

43:16A-1

LEGISLATIVE HISTORY CHECKLIST
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(PFRS--clarify mortgage
loan program)

NJSA: 43:16A-1

LAWS OF: 1992 CHAPTER: 78

BILL NO: A123

SPONSOR(S) Haytaian and Doria

DATE INTRODUCED: June 18, 1992

COMMITTEE: ASSEMBLY: State Government

SENATE: State Government

AMENDED DURING PASSAGE: Yes Amendments during passage
denoted by asterisk

DATE OF PASSAGE: ASSEMBLY: June 29, 1992

SENATE: August 3, 1992

DATE OF APPROVAL: August 5, 1992

FOLLOWING STATEMENTS ARE ATTACHED IF AVAILABLE:

SPONSOR STATEMENT: Yes (Below)

COMMITTEE STATEMENT: ASSEMBLY: Yes

SENATE: Yes

FISCAL NOTE: Yes

VETO MESSAGE: No

MESSAGE ON SIGNING: No

FOLLOWING WERE PRINTED:

REPORTS: No

HEARINGS: No

Sponsor's statement:

This bill clarifies that the mortgage loan program originally established by 1991 c.414 is an investment program to be administered as part of the State's general investment program.

KBG:pp

ASSEMBLY, No. 123

STATE OF NEW JERSEY

INTRODUCED JUNE 18, 1992

By Assemblymen HAYTAIAN and DORIA

1 AN ACT authorizing certain mortgage loans within the Police and
2 Firemen's Retirement System, amending P.L.1944, c.255,
3 supplementing P.L.1950, c.270 (C.52:18A-79 et. seq.) and
4 repealing sections 2 through 8 of P.L.1991, c.414.

5

6 BE IT ENACTED *by the Senate and General Assembly of the*
7 *State of New Jersey:*

8 1. Section 1 of P.L.1944, c.255 (C.43:16A-1) is amended to
9 read as follows:

10 1. As used in this act:

11 (1) "Retirement system" shall mean the Police and Firemen's
12 Retirement System of New Jersey as defined in section 2 of this
13 act.

14 (2) (a) "Policeman" shall mean a permanent, full-time
15 employee of a law enforcement unit as defined in section 2 of
16 P.L.1961, c.56 (C.52:17B-67) or the State, other than an officer
17 or trooper of the Division of State Police whose position is
18 covered by the State Police Retirement System, whose primary
19 duties include the investigation, apprehension or detention of
20 persons suspected or convicted of violating the criminal laws of
21 the State and who:

22 (i) is authorized to carry a firearm while engaged in the actual
23 performance of his official duties;

24 (ii) has police powers;

25 (iii) is required to complete successfully the training
26 requirements prescribed by P.L.1961, c.56 (C.52:17B-66 et seq.)
27 or comparable training requirements as determined by the board
28 of trustees; and

29 (iv) is subject to the physical and mental fitness requirements
30 applicable to the position of municipal police officer established
31 by an agency authorized to establish these requirements on a
32 Statewide basis, or comparable physical and mental fitness
33 requirements as determined by the board of trustees.

34 The term shall also include an administrative or supervisory
35 employee of a law enforcement unit or the State whose duties
36 include general or direct supervision of employees engaged in
37 investigation, apprehension or detention activities or training
38 responsibility for these employees and a requirement for
39 engagement in investigation, apprehension or detention activities
40 if necessary, and who is authorized to carry a firearm while in
41 the actual performance of his official duties and has police
42 powers.

EXPLANATION--Matter enclosed in bold-faced brackets [thus] in the
above bill is not enacted and is intended to be omitted in the law.

Matter underlined thus is new matter.

Matter enclosed in superscript numerals has been adopted as follows:

¹ Assembly ASG committee amendments adopted June 25, 1992.

² Senate SSG committee amendments adopted July 23, 1992.

1 (b) "Fireman" shall mean a permanent, full-time employee of
2 a firefighting unit whose primary duties include the control and
3 extinguishment of fires and who is subject to the training and
4 physical and mental fitness requirements applicable to the
5 position of municipal firefighter established by an agency
6 authorized to establish these requirements on a Statewide basis,
7 or comparable training and physical and mental fitness
8 requirements as determined by the board of trustees. The term
9 shall also include an administrative or supervisory employee of a
10 firefighting unit whose duties include general or direct
11 supervision of employees engaged in fire control and
12 extinguishment activities or training responsibility for these
13 employees and a requirement for engagement in fire control and
14 extinguishment activities if necessary. As used in this paragraph,
15 "firefighting unit" shall mean a municipal fire department, a fire
16 district, or an agency of a county or the State which is
17 responsible for control and extinguishment of fires.

18 (3) "Member" shall mean any policeman or fireman included in
19 the membership of the retirement system pursuant to this
20 amendatory and supplementary act, P.L.1989, c.204
21 (C.43:16A-15.6 et al.).

22 (4) "Board of trustees" or "board" shall mean the board
23 provided for in section 13 of this act.

24 (5) "Medical board" shall mean the board of physicians
25 provided for in section 13 of this act.

26 (6) "Employer" shall mean the State of New Jersey, the
27 county, municipality or political subdivision thereof which pays
28 the particular policeman or fireman.

29 (7) "Service" shall mean service as a policeman or fireman
30 paid for by an employer.

31 (8) "Creditable service" shall mean service rendered for which
32 credit is allowed as provided under section 4 of this act.

33 (9) "Regular interest" shall mean interest as determined
34 annually by the State Treasurer after consultation with the
35 Directors of the Divisions of Investment and Pensions and the
36 actuary of the system. It shall bear a reasonable relationship to
37 the percentage rate of earnings on investments but shall not
38 exceed 105% of such percentage rate.

39 (10) "Aggregate contributions" shall mean the sum of all the
40 amounts, deducted from the compensation of a member or
41 contributed by him or on his behalf, standing to the credit of his
42 individual account in the annuity savings fund.

43 (11) "Annuity" shall mean payments for life derived from the
44 aggregate contributions of a member.

45 (12) "Pension" shall mean payments for life derived from
46 contributions by the employer.

47 (13) "Retirement allowance" shall mean the pension plus the
48 annuity.

49 (14) "Earmable compensation" shall mean the full rate of the
50 salary that would be payable to an employee if he worked the full
51 normal working time for his position. In cases where salary
52 includes maintenance, the retirement system shall fix the value
53 of that part of the salary not paid in money which shall be
54 considered under this act.

