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**HOUSE COMMITTEE REPORT**

Date referred: 4/8/88

FURTHER REFERRALS:

DATE: 4/26/88

The Finance Committee has considered HB 432

"An Act authorizing the Alaska Housing Finance Corporation to accept trades in certain cases; and providing for an effective date."

**RECOMMENDS:**

- replace with CS HB 432 (Fin)  the same title
- attached amendment(s)  a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the \_\_\_\_\_ Committee

**ADOPTS:**  \_\_\_\_\_ letter of intent

**ATTACHES NEW FISCAL NOTE(S):**

- fiscal impact- indeterminate  same as previous fiscal note published \_\_\_\_\_
- zero fiscal note  same as previous zero fiscal note published \_\_\_\_\_
- zero with analysis

**SIGNING DO PASS:**

**SIGNING OTHER RECOMMENDATIONS:**

ADAMS [Signature]

POURCHOT [Signature]

LARSON [Signature]

BOYER [Signature]

FRANK [Signature]

BROWN [Signature]

DAVIS [Signature]

SWACK [Signature]

GOLL [Signature]

RIEGER [Signature]

WALLIS [Signature]

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[Signature]  
Chairman's signature

FISCAL NOTE

REQUEST:

Revision Date:  
Title: An Act authorizing AHFC to accept trades in certain cases; effective date  
Sponsor: Rep. Donley, et al  
Requestor: house Finance

Agency Affected: Revenue  
Bku: Alaska Housing Finance Corp.

Components: \_\_\_\_\_

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 86	FY 89	FY 90	FY 91	FY 92	FY 93
OPERATING						
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	-	-	-	-	-
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-
CAPITAL	-	-	-	-	-	-
REVENUE	-	-	-	-	-	-

FUNDING: (Thousands of Dollars)

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

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS: Impact undeterminable, see attached narrative

Prepared By: AHFC  
Division: Alaska housing Finance Corporation

Phone: 276-5599  
Date: 04/15/86

Approved by Commissioner: hugh Malone  
Agency: Department of Revenue

Date: 465-2300

Distribution (by preparer):  
Legislative Finance  
Legislative Sponsor  
Requestor  
Office of Management and Budget  
Impacted Agency(ies)

ALASKA HOUSING FINANCE CORPORATION  
HB 432 Fiscal Note  
Narrative

It is very difficult to determine what the fiscal impact to the Corporation and to the State would be should CSHB 432 (Judiciary) be implemented. The reasons are as follows:

In accordance with AHFC issuing bonds to raise funds to purchase mortgages made by Alaskan lenders, most loans under AHFC programs have two levels of insurance: primary mortgage insurance and pool insurance. Primary mortgage insurance, or PMI, covers a certain percentage of the loss in case of foreclosure. Pool insurance helps cover most losses that are not covered by PMI.

Unfortunately, in these economic times, AHFC is the owner of a large number of properties through the foreclosure process. As of February 29, 1988, AHFC held 2,852 single family homes, duplexes and condominiums, and 1,214 mobile homes in its inventory. Due to the depressed market, AHFC has incurred substantial losses on each piece of property received through foreclosure. Multiply this by the number of properties and the losses are significant, in the tens of millions of dollars. Mortgage insurance, both PMI and pool, help to mitigate these losses. Hence, insurance coverage is very important to AHFC.

If the relevant insurance company(ies) do not want to participate in trades, then AHFC is faced with the choice of either going along with that decision or doing the trade despite their opposition. If AHFC chooses this latter course, then AHFC would have to bear any future losses on these properties without assistance from the insurance companies. Since this could be very expensive, we want to insure that any trades are done in cooperation with the insurance companies.

We have presented a proposal for trades to one of our major pool insurers. Furthermore, we are trying to work through an actual trade to demonstrate to the insurers the feasibility of this mechanism.

AHFC has 42,306 active first mortgages, the majority of which carry PMI and pool insurance. In the ideal situation, AHFC would be able to implement a trade program with no impact to AHFC funds with the insurance companies cooperating fully and the borrowers making up any negative equity.

