes. State-mandated local program: no.

The people of the State of California do enact as follows:

1 SECTION 1. Section 987.87 of the Military and
2 Veterans Code is amended to read:
3 987.87. (a) The department shall establish the actual
4 interest rate to be paid. To this end, the department,
5 within 60 days of receipt of the survey of the financial
6 condition of the Division of Farm and Home Purchases
7 required at the close of each fiscal year conducted by an
8 independent public accounting firm of recognized
9 standing as provided under various veterans bond acts,
10 shall report to the California Veterans Board and the
11 Veterans' Finance Committee of 1943, regarding the
12 recommended uniform rate of interest payable upon the
13 amount remaining unpaid under any veteran's purchase
14 contract executed on or after September 26, 1974. The
15 department shall make its finding as to the rate of interest
16 to be charged, determined by a floating rate based upon
17 the actual cost of general obligation bond and revenue
18 bond sales, plus a certain percent for administrative costs,
19 taking into consideration the current value of money, the
20 solvency of the Veterans' Farm and Home Building Fund
21 of 1943, and the interest paid on any participation
22 contracts to which the interest of the department may be
23 subject. Upon approval by the board and the committee,
24 the department may raise or lower the effective rate of
25 interest payable under these contracts annually as it
26 deems to be for the best interests of the department, as
27 well as the contractholders, if in so doing this action is
28 made applicable alike to any and all of these contracts.
29 The interest rate shall not be raised so that the effective



1 date of a higher rate of interest occurs more than once in
2 any calendar year, unless the board and committee, by a
3 two-thirds vote of the members of each, make a finding
4 that an additional increase in the interest rate is necessary
5 to enable the department to maintain the financial
6 solvency of the fund or to meet its obligations to
7 bondholders or purchasers. At least 90 days' advance
8 written notice to the contractholders shall be given
9 before any increase in the interest rate becomes effective.

10 (b) The total amount of any installment payment shall
11 ~~be raised to reflect any increase in the effective rate of~~
12 ~~interest. The department may adjust any installment~~
13 ~~payment for good~~ *be raised or lowered to reflect any*
14 *change in the effective rate of interest. The department*
15 *may, however, adjust or postpone any installment*
16 *payment for good* cause pursuant to Section 987.71 and,
17 for these purposes, good cause shall include a
18 consideration of whether an increased installment
19 payment would be excessively burdensome in light of a
20 purchaser's financial circumstances. The department
21 shall include notice of this provision in the 90 days'
22 advance notice required under subdivision (a).

23 SEC. 2. Section 988.2 of the Military and Veterans
24 Code is amended to read:

25 988.2. (a) Out of any money available in the
26 Veterans' Farm and Home Building Fund of 1943, the
27 department may advance to any purchaser upon his *or*
28 *her* application, and under ~~such~~ *the* policies as the
29 department may, from time to time, prescribe, sums for
30 the purpose of paying taxes and assessments, or making
31 permanent improvements, including permanent
32 improvements for the purpose of increasing farm
33 productivity, or keeping in good order or repair, or for
34 painting, redecorating or remodeling, all buildings,
35 fences or other permanent improvements on, or the
36 insuring against fire or other hazards, any building, fence
37 or other permanent improvements or crops on the
38 property being purchased from the department, or the
39 department may advance to ~~any such~~ *the* purchaser
40 moneys actually expended in so doing.



1 (b) Any of the money advanced to a purchaser by the
2 department may be added to the deferred principal of
3 the purchaser's account and shall bear interest at the
4 same rate and shall be repaid by the purchaser to the
5 department under ~~such~~ *the* conditions as it may
6 prescribe.

7 (c) The moneys advanced may, in the discretion of the
8 department, be in addition to the maximum purchase
9 price of a farm or home as provided by the Veterans'
10 Farm and Home Purchase Act of 1974 and acts
11 supplementary thereto.

12 (d) Any money required by the department to be paid
13 for the purpose of taxes, insurance premiums, and other
14 charges when they become due may be maintained by
15 the department using the escrow accounting method in
16 accordance with lending industry standards and the laws
17 governing escrow accounts of this type.

18 (e) The department shall be the sole judge of the need
19 and desirability of making advances or requiring
20 payments by the purchaser under this section.

