

HOUSE
COMMITTEE REPORT

(11)

Date referred: 2/12/86

FURTHER REFERRALS:

DATE: 2-12-86

The FINANCE Committee has considered HB 530

"An Act relating to the special mortgage loan purchase program."

and recommends:

- do pass
- do not pass
- do pass with attached amendment(s)
- no recommendation
- replace with CS HB 530 (LOANS) same title new title

and recommends do pass

further referral to the _____ Committee

- and attaches:
- letter of intent
 - first fiscal note
 - new fiscal note
 - zero fiscal note

SIGNING DO/PASS:

SIGNING OTHER RECOMMENDATIONS:

Mike Symmes
Albert R. Adams
John Dingeldien
Don & Denny
Ronald L. Larson
Pat Foychak
Rich Albin
Steve Klein
D. Nest
John P. Bily
Jan O'Connell

Albert R. Adams
Chairman

**STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE**

Revision Date : 2/11/86

REQUEST

FISCAL DETAIL

Bill/Resolution No. : CSHB 530 (Loans)
 Title : An Act relating to refinancing loans under the special mortgage loan purchase program.
 Sponsor : Duncan, MM Miller, Sund, et al
 Requestor : Rep. John Sund
 Date of Request : 2/10/86

Agency Affected : AHFC
 BRU : _____
 Components : _____

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
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REVENUE	-0-	-0-	-0-	-0-	-0-	-0-
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FUNDING : (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS :

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

Prepared by : *Ron Lehr* Ron Lehr, Executive Director

Division : Alaska Housing Finance Corp.

Phone : 276-5599

Date : 2/11/86

Approved by Commissioner : _____

Date : _____

Agency : _____

Distribution (by Agency preparing fiscal note) :

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

Original sponsors: Duncan, M.M. Miller,
Sund, et al.

BY THE HOUSE SPECIAL
COMMITTEE ON STATE LOANS

1 IN THE HOUSE

2 CS FOR HOUSE BILL NO. 530 (Loans)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to refinancing loans under the
7 special mortgage loan purchase program; and providing
8 for an effective date."

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

10 * Section 1. AS 18.56.098(a) is amended to read:

11 (a) The corporation shall establish a special mortgage loan
12 purchase program. Under the special mortgage loan purchase program,
13 the corporation may purchase refinancing loans or first or second
14 mortgage loans, including graduated payment mortgage loans, made for
15 the purchase, improvement, or rehabilitation of residences.

16 * Sec. 2. AS 18.56.098(f) is amended to read:

17 (f) In this section and in AS 18.56.099,

18 (1) "graduated payment mortgage loan" means a mortgag
19 the terms of which provide for monthly principal and interest payments
20 which

21 (A) during the first year of the mortgage loan are
22 lower than the monthly principal and interest payments that would
23 be required under the terms of a level payment mortgage loan made
24 at the same interest rate; and

25 (B) during subsequent years of the mortgage loan are
26 graduated to provide for the same return over the term of the
27 loan that would have been provided by a level payment mortgage
28 loan made at the same interest rate;

29 (2) "mortgage loan" includes a beneficial interest or

1 participation in a mortgage loan;

2 [(3) REPEALED]

3 (3) "refinancing loan" means a loan refinancing either a
4 first or second mortgage loan purchased under (a) of this section or a
5 loan for which the interest rate is established under AS 44.47.410(a)
6 through another mortgage loan the amount of which may not exceed the
7 unpaid balance of the loan being refinanced plus closing costs;

8 (4) "residence" means an owner-occupied, single-family
9 residence, including a mobile home, or an owner-occupied duplex,
10 triplex or fourplex.

11 * Sec. 3. This Act takes effect immediately in accordance with AS 01.-
12 10.070(c).

ALASKA HOUSING FINANCE CORPORATION
 SAVINGS REALIZED FROM PROPOSED REFINANCE BILL
 (HB 530)

MONTHLY PAYMENT SCHEDULE
 ON
 LOAN AMOUNTS
 \$110,000 - \$130,000

<u>LOAN DATE</u>	<u>\$ 110,000</u>	<u>\$ 120,000</u>	<u>\$ 130,000</u>
<u>11/81 - 5/81</u>			
Principal & Interest	\$ 1,270.83	\$ 1,433.76	\$ 1,591.98
Reserves	<u>150.00</u>	<u>150.00</u>	<u>150.00</u>
12 3/4% on First \$90,000 19.411% on balance	<u>1,420.83</u>	<u>1,583.76</u>	<u>1,741.98</u>
<u>Today's Rates</u>			
Principal & Interest	\$ 985.82	\$ 1,075.44	\$ 1,177.15
Reserves	<u>150.00</u>	<u>150.00</u>	<u>150.00</u>
10% on First \$90,000 11.2% on balance	<u>1,135.82</u>	<u>1,225.44</u>	<u>1,327.15</u>
SAVINGS	\$ 285.01	\$ 358.32	\$ 414.83

ALASKA HOUSING FINANCE CORPORATION
 SAVINGS REALIZED FROM PROPOSED REFINANCE BILL
 (HB 530)