However, it should be noted that AHFC also holds 3,150 active mobile home loans, the majority of which are not insured. Any costs on these units would have to be borne by the Corporation.

Also, it is difficult to determine how many AHFC borrowers of insured and non-insured properties are interested in participating in a trade program.

Finally, it is difficult to determine how much it would cost AHFC to obtain financing either for the increased loan amount if a borrower trades up, or the new loan should it be determined that the Corporation cannot legally change the underlying collateral of the mortgage.

ec

April 1988

Original sponsors: Donley, Ellis  
Boucher, et al.

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 432 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act authorizing the Alaska Housing Finance Corpo-  
7 ration to stabilize the market price of and the  
8 demand for residential housing in the state; and  
9 providing for an effective date."

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

11 \* Section 1. LEGISLATIVE FINDINGS AND INTENT. (a) The legislature  
12 finds that

13 (1) a sizeable proportion of the residents of the state have  
14 mortgages that exceed both the present value of the property and the pre-  
15 sent ability of the mortgagors of the property to make payments agreed to  
16 in the past;

17 (2) it is desirable for the Alaska Housing Finance Corporation  
18 to use creative solutions to the present crisis in the housing market;

19 (3) the Alaska Housing Finance Corporation and federal agencies  
20 currently hold large portfolios of foreclosed residential housing;

21 (4) these governmental agencies should be permitted to cooperate  
22 in administering foreclosed properties to avoid further adverse effects on  
23 the state's real estate markets;

24 (5) it is in the state's best interests, in certain instances,  
25 to reduce the supply of residential housing in the state by demolishing  
26 substandard publicly owned residential housing and to permit the corpo-  
27 ration to seek disposal of surplus residences within the corporation's  
28 inventory;

29 (6) residential housing situated in condominium projects with

1 high vacancy rates caused by defaults and foreclosures presents special  
2 problems because mortgage investors and insurers have established con-  
3 ditions relating to owner-occupancy that adversely affect the ability to  
4 sell or finance a mortgage loan secured by a condominium unit; and

5 (7) the maintenance of stable and orderly markets for the pur-  
6 chase and sale of residential housing in the state is essential to the  
7 economy of the state and the welfare of its citizens.

8 (b) The legislature intends to improve the stability of the state's  
9 market for residential housing. It is desirable to prevent a precipitous  
10 decline in the price of available housing that will erode the tax base of  
11 municipalities and further weaken the state's financial institutions. The  
12 legislature intends to accomplish these ends by government regulation of  
13 matters relating to the sale and disposition of residential housing held by  
14 financial institutions, the Alaska Housing Finance Corporation, and federal  
15 agencies. By authorizing the Alaska Housing Finance Corporation to exer-  
16 cise the market stabilization powers enacted in sec. 2 of this Act, the  
17 legislature intends to immunize to the fullest extent possible the board of  
18 directors of the Alaska Housing Finance Corporation against potential  
19 liability under federal antitrust and state antitrust, competition, and  
20 trade practices laws arising from the exercise of stabilization powers.

21 \* Sec. 2. AS 18.56 is amended by adding a new section to read:

22 Sec. 18.56.210. MARKET STABILIZATION POWERS. (a) If the board  
23 of directors determines that it is in the best interest of the corpo-  
24 ration, the corporation may take appropriate action under this sec-  
25 tion to stabilize the market price of and demand for residential  
26 housing in the state. To accomplish the purposes of this section, the  
27 corporation may

28 (1) make and execute necessary agreements and conveyances  
29 under which a borrower may exchange residential housing securing a

1 mortgage loan owned, held, or sold by the corporation for other res-  
2 idential housing owned by the corporation;

3 (2) repurchase a mortgage loan sold or pledged by the  
4 corporation for the purpose of exercising a power conferred by this  
5 section;

6 (3) for the purpose of qualifying residential housing  
7 situated in a condominium project for the best available financing for  
8 mortgage loans, make and execute agreements and contracts necessary to  
9 encourage all owners who occupy units in a condominium project that is  
10 not eligible for financing under this chapter to exchange their owner-  
11 ship interest for a condominium unit owned by the corporation in  
12 another project;

