

**ALASKA STATE LEGISLATURE**  
**HOUSE SPECIAL COMMITTEE ON ECONOMIC DEVELOPMENT, INTERNATIONAL**  
**TRADE AND TOURISM**  
February 17, 2009  
5:17 p.m.

**MEMBERS PRESENT**

Representative Jay Ramras, Chair  
Representative Mike Chenault  
Representative Kyle Johansen  
Representative Chris Tuck

**MEMBERS ABSENT**

Representative Nancy Dahlstrom  
Representative Mark Neuman  
Representative Mike Doogan

**OTHER MEMBERS PRESENT**

Senator Hollis French

**COMMITTEE CALENDAR**

ALASKA HOUSING FINANCE CORPORATION: FEDERAL FUNDING FOR  
DISTRESSED MORTGAGES AND THE FUTURE STRENGTH OF THE ALASKA REAL  
ESTATE MARKET

**PREVIOUS COMMITTEE ACTION**

No previous action to report

**WITNESS REGISTER**

DAN FAUSKE, Chief Executive Officer/Executive Director  
Alaska Housing Finance Corporation (AHFC)  
Anchorage, Alaska

**POSITION STATEMENT:** Introduced a PowerPoint presentation -  
Alaska's Housing Market 2009.

PAUL KAPANSKY, Director  
Mortgage Operations  
Alaska Housing Finance Corporation (AHFC)  
Anchorage, Alaska

**POSITION STATEMENT:** Answered questions during the presentation  
by Alaska Housing Finance Corporation.

BRYAN BUTCHER, Director  
Governmental Relations & Public Affairs  
Executive Office  
Alaska Housing Finance Corporation (AHFC)  
Anchorage, Alaska

**POSITION STATEMENT:** Answered questions during the presentation by Alaska Housing Finance Corporation.

JOE DUBLER, Chief Financial Officer/Finance Director  
Alaska Housing Finance Corporation (AHFC)  
Anchorage, Alaska

**POSITION STATEMENT:** Answered questions during the presentation by Alaska Housing Finance Corporation.

#### **ACTION NARRATIVE**

[5:17:50 PM](#)

**CHAIR JAY RAMRAS** called the House Special Committee on Economic Development, International Trade and Tourism meeting to order at 5:17 p.m. Present at the call to order were Representatives Chenault, Johansen, and Ramras. Representative Tuck arrived as the meeting was in progress. Also in attendance was Senator French.

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^ALASKA HOUSING FINANCE CORPORATION: FEDERAL FUNDING FOR DISTRESSED MORTGAGES AND THE FUTURE STRENGTH OF THE ALASKA REAL ESTATE MARKET

CHAIR RAMRAS announced that the only order of business would be a presentation by Alaska Housing Finance Corporation: Federal Funding for Distressed Mortgages and the Future Strength of the Alaska Real Estate Market.

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CHAIR RAMRAS invited the representatives of Alaska Housing Finance Corporation (AHFC) to begin their presentation on Alaska's real estate market.

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DAN FAUSKE, Chief Executive Officer/Executive Director, Alaska Housing Finance Corporation, informed the committee that the

presentation would include issues with the housing market in Alaska and national issues affecting the state. Slide 2 indicated that interest rates are historically low, prices are stable, new construction is extremely low, and contractors are busy with remodeling. He spoke of the real estate market problems in the Lower 48 such as the collapse of the housing market, loss of jobs, excessive speculation, and neighborhoods devastated by foreclosures.

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CHAIR RAMRAS welcomed Senator French.

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MR. FAUST recalled in the early '90s warnings about loans sold to the Federal Home Loan Mortgage Corp. (FHLMC) and the Federal National Mortgage Association (FNMA) were ignored. Unfortunately, the market ran amok with speculative mortgage backed securities. Some in the state encouraged AHFC to speculate, but it did not. Mr. Faust explained that Alaska has a small proportion of adjustable rate mortgages (ARMS), a small lending community that did not participate in riskier loans, and there was minimal speculative development or buying; thus a continued moderate growth in the economy is expected. Slide 5 indicated that in the third quarter of 2008, Alaska's delinquency rate was 2.66 percent - the lowest in the nation - and AHFC's delinquency rate was 2.29 percent. Historically, Alaska's highest delinquency rate of 5.9 percent was reached in 2000 and 2001. Furthermore, Alaska ranks 47th in foreclosures at 1.64 percent, nearly 1/3 the national average of 5.17 percent. Slide 7 indicated that the market is cooling; the 2008 end-of-year number of homes for sale in Anchorage is much lower than in the '90s and after the hot period from 1999 to 2005. Mr. Faust opined today's more moderate pace is a little below normal. He listed average sales prices for homes in Anchorage, Mat-Su, Fairbanks, Kenai, and Kodiak, and noted that there has been a steady and predictable increase in prices.