MONTHLY PAYMENT SCHEDULE
 ON
 LOAN AMOUNTS
 \$110,000 - \$130,000

<u>LOAN DATE</u>	<u>\$ 110,000</u>	<u>\$ 120,000</u>	<u>\$ 130,000</u>
<u>10/20/82 - 2/83</u>			
Principal & Interest	\$ 1,227.60	\$ 1,362.72	\$ 1,501.89
Reserves	<u>150.00</u>	<u>150.00</u>	<u>150.00</u>
12 3/4% on First \$90,000 16.59% on balance	<u>1,377.60</u>	<u>1,512.72</u>	<u>1,651.89</u>
<u>Today's Rates</u>			
Principal & Interest	\$ 985.82	\$ 1,075.44	\$ 1,177.15
Reserves	<u>150.00</u>	<u>150.00</u>	<u>150.00</u>
10% on First \$90,000 11.2% on balance	<u>1,135.82</u>	<u>1,225.44</u>	<u>1,327.15</u>
SAVINGS	\$ 241.78	\$ 287.28	\$ 324.74

ALASKA HOUSING FINANCE CORPORATION
 SAVINGS REALIZED FROM PROPOSED REFINANCE BILL
 (HB 530)

MONTHLY PAYMENT SCHEDULE
 ON
 LOAN AMOUNTS
 \$110,000 - \$130,000

<u>LOAN DATE</u>	<u>\$ 110,000</u>	<u>\$ 120,000</u>	<u>\$ 130,000</u>
<u>12/82 - 2/83</u>			
Principal & Interest	\$ 1,016.51	\$ 1,131.48	\$ 1,250.34
Reserves	<u>150.00</u>	<u>150.00</u>	<u>150.00</u>
10.125% on First \$90,000 13.8% on balance	<u>1,166.51</u>	<u>1,281.48</u>	<u>1,400.34</u>
<u>Today's Rates</u>			
Principal & Interest	\$ 985.82	\$ 1,075.44	\$ 1,177.15
Reserves	<u>150.00</u>	<u>150.00</u>	<u>150.00</u>
10% on First \$90,000 11.2% on balance	<u>1,135.82</u>	<u>1,225.44</u>	<u>1,327.15</u>
SAVINGS	30.69	\$ 56.04	\$ 73.19

73.19 - correction

ALASKA MUTUAL BANK

February 12, 1986

Honorable Al Adams, Chairman
House Finance Committee
P.O. Box V
Juneau, Alaska 99811

Dear Representative Adams:

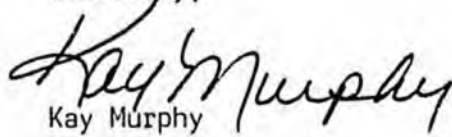
Alaska Mutual Bank strongly supports House Bill 530 giving Alaska Housing Finance Corporation (AHFC) the ability to refinance existing AHFC loans. We currently service 1358 loans totaling \$149,200,000 that have interest rates of 11% or higher. We service 3606 AHFC loans totaling \$371,891,000 which are ABE structured mortgages requiring payment increases that have either already gone into effect or will do so in the very near future.

This refinance program will enable homeowners to reduce their monthly housing expense and delay, for a period of time, the increases required under an ABE structured loan. A reduction in interest rate for the borrower will mean a reduction in subsidy dollars paid by the State.

We urge you to enact legislation authorizing AHFC to purchase refinance mortgages. A loan program designed to reduce the consumer's housing expense and, at the same time, reduce state expenditures can only serve to benefit all citizens of the State.

Thank you for your attention to this matter.

Sincerely,


Kay Murphy
Vice President

KM:rm





National Bank of Alaska

Mortgage Loan Department, P.O. Box 7-025 • Anchorage, Alaska 99510-7025 • (907) 265-2656

February 11, 1986

Honorable Al Adams, Chairman
House Finance Committee
Alaska House of Representatives
Pouch V
Juneau, Alaska 99811

RE: House Bill 530 amending AS 18.56.098

Dear Representative Adams:

It is not often we have an opportunity to do something which is good for all Alaskans. House Bill 530 gives us this opportunity. By allowing refinancing of existing AHFC loans and allowing inclusion of closing costs in the new loan, we feel this bill would provide many benefits.

First, to the homeowners. Many homeowners obtained AHFC loans during times of high interest rates. Concurrent with those high rates, the ABE structure was created, as a way to keep the rates as low as possible. Therefore, there are many homeowners who not only have a loan with an interest rate higher than is available today, but in addition, a loan on which the 5% annual increase under the ABE structure either has or will soon take effect, further increasing monthly payments on their homes. House Bill 530, if enacted quickly while rates are down, would allow these homeowners to reduce monthly payments immediately because of reduced interest rates. By writing a new loan on a 30-year amortization, the homeowners would also benefit by lengthening the term of the loan and by deferring the 5% increase under the ABE structure until the 4th year of the new loan. The net result and immediate benefit to homeowners is to increase their spendable income. An additional and important benefit is that by reducing mortgage payments, homeowners will encounter less difficulty in meeting their mortgage payments, which should result in lowering the number of delinquencies and homes lost due to foreclosure. Finally, the homeowner would, in most instances, exchange a non-assumable loan for one which is assumable. The State of Alaska would also benefit by reduction of subsidy costs.