1 (15) "Average final compensation" shall mean the average
2 annual salary upon which contributions are made for the three
3 years of creditable service immediately preceding his retirement
4 or death, or it shall mean the average annual salary for which
5 contributions are made during any three fiscal years of his or her
6 membership providing the largest possible benefit to the member
7 or his beneficiary.

8 (16) "Retirement" shall mean the termination of the
9 member's active service with a retirement allowance granted
10 and paid under the provisions of this act.

11 (17) "Annuity reserve" shall mean the present value of all
12 payments to be made on account of any annuity or benefit in lieu
13 of any annuity computed upon the basis of such mortality tables
14 recommended by the actuary as shall be adopted by the board of
15 trustees, and regular interest.

16 (18) "Pension reserve" shall mean the present value of all
17 payments to be made on account of any pension or benefit in lieu
18 of any pension computed upon the basis of such mortality tables
19 recommended by the actuary as shall be adopted by the board of
20 trustees, and regular interest.

21 (19) "Actuarial equivalent" shall mean a benefit of equal value
22 when computed upon the basis of such mortality tables
23 recommended by the actuary as shall be adopted by the board of
24 trustees, and regular interest.

25 (20) "Beneficiary" shall mean any person receiving a
26 retirement allowance or other benefit as provided by this act.

27 (21) "Child" shall mean a deceased member's or retirant's
28 unmarried child (a) under the age of 18, or (b) 18 years of age or
29 older and enrolled in a secondary school, or (c) under the age of
30 24 and enrolled in a degree program in an institution of higher
31 education for at least 12 credit hours in each semester, provided
32 that the member died in active service as a result of an accident
33 met in the actual performance of duty at some definite time and
34 place, and the death was not the result of the member's willful
35 misconduct, or (d) of any age who, at the time of the member's
36 or retirant's death, is disabled because of mental retardation or
37 physical incapacity, is unable to do any substantial, gainful work
38 because of the impairment and his impairment has lasted or can
39 be expected to last for a continuous period of not less than
40 12 months, as affirmed by the medical board.

41 (22) "Parent" shall mean the parent of a member who was
42 receiving at least one-half of his support from the member in the
43 12-month period immediately preceding the member's death or
44 the accident which was the direct cause of the member's death.
45 The dependency of such a parent will be considered terminated by
46 marriage of the parent subsequent to the death of the member.

47 (23) "Widower" shall mean the man to whom a member or
48 retirant was married at least two years before the date of her
49 death and to whom she continued to be married until the date of
50 her death and who was receiving at least one-half of his support
51 from the member or retirant in the 12-month period immediately
52 preceding the member's or retirant's death or the accident
53 which was the direct cause of the member's death. The
54 dependency of such a widower will be considered terminated by

1 marriage of the widower subsequent to the death of the member
2 or retirant. In the event of the payment of an accidental death
3 benefit, the two-year qualification shall be waived.

4 (24) "Widow" shall mean the woman to whom a member or
5 retirant was married at least two years before the date of his
6 death and to whom he continued to be married until the date of
7 his death and who has not remarried. In the event of the payment
8 of an accidental death benefit, the two-year qualification shall
9 be waived.

10 (25) "Fiscal year" shall mean any year commencing with
11 July 1, and ending with June 30, next following.

12 (26) "Compensation" shall mean the base salary, for services
13 as a member as defined in this act, which is in accordance with
14 established salary policies of the member's employer for all
15 employees in the same position but shall not include individual
16 salary adjustments which are granted primarily in anticipation of
17 the member's retirement or additional remuneration for
18 performing temporary duties beyond the regular workday.

19 (27) "Department" shall mean any police or fire department of
20 a municipality or a fire department of a fire district located in a
21 township or a county police or park police department or the
22 appropriate department of the State or instrumentality thereof.

23 (28) "Final compensation" means the compensation received
24 by the member in the last 12 months of creditable service
25 preceding his retirement.

26 (29) ["Mortgage loan" shall mean any indebtedness secured by
27 a mortgage on a residential property, which mortgage shall
28 constitute a first lien on that property] (Deleted by amendment,
29 P.L. _____, c. _____).

30 (30) ["Residential property" shall mean any real property
31 including land or, in the case of condominiums, an interest in a
32 lot of land, which real property shall consist of a single one- or
33 two-family dwelling, including appropriate garages or other
34 outbuildings] (Deleted by amendment, P.L. _____, c. _____).

35 (cf: P.L.1991, c.414, s.1)

36 2. (New section) As used in this act:

37 "mortgage loan" means any indebtedness secured by a
38 mortgage on a residential property, which mortgage shall
39 constitute a first lien on the property;

40 "residential property" means any real property including land
41 or, in the case of condominiums, an interest in a lot of land,
42 which real property shall consist of a single one or two family
43 dwelling, ¹[inlcuding] including¹ appropriate garages or other
44 outbuildings, or unimproved real property if the proceeds of the
45 mortgage loan shall be used exclusively for the purposes of
46 erecting such a single one or two family dwelling thereon.

47 3. (New section) The Director of the Division of Investment
48 shall at all times have authority to invest and reinvest the monies
49 in, and to acquire for or on behalf of, the Police and Firemen's
50 Retirement System of New Jersey mortgage loans on residential
51 property.

52 4. (New section) a. In addition to any loan for which he may
53 be eligible pursuant to the provisions of section 18 of P.L.1964,
54 c.241 (C.43:16A-16.1) and notwithstanding the provisions of that

1 or any other law to the contrary, any member of the Police and
2 Firemen's Retirement System who, at the time of application, is
3 employed by the State or a county, municipality or other political
4 subdivision of the State and who has at least one year of
5 creditable service is, for the purpose of securing for his own
6 occupation as his principal residence a residential property
7 located within this State, eligible to receive a mortgage loan
8 pursuant to the provisions of this act. The mortgage loan shall be
9 used only for the purpose of enabling a borrower to acquire or
10 construct a residential property or refinance an existing
11 residential property loan.

12 No member shall be eligible hereunder for more than one
13 outstanding mortgage loan at any time, and no member shall be
14 eligible to receive a second mortgage loan on a residential
15 property already mortgaged by him. Preference shall be given in
16 making loans to members who are applying to acquire or
17 ~~1[constract]~~ construct¹ their first principal place of residence.

18 b. Any mortgage loan made pursuant to the provisions of this
19 act, together with any interest and expenses to the retirement
20 system associated with the making of that loan, shall be repaid in
21 equal installments.