13 (4) make and execute appropriate agreements with insurers,  
14 investors, and guarantors concerning the temporary removal of residen-  
15 tial housing owned by the corporation from the resale market;

16 (5) demolish residential housing owned by the corporation  
17 if the corporation determines that

18 (A) the housing is substandard compared to housing  
19 available on the open market;

20 (B) the housing cannot be converted to a public or  
21 charitable use; and

22 (C) there is a substantial oversupply of similar  
23 housing on the open market;

24 (6) convert residential housing owned by the corporation  
25 that is designed and constructed for owner occupancy to another bene-  
26 ficial use;

27 (7) make bulk sales of property owned by the corporation  
28 under procedures and terms the corporation determines are in the best  
29 interests of the corporation;

1 (8) provide financing under terms established by the board  
2 to promote the sale of residential housing owned by the corporation if  
3 the board of directors determines that the terms of financing do not  
4 work an excessive hardship on competing individual sellers of residen-  
5 tial housing;

6 (9) invest funds of the corporation in the removal and  
7 disposal of substandard publicly owned residential housing if the  
8 board of directors determines that the investment is prudent, properly  
9 secured, and in the long-term best interests of the corporation;

10 (10) create subsidiary entities to implement a power con-  
11 ferred by this section and to provide insurance under AS 18.56.093 and  
12 18.56.095;

13 (11) work with the mortgagor to assist in mitigating,  
14 through loan restructuring and other methods, the financial hardship  
15 that may be present; and

16 (12) take other actions necessary, convenient, or desirable  
17 to carry out the powers granted in this subsection.

18 (b) The corporation shall implement the powers conferred by (a)  
19 of this section by adopting regulations under AS 18.56.088.

20 (c) In this section, "residence" includes mobile homes.

21 \* Sec. 3. AS 45.50.572 is amended by adding a new subsection to read:

22 (i) AS 45.50.562 - 45.50.596 do not prohibit activities of the  
23 Alaska Housing Finance Corporation to stabilize the market price of  
24 and demand for residential housing in the state under AS 18.56.210.

25 \* Sec. 4. (a) The stabilization fund is established in the Alaska  
26 Housing Finance Corporation. Notwithstanding AS 18.56.210(a)(9), the fund  
27 may be expended by the corporation to make a grant to a state agency to  
28 finance the cost of demolishing state-owned residential housing in the  
29 state.

1 (b) It is the intent of the legislature that the board of directors  
2 of the Alaska Housing Finance Corporation transfer \$2,700,000 from the  
3 Alaska Housing Finance revolving fund (AS 18.56.082) to the stabilization  
4 fund established in (a) of this section.

5 \* Sec. 5. Section 4 of this Act is repealed July 1, 1991.

6 \* Sec. 6. This Act takes effect immediately under AS 01.10.070(c).  
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FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_  
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Requestor: house Finance

Agency Affected: Revenue  
BKU: Alaska Housing Finance Corp.  
Components: \_\_\_\_\_

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 86	FY 89	FY 90	FY 91	FY 92	FY 93
<b>OPERATING</b>						
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	-	-	-	-	-
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
<b>TOTAL OPERATING</b>	-	-	-	-	-	-
<b>CAPITAL</b>	-	-	-	-	-	-
<b>REVENUE</b>	-	-	-	-	-	-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
<b>TOTAL</b>	-	-	-	-	-	-

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS: Impact undeterminable , see attached narrative

Prepared By: AHFC  
Division: Alaska housing Finance Corporation

Phone: 276-6599  
Date: 04/15/88

Approved by Commissioner: Hugh Malone  
Agency: Department of Revenue

Date: 465-2300

Distribution (by preparer):

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

ALASKA HOUSING FINANCE CORPORATION  
HB 432 Fiscal Note  
Narrative

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Unfortunately, in these economic times, AHFC is the owner of a large number of properties through the foreclosure process. As of February 29, 1988, AHFC held 2,852 single family homes, duplexes and condominiums, and 1,214 mobile homes in its inventory. Due to the depressed market, AHFC has incurred substantial losses on each piece of property received through foreclosure. Multiply this by the number of properties and the losses are significant, in the tens of millions of dollars. Mortgage insurance, both PMI and pool, help to mitigate these losses. Hence, insurance coverage is very important to AHFC.