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CHAIR RAMRAS related comments from an appraiser who said that a home in Anchorage cost \$100,000 more than in Fairbanks, but that the cost of living in both cities was close. He asked what an additional \$100,000 in mortgage costs represents.

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PAUL KAPANSKY, Director, Mortgage Operations, Alaska Housing Finance Corporation, estimated principal and interest on \$100,000 at 5 percent interest would cost approximately \$600 per month.

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CHAIR RAMRAS compared the cost of living in several regions.

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MR. FAUST clarified that the numbers presented are from September 2008, and do not reflect some recent events, such as the increase in rates by ENSTAR Natural Gas Company. Also, there is some alarm about the Fairbanks area and the high energy costs there this winter. Slide 10 indicated sales activity in the statewide housing market was down in Anchorage, Mat-Su, Fairbanks, Kenai, and Kodiak.

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CHAIR RAMRAS asked about the Juneau market.

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MR. FAUST advised that the market in Juneau is always different, partly because much of the land is owned by the City and Borough of Juneau (CBJ), and there is a limited amount of affordable housing. Vacancy numbers are also low.

MR. KAPANSKY added that the overall trend has been an appreciation in properties.

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CHAIR RAMRAS asked about the market in Ketchikan.

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MR. KAPANSKY offered it is a stable market, with some good buys available.

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MR. FAUST observed Ketchikan has survived some tough times. Alaska Housing Finance Corporation has properties there and the

housing market has remained stable. Slide 11 indicated the annual residential sales activity in Anchorage is down from the peak in 2003; furthermore, he cautioned that normal trends still send a call to keep economic indicators in mind, such as unemployment, new construction, heavy construction, residential construction, consumer confidence, and consumer savings. Mr. Faust expressed his concern over the lack of consumer confidence and noted that AHFC launched a statewide advertising campaign to combat negative housing market news from the Lower 48.

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BRYAN BUTCHER, Director, Governmental Relations & Public Affairs, Executive Office, Alaska Housing Finance Corporation, in response to Representative Ramras, said that the "Built to Last" ad campaign ran for six months in the major markets of the state.

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CHAIR RAMRAS spoke of the AHFC "first-time homebuyer" courses through which participants can earn a credit against their closing costs.

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MR. FAUST affirmed that knowledge about mortgages makes people better borrowers. Slide 12 indicated the number of homes for sale in Anchorage is "cooling" back to more historical norms. Slide 13 indicated the average number of market days to sell a home in Anchorage, Mat-Su, Fairbanks, Kenai, and Kodiak is increasing and is a cause for some concern. Slide 15 indicated a decline in annual residential building permit activity from a high of 1,039 permits issued in 2002 to 225 permits issued in 2008. Mr. Faust stated the cause for this decline is due to the tightening of credit from banks; in fact, builders must own the land to qualify for a speculative construction loan.

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CHAIR RAMRAS asked for a comparison of Alaska's current foreclosure rate with the rate one or two years ago.

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MR. KAPANSKY observed for the last year or two, there has been a gradual upswing in foreclosures, but not to an alarming degree.

He explained that the rate is gauged on the number of loans outstanding, or about 93,000 loans. The third quarter foreclosure rate was 0.88 percent; one year ago it was around 0.5 percent.

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MR. FAUST spoke of misleading headlines and the need for consumers to examine the true meaning of percentages that are reported in the news. He then noted that Alaska will benefit from \$19.8 million of [federal] stimulus money for blighted or foreclosed areas.

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REPRESENTATIVE CHENAULT asked for what purpose the stimulus money will be used.

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MR. BUTCHER advised there are strict limitations on the use of the money; for instance, it can not be used to pay down a loan or to help someone avoid foreclosure. The money is designated to help foreclosed and blighted neighborhoods that bring down home values in adjacent areas. Fortunately, this is not a problem in Alaska; however, the limitations and short deadline may make it difficult for properties in the state to qualify for the money. He described the limitations on the use of the money and other possible uses by non-profit organizations.

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MR. FAUST offered to keep the legislature informed as to the projects AHFC submits for funding.

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REPRESENTATIVE TUCK asked how the public finds information on mortgage assistance and safe mortgage lending.