22 c. The amount of interest charged with respect to a mortgage
23 loan made pursuant to the provisions of this act shall be fixed for
24 the entire term of the loan. The New Jersey Housing and
25 Mortgage Finance Agency, established under section 4 of
26 P.L.1983, c.530 (C.55:14K-4), shall initially establish the rate
27 within 120 days of the effective date of this act and semiannually
28 reset the rate thereafter. The rate shall be determined by the
29 New Jersey Housing and Mortgage Finance Agency by adding 2%
30 to the index. For the purposes of this subsection, the index shall
31 be the weekly average yield at the time the rate is reset on
32 one-year United States Treasury securities adjusted to a constant
33 maturity as made available by the Federal Reserve Board. The
34 term of any mortgage loan so made shall not exceed 30 years.

35 d. No mortgage loan made pursuant to the provisions of this
36 act shall be sold, transferred or assigned to any person, nor shall
37 the payments with respect to any mortgage loan so made be
38 assumed by any person other than the member to whom that loan
39 was made, except that in the event of the death of a member, the
40 mortgage may be assignable to a surviving spouse if the spouse is
41 the sole heir to the property.

42 e. The instrument evidencing a mortgage loan under the
43 provisions of this act may be in such form, and may contain such
44 provisions, not inconsistent with law, as the director may choose
45 to insert for the protection of the retirement system's lien and
46 the preservation of its interest in the real property mortgaged to
47 it.

48 5. (New section) The State ²[Investment Council] Treasurer²
49 shall delegate the administration of this mortgage loan program
50 to the New Jersey Housing and Mortgage Finance Agency
51 established under section 4 of P.L.1983, c.530 (C.55:14K-4). The
52 agency shall: a. originate loans; b. appraise the value of any real
53 property eligible to be mortgaged under this act; c. guarantee and
54 insure title to the real property; and d. perform any other service

1 necessary to accomplish the purposes of this act in a manner
2 consistent with the protection of the rights of beneficiaries of
3 the retirement system. The cost of the performance of these
4 services in connection with the making of a mortgage loan shall
5 be charged to the borrower and included in the amount of that
6 mortgage loan.

7 6. (New section) The State Treasurer, with the advice of the
8 State Investment Council, the Board of Trustees of the Police and
9 Firemen's Retirement System, and the New Jersey Housing and
10 Mortgage Finance Agency, shall set mortgage loan standards and
11 guidelines for loans made pursuant to this act, including mortgage
12 loan maturity terms, participation fees, mortgage loan insurance
13 requirements, lender compensation rates, servicing fees,
14 loan-to-value ratios, minimum and maximum mortgage loan
15 amounts and eligibility standards consistent with section 4 of this
16 act.

17 7. (New section) Any member receiving a mortgage loan
18 pursuant to the provisions of this act shall, within 120 days of the
19 date on which the loan was made, occupy the residence as his
20 principal dwelling place. If any member receiving a mortgage
21 loan pursuant to the provisions of this act sells, or ceases to
22 occupy as his residence and principal dwelling place, that
23 residential property, the entire amount of that mortgage loan,
24 together with any accrued interest thereon, shall be due and
25 payable on the 120th day following that action.

26 8. (New section) a. Upon application of a member for a
27 mortgage loan the director shall, within 90 days, make available
28 to the New Jersey Housing and Mortgage Finance Agency
29 sufficient funds to provide mortgage ¹[loan] loans¹ in accordance
30 with the provisions of this act, except that no mortgage loan shall
31 be made at any time when the total of all principal balances
32 owing on mortgage loans made pursuant to this act, less all
33 write-offs and reserves with respect to these mortgage loans,
34 together exceeds, or by the making of the loan would exceed,
35 10% of the total investment assets, including mortgage loans, of
36 the retirement system. Every mortgage loan made hereunder
37 shall be evidenced by a note or bond and shall be secured by a
38 mortgage on the fee of real property located within this State.
39 Every mortgage shall be certified to be a first lien by an
40 attorney-at-law of this State or certified or guaranteed to be a
41 first lien by a corporation authorized to guarantee titles to land
42 in this State. For the purposes of this section, a mortgage shall
43 be deemed to be a first lien, notwithstanding the existence of a
44 lien for current taxes or assessments not due or payable at the
45 time the loan is made, and notwithstanding the existence of
46 leases, building restrictions, easements, encroachments, or
47 covenants which¹,¹ do not materially lessen the value of the
48 real property to be mortgaged.

49 b. Pursuant to rules established by the State Treasurer, with
50 the advice of the New Jersey Housing and Mortgage Finance
51 Agency, no mortgage loan shall be made under this act except
52 upon a written certification signed by at least two persons
53 appointed or retained by the appraisers. In the case of a
54 mortgage loan secured by a mortgage upon real property, such

1 certification shall state the opinion of such persons as to the
2 value of the land and the improvements thereon or to be erected
3 thereon and the character of such improvements. Such
4 certification shall be filed with the records of the retirement
5 system and shall be preserved until the retirement system has no
6 interest, as mortgagee or otherwise, in the real property.

7 c. No mortgage loan secured by a mortgage on real property
8 shall be made unless the property shall consist of improved real
9 property, or unimproved real property if the proceeds of such
10 loan shall be used for the purposes of erecting improvements
11 thereon.

12 9. (New section) The State Treasurer shall, with the advice of
13 the State Investment Council, the Director of the Division of
14 Pensions and the Executive Director of the New Jersey Housing
15 and Mortgage Finance Agency and in accordance with the
16 "Administrative Procedure Act," P.L.1968, c.410 (C.52:14B-1
17 et seq.), promulgate any rules and regulations necessary to
18 accomplish the purposes of this act.

19 10. Sections 2 through 8 of P.L.1991, c.414 are repealed.

20 11. This act shall take effect immediately and shall expire five
21 years after the effective date, provided that any mortgage in
22 effect on the expiration date shall remain in effect until
23 retirement of the mortgage.

24

25

26

27

28 Clarifies that the mortgage loan program established by
29 P.L.1991, c.414 is an investment program to be administered as
30 part of the State's general investment program.

STATE OF NEW JERSEY

INTRODUCED JUNE 18, 1992

By Assemblymen HAYTAIAN and DORIA

1 **AN ACT** authorizing certain mortgage loans within the Police and
2 Firemen's Retirement System, amending P.L.1944, c.255,
3 supplementing P.L.1950, c.270 (C.52:18A-79 et. seq.) and
4 repealing sections 2 through 8 of P.L.1991, c.414.

5
6 **BE IT ENACTED** by the Senate and General Assembly of the
7 State of New Jersey:

8 1. Section 1 of P.L.1944, c.255 (C.43:16A-1) is amended to
9 read as follows:

10 1. As used in this act:

11 (1) "Retirement system" shall mean the Police and Firemen's
12 Retirement System of New Jersey as defined in section 2 of this
13 act.