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ec

April 1988

5-1644N  
Bradley  
4/25/88

Original sponsors: Donley, Ellis  
Boucher, et al.

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 432 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act authorizing the Alaska Housing Finance Corpo-  
7 ration to ACCEPT trades in certain cases stabilize the market price of and the  
8 demand for residential housing in the state; and  
9 providing for an effective date."

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

11 \* Section 1. PURPOSE & AUTHORIZATION  
12 LEGISLATIVE FINDINGS AND INTENT. (a) The legislature  
13 finds that

14 (1) a sizeable proportion of the residents of the state have  
15 mortgages that exceed both the present value of the property and the pre-  
16 sent ability of the mortgagors of the property to make payments agreed to  
17 in the past; [The purpose of this Act is to direct]

18 (2) it is desirable for the Alaska Housing Finance Corporation  
19 to use creative solutions to the present crisis in the housing market; [and  
20 AT THE SAME TIME] (3) the Alaska Housing Finance Corporation and federal agencies  
21 currently hold large portfolios of foreclosed residential housing;

22 (4) these governmental agencies should be permitted to cooperate  
23 in administering foreclosed properties to avoid further adverse effects on  
24 the state's real estate markets;

25 (5) it is in the state's best interests, in certain instances,  
26 to reduce the supply of residential housing in the state by demolishing  
27 substandard publicly owned residential housing and to permit the corpo-  
28 ration to seek disposal of surplus residences within the corporation's  
29 inventory;

(6) residential housing situated in condominium projects with

Deleted [(b)] pg 1 line 18-22  
 [(c)] pg 1 lines 24-29  
 [(d)] pg 1 line 29  
 pg 2 lines 1-2

[(e) In this section "Residence" includes mobile homes.]

high vacancy rates caused by defaults and foreclosures presents special problems because mortgage investors and insurers have established conditions relating to owner-occupancy that adversely affect the ability to sell or finance a mortgage loan secured by a condominium unit; and

(7) the maintenance of stable and orderly markets for the purchase and sale of residential housing in the state is essential to the economy of the state and the welfare of its citizens.

(b) The legislature intends to improve the stability of the state's market for residential housing. It is desirable to prevent a precipitous decline in the price of available housing that will erode the tax base of municipalities and further weaken the state's financial institutions. The legislature intends to accomplish these ends by government regulation of matters relating to the sale and disposition of residential housing held by financial institutions, the Alaska Housing Finance Corporation, and federal agencies. By authorizing the Alaska Housing Finance Corporation to exercise the market stabilization powers enacted in sec. 2 of this Act, the legislature intends to immunize to the fullest extent possible the board of directors of the Alaska Housing Finance Corporation against potential liability under federal antitrust and state antitrust, competition, and trade practices laws arising from the exercise of stabilization powers.

\* Sec. 2. AS 18.56 is amended by adding a new section to read:

Sec. 18.56.210. MARKET STABILIZATION POWERS. (a) If the board of directors determines that it is in the best interest of the corporation, the corporation may take appropriate action under this section to stabilize the market price of and demand for residential housing in the state. To accomplish the purposes of this section, the corporation may

(1) make and execute necessary agreements and conveyances under which a borrower may exchange residential housing securing a

1 mortgage loan owned, held, or sold by the corporation for other res-  
2 idential housing owned by the corporation;

3 (2) repurchase a mortgage loan sold or pledged by the  
4 corporation for the purpose of exercising a power conferred by this  
5 section;

6 (3) for the purpose of qualifying residential housing  
7 situated in a condominium project for the best available financing for  
8 mortgage loans, make and execute agreements and contracts necessary to  
9 encourage all owners who occupy units in a condominium project that is  
10 not eligible for financing under this chapter to exchange their owner-  
11 ship interest for a condominium unit owned by the corporation in  
12 another project;