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MR. FAUST suggested the classes offered by AHFC, or contact with a mortgage banker and realtor can provide guidance. Information is also on the AHFC website; however, the new restrictions on loans are working as checks and balances, he opined.

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MR. BUTCHER added that AHFC encourages troubled homeowners to talk to their bank for options. Also, it was just announced J.P. Morgan and Bank of America Corporation are freezing foreclosures at this time.

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MR. FAUST advised that AHFC has a home and credit counseling service available. Furthermore, if there is a unique situation, AHFC will work with the homeowner of a distressed property.

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MR. FAUST continued his presentation with Slide 16 that indicated a decline in the number of residential building permits for Fairbanks and Juneau. Regarding apartment vacancies, the national average is 10 percent; Anchorage, Juneau, and Wasilla/Palmer were in the healthy range at 5 percent and under, while Kenai/Wasilla was at 8.6 percent and Fairbanks was high at 21.2 percent. Mr. Faust pointed out that mortgage interest rates are projected to go down well below the average seen over the last 20 years.

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JOE DUBLER, Chief Financial Officer/Finance Director, Alaska Housing Finance Corporation, presented Slide 23 that was an index of highly rated municipal securities. He explained the slide describes the difference in interest rates for the London Interbank Offered Rate (LIBOR), the U.S. Treasury (UST) rate, and the Municipal Market Data (MMD) rate. He pointed out that the UST and LIBOR rates are currently far below the tax exempt MMD rate that is available to AHFC. Interestingly, the LIBOR rate has been lower than it is now 2.08 percent of the last 10 years; the UST has been lower 2 percent of the last 10 years; and the MMD has been lower 47.02 percent of the last 10 years.

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MR. DUBLER, in response to Representative Ramras, said that the borrowing cost to AHFC is currently about 6 percent. Slide 24 indicated AHFC's tax exempt rate is about 6.25 percent and the conventional market rate is about 5 percent.

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MR. FAUST, in further response to Representative Ramras, noted that the federal government is pumping money in the market at 4.25 percent and acknowledged that there is no tax exempt market at this time and AHFC is "priced out." However, AHFC is not shutting programs down and has the capital to continue its lending practices. He assured the committee if the situation does not improve AHFC will be making adjustments. Mr. Faust stressed that there must be a market for AHFC to act; in fact, subsidies do not make economic sense at this time either. He suggested that bank re-finances are up and Alaskans are taking advantage of low rates; however, his frustration is for owners that are "below water," and are unable to re-finance due to the reduction in the market value of their homes.

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MR. DUBLER added that AHFC has the same structure it has had for thirty years, but it is affected by the housing market and the government's efforts to fix the housing market by an influx of money that is driving the cost of funds. He predicted that AHFC will experience many re-finances in the next six to eight months.

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MR. FAUST provided the example if AHFC gets many pre-pays, there is the question of re-investing the cash. Also, the possibility that AHFC may be interested in participation-loan programs with banks. These possibilities are under discussion if credit is needed to sustain the real estate market in Alaska. He advised that nationwide banks are influenced by national problems and this can also influence local banks.

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MR. DUBLER predicted that the market will come back eventually and that AHFC will ride out the present conditions.

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MR. FAUST turned to the subject of changes in lending practices and pointed out that eligible borrowers have diminished 30 to 40 percent and loan investors and mortgage insurance companies have tightened credit standards. Higher standards include; higher down payments required; higher Fair Isaac Corporation (FICO) scores required; jumbo loan financing limited; no more exotic

loans; and increased fees and no seller-financed down payment assistance on Federal Housing Authority (FHA) loans.

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REPRESENTATIVE CHENAULT asked about the federal government's plan on re-finances and whether loans will be dropped, terms lengthened, or interest rates lowered.

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MR. FAUST explained the problem with the economy started with the housing industry. The collapse of Wall Street was based on mortgage-backed securities and other non-collateralized investments. He opined that the housing market must be fixed before going forward. Furthermore, the destruction of neighborhoods must be stopped to save the value of neighboring homes and the homeowners' investments.

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REPRESENTATIVE CHENAULT pointed out speculation also inflated the market.

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MR. FAUST stated that he does not see speculation much in Alaska.

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REPRESENTATIVE CHENAULT congratulated Mr. Faust on his prudent lending practices.

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MR. BUTCHER informed the committee that AHFC has emphasized to the Alaska congressional delegation that the federal government must be very careful in its attempts to fix the problems of the troubled states with "out there ideas."