14 (2) (a) "Policeman" shall mean a permanent, full-time
15 employee of a law enforcement unit as defined in section 2 of
16 P.L.1961, c.56 (C.52:17B-67) or the State, other than an officer
17 or trooper of the Division of State Police whose position is
18 covered by the State Police Retirement System, whose primary
19 duties include the investigation, apprehension or detention of
20 persons suspected or convicted of violating the criminal laws of
21 the State and who:

22 (i) is authorized to carry a firearm while engaged in the actual
23 performance of his official duties:

24 (ii) has police powers;

25 (iii) is required to complete successfully the training
26 requirements prescribed by P.L.1961, c.56 (C.52:17B-66 et seq.)
27 or comparable training requirements as determined by the board
28 of trustees; and

29 (iv) is subject to the physical and mental fitness requirements
30 applicable to the position of municipal police officer established
31 by an agency authorized to establish these requirements on a
32 Statewide basis, or comparable physical and mental fitness
33 requirements as determined by the board of trustees.

34 The term shall also include an administrative or supervisory
35 employee of a law enforcement unit or the State whose duties
36 include general or direct supervision of employees engaged in
37 investigation, apprehension or detention activities or training
38 responsibility for these employees and a requirement for
39 engagement in investigation, apprehension or detention activities
40 if necessary, and who is authorized to carry a firearm while in
41 the actual performance of his official duties and has police
42 powers.

43 (b) "Fireman" shall mean a permanent, full-time employee of
44 a firefighting unit whose primary duties include the control and
45 extinguishment of fires and who is subject to the training and

EXPLANATION—Matter enclosed in bold-faced brackets [thus] in the
above bill is not enacted and is intended to be omitted in the law.

Matter underlined thus is new matter.

1 physical and mental fitness requirements applicable to the
2 position of municipal firefighter established by an agency
3 authorized to establish these requirements on a Statewide basis,
4 or comparable training and physical and mental fitness
5 requirements as determined by the board of trustees. The term
6 shall also include an administrative or supervisory employee of a
7 firefighting unit whose duties include general or direct
8 supervision of employees engaged in fire control and
9 extinguishment activities or training responsibility for these
10 employees and a requirement for engagement in fire control and
11 extinguishment activities if necessary. As used in this paragraph,
12 "firefighting unit" shall mean a municipal fire department, a fire
13 district, or an agency of a county or the State which is
14 responsible for control and extinguishment of fires.

15 (3) "Member" shall mean any policeman or fireman included in
16 the membership of the retirement system pursuant to this
17 amendatory and supplementary act, P.L.1989, c.204
18 (C.43:16A-15.6 et al.).

19 (4) "Board of trustees" or "board" shall mean the board
20 provided for in section 13 of this act.

21 (5) "Medical board" shall mean the board of physicians
22 provided for in section 13 of this act.

23 (6) "Employer" shall mean the State of New Jersey, the
24 county, municipality or political subdivision thereof which pays
25 the particular policeman or fireman.

26 (7) "Service" shall mean service as a policeman or fireman
27 paid for by an employer.

28 (8) "Creditable service" shall mean service rendered for which
29 credit is allowed as provided under section 4 of this act.

30 (9) "Regular interest" shall mean interest as determined
31 annually by the State Treasurer after consultation with the
32 Directors of the Divisions of Investment and Pensions and the
33 actuary of the system. It shall bear a reasonable relationship to
34 the percentage rate of earnings on investments but shall not
35 exceed 105% of such percentage rate.

36 (10) "Aggregate contributions" shall mean the sum of all the
37 amounts, deducted from the compensation of a member or
38 contributed by him or on his behalf, standing to the credit of his
39 individual account in the annuity savings fund.

40 (11) "Annuity" shall mean payments for life derived from the
41 aggregate contributions of a member.

42 (12) "Pension" shall mean payments for life derived from
43 contributions by the employer.

44 (13) "Retirement allowance" shall mean the pension plus the
45 annuity.

46 (14) "Earnable compensation" shall mean the full rate of the
47 salary that would be payable to an employee if he worked the full
48 normal working time for his position. In cases where salary
49 includes maintenance, the retirement system shall fix the value
50 of that part of the salary not paid in money which shall be
51 considered under this act.

52 (15) "Average final compensation" shall mean the average
53 annual salary upon which contributions are made for the three
54 years of creditable service immediately preceding his retirement

1 or death, or it shall mean the average annual salary for which
2 contributions are made during any three fiscal years of his or her
3 membership providing the largest possible benefit to the member
4 or his beneficiary.

5 (16) "Retirement" shall mean the termination of the
6 member's active service with a retirement allowance granted
7 and paid under the provisions of this act.

8 (17) "Annuity reserve" shall mean the present value of all
9 payments to be made on account of any annuity or benefit in lieu
10 of any annuity computed upon the basis of such mortality tables
11 recommended by the actuary as shall be adopted by the board of
12 trustees, and regular interest.

13 (18) "Pension reserve" shall mean the present value of all
14 payments to be made on account of any pension or benefit in lieu
15 of any pension computed upon the basis of such mortality tables
16 recommended by the actuary as shall be adopted by the board of
17 trustees, and regular interest.

18 (19) "Actuarial equivalent" shall mean a benefit of equal value
19 when computed upon the basis of such mortality tables
20 recommended by the actuary as shall be adopted by the board of
21 trustees, and regular interest.

22 (20) "Beneficiary" shall mean any person receiving a
23 retirement allowance or other benefit as provided by this act.

24 (21) "Child" shall mean a deceased member's or retirant's
25 unmarried child (a) under the age of 18, or (b) 18 years of age or
26 older and enrolled in a secondary school, or (c) under the age of
27 24 and enrolled in a degree program in an institution of higher
28 education for at least 12 credit hours in each semester, provided
29 that the member died in active service as a result of an accident
30 met in the actual performance of duty at some definite time and
31 place, and the death was not the result of the member's willful
32 misconduct, or (d) of any age who, at the time of the member's
33 or retirant's death, is disabled because of mental retardation or
34 physical incapacity, is unable to do any substantial, gainful work
35 because of the impairment and his impairment has lasted or can
36 be expected to last for a continuous period of not less than 12
37 months, as affirmed by the medical board.

38 (22) "Parent" shall mean the parent of a member who was
39 receiving at least one-half of his support from the member in the
40 12-month period immediately preceding the member's death or
41 the accident which was the direct cause of the member's death.
42 The dependency of such a parent will be considered terminated by
43 marriage of the parent subsequent to the death of the member.