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14 investors, and guarantors concerning the temporary removal of residen-  
15 tial housing owned by the corporation from the resale market;

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21 charitable use; and

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23 housing on the open market;

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26 ficial use;

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28 under procedures and terms the corporation determines are in the best  
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2 to promote the sale of residential housing owned by the corporation if  
3 the board of directors determines that the terms of financing do not  
4 work an excessive hardship on competing individual sellers of residen-  
5 tial housing;

6           (9) invest funds of the corporation in the removal and  
7 disposal of substandard publicly owned residential housing if the  
8 board of directors determines that the investment is prudent, properly  
9 secured, and in the long-term best interests of the corporation;

10          (10) create subsidiary entities to implement a power con-  
11 ferred by this section and to provide insurance under AS 18.56.093 and  
12 18.56.095;

13          (11) work with the mortgagor to assist in mitigating,  
14 through loan restructuring and other methods, the financial hardship  
15 that may be present; and

16          (12) take other actions necessary, convenient, or desirable  
17 to carry out the powers granted in this subsection.

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19 of this section by adopting regulations under AS 18.56.088.

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22          (i) AS 45.50.562 - 45.50.596 do not prohibit activities of the  
23 Alaska Housing Finance Corporation to stabilize the market price of  
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25 \* Sec. 4. (a) The stabilization fund is established in the Alaska  
26 Housing Finance Corporation. Notwithstanding AS 18.56.210(a)(9), the fund  
27 may be expended by the corporation to make a grant to a state agency to  
28 finance the cost of demolishing state-owned residential housing in the  
29 state.

1 (b) It is the intent of the legislature that the board of directors  
2 of the Alaska Housing Finance Corporation transfer \$2,700,000 from the  
3 Alaska Housing Finance revolving fund (AS 18.56.082) to the stabilization  
4 fund established in (a) of this section.

5 \* Sec. 5. Section 4 of this Act is repealed July 1, 1991.

6 \* Sec. 6. This Act takes effect immediately under AS 01.10.070(c).

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STATE OF ALASKA  
THE LEGISLATURE

POUCH Y STATE CAPITOL  
JUNEAU, ALASKA 99811  
907 465 3800


LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

April 25, 1988

SUBJECT: Stabilization fund  
[CSHB 432 (Fin)]

TO: Representative Al Adams, Chair  
House Finance Committee

FROM: Richard A. Bradley  
Legislative Counsel 

The bill is enclosed as requested.

We note that the bill has a result that may have been unintended.

It appears that each year the legislature reappropriates to AHFC all of its receipts, etc., for the purposes authorized by AS 18.56. See sec. 13 of the latest version of SB 432.

We note that Sec. 2 of this bill contains a permanent law section dealing with "market stabilization powers."

Given this section and the provisions of the Senate's appropriation act, SB 432, the stabilization fund and its legislative intent language in sec. 4 of the bill is superfluous; it appears to us that AHFC could spend more than the \$2.7 million and beyond the two year period -- assuming that the legislature continues to make the operating budget appropriation to AHFC in the future as broadly as it does now.

Two options seem possible. Under the first, the market stabilization powers, AS 18.56.210 as enacted in sec. 2 of the bill, could also be repealed in two years. Under the second, the stabilization fund could be eliminated from the bill and the board of directors could rely on the permanent law authority to do what it wished for that purpose.

These same comments apply to CSHB 555(Finance) that was requested at the same time and builds on the same sections.

If I may be of further assistance, please advise.

RAB:bb  
b5/038

Enclosure



# REPRESENTATIVE DAVE DONLEY

ALASKA STATE LEGISLATURE

DISTRICT ELEVEN • SPENARD

NORTHWOOD • SPENARD • THOMPSON • TURNAGAIN • UPPER MDTOWN • WINDEMERE

PO. BOX V, JUNEAU 99811

(907) 465-3892



CHAIRMAN  
LABOR AND COMMERCE  
COMMITTEE

MEMBER  
STATE AFFAIRS COMMITTEE  
HEALTH, EDUCATIONAL  
AND SOCIAL SERVICES COMMITTEE

DATE: February 29, 1988  
TO: Members of the Judiciary Committee  
FROM: Representative Dave Donley *DB*  
RE: HB 432 AHFC Trade-up/Trade-down

DESCRIPTION: TOTAL FUND EQUITY

Total fund equity is the difference of Assets and Liabilities of Alaska Housing Finance Corporation. Use of up to 1% of the Total Fund Equity of \$1,521,136 would make available approximately \$15,000,000 for HB 432.