Another benefit would be infusion of these "saved" dollars into the Alaska economy, dollars which currently go to investors outside the State. Passage of the bill would also result in increased activity in mortgage-related fields, which could increase employment in those fields.

Honorable Al Adams, Chairman
February 11, 1986
Page 2

We applaud the efforts of the members of the Alaska Legislature in considering this bill and urge rapid action in order to provide refinancing while AHFC is able to obtain funds at low interest rates.

Sincerely,

A handwritten signature in cursive script, appearing to read "Lucille Stietz". The signature is written in dark ink and is positioned above the typed name.

Lucille Stietz
Vice President

ry

Alaska Pacific Mortgage

A KeyCorp Affiliate



Post Office Box 100420
Anchorage, Alaska 99510-0420
(907) 562-6100

February 11, 1986

Honorable Al Adams, Chairman
House Finance Committee
Alaska State Legislature
P.O. Box V
Juneau, Alaska 99511

Re: HB 530

Dear Representative Adams:

Alaska Pacific Mortgage wishes to express support for HB 530. We feel that the immediate passage of this bill will allow the consumers to take advantage of the current market low interest rates.

In addition the consumer will benefit by lower payments, assumable loans and putting off for another three years the ABE (Alaska Building Equity) 5% increase that occurs in years four through nine.

Also this refinance could lower the cost of Alaska Housing Finance Corporation by paying off older and higher cost bond issues more quickly.

Lastly, this refinance program could help stimulate the Alaska real estate industry. The ripple effect throughout our economy would be very beneficial and could potentially impact other sectors. We wish to again stress the importance of a timely enactment of this bill to allow benefits from the current low interest rates.

Thank you for this opportunity.

Sincerely,

A handwritten signature in cursive script that reads "Jon R. Boyd".

Jon R. Boyd
President

JRB/mc

ALASKA MORTGAGE BANKERS ASSOCIATION

P.O. BOX 4-2691/ANCHORAGE, ALASKA 99509

February 12, 1986

Honorable Al Adams, Chairman
House Finance Committee
P.O. Box V
Juneau, Alaska 99811

Dear Representative Adams:

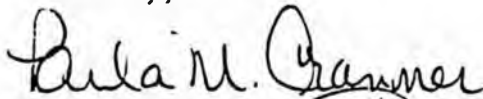
The Alaska Mortgage Bankers Association (AMBA) supports the enactment of House Bill 530 enabling Alaska Housing Finance Corporation (AHFC) to purchase refinances of AHFC mortgages.

The benefit of an AHFC refinance program are clear and far-reaching. A homeowner could reduce their monthly housing expense substantially under the new program in light of interest rate reductions over the past few years. The State of Alaska could greatly reduce the amount of subsidy dollars paid on existing AHFC loans. The general economy will be strengthened because consumers will be able to apply less of their income to housing expense and, therefore, put their money to work in other segments of the Alaskan economy. Consumers who are now experiencing difficulty making their payments because of increased house payments under an ABE structured mortgage or increases in other living expenses will now be able to better afford their home and keep their mortgages current. A reduced inventory of Real Estate Owned (REO) by institutional investors will assist in the recovery of the housing market, in general.

We strongly urge your passage of this bill as it truly represents a benefit to all citizens of the State of Alaska.

Thank you for your time.

Sincerely,



Paula M. Cranmer
President

PMC:rm

ALASKA HOUSING FINANCE CORPORATION
REFINANCING PROPOSAL
ANALYSIS OF POTENTIAL INTEREST RATE SAVINGS

Estimated average level of subsidy prior to refinancing	4.50%
Estimated average level of subsidy subsequent to refinancing	<u>1.25%</u>
Estimated decrease in level of subsidy	<u>3.25%</u>

Based upon the above, for each \$100 million of refinancing activity, the reduction in the level of subsidy will result in an annual savings of \$3,250,000.

The savings to the Corporation, while accruing from the date of the refinance, becomes available to AHFC only upon complete retirement of a particular issue of bonds. This is the case since the mortgages, and the funds related to their earnings and prepayments, remain pledged to the bond issue until the last bondholder has been paid off.

While the refinancing activity will accelerate the date when the complete retirement of a particular high rate bond issue is accomplished, the financial benefit of the refinancing is "tied up" until then. Prior to the complete retirement of the issue, what essentially is occurring is a reinvestment of the mortgage loan principal prepayments received pursuant to the refinancing at the rate of interest being paid on the bonds.

For most of these bond issues, the final retirement date will be moved forward from 1990 or 1991 to 1988 or 1989. At that time, the Corporation will have paid off the bonds and the balance of the loans pledged to the issue will be released from their pledge to the bondholders and available to the Corporation for continuation of the Special Mortgage Loan Purchase Program.

It is important to note that while this effectively represents a return of the original up-front subsidy related to the pool of loans pledged to that particular bond issue, it is going to be received in the form of mortgage loans as opposed to cash or liquid investments. The Corporation would expect to use these mortgage loans to facilitate the financing of future loan production in much the same manner as they were originally utilized.