44 (23) "Widower" shall mean the man to whom a member or
45 retirant was married at least two years before the date of her
46 death and to whom she continued to be married until the date of
47 her death and who was receiving at least one-half of his support
48 from the member or retirant in the 12-month period immediately
49 preceding the member's or retirant's death or the accident
50 which was the direct cause of the member's death. The
51 dependency of such a widower will be considered terminated by
52 marriage of the widower subsequent to the death of the member
53 or retirant. In the event of the payment of an accidental death
54 benefit, the two-year qualification shall be waived.

1 (24) "Widow" shall mean the woman to whom a member or
2 retirant was married at least two years before the date of his
3 death and to whom he continued to be married until the date of
4 his death and who has not remarried. In the event of the payment
5 of an accidental death benefit, the two-year qualification shall
6 be waived.

7 (25) "Fiscal year" shall mean any year commencing with July
8 1, and ending with June 30, next following.

9 (26) "Compensation" shall mean the base salary, for services
10 as a member as defined in this act, which is in accordance with
11 established salary policies of the member's employer for all
12 employees in the same position but shall not include individual
13 salary adjustments which are granted primarily in anticipation of
14 the member's retirement or additional remuneration for
15 performing temporary duties beyond the regular workday.

16 (27) "Department" shall mean any police or fire department of
17 a municipality or a fire department of a fire district located in a
18 township or a county police or park police department or the
19 appropriate department of the State or instrumentality thereof.

20 (28) "Final compensation" means the compensation received
21 by the member in the last 12 months of creditable service
22 preceding his retirement.

23 (29) ["Mortgage loan" shall mean any indebtedness secured by
24 a mortgage on a residential property, which mortgage shall
25 constitute a first lien on that property] (Deleted by amendment,
26 P.L. _____, c. _____).

27 (30) ["Residential property" shall mean any real property
28 including land or, in the case of condominiums, an interest in a
29 lot of land, which real property shall consist of a single one- or
30 two-family dwelling, including appropriate garages or other
31 outbuildings] (Deleted by amendment, P.L. _____, c. _____).

32 (cf: P.L. 1991, c. 414, sec. 1)

33 2. (New section) As used in this act:

34 "mortgage loan" means any indebtedness secured by a
35 mortgage on a residential property, which mortgage shall
36 constitute a first lien on the property;

37 "residential property" means any real property including land
38 or, in the case of condominiums, an interest in a lot of land,
39 which real property shall consist of a single one or two family
40 dwelling, including appropriate garages or other outbuildings, or
41 unimproved real property if the proceeds of the mortgage loan
42 shall be used exclusively for the purposes of erecting such a
43 single one or two family dwelling thereon.

44 3. (New section) The Director of the Division of Investment
45 shall at all times have authority to invest and reinvest the monies
46 in, and to acquire for or on behalf of, the Police and Firemen's
47 Retirement System of New Jersey mortgage loans on residential
48 property.

49 4. (New section) a. In addition to any loan for which he may
50 be eligible pursuant to the provisions of section 18 of P.L.1984,
51 c.241 (C.43:16A-16.1) and notwithstanding the provisions of that
52 or any other law to the contrary, any member of the Police and
53 Firemen's Retirement System who, at the time of application, is
54 employed by the State or a county, municipality or other political
55 subdivision of the State and who has at least one year of

1 creditable service is, for the purpose of securing for his own
2 occupation as his principal residence a residential property
3 located within this State, eligible to receive a mortgage loan
4 pursuant to the provisions of this act. The mortgage loan shall be
5 used only for the purpose of enabling a borrower to acquire or
6 construct a residential property or refinance an existing
7 residential property loan.

8 No member shall be eligible hereunder for more than one
9 outstanding mortgage loan at any time, and no member shall be
10 eligible to receive a second mortgage loan on a residential
11 property already mortgaged by him. Preference shall be given in
12 making loans to members who are applying to acquire or construct
13 their first principal place of residence.

14 b. Any mortgage loan made pursuant to the provisions of this
15 act, together with any interest and expenses to the retirement
16 system associated with the making of that loan, shall be repaid in
17 equal installments.

18 c. The amount of interest charged with respect to a mortgage
19 loan made pursuant to the provisions of this act shall be fixed for
20 the entire term of the loan. The New Jersey Housing and
21 Mortgage Finance Agency, established under section 4 of
22 P.L.1983, c.530 (C.55:14K-4), shall initially establish the rate
23 within 120 days of the effective date of this act and semiannually
24 reset the rate thereafter. The rate shall be determined by the
25 New Jersey Housing and Mortgage Finance Agency by adding 2%
26 to the index. For the purposes of this subsection, the index shall
27 be the weekly average yield at the time the rate is reset on
28 one-year United States Treasury securities adjusted to a constant
29 maturity as made available by the Federal Reserve Board. The
30 term of any mortgage loan so made shall not exceed 30 years.

31 d. No mortgage loan made pursuant to the provisions of this
32 act shall be sold, transferred or assigned to any person, nor shall
33 the payments with respect to any mortgage loan so made be
34 assumed by any person other than the member to whom that loan
35 was made, except that in the event of the death of a member, the
36 mortgage may be assignable to a surviving spouse if the spouse is
37 the sole heir to the property.

38 e. The instrument evidencing a mortgage loan under the
39 provisions of this act may be in such form, and may contain such
40 provisions, not inconsistent with law, as the director may choose
41 to insert for the protection of the retirement system's lien and
42 the preservation of its interest in the real property mortgaged to
43 it.

44 5. (New section) The State Investment Council shall delegate
45 the administration of this mortgage loan program to the New
46 Jersey Housing and Mortgage Finance Agency established under
47 section 4 of P.L.1983, c.530 (C.55:14K-4). The agency shall: a.
48 originate loans; b. appraise the value of any real property eligible
49 to be mortgaged under this act; c. guarantee and insure title to
50 the real property; and d. perform any other service necessary to
51 accomplish the purposes of this act in a manner consistent with
52 the protection of the rights of beneficiaries of the retirement
53 system. The cost of the performance of these services in
54 connection with the making of a mortgage loan shall be charged

1 to the borrower and included in the amount of that mortgage loan.

