

SENATE FINANCE COMMITTEE  
MINUTES OF MEETING  
JANUARY 28, 1977

The meeting was called to order at 8:30 A. M.

Senator James I. Gibson was in the chair.

PRESENT: Senator James I. Gibson, Vice-Chairman  
Senator Eugene V. Echols  
Senator Norman D. Glaser  
Senator Norman Ty Hilbrecht  
Senator Thomas R. C. Wilson  
Senator C. Clifton Young

ESCUSED ABSENCE: Senator Floyd R. Lamb, Chairman

OTHERS: Ronald W. Sparks, Chief Deputy, Fiscal Analysis  
Howard Barrett, Budget Director  
Cy Ryan, UPI  
Preston Tidvall, Superintendent of Banks  
Lester Goddard, Savings & Loan  
Dick Rottman, Insurance Division  
Oscar Gubleman, Housing Division  
Michael Melner, Director, Commerce

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BANKING DIVISION: This budget reflects a separation of the Banking Division and Savings and Loan Division.

The two commissioners supervise separate competitive industries and having the costs of each function combined in one budget has caused considerable confusion. This account details the recommendation for a separate Banking Division. The Banking Division has supervision over four state banks and their thirty-nine branches. Each must be examined twice within an eighteen month period. One examination is conducted jointly by state personnel and either Federal Deposit Insurance Corporation examiners or Federal Reserve Bank Examiners. An additional examination is conducted independently by the bank examining staff of the Banking Division. The Banking Division also supervises and regulates fourteen finance companies operating sixty-four offices in the State of Nevada. Each of these offices is examined once each year. Additionally, the Banking Division supervises and regulates eighteen collection agencies operating in the State of Nevada. Each collection agency is also examined once a year.

Mr. Tidvall spoke on this budget. In justification for his request for new positions he said that when he took this position in 1965 he had one more employee at that time than he presently has. He cited the growth in the number of banks and the volume of banking business that is now carried on in the state. He explained an item in the budget call EDP Bank Exam Program. He said this was discussed at the hearings two years ago and the program did not materialize. However he was hopeful that within the next two years he would be able to find a computer outfit that will program their desires into the bank's computers. His examiners would go to the banks and use their own programming and be able to get the job done a little more efficiently

Mr. Tidvall answered questions from the Committee relative to the new positions requested and their duties. He explained their supervision and regulation of the finance companies and other related duties in explanation to queries from the Committee.

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SAVINGS AND LOAN DIVISION: In the past the Savings and Loan Division budget has been combined with the Banking Division budget. This has caused some confusion with the commissioners of two competing industries trying to manage their operations from one budget appropriation and resulted in little, if any, cost savings. This budget recommends a separate appropriation for the Savings and Loan Division. The Savings and Loan Division, pursuant to NRS 673.450, is authorized to examine the books and records of state-chartered savings and loan associations. Each association is examined in depth every twelve to fifteen months jointly with personnel from the Federal Loan Bank Board.

At the end of 1971, there were five associations with seventeen branches and \$550 million in assets. As of June 30, 1976, there were six associations with thirty-six branches and assets of \$861 million. It is anticipated that by June 30, 1977, the six associations will have forty-two branches with total assets of one billion dollars. All savings applications for new units or branches must be approved by the Commissioner.

The 1973 Legislature passed regulations pertaining to mortgage companies within Nevada and designated the Commissioner as supervisory authority over the industry. Since July 1, 1975, the number of licensed mortgage companies has increased from sixteen to fifty. It is anticipated that by the end of 1976, the total will have increased to sixty licensed mortgage companies.

Mr. Goddard spoke on this budget. He stated that they were requesting a new senior examiner to assist with the supervision of the mortgage companies and to specialize in the mortgage loan aspect of the savings association activities. The new one-half time principal clerk stenographer position in Carson City in order to provide full-time secretarial coverage. Mr. Goddard explained that his division worked jointly with the federal people so they always go in on a joint examination. This is helpful to the savings and Loans companies in not having the two different groups in at separate times and secondly it helps the division, and they can manage this way with one examiner. He said they work very carefully and cooperatively with them and exchange information. He said his man was concerned with seeing that the state statutes were being complied with, but they worked jointly on other areas that were of mutual interest. He said that knowing that the federal and state examiners would be coming in to examine them in depth is a restraining influence today that did not exist in the early '60's.

