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Referred: Finance

go0049sE

Original sponsor: Rules/Governor

1 IN THE SENATE

BY THE COMMUNITY AND
REGIONAL AFFAIRS COMMITTEE

2

CS FOR SENATE BILL NO. 87 (C&RA)

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

SIXTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

6

For an Act entitled: "An Act relating to use of the housing assistance loan fund; authorizing the Department of Community and Regional Affairs to modify the terms of its mortgage loans; and providing for an effective date."

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BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

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* Section 1. AS 44.47.380 is amended to read:

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Sec. 44.47.380. HOUSING ASSISTANCE LOAN FUND. There is created

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in the department, as a revolving loan fund, the housing assistance

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loan fund consisting of money appropriated to it by the legislature

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and repayments of principal and interest on loans made or purchased

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from the assets of the fund. The commissioner shall administer the

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housing assistance loan fund in accordance with AS 44.47.370 - 44.-

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47.560 and shall use the money in the housing assistance loan fund to

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originate, purchase, or participate in the purchase of [, OR]

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(1) nonconforming and rural housing mortgage loans;

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(2) loans made for building materials for nonconforming and

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rural housing;

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(3) loans made for renovations or improvements to noncon-

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forming and rural housing;

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(4) loans made for the construction of owner-occupied non-

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conforming and rural housing other than loans to builders or contrac-

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tors or loans that compensate an owner for the owner's labor or ser-

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vices in constructing the owner's own housing;

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(5) loans made for the purchase or construction of

1 nonconforming and rural housing that combines predominately owner-
2 occupied residential use and limited commercial use.

3 * Sec. 2. AS 44.47 is amended by adding a new section to read:

4 Sec. 44.47.525. MODIFICATION OF LOANS. (a) Notwithstanding
5 AS 44.47.410(a) and (b) and 44.47.520(b), on mortgages that it has
6 financed under AS 44.47.370 - 44.47.560 the department may, by loan
7 modification, reschedule principal payments or reduce interest rates,
8 or both, if the department finds that

9 (1) a loan modification would

10 (A) result in the likelihood that the loan would pay
11 to maturity; and

12 (B) induce the borrower to remain in active management
13 and ownership of the property; and

14 (2) the loan modification would be

15 (A) in the best financial interest of the department
16 and the state; and

17 (B) considered prudent by private lending standards
18 taking into account the financial circumstances of the borrower
19 and other costly alternatives such as foreclosure.

20 (b) Rescheduling of the borrower's repayment of principal under
21 (a) of this section provides an interim payment adjustment and is not
22 intended to affect the obligation of the borrower to repay the princi-
23 pal amount on the mortgage loan.

24 (c) The department

25 (1) may reduce the interest rate payable on a mortgage un-
26 der (a) of this section only if the modification contains an interest
27 rate reopener clause; the interest rate reopener clause must

28 (A) require that, if the interest rate is reduced, the
29 borrower and the department shall renegotiate the rate of

1 interest on the mortgage within five years after the date of an
2 interest rate reduction approved by the department under this
3 section;

4 (B) specify the date by which the borrower and the
5 department are to renegotiate the rate of interest under (A) of
6 this paragraph;

7 (C) incorporate a call feature, reserving to the de-
8 partment the right to demand repayment of the entire principal
9 amount due if the borrower and the department are unable to con-
10 clude renegotiation of the rate of interest under (A) of this
11 paragraph; the department may not use the call feature incorpo-
12 rated under this subparagraph to demand repayment of the entire
13 principal amount due before the date determined under (B) of this
14 paragraph;

15 (2) may not approve a rate of interest under this section
16 that is less than six percent.

17 (d) An interest rate reduction approved by the department under
18 this section cancels the borrower's obligation to pay the amount that
19 would otherwise have been due during the period of an interest rate
20 reduction and that is attributable to the difference between the
21 original interest rate and the reduced interest rate.

22 (e) If an interest rate is renegotiated under (c) of this sec-
23 tion, the renegotiated rate may not exceed the interest rate original-
24 ly charged on the loan.

25 (f) The department shall adopt regulations prescribing the terms
26 and conditions of, and the procedures applicable to, loan modifica-
27 tions made under this section.

28 (g) The legislative audit division shall annually conduct a
29 performance post-audit of the loans modified by the department under

1 this section during the preceding fiscal year, and shall report its
2 conclusions and recommendations to the Legislative Budget and Audit
3 Committee.

4 * Sec. 3. AS 44.47.560 is amended by adding a new paragraph to read:

5 (7) "limited commercial use" means a small business, op-
6 erated out of an owner-occupied nonconforming and rural housing resi-
7 dence, that occupies an area that does not exceed 25 percent of the
8 total gross living area of a residential unit.

9 * Sec. 4. This Act takes effect July 1, 1989.