2 6. (New section) The State Treasurer, with the advice of the
3 State Investment Council, the Board of Trustees of the Police and
4 Firemen's Retirement System, and the New Jersey Housing and
5 Mortgage Finance Agency, shall set mortgage loan standards and
6 guidelines for loans made pursuant to this act, including mortgage
7 loan maturity terms, participation fees, mortgage loan insurance
8 requirements, lender compensation rates, servicing fees,
9 loan-to-value ratios, minimum and maximum mortgage loan
10 amounts and eligibility standards consistent with section 4 of this
11 act.

12 7. (New section) Any member receiving a mortgage loan
13 pursuant to the provisions of this act shall, within 120 days of the
14 date on which the loan was made, occupy the residence as his
15 principal dwelling place. If any member receiving a mortgage
16 loan pursuant to the provisions of this act sells, or ceases to
17 occupy as his residence and principal dwelling place, that
18 residential property, the entire amount of that mortgage loan,
19 together with any accrued interest thereon, shall be due and
20 payable on the 120th day following that action.

21 8. (New section) a. Upon application of a member for a
22 mortgage loan the director shall, within 90 days, make available
23 to the New Jersey Housing and Mortgage Finance Agency
24 sufficient funds to provide mortgage loan in accordance with the
25 provisions of this act, except that no mortgage loan shall be made
26 at any time when the total of all principal balances owing on
27 mortgage loans made pursuant to this act, less all write-offs and
28 reserves with respect to these mortgage loans, together exceeds,
29 or by the making of the loan would exceed, 10% of the total
30 investment assets, including mortgage loans, of the retirement
31 system. Every mortgage loan made hereunder shall be evidenced
32 by a note or bond and shall be secured by a mortgage on the fee
33 of real property located within this State. Every mortgage shall
34 be certified to be a first lien by an attorney-at-law of this State
35 or certified or guaranteed to be a first lien by a corporation
36 authorized to guarantee titles to land in this State. For the
37 purposes of this section, a mortgage shall be deemed to be a first
38 lien, notwithstanding the existence of a lien for current taxes or
39 assessments not due or payable at the time the loan is made, and
40 notwithstanding the existence of leases, building restrictions,
41 easements, encroachments, or covenants which, do not materially
42 lessen the value of the real property to be mortgaged.

43 b. Pursuant to rules established by the State Treasurer, with
44 the advice of the New Jersey Housing and Mortgage Finance
45 Agency, no mortgage loan shall be made under this act except
46 upon a written certification signed by at least two persons
47 appointed or retained by the appraisers. In the case of a
48 mortgage loan secured by a mortgage upon real property, such
49 certification shall state the opinion of such persons as to the
50 value of the land and the improvements thereon or to be erected
51 thereon and the character of such improvements. Such
52 certification shall be filed with the records of the retirement
53 system and shall be preserved until the retirement system has no
54 interest, as mortgagee or otherwise, in the real property.

1 c. No mortgage loan secured by a mortgage on real property
2 shall be made unless the property shall consist of improved real
3 property, or unimproved real property if the proceeds of such
4 loan shall be used for the purposes of erecting improvements
5 thereon.

6 9. (New section) The State Treasurer shall, with the advice of
7 the State Investment Council, the Director of the Division of
8 Pensions and the Executive Director of the New Jersey Housing
9 and Mortgage Finance Agency and in accordance with the
10 "Administrative Procedure Act," P.L.1968, c.410 (C.52:14B-1 et
11 seq.), promulgate any rules and regulations necessary to
12 accomplish the purposes of this act.

13 10. Sections 2 through 8 of P.L.1991, c.414 are repealed.

14 11. This act shall take effect immediately and shall expire five
15 years after the effective date, provided that any mortgage in
16 effect on the expiration date shall remain in effect until
17 retirement of the mortgage.

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STATEMENT

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22 This bill clarifies that the mortgage loan program originally
23 established by P.L.1991, c.414 is an investment program to be
24 administered as part of the State's general investment program.

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29 Clarifies that the mortgage loan program established by
30 P.L.1991, c.414 is an investment program to be administered as
31 part of the State's general investment program.

ASSEMBLY STATE GOVERNMENT COMMITTEE

STATEMENT TO

ASSEMBLY, No. 123

with Assembly committee amendments

STATE OF NEW JERSEY

DATED: JUNE 25, 1992

The Assembly State Government Committee reports favorably and with committee amendments Assembly, No. 123.

This bill simultaneously repeals P.L.1991, c.414 (C.43:16A-1 et al.) and reenacts the provisions of that law in revised form. That law established a program under which a member of the Police and Firemen's Retirement System (PFRS) may obtain a mortgage loan from the retirement system to acquire or construct a home.

Under the 1991 law, an active PFRS member with at least one year of creditable service may receive a mortgage loan from the retirement system to secure residential property located within the State for the member's own occupation as a principal residence. The loan may only be used to acquire or construct a residential property or to refinance an existing residential property loan; it may not be given as a second mortgage on property already mortgaged by the member. No member is allowed to have more than one outstanding loan under the program at any time.

No loan under the program may be sold, transferred, or assigned, nor may payments with respect to such a loan be assumed by anyone other than the member. An exception may be made, in the event a member dies, for the assignment of the mortgage to the decedent's surviving spouse if that spouse is the sole heir to the encumbered property. If a member having an outstanding loan balance voluntarily terminates employment (other than by retirement), the entire amount of the balance is to be due and payable 120 days following that termination.

A PFRS member who receives a mortgage loan under the program must, within 120 days of the making of the loan, "occupy the residence as his principal dwelling place." If a mortgagor under the program sells or ceases to occupy as a principal residence a property securing the mortgage, the balance of the mortgage loan becomes due and payable on the 120th day following that action.

The interest rate applicable to loans under the program is to be set semiannually and is to be equal to 2% over the weekly average yield on one-year Treasury bills at the time of the setting. The term of any loan under the program is not to exceed 30 years.

The 1991 statute assigns responsibility for the administration of the loan program to the New Jersey Housing and Mortgage Finance Agency (NJHMFA or "the Agency"). The Agency's administrative responsibilities include: (1) calculation of interest rates under the statutory formula; (2) origination of loans; (3) appraisal of real property eligible to secure loans under the program; and (4) insurance of title. In addition, the Agency is to establish standards and guidelines for loan approval. The State Treasurer is to promulgate rules and regulations to implement the act.

The act took effect on April 16, 1992 and is to expire five years from that date.

The provisions of the legislation proposed under this bill differ from the 1991 statute in the following respects:

(1) The new statute is to be enacted as a supplement to the law (P.L.1950, c.270) establishing the Division of Investment in the Department of the Treasury, rather than as a supplement to the statute establishing and governing the PFRS.