All urban non-conforming

Information Provided
by HAD

<u>INTEREST RATE</u>	<u>#</u>	<u>ORIGINAL LOAN AMOUNT</u>	<u>PRINCIPLE BALANCE</u>
11%	202	13,476,100.00	13,304,972.62
12%	111	7,115,500.00	6,958,989.40
13%	3	393,850.00	385,309.82
14%	2	265,050.00	262,508.32
15%	2	346,250.00	343,395.14
			<hr/>
			21,255,175.30

<u>INTEREST RATE</u>	<u>#</u>	<u>ORIGINAL LOAN AMOUNT</u>	<u>PRINCIPLE BALANCE</u>
12%	111	7,115,500.00	6,958,989.40
13%	3	393,850.00	385,309.82
14%	2	265,050.00	262,508.32
15%	2	346,250.00	343,395.14
			<hr/>
			7,950,202.68

→ Some of these
may refinance

<u>INTEREST RATE</u>	<u>#</u>	<u>ORIGINAL LOAN AMOUNT</u>	<u>PRINCIPLE BALANCE</u>
13%	3	393,850.00	385,309.82
14%	2	265,050.00	262,508.32
15%	2	346,250.00	343,395.14
			<hr/>
			991,213.28

→ The ones
expected
to refinance

Alaska Housing Finance Corporation's (the "Corporation") cost of funding mortgage loans has dropped substantially. Since May 17, 1985, the interest rate on the subsidized portion of mortgage loans purchased by the Corporation has been 10%, the lowest rate permitted by Statute unless the cost of funds is below 10%. When AHFC first accessed the taxable bond market in 1981 to continue to provide financing for the loan program initiated by the Legislature in the previous year, it did so at a total cost of 17.05%. Subsequent bond sales resulted in costs at rates as high as 19.4%. During this period of escalating interest rates, the interest rate on the subsidized portion of a mortgage loan rose to 12.375% with blended rates on loans in excess of \$90,000 reaching as high as 15-1/2%. The level of subsidy (difference between the Corporation's cost of funds and the subsidized rate) provided by AHFC during this period exceeded 7%.

The last taxable bond issue sold by the Corporation resulted in a total cost of 11.23% and a resultant level of subsidy of 1.23%. This significant reduction in interest rates has been a boon to the State and AHFC in that the cost to operate the loan program is greatly reduced. However, for those individuals who purchased their homes during the period of high interest rates, there does not currently exist a way for them to directly benefit from this rally short of selling their current home and purchasing another home with financing provided by AHFC. This unfortunate situation results from the Corporation's lack of statutory authority to purchase mortgage loans the purpose of which was to refinance an existing loan.

The Corporation is seeking statutory authority to purchase loans made to refinance existing higher rate debt. Implementation of such a program would obviously benefit a significant number of homeowners through a reduction in monthly mortgage payments and would additionally provide a number of economic benefits to AHFC and the State. As of January 1986, AHFC held 9,167 loans aggregating almost \$1 billion with an interest rate of 11.25% or greater. The lower interest rates combined with other borrower benefits listed below will result in a substantial portion of these borrowers refinancing their loans if such a program were to be made available through AHFC.

Benefit to the Borrower

- The average borrower under a refinance program should achieve a savings in their monthly payments of approximately \$150 to \$175 per month.

- The majority of the loans expected to be refinanced under the program would be of a type requiring increases in the payments beginning in the fourth year. While these increases will be applied to the principal balance of the loan, they will result in the borrowers having less funds available to meet other living expenses. The new loan provided the borrowers would also have the increasing payment structure; however, an additional 3 years "grace" period would be provided.

- Loans purchased by AHFC subsequent to August 1985 can be assumed. Virtually all of the loans likely to be refinanced are subject to a "due on sale" clause requiring the loan to be paid off if title is transferred. In addition to achieving a lower interest rate and reduced monthly payments, the borrowers would be "exchanging" a non-assumable loan for one permitting qualified assumptions.

Benefit to AHFC

- The mortgage loans owned by the Corporation with high interest rates were financed by AHFC bonds with even higher costs. The prepayment amounts can be used directly to retire the high cost bonds. These bonds are generally not able to be paid off with other than principal repayments on the loans pledged as collateral. The net result is the retirement of a loan subsidized at a minimum level of 3% and more likely 5% to 7% and substituting it with a loan with a subsidy level of 1.24%.
- A decrease in the interest rate and corresponding reduction in monthly payments will decrease the likelihood of borrower default. A borrower struggling with payments based upon a 13% loan will be more able, and psychologically more inclined, to keep their loan current.

Benefit to the State

- Assuming approximately one-half of those borrowers with an interest rate in excess of 11-1/4% refinance with an average savings in monthly payments of \$175, an extra \$10,500,000 each year will be available for injection directly into the Alaskan economy. Since this is cash in residents' pockets which would have otherwise been passed through to Wall Street investors, it will impact virtually all sectors of the economy at a time when it is needed most.