Mr. Goddard said there is a serious problem with con artists who work in every state. At the Committee's request, he explained briefly their modus operandi. He said they are the smoothest, slickest that you can find. They are educated, they are polished, they come in with phony documents, phony balance sheets, phony references; they will give you references to banks and you can call the bank and get a reference. They have a plant at the bank being called. He said that he spent a great deal of his time working on these cases. He said he had been able to get a couple out of the state, but he had not been able to stop them from operating. They get in trouble in one place and simply move to another location. He said they come in, make a deal and vanish. He detailed the advance fee racket that was generally used. The possibilities of legal action were discussed.

Mr. Goddard said that most of his problems were with the unlicensed mortgage companies that are exempt: the big mortgage bankers are exempt under the Act. He said there were about thirty of them in the State of Nevada and they do about 20% and 25% of all the mortgage lending in the whole state. They are exempt because they have enough influence in the legislature to keep themselves exempted.

Mr. Melner said if they were approved by the Federal National Mortgage Association as a lender, they are exempt from licensing under the state statute. The Federal National Mortgage Association does not supervise in any meaningful way. Senator Gibson asked what the difference was between a mortgage company and a finance company. Mr. Goddard said a small finance company under Nevada's laws cannot make mortgage loans. A mortgage company under the state jurisdiction can only make mortgage loans.

He said the condition of the savings and loan industry in the state at the present time was excellent. They are all operating properly, with sound management.

DIVISION OF INSURANCE: The Insurance Division is responsible for the regulation of the insurance industry and the collection of taxes and fees. Licenses are issued to and fees collected from life, accident, casualty, fire and allied lines, and title insurance companies. The Division also licenses and regulates fraternal benefit societies, motor clubs, burial societies, rating organizations, company agents, brokers, surplus line brokers, solicitors, managing general agents, service representatives, variable annuity agents, independent adjusters and professional bail bondsmen. Licenses for these organizations are renewed annually. The Insurance Division is also charged with the responsibility of establishing uniform accounting and reporting techniques for health and care institutions. Resident agents, brokers, solicitors, variable annuity agents and independent adjusters must qualify by written examination. Examinations are taken twice a month—once in Las Vegas and once in Carson City. The Division makes an annual review of all company financial statements submitted to determine whether the companies have sufficient capital and surplus to meet the statutory requirements of the State of Nevada, and conducts further examinations, as are necessary, to protect the consumers of the state from insolvent companies or companies in a weak financial position. There are currently 900 companies licensed to do business in Nevada.

The Division maintains a Consumer Complaint Section and the requests for assistance via telephone and mail have grown each year. In 1971, 919 complaints were handled with \$380,000 being recovered. During 1975; 2,497 complaints were processed and approximately \$2,400,000 was recovered. During 1976, the number of complaints is expected to approach 3,000; with an anticipated recovery of \$3,000,000. The Division has an actuarial staff which reviews all applications for rate increases in the property, casualty and health insurance fields. The Division also has responsibilities in the area of consumer education programs, securing markets for all risks that require insurance, preventing the cancellation of insurance, enacting regulations implementing the Insurance Code, and investigating and bringing charges and, after hearings, levying fines or penalties against insurance companies, brokers or agents in the event of violation of the law or regulations. The amount of money collected by the division for licenses, taxes, fines and miscellaneous fees and deposited to the State General Fund has grown from approximately \$4,367,214 in 1971 - 1973 to approximately \$6,425,408 in 1975 - 1976.

Mr. Rottman spoke on this budget and said they are requesting increased in-state travel funds because of increased investigative activities and the enforcement activities of the Health and Care Section. They are also requesting a new full-time Deputy Attorney General to handle division litigation. Over the past two years, the division has been involved in fourteen major legal actions, and it is anticipated a major legal controversy could occur in any one of the following areas:

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Nevada Medical Liability Insurance Association, Insurance Guaranty Act, of Life and Health Insurance Guarantee Act.

The Division utilizes electronic data processing. They currently license approximately 900 insurance companies, 1,054 insurance agencies, and 4,774 brokers and agents to transact business in the State of Nevada. Numerous types of insurance, each with specific laws and regulations, are offered by licensed corporations and individuals. The legal interrelationships of these corporations and individuals result in the recording and maintaining of approximately 30,000 records covering these unique relationships and appointments. The development of these interrelated files is the primary function of licensing offices in Carson City and Las Vegas. Licensing revenue is provided to the state from these corporations and individuals according to the types of business being transacted. He explained the reasons for the high postage costs.