(2) The definition of "residential property" eligible to secure a mortgage under the program is expanded to include "unimproved real property if the proceeds of the mortgage loan shall be used exclusively for the purposes of erecting . . . a single one or two family dwelling thereon."

(3) Authority is explicitly conferred on the Director of the Division of Investment to "invest . . . in, and to acquire for or on behalf of, the [PFRS] mortgage loans on residential property." The director, rather than the retirement system as under the 1991 law, is to be responsible for making available to NJHMFA the funds necessary to finance the mortgage loan program in accordance with the legislation.

(4) The Director of the Division of Investment, rather than the PFRS as under the 1991 law, is to determine the nature of the security requirements to be incorporated in any mortgage agreement under the program for the protection of the lender's lien and preservation of its interest in the real property under mortgage.

(5) In place of a direct statutory designation of NJHMFA as administrator of the program, provision is made that the "State Investment Council shall delegate the administration of this loan program to the [NJHMFA]." Also, language providing that the Agency's origination of loans is to be "on behalf of the [PFRS] board [of trustees]" is deleted.

(6) Responsibility for the establishment of loan standards and guidelines and for the establishment of rules governing property appraisal is placed with the State Treasurer, rather than being vested in the NJHMFA.

(7) The provision for acceleration of liability for repayment in full of a mortgage program loan upon the mortgagor's voluntary termination of public employment is deleted.

(8) A limitation on the extent to which assets of the PFRS may be invested in mortgage loans is modified so that mortgage loans under the program would be allowed, by themselves, to constitute up to 10% of the PFRS asset portfolio; the 10% maximum imposed under the 1991 law applies to all mortgages held by the system, both those acquired under the program and those otherwise acquired in the course of investment.

(9) A provision that implementation of the act through rules and regulations promulgated by the State Treasurer is to be accomplished "in a manner consistent with the protection of the rights of members and beneficiaries of the retirement system" is deleted.

COMMITTEE AMENDMENTS

The committee adopted technical amendments to this bill to correct typographical errors.

SENATE STATE GOVERNMENT COMMITTEE

STATEMENT TO

[FIRST REPRINT]

ASSEMBLY, No. 123

with committee amendments

STATE OF NEW JERSEY

DATED: JULY 23, 1992

The Senate State Government Committee reports favorably and with committee amendments Assembly Bill No. 123 [1R].

This bill repeals P.L.1991, c.414, which established a program allowing a member of the Police and Firemen's Retirement System (PFRS) to obtain a mortgage loan from the retirement system in order to acquire or construct a home, and reestablishes the program in a revised form.

Under the 1991 law, an active PFRS member with at least one year of creditable service could receive a mortgage loan from the retirement system to purchase residential property located within the State for the member's own use as a principal residence. The loan could only be used to acquire or construct a residential property or to refinance an existing residential property loan. It could not be given as a second mortgage on property already mortgaged by the member. No member was allowed to have more than one outstanding loan under the program at any time. No loan under the program could be sold, transferred, or assigned, nor could payments with respect to such a loan be assumed by anyone other than the member. If a member having an outstanding loan balance voluntarily terminated employment (other than by retirement), the entire amount of the balance was due and payable 120 days following that termination. A PFRS member who received a mortgage loan under the program was required, within 120 days of the making of the loan, to occupy the residence as his principal dwelling place. If a mortgagor under the program sold or ceased to occupy as a principal residence a property securing the mortgage, the balance of the mortgage loan became due and payable on the 120th day following that action. The interest rate applicable to loans under the program was set semiannually and was equal to 2% over the weekly average yield on one-year Treasury bills at the time of the setting. The term of any loan under the program was not to exceed 30 years. The 1991 statute assigned responsibility for the administration of the loan program to the New Jersey Housing and Mortgage Finance Agency (NJHMFA).

The 1991 act took effect on April 16, 1992 and was to expire five years from that date.

The provisions of the legislation proposed under this bill differ from the 1991 statute in the following respects:

(1) The new statute is a supplement to the law (P.L.1950, c.270) establishing the Division of Investment in the Department of the Treasury, rather than a supplement to the statute establishing and governing the PFRS.

(2) The definition of "residential property" eligible to secure a mortgage under the program is expanded to include "unimproved real property if the proceeds of the mortgage loan shall be used exclusively for the purposes of erecting . . . a single one or two family dwelling thereon."

(3) Authority is explicitly conferred on the Director of the Division of Investment to invest in PFRS mortgage loans on residential property. The director, rather than the retirement system, is responsible for making available to NJHMFA the funds necessary to finance the mortgage loan program in accordance with the legislation.

(4) The Director of the Division of Investment, rather than the PFRS, shall determine the nature of the security requirements to be incorporated in any mortgage agreement under the program for the protection of the lender's lien and preservation of its interest in the real property under mortgage.

(5) In place of a direct statutory designation of NJHMFA as administrator of the program, provision is made that the State Treasurer shall delegate the administration of this loan program to the NJHMFA. Also, language providing that the Agency's origination of loans shall be on behalf of the PFRS board of trustees is deleted.

(6) Responsibility for the establishment of loan standards and guidelines and for the establishment of rules governing property appraisal is placed with the State Treasurer, rather than being vested in the NJHMFA.

(7) The provision for acceleration of liability for repayment in full of a mortgage program loan upon the mortgagor's voluntary termination of public employment is deleted.

(8) A limitation on the extent to which assets of the PFRS may be invested in mortgage loans is modified so that mortgage loans under the program would be allowed, by themselves, to constitute up to 10% of the PFRS asset portfolio. The 10% maximum imposed under the 1991 law applies to all mortgages held by the system, both those acquired under the program and those otherwise acquired in the course of investment.

(9) A provision that implementation of the act through rules and regulations promulgated by the State Treasurer is to be accomplished "in a manner consistent with the protection of the rights of members and beneficiaries of the retirement system" is deleted.

This act shall expire five years after its effective date.

COMMITTEE AMENDMENTS

The committee amended the bill to provide that the State Treasurer, rather than the State Investment Council, shall delegate the administration of the mortgage loan program to the NJHMFA.

LEGISLATIVE FISCAL ESTIMATE TO

[SECOND REPRINT]

ASSEMBLY, No. 123

STATE OF NEW JERSEY

DATED: August 7, 1992

Assembly Bill No. 123 [2R] of 1992 clarifies the mortgage loan program established by P.L.1991, c.414 as part of the State's general investment program to be administered by the Division of Investment in the Department of Treasury. The program allows members of the Police and Firemen's Retirement System (PFRS) to obtain a mortgage loan from the retirement system to acquire or construct a home.