Program Criteria

- Refinancing would be restricted to existing AHFC loans.
- The new loan amount would be limited to the principal outstanding on the existing loan plus costs associated with the refinancing.
- Maximum loan-to-property value ratios applicable to the refinance loans will be as follows:

TYPES OF MORTGAGE INSURANCE

Conventional	90%
FHA	95% to 97%
VA	100%

- A complete loan package will be required in connection with obtaining a new loan. A new property appraisal will be necessary and the borrower's credit worthiness and ability to meet financial obligations will need to be documented.

Presently the Alaska Housing Finance Corporation does not have a program that allows current AHFC borrowers the option of refinancing their existing home loans. This is an undesirable situation because interest rates have dropped substantially lately, and if refinancing of AHFC loans were permitted, both borrowers and AHFC could achieve considerable savings. For instance:

- Currently, AHFC has nearly 10,000 loans totaling over \$1 billion at an interest rate of 11-1/8% and above.
- In the current market, interest rates to borrowers under AHFC's taxable program would range from 10% to about 10-5/8%, depending upon the size of the loan.
- Although it will vary depending upon a borrower's current interest rate, we estimate that the average current borrower with a mortgage interest rate of 11-1/8% and above should save about \$200 a month in interest if they were able to refinance under AHFC's current loan programs.
- All new AHFC loans are assumable, so in most cases a borrower would be refinancing from a non-assumable loan to an assumable loan.
- The majority of the loans expected to be refinanced under the program would be of a type requiring increases in the payments beginning in the fourth year. While these increases will be applied to the principal balance of the loan, they will result in the borrowers having less funds available to meet other living expenses. The new loan provided the borrowers would also have the increasing payment structure; however, an additional 3 years "grace" period would be provided.
- AHFC also benefits in two significant ways. First, since its current cost of capital is lower than before, less subsidy is needed per loan. Second, a decrease in a borrower's monthly payment will make it easier for a borrower to pay and, hence, decrease the likelihood of borrower default.
- Finally, the entire Alaskan economy should benefit, since the reduced monthly payment would result in the borrowers having more money available to save or spend for other purposes.

Alaska HOUSING FINANCE CORPORATION



February 6, 1986

The Honorable Jim Duncan
 Alaska House of Representatives
 P.O. Box V
 Juneau, AK 99811

Dear Representative Duncan:

You requested an explanation of what effect the ability to refinance the Corporation's existing loans will have on AHFC. I am unable to give a very precise estimate, since I don't know how many AHFC borrowers will choose to refinance.

According to various lenders, it will cost about 3% to refinance. Current interest rates for non-veterans will range between 10% and 10-5/8%, depending upon the size of the loan (9% for the first \$90,000 for a qualified veteran). AHFC currently has approximately 10,000 loans totaling about \$1 billion in principal balance at an interest rate of 11-1/8% and above, with about half of these loans at 12% and above. Based upon this, it seems safe to assume that at a minimum, a few thousand loans totaling a few hundred million will choose to refinance. On balance, it also seems safe to assume that the average borrower who decides to refinance will save \$200 a month or more in mortgage payments.

Savings will, of course, also accrue to AHFC. The refinancing of an existing high rate mortgage loan will enable the Corporation to retire outstanding high rate bonds. The bond agreements generally allow early retirement of the bonds only from prepayments of the loans purchased with their original proceeds. The example below demonstrates the savings to the Corporation in what is expected to be a typical refinance:

	<u>Existing Bond Issue</u>	<u>New Bond Issue</u>
Total cost of funds	19.153	11.125
Mortgage rate (\$125,000 loan)*	<u>14.250</u>	<u>10.375</u>
Subsidy Level	4.903%	.75%
Savings to AHFC	4.153%	

* Based upon a subsidized rate applicable to the first \$90,000 of the loan at 12.375% for the existing loan and 10% for the new loan.

The Honorable Jim Duncan
February 6, 1986
Page 2

The above example demonstrates that for the remaining term of the loan, the Corporation will be reducing the difference between the cost of its borrowing and the rate the mortgage is paying by 4.153%. This represents an annual savings to the Corporation as a result of the refinancing in excess of \$5,000. At the same time, the borrower has reduced their interest rate from 14.25% to 10.375%, representing an annual interest savings of over \$4,500.

The benefit of converting from high rate debt to current rates is being split between the borrower and AHFC. In the example above, the total savings is 8.028% (existing bond cost of 19.153% less estimated current cost of 11.125%). This savings is split as follows:

Reduced AHFC subsidy	4.153%
Reduced mortgage rate to borrower	<u>3.875%</u>
Total interest savings	<u>8.028%</u>

The savings to the Corporation, while accruing from the date of the refinance, becomes available to AHFC only upon complete retirement of a particular issue of bonds. This is the case since the mortgages, and the funds related to their earnings and prepayments, remain pledged to the bond issue until the last bondholder has been paid off.

While the refinancing activity will accelerate the date when the complete retirement of a particular high rate bond issue is accomplished, the financial benefit of the refinancing is "tied up" until then. Prior to the complete retirement of the issue, what essentially is occurring is a reinvestment of the mortgage loan principal prepayments received pursuant to the refinancing at the rate of interest being paid on the bonds. Since these bonds have a yield to the investor as high as 18.375%, this reinvestment process has significant economic benefit to the Corporation.