Senator Young asked if there would be any value if the law provided the court to award attorney fees to the state, in an unsuccessful suit. Would it help if attorney fees were awarded and if bonds were to be required. He said if they wanted to gamble on being right, fine, but he felt that just using the courts to frustrate regulation, if they lost they should be made to pay. He said this would be in the court's discretion. Mr. Melner said they have costs of hearings and they have found that the courts are very reluctant to award. He said he felt it was a good idea, practically. Senator Young said the courts did not have the authority right now in this type of case. Mr. Rottman said he would be highly receptive to that type of legislation. Senator Young asked them to look into the suggestions more fully and give him a memo on the subject.

Senator Gibson asked about the increasing costs of automobile insurance and asked if one of the causes of that was the no fault system. Mr. Rottman said he felt it was a cause but not a major cause. He felt the principal cause was the tremendous rate of inflation, the medical care, which is a significant factor in the auto insurance rates, also the auto repair costs. These problems were discussed along with rate regulation. Mr. Rottman said that the rate increases were a sort of cumulative sort of thing. The rate increases since 1971, were the result of events and inflation that had occurred in the intervening years. He said they believed that rate increases are presently up to where they are about adequate. Mr. Rottman said he couldn't say conclusively whether auto insurance rates would have been higher or lower if the tort system had been retained, and no state can because you do not have a good testing ground. States that have not gone no fault have had approximately the same experience as Nevada has, in terms of relative increase.

PREPAID FUNERAL AND CEMETERY FUND: The Commissioner of Insurance is charged with the regulation of cemetery business in Nevada. This account reflects revenue received from, and expenses paid out in support of, the regulation of the industry. Mr. Rottman said that the fees collected are really inadequate to do the job, so they use division personnel to do the work. It does bring in some revenue, but it is a minimal amount.

Senator Gibson thanked him for appearing.

HOUSING DIVISION: The Housing Division of the Department of Commerce was established by the 1975 Legislature.

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The first program implemented by the division was a Loans-to-Lenders Program. That is, the division sold tax exempt bonds in a public financing and lent the proceeds to banks and savings and loan associations who in turn made mortgages to eligible families. The tax exempt financing provides the division with a low interest cost and the beneficiaries, the eligible families, with lower monthly mortgage payments.

Before the program could be adopted, the Housing Division had to determine what is an eligible family; develop and present findings to the State Board of Finance relative to the needs of such a program; and obtain commitments from enough lending institutions to make a Loans-to-Lenders Program feasible.

Surveys of existing housing for sale in Las Vegas, Reno and Carson City areas at the end of 1975 showed that the median priced home was listed for \$41,850 and that a family with a median annual income of \$17,000 would be able to afford approximately 15% of the listed homes in these areas. As a result, the Housing Division determined that an eligible family should be one earning up to \$17,000 per year plus \$500 for each income tax exemption over four. Findings also established that the proposed program would be a public benefit and that revenues from the program would be sufficient to service the bonds issued to finance the program. In February, 1976, the division received commitments totaling \$8 million from five lending institutions.

The bonds were sold on March 26, 1976; at a net interest cost to the Division of 6%. Loans were made to the lenders at 6 3/4%. The lending institutions made mortgages available to eligible families at 8% which, at the time, was 1% below prevailing mortgage interest rates. These mortgages were well received by the families throughout the state who qualified for the loans and in four months the funds allocated by the lending institutions for existing housing were depleted. The remaining funds in the program were committed to new construction and some of these units were being completed in August, 1976.

During the last half of fiscal year 1976, the division negotiated with developers of an elderly program in Las Vegas. Eighteen-month notes were sold after the end of the fiscal year at an especially low interest rate to the division of 3.76%, and during December, 1976, \$3.6 million worth of 20-month housing notes were sold at an even lower interest rate of 2.81%.