Under P.L.1991, c.414, an active member of PFRS with at least one year of creditable service may receive a mortgage loan from the retirement system to purchase a residential property within the State for the member's own occupation as a principal residence. The loan may only be used to acquire or construct a residential property or to refinance an existing residential property loan; it may not be given as a second mortgage on property already mortgaged by the member. No member is allowed to have more than one outstanding loan under the program at any time.

No loan under the program may be sold, transferred, or assigned, nor may payments with respect to such a loan be assumed by anyone other than the member. An exception may be made, in the event a member dies, for the assignment of the mortgage to the decedent's surviving spouse if the spouse is the sole heir to the encumbered property. If a member having an outstanding loan balance voluntarily terminates employment (other than by retirement), the entire amount of the balance is payable 120 days following that termination.

A PFRS member who receives a mortgage loan under the program must, within 120 days of the making of the loan, "occupy the residence as his principal dwelling place." If a mortgagor under the program sells or ceases to occupy as a principal residence a property securing the mortgage, the balance of the mortgage loan becomes due and payable on the 120th day following the action.

The interest rate applicable to loans under the program is to be set semiannually and is to be equal to 2% over the weekly average yield on one-year Treasury bills at the time of the setting. The term of any loan under the program is not to exceed 30 years.

Current law, P.L. 1991, c.414, assigns responsibility for the administration of the loan program to the New Jersey Housing and Mortgage Finance Agency (NJHMFA or "the Agency"). The Agency's administrative responsibilities include: (1) calculation of interest rates under the statutory formula; (2) origination of loans; (3) appraisal of real property eligible to secure loans; and (4) insurance of title. In addition, the Agency is to establish standards and guidelines for loan approval. The State Treasurer is to promulgate rules and regulations to implement this act.

The act took effect on April 16, 1992 and is to expire five years from that date.

This legislation makes the following changes to P.L.1991, c.414:

(1) The new statute is to be enacted as a supplement to the law (P.L.1950, c.270) establishing the Division of Investment in the Department of Treasury, rather than as a supplement to the statute establishing and governing the PFRS.

(2) The definition of "residential property" eligible to secure a mortgage under the program is expanded to include "unimproved real property if the proceeds of the mortgage loan shall be used exclusively for the purposes of erecting . . . a single one or two family dwelling thereon."

(3) Authority is explicitly conferred on the Director of the Division of Investment to "invest . . .in, and to acquire for or on behalf of, the (PFRS) mortgage loans on residential property." The director, rather than the retirement system as under the 1991 law, is to be responsible for making available to NJHMFA the funds necessary to finance the mortgage loan program in accordance with the legislation.

(4) The Director of the Division of Investment, rather than the PFRS as under the 1991 law, is to determine the nature of the security requirements to be incorporated in any mortgage agreement under the program for the protection of the lender's lien and the preservation of its interest in the property under mortgage.

(5) In place of a direct statutory designation of NJHMFA as administrator of the program, provision is made that the "State Treasurer shall delegate the administration of this loan program to the (NJHMFA)." Also, language providing that the Agency's origination of loans is to be "on behalf of the (PFRS) board (of trustees)" is deleted.

(6) Responsibility for the establishment of loan standards and guidelines and for the establishment of rules governing property appraisal is placed with the State Treasurer, rather than being vested in the NJHMFA.

(7) The provision for acceleration of liability for repayment in full of a mortgage program loan upon the mortgagor's voluntary termination of public employment is deleted.

(8) A limitation on the extent to which assets of the PFRS may be invested in mortgage loans is modified so that mortgage loans under the program would be allowed, by themselves, to constitute up to 10% of the PFRS asset portfolio; the 10% maximum imposed under the 1991 law applies to all mortgages held by the system, both those acquired under the program and those otherwise acquired in the course of investment.

(9) A provision that implementation of the act through rules and regulations promulgated by the State Treasurer is to be accomplished "in a manner consistent with the protection of the rights of members and beneficiaries of the retirement system" is deleted.

The Office of Legislative Services (OLS) notes that this bill modifies the provisions of a law (P.L.1991, c.414) enacted on January 17, 1992 which itself has yet to be implemented. Therefore, it is difficult to separate the fiscal implications of this bill from the provisions of the law it would replace. The primary feature of both P.L.1991, c.414 and this bill is to permit qualified PFRS members to obtain residential property mortgages at below-market rates from the asset pool of the Police and Firemen's Retirement System. The mortgages would be

collateralized by first liens upon the mortgaged property, but would not necessarily be backed by the any State or federal mortgage guarantee. One of the major changes made by this bill is to expand the pool of assets available for mortgage lending to pension fund members by separating the percentages of assets which may be invested in mortgages under this program from any other types of mortgages or mortgage-backed securities the retirement system assets might be invested in.

As of June 30, 1990, the system (PFRS) had 34,844 active members and \$5,173,532,868 in assets (market-related value). Of this amount, the division had invested 15.84%, or \$819,487,610, in collateralized mortgages. Most of these mortgages are directly or indirectly supported by the federal government and all return a rate of interest corresponding to the market rate for such mortgages at the time of issuance.

The OLS estimates that this law could result in an additional 10%, or \$517.2 million, of PFRS assets being invested in mortgages. These funds would be invested in obligations which do not have the backing of the federal government, in effect increasing the degree of investment risk while decreasing the rate of return on the amounts invested due to the below-market interest rate offered by the system.

The OLS notes that the total volume demand for these mortgages by PFRS members is unknown; however, the ability of members to use this program to refinance an existing mortgage is an attractive inducement, given the spread between current market rates and the rates established in this bill. An example, if \$350 million were lent out at 5.5% (current one-year Treasury Bill rate of interest plus 2.0%), the return to the pension system would be \$19.3 million annually (simple interest). If this amount were invested in 30-year Treasury Bonds, recently yielding 7.42%, the system would earn \$26.0 million with no risk of default.

Establishing a variable interest rate based on one-year Treasury bill rates may cause that portion of the PFRS portfolio invested in member mortgages to fall short of the system's 8.75% targeted rate of return. This would, of course, depend on the general level of interest rates at the time the mortgages are offered. If the system earns less than the targeted or assumed rate of return on investment, the employer (i.e., State and local governments) contributions to finance the retirement system will have to increase unless the difference is made up by other portions of the investment portfolio.

This Legislative fiscal estimate has been produced by the Office of Legislative Services due to the failure of the Executive Branch to respond to our request for a fiscal note.

This fiscal estimate has been prepared pursuant to P.L.1980, c.67.