Attached you will find the June 1987, Combining Balance Sheet of All funds available to AHFC.

## Combining Balance Sheet — All Funds

Alaska Housing Finance Corporation

June 30, 1987 (In Thousands)

	Revolving Fund			Combined Insurance Fund
	Corporation Operating	General Account	Home Ownership Fund	
<b>Assets</b>				
Cash	\$ 1,481	426	59	—
Investments	8,575	63,362	6,654	31,289
Mortgage loans and mortgage backed securities, net of discounts and allowance for loan losses	13,815	325,278	6,173	—
Mobile home loans, net of allowance for loan losses	5,033	26,744	69,042	—
Accrued interest receivable	134	3,345	681	200
Due from other funds	40,940	60,801	291	—
Real estate owned	—	6,816	102	—
Mobile homes owned	767	4,971	12,568	—
Other assets	945	4,416	—	—
	<u>171,690</u>	<u>496,159</u>	<u>95,570</u>	<u>31,489</u>
<b>Liabilities and Fund Equity</b>				
<b>Liabilities:</b>				
Bonds and notes payable, net of discounts:				
Mortgage bonds and notes	\$ —	—	—	—
Payable to State of Alaska	—	—	—	—
Commercial paper	—	4,973	—	—
Accrued interest payable	—	—	—	—
Insurance fund reserve for loan losses	—	—	—	5,585
Due to other funds	4,959	12,824	3,306	1,885
Accrued expenses and other liabilities	591	3,385	129	—
Total liabilities	<u>5,550</u>	<u>21,182</u>	<u>3,435</u>	<u>7,470</u>
<b>Fund equity:</b>				
<b>Contributed capital:</b>				
Designated as security for outstanding obligations or other purposes allowed within the respective fund	—	129,416	103,381	7,858
Interfund transfers representing loan subsidies and debt collateralization	—	60,574	—	3,900
Total contributed capital	—	<u>189,990</u>	<u>103,381</u>	<u>11,758</u>
<b>Retained earnings (deficit):</b>				
Designated as security for outstanding obligations or other purposes allowed within the respective fund	—	284,987	(11,246)	12,261
Undesignated	66,140	—	—	—
Total fund equity	<u>66,140</u>	<u>474,977</u>	<u>92,135</u>	<u>24,019</u>
Commitments	—	—	—	—
	<u>171,690</u>	<u>496,159</u>	<u>95,570</u>	<u>31,489</u>

Schedule 1

Combined Home Mortgage Bond	Combined State Guaranteed Bond	Combined Medium Term Note and Secured Bond	Combined State Assisted Mortgage Bond	Combined Residential Mortgage Bond	Combined Other Bonds and Notes	Combined
1,585	1,782	1,754	2,152	5	812	10,056
198,222	199,071	294,588	132,999	17,406	304,817	1,256,983
607,922	669,219	376,294	668,618	55,082	1,241,426	3,963,827
—	—	—	—	—	—	100,819
16,076	14,145	4,459	15,435	452	15,747	70,674
288	129	—	786	40	9,847	113,122
46,100	39,288	116	39,272	89	15,057	146,840
—	—	—	—	—	—	18,306
4,285	4,356	1,563	3,128	277	9,171	28,142
<u>874,479</u>	<u>927,990</u>	<u>678,774</u>	<u>862,390</u>	<u>73,351</u>	<u>1,596,877</u>	<u>5,708,769</u>
705,648	812,298	596,374	491,469	65,000	1,306,647	3,977,436
—	—	—	—	—	10,894	10,894
—	—	—	—	—	—	4,973
20,172	6,512	7,827	6,610	2,112	21,976	65,209
—	—	—	—	—	—	5,585
26,070	11,547	5,118	33,157	1,336	12,920	113,122
791	852	671	1,690	70	2,235	10,414
<u>752,681</u>	<u>831,209</u>	<u>609,990</u>	<u>532,926</u>	<u>68,518</u>	<u>1,354,672</u>	<u>4,187,633</u>
127,835	120,312	33,086	419,930	65	91,988	1,033,871
(3,803)	(14,587)	39,598	(81,214)	5,210	(9,678)	—
124,032	105,725	72,684	338,716	5,275	82,310	1,033,871
(2,234)	(8,944)	(3,900)	(9,252)	(442)	159,895	421,125
—	—	—	—	—	—	66,140
121,798	96,781	68,784	329,464	4,833	242,205	1,521,196
<u>874,479</u>	<u>927,990</u>	<u>678,774</u>	<u>862,390</u>	<u>73,351</u>	<u>1,596,877</u>	<u>5,708,769</u>