For most of these bond issues, the final retirement date will be moved forward from 1990 or 1991 to 1988 or 1989. At that time, the Corporation will have paid off the bonds and the balance of the loans pledged to the issue will be released from their pledge to the bondholders and available to the Corporation for continuation of the Special Mortgage Loan Purchase Program.

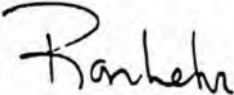
It is important to note that while this effectively represents a return of the original up-front subsidy related to the pool of loans pledged to that particular bond issue, it is going to be received in the form of mortgage loans as opposed to cash or liquid investments. The Corporation would expect to use these mortgage loans to facilitate the financing of future loan production in much the same manner as they were originally utilized.

The Honorable Jim Duncan
February 6, 1986
Page 3

I once again want to advise you of our strong support for your bill, HB530. In a time of some rather downbeat economic news, it's heartening to have legislation that will save Alaska's money, boost the economy, and save the State money all at the same time!

Please let me know if I can provide any additional information.

Sincerely,



Dr. Ronald D. Lehr
Executive Director

RDL:lmg

EXCERPTS REGARDING INTEREST RATE PROJECTIONS

Economic Research, January 1986 from Goldman Sachs.

"With advance refunding activity crimped by potential tax reform, with long rates and the yield curve already discounting lower inflation and short-term rates than now exist, with negligible dealer short positions, with a discount rate cut unlikely soon, with economic activity picking up slowly but surely, and with implementation of Gramm-Rudman and substantially lower oil prices apparently taken for granted, there is little or no room in current yields to withstand contrary developments. Because such comfort shattering events seem unlikely in the next month or two, bond yields may fall and the yield curve flatten modestly further, with a difficult-to-time reversal now a more realistic prospect. Short-term (90-day dealer-placed commercial paper, now 7.60%) and long-term (20- to 30-year maturity Treasury issues, now around 9.40%) interest rates seem likely to rise 75-100 basis points above current levels this year, with increasing risk that this occurs sooner rather than later."

Prospects for Financial Markets in 1986 from Salomon Brothers Inc

"As the U.S. economy gathers strength during the spring of next year, however, the decline in U.S. interest rates will come to a halt. This slide in rates, which began in May 1984, has occurred in the context of slow U.S. economic growth - 2.4% at an annual rate since the second quarter of 1984 - and moderating inflation. The Fed will continue to supply reserves liberally to the banking system, such that emerging upward pressure on interest rates will be modest. However, the pressure will become more pronounced in the second half of 1986, when U.S. economic growth is expected to average about 4% at an annual rate, and as the markets anticipate several additional developments: " ...

"Under these circumstances, long-term bond yields are likely to climb by 75-125 basis points from their lows reached early in the year. Even though the Federal Reserve will eventually respond to these developments, it will be following market forces, rather than leading"

Applause loud for new-mortgage bill

By JOHN CREED
Staff Writer

A bill allowing Alaskans to refinance state-backed home loans to take advantage of lower interest rates should also help Alaska Housing Finance Corp. battle its rising loan delinquency rate.

"This is one of those few bills where everybody benefits," said Ron Lehr, executive director of the Alaska Housing Finance Corp. "AHFC benefits, the homeowner benefits, and the state as a whole benefits. It's a win-win situation all the way around."

House Bill 530, introduced by Rep. Jim Duncan, D-Juneau, would allow as many as 10,000 homeowners to seek new financing on more than \$1 billion in loans issued by the Alaska Housing Finance Corp., the state's chief mortgage lender. The new loans could also be assumed by subsequent buyers of the property.

"I think it's a great idea, in terms of actual business created for the support people," said local appraiser E. Chilton Hines. "The banks, the engineers, the title companies, appraisers—all will benefit because of the fees involved."

The delinquency rate on Alaska Housing's loans has risen steadily over the past year to more than 6.5 percent, which now equals the national average, according to Lehr. That figure rises above 7 percent when actual foreclosures are added to the list, he said.

"The average homeowner could save up to \$200 a month in loan payments through this proposal," Lehr said.

That should help people statewide who may be struggling against default on their loans, he said, and those not struggling will have more dollars to spend in the local economy.

Alaska Housing lent Alaskans millions of dollars to buy houses while interest rates soared in the early 1980s. Today, in a slowed economy with much lower interest rates, Alaskans statewide seem to be pushing for the refinancing option.