Under the Construction Loan Program, the division participates with a financially sound mortgage banker whereby the division makes 95% of the loan and the mortgage banker the balance. All construction loans must be FHA insured and have guarantees of permanent financing from the Federal National Mortgage Association, the Government National Mortgage Association or a reputable lending institution. The division charges the developers a commitment fee of 1% plus an interest fee of 1 1/2 % which is added onto the interest cost of the publicly sold tax exempt notes. The mortgage banker services the loan and guarantees that the FHA insurance and the permanent loan commitment will be kept in force. The mortgage banker also guarantees that if for any reason the loan is not repaid to the division prior to the time the division's notes mature, then the mortgage banker will make good on the amount owed. The Housing Division carried out a third activity which was a survey of inadequate housing throughout the state and found that there were 36,797 households living under inadequate conditions in 1970. Since the 1970 census the housing needs in five counties have become less acute, in three counties the housing needs appear to be relatively the same and in seven counties, the situation worsened.

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Mr. Gubelman spoke on this budget. He explained that the mortgage purchase program, where there are mortgages, every one of which has to be examined requires additional personnel. The deputy administrator will function as a loan officer and they need someone with an accounting background to keep track of the accounts. They are requesting authorization for a principal account clerk and they also need a senior clerk typist to do the secretarial work required by the deputy and the principal account clerk.

Mr. Gubelman answered questions from the Committee on the program and the sums of money involved and the requirements for obtaining the low rates of interest.

Senator Gibson thanked him for appearing.

Senator Gibson asked the Committee to consider two items; one was S. B. 146 which appropriates \$500,000 for the legislative fund, and Senator Young moved that the bill pass as an emergency measure; Senator Hilbrecht seconded and the motion passed.

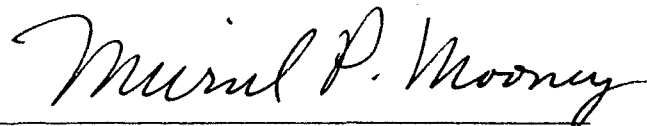
Senator Gibson said that later on they would get into the State Public Defender's budget, which is partially paid for by assessment to the small counties that utilize the office. He had DBR-357 which sets that assessment for the next two years. He felt it was properly a Finance Committee bill as it has to do with what the Committee does with the budget. He requested permission to introduce it as a Finance Committee bill.

Senator Glaser so moved and Senator Young seconded the motion to introduce and the motion carried.

Mr. Sparks announced that on Monday there would be a Joint Meeting with Ways and Means on Parks Program. The meeting on Monday will be at 8:00 A. M.

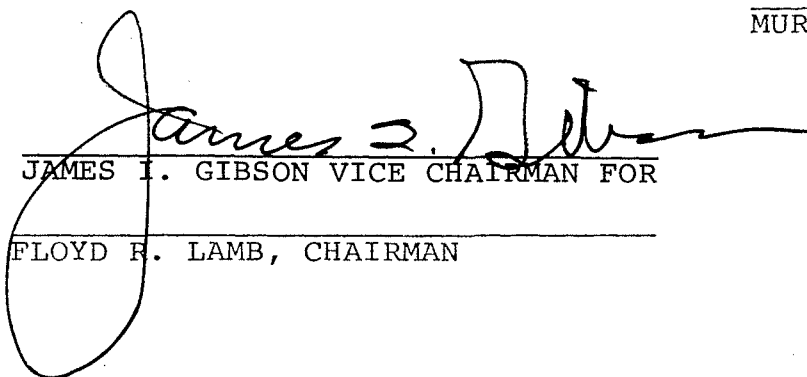
The meeting adjourned at 10:30 A. M.

RESPECTFULLY SUBMITTED:



MURIEL P. MOONEY, SECRETARY

APPROVED BY:



JAMES I. GIBSON VICE CHAIRMAN FOR  
FLOYD R. LAMB, CHAIRMAN

**S. B. 146**

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SENATE BILL NO. 146—COMMITTEE ON FINANCE

JANUARY 26, 1977

Referred to Committee on Finance

SUMMARY—Appropriates moneys from state general fund to legislative fund. (BDR S-793)

EXPLANATION—Matter in *italics* is new; matter in brackets [ ] is material to be omitted.

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AN ACT making an appropriation from the state general fund to the legislative fund.

*The People of the State of Nevada, represented in Senate and Assembly, do enact as follows:*

- 1 SECTION 1. There is hereby appropriated from the state general
- 2 fund to the legislative fund existing pursuant to the provisions of NRS
- 3 218.085 the sum of \$500,000.
- 4 SEC. 2. This act shall become effective upon passage and approval.

Original bill is on file at  
the Research Library.