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MR. FAUST displayed Slide 27 and read, "one percent decrease in interest rates roughly translates into a 10 percent increase in homebuyer purchasing power." Slide 28 indicated state demographers forecast population growth in Alaska will mean an

increased demand for housing; in fact, the fastest growing segment of Alaska's population is seniors. Slide 20 indicated 1.6 jobs are needed to afford a single family home. Turning to the subject of loan volume, Mr. Faust said that in FY 07 AHFC'S loan volume was 2,808 loans totaling \$565.7 million. In FY 08, AHFC's loan volume was 2,012 loans totaling \$493.5 million. Projected through FY 09 are 1,500 loans totaling \$368 million, which is a reduction of 25 percent. Slide 31 indicated that private-sector construction spending was down 12 percent and public-sector spending was up 16 percent. He then compared home values and home sales nationwide.

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MR. FAUST began a description of the AHFC energy programs and said that the agency has funded \$200 million for weatherization; \$100 million for rebates; an additional \$60 million for rebates; and [funds for] training components for both programs. The previous weatherization program weatherized 600 homes; this year that number will triple to 1,800 homes and projections are for the weatherization of 4,000 homes in the second year of the program and 7,500 homes in the third year. The Home Energy Rebate Program has processed 6,212 ratings and approximately \$58.9 million is committed. There are 150 to 200 applications received per day; 200 inquiries received per day; 349 post-improvement rebates have been paid at an average reimbursement of \$5,941; and 162 new "5 Star Plus" rebates have been paid totaling \$1.2 million.

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REPRESENTATIVE CHENAULT observed that the amount of the average post-improvement rebate is one-half of what was originally planned for each project.

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MR. BUTCHER explained that the original estimate was an average of \$7,000 per home and this is the average still expected.

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MR. FAUST gave the wait-lists for six sample communities and anticipated that the next bottleneck for the programs will be finding contractors to do the recommended improvements.

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MR. BUTCHER assured the committee AHFC has sufficient funds for operations through FY 10.

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REPRESENTATIVE CHENAULT asked why there are few applicants waiting for raters in Bethel and Dillingham.

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MR. BUTCHER explained a lot has to do with the shortage of raters, although more roving raters are available now to serve rural communities. Also, a higher percentage of rural residents are interested in the weatherization program.

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MR. FAUST outlined the big picture for the near future. He said that average home prices are stable; home sale activity is down; time on the market is up; delinquencies are low; foreclosures are low; interest rates are low; overall construction outlook is good; new home construction is down; additional \$1 billion is estimated [from the federal] stimulus package; and population growth is forecasted. He cautioned against Alaskans "getting sucked into the vortex in the Lower 48" and encouraged residents to have consumer confidence. Furthermore, the stimulus funding will be analyzed for energy money and AHFC will be responsible for a portion of this money.

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REPRESENTATIVE RAMRAS encouraged AHFC to present this material on its website and in other forums because it is very helpful to spread information so that all know about the general health of the real estate market.

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REPRESENTATIVE TUCK appreciated the efforts to keep people in their homes and to ensure poor lending practices do not return.

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CHAIR RAMRAS observed that bank stocks are down and construction business is down. He asked what will act as a catalyst to increase residential construction in the Alaska market.

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MR. FAUST opined that consumers must have confidence and banks must also have confidence. Alaska Housing Finance Corporation is looking at properties that are not performing adequately, and at valuable properties that need rebuilt, with the idea of offering some assistance to banks and keeping the market strong. In addition, AHFC properties with older buildings are better off replaced if they are on valuable land, such as the Loussac public housing units in Anchorage. Alaska Housing Finance Corporation has 900 homes in inventory, which is an acceptable number. He reminded the committee that Alaska has pending projects, such as the pipeline project, and will need housing inventory in the future. Mr. Faust recommended AHFC reach out to commercial banks for partnering opportunities and to continue negotiating with local banks to help sustain lending activities.

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CHAIR RAMRAS surmised that AHFC is anticipating a portion of its loans will be re-financed and create a surplus of capital that can be directed to partnerships with local and commercial banks.

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MR. FAUST clarified, in that case, AHFC will approach the governor and the legislature for direction of its role on the housing side of the state's economy.

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CHAIR RAMRAS assumed that another avenue is re-gentrification of properties in the AHFC portfolio throughout the state.

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MR. FAUST agreed, and added unless something dramatic changes, the state is vibrant, has a growing population and a strong economy and must continue to invest in the normal course.

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CHAIR RAMRAS thanked the presenters and noted that AHFC's successful programs lead the nation by example.

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**ADJOURNMENT**

There being no further business before the committee, the House Special Committee on Economic Development, International Trade and Tourism meeting was adjourned at 6:35 p.m.