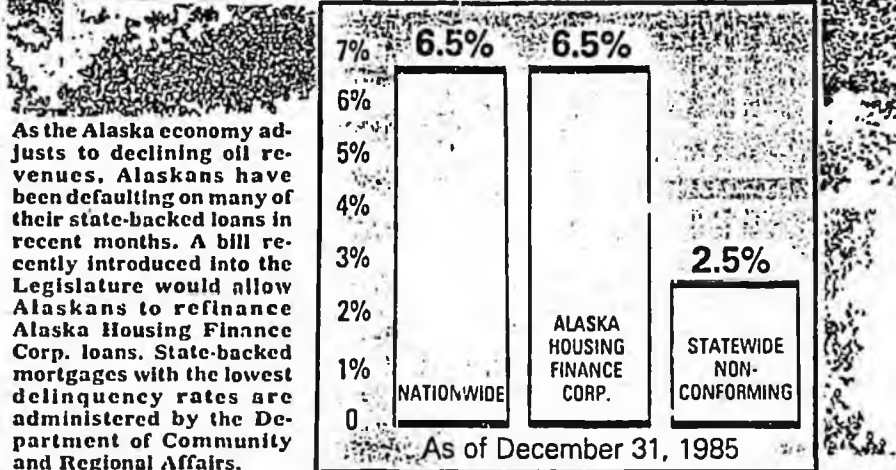
"It's definitely a positive development," said Rick Solie, a real estate agent in Fairbanks. "It means Alaska Housing is getting a lot more flexible. They are realizing to remain competitive to keep their lending level up because if they are too strict and inflexible, they won't be as attractive as some of the other loan programs."

The homeowner would benefit, Lehr said, because people who have financed their homes at 11 1/2 or more could see payments slashed by as much as \$200 a month with refinancing.

"It could help many homeowners hang onto their houses," he said.

The measure would also benefit Alaska Housing by helping it reduce the state subsidy on individual loans. Alaska Housing subsidizes the first \$90,000 of its home loans. The amount of subsidy depends on the interest garnered on the Wall Street bond market.

Rates have not always been the best. For example, when Alaska Housing first went into the taxable bond market on Wall Street in 1981, the state-owned corporation paid 17 percent interest. Later, the cost of some bond sales soared to more than 19 percent interest.



Consequently, homebuyers were paying more than 12 percent interest on the (subsidized) first \$90,000 of their mortgages and as high as 15 1/2 percent for any money they needed above \$90,000, according to officials. That pushed loan subsidies by Alaska Housing as high as 7 percent, Lehr said.

Interest rates have since subsided. Alaska Housing's most recent taxable bond sale, for exam-

ple, came in at 11.23 percent interest. That means AHFC's current 10-percent interest rate reflects a subsidy of only 1.23 percent—far lower than the early 1980s.

Lower subsidies reduce Alaska Housing's operating costs significantly, Lehr said, and Alaska's economy should benefit because smaller payments "will give many Alaskans more money to save or spend for other purposes."

Economic times in Alaska have changed with the nation's falling interest rates. As oil revenues decline, Alaska's growth rate is cooling. Unemployment has increased and some homeowners have begun to lose their jobs.

Many Alaskans are also losing their homes. Mortgage delinquency rates have steadily crept up to the national average over the past year, with mobile home loan de-

faults climbing even higher. Alaska Housing refinancing is offered as one way of helping the economy, according to officials who estimate that an extra \$10.5 million a year could be injected into the state's economy.

"Since this is cash in residents' pockets that would otherwise be passed through to Wall Street investors, it will affect virtually all sectors of the economy when it is needed most," Lehr said.

As of last month, the state held \$1 billion worth of loans with interest rates higher than 11 1/4 percent, according to state officials. Overall, Alaska Housing holds 53,301 home loans worth some \$4.5 billion.

Refinancing would be available only on the unpaid balance plus the cost of refinancing.

Homeowners wanting to refinance their properties would be required to obtain a brand-new loan, meaning their property would have to be re-appraised with the borrower's credit worthiness scrutinized.

The local housing market has "stabilized" over the past 12 months, said local property appraiser Hines.

"Property values over the past year have been fairly stable," he said. "In some cases, there has been some decline. People in a hurry have to discount their price."

Highest hit are the higher priced housing—\$150,000 to \$200,000, Hines said.

"Below \$100,000 seems to have held up pretty well," he said. "The largest number of people can qualify. There's no significant increase in value, but they are definitely in the highest demand. But I think Fairbanks definitely has a bright future in the housing market."

Lawmakers seek to increase eligibility

A bill allowing Alaskans to refinance home loans at lower interest rates is restricted to existing Alaska Housing Finance Corp. loans; but some legislators may want to include more Alaskans.

"This is a perfect opportunity to make sure they don't neglect the constituents I represent," said Rep. Mike Davis, D-Fairbanks.

Davis and others would like to see House Bill 530 amended to include more homeowners in the 49th state.

The original bill, which is scheduled for hearings in Juneau Monday and Tuesday, would restrict refinancing to homeowners who have their homes financed through state-owned Alaska Housing.

Alaskans holding home loans secured from other sources, such as from the state Department of Community and Regional Affairs, would be ineligible to refinance through Alaska Housing.

DCRA bought about \$50 million in non-conforming housing loans in the state's urban areas in the early 1980s.

"They're not our loans," said AHFC spokeswoman Denna Cline. "Non-conforming loans would not be eligible. But the Legislature in the process could decide to include DCRA."

"We do look for fairness and try to insure that all Alaskans have

equal access to our oil wealth," said Senate President Don Bennett. "We'll have to make sure this bill is fair to everybody."

What is a non-conforming loan? One of the more common features includes a home with a water holding tank, which allows families to have running water without drilling an expensive well. Non-conforming homes are particularly popular in the Fairbanks area, but they exist in urban and rural areas throughout the state.

Rep. Nillo Koponen, D-Fairbanks, said "myths" about non-conforming housing abound around the state.

"It does not mean sub-standard housing," he said. "It doesn't mean it's unfinished. And it certainly doesn't mean it's unliveable. In many ways, it's just more Alaskan."

One of the most compelling reasons homeowners go non-conforming is cost. For example, wells in Fairbanks can cost more than \$20,000. As an alternative, a holding tank system can cost less than \$2,000, and the cost can be guaranteed before it is installed.

"Drilling a well is a crap shoot," said Bennett. "We have many people, in the ridge country especially, who cannot afford a well."

Regional Affairs still handles housing loans in the state's roadless areas, last year the Legislature moved the urban non-conforming housing portion from DCRA to AHFC.

Almost immediately, Interior Alaskans found non-conforming loan applications rejected because AHFC officials changed the guidelines.

"I've heard from constituents that there still is a problem getting non-conforming loans through Alaska Housing," said Davis. "This bill might be an opportunity to alleviate many problems with urban non-conforming loans throughout the state."

Alaska Housing has so far bought 25 non-conforming loans ranging from \$36,000 to \$96,000 since it took over the program seven months ago, Cline said. Seventeen additional loans were rejected, she said, for various reasons. Only two were unacceptable properties, Cline said.

Non-conforming housing is an excellent risk to the lender, said Koponen.

"The fact is, these houses are less expensive and in very high demand," he said. "And the people who buy them are some of the most stable, longtime Alaskans in the state."

The current interest rate for con-

Alaska Housing is 10 percent for the first \$90,000, and 11.2 percent for any money above \$90,000.

Before DCRA lost the program to AHFC last year, DCRA had issued more than 800 urban non-conforming house loans worth some \$51.6 million.

Alaska Housing officials discourage non-conforming housing loans for a variety of reasons, the main one being that non-conforming loans cannot be sold on the Wall Street bond market, so that the loans must be made from direct legislative appropriations.

Alaska Housing originally received a total of about a half-billion dollars in legislative appropriations to date and have secured about \$4.5 billion for in housing loans in the state.

According to Hank Hodge, loan manager in DCRA's housing division, DCRA loans are backed from direct legislative appropriations and not by bonds on Wall Street. But he said the program is a "revolving" fund, which means new loans are issued from payments coming in on existing loans.

As of Dec. 31, urban non-conforming housing's delinquency rate was less than 1 percent, according to DCRA's Hodge. Rural non-conforming rates are slightly

All urban non-conforming

Information Provided
by HAD

<u>INTEREST RATE</u>	<u>#</u>	<u>ORIGINAL LOAN AMOUNT</u>	<u>PRINCIPLE BALANCE</u>
11%	202	13,476,100.00	13,304,972.62
12%	111	7,115,500.00	6,958,989.40
13%	3	393,850.00	385,309.82
14%	2	265,050.00	262,508.32
15%	2	346,250.00	343,395.14
			<hr/>
			21,255,175.30

<u>INTEREST RATE</u>	<u>#</u>	<u>ORIGINAL LOAN AMOUNT</u>	<u>PRINCIPLE BALANCE</u>
12%	111	7,115,500.00	6,958,989.40
13%	3	393,850.00	385,309.82
14%	2	265,050.00	262,508.32
15%	2	346,250.00	343,395.14
			<hr/>
			7,950,202.68

→ Some of these
may refinance

<u>INTEREST RATE</u>	<u>#</u>	<u>ORIGINAL LOAN AMOUNT</u>	<u>PRINCIPLE BALANCE</u>
13%	3	393,850.00	385,309.82
14%	2	265,050.00	262,508.32
15%	2	346,250.00	343,395.14
			<hr/>
			991,213.28

→ The ones
expected
to refinance

Introduced: 1/31/86
Referred: House Special Committee on
State Loans and Finance

BY DUNCAN, M.M. MILLER, SUND,
MARROU, TAYLOR AND LARSON

1 IN THE HOUSE

2 HOUSE BILL NO. 530

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the special mortgage loan pur-
7 chase program."

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

9 * Section 1. AS 18.56.098(a) is amended to read:

10 (a) The corporation shall establish a special mortgage loan
11 purchase program. Under the special mortgage loan purchase program,
12 the corporation may purchase refinancing loans or first or second
13 mortgage loans, including graduated payment mortgage loans, made for
14 the purchase, improvement, or rehabilitation of residences.

15 * Sec. 2. AS 18.56.098(f) is amended to read:

16 (f) In this section and in AS 18.56.099,

17 (1) "graduated payment mortgage loan" means a mortgage loan
18 the terms of which provide for monthly principal and interest payments
19 which

20 (A) during the first year of the mortgage loan are
21 lower than the monthly principal and interest payments tha' would
22 be required under the terms of a level payment mortgage loan made
23 at the same interest rate; and

24 (B) during subsequent years of the mortgage loan are
25 graduated to provide for the same return over the term of the
26 loan that would have been provided by a level payment mortgage
27 loan made at the same interest rate;

28 (2) "mortgage loan" includes a beneficial interest or
29 participation in a mortgage loan;