March 4, 1988  
Residential Interest Group for  
Housing Trades  
1001 Boniface #12J  
Anchorage, Alaska 99504  
(907) 337-5116

*Handwritten:*  
Muntl  
FYI  
HB 432

Representative Albert Adams  
Pouch V (MS 3100)  
Juneau, Alaska 99811

Re: House Bill 432

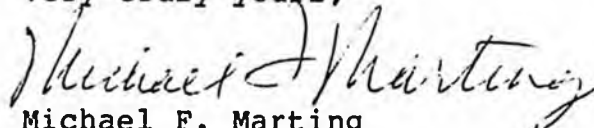
Dear Mr. Adams:

The Residential Interest Group for Housing Trades (RIGHT) is an organization comprised of Alaskan residents who presently own either single family or zero-lot line homes, condominiums or mobile homes (homeowners) financed through the Alaska Housing Finance Corporation (AHFC). It is the goal of RIGHT to develop and establish a program through which qualified homeowners may exchange their current residences and mortgages for residences previously foreclosed upon by the AHFC.

In an effort to assist the legislature in establishing a trade program under HB 432, RIGHT has prepared a proposal for the development of a trade program. A copy of that proposal is attached for your information and review. This document is being submitted to every member of the 15th Alaska Legislature, every mortgage insurer who insures mortgages of the Alaska Housing Finance Corporation as well as the Board of Directors of the Alaska Housing Finance Corporation in hopes of bringing all necessary parties together to establish a trade program.

As the enclosed proposal indicates, development of a trade program is in the best interests of everyone concerned. After reviewing the enclosed proposal, please feel free to contact us regarding any comments or questions you may have.

Very truly yours,



Michael F. Marting  
Board member,  
Residential Interest Group for  
Housing Trades

March 2, 1988  
Residential Interest Group for  
Housing Trades  
1001 Boniface #12J  
Anchorage, Alaska 99504

Rep. David Donley  
Alaska State Legislature  
P.O. Box V (MS 3100)  
Juneau, Alaska 99811

Re: House Bill 432

Dear Representative Donley:

The Residential Interest Group for Housing Trades (RIGHT) would like to take this opportunity to thank you for sponsoring House Bill 432. As you know, in its current form the bill does not provide a procedural framework through which trades may be realized. It is our understanding that the House Labor and Commerce Committee is currently considering the bill in an attempt to develop such a framework.

In order to assist you in your endeavor, RIGHT has analyzed and developed the following proposal for your consideration. We recognize that we are but one of the three parties involved and therefore urge you to meet with the other participants, Alaska Housing Finance Corporation (AHFC) and the mortgage insurers, in order to obtain successful passage of this legislation.

The downturn in Alaska's economy has caused thousands of residential foreclosures in this state. In 1987 AHFC foreclosures alone increased from the 1986 record of nearly 2,000 to over 3,700 representing an increase of 102%. This trend has continued unabated since 1984. See AHFC foreclosure statistics 1984-1987. This foreclosure rate may be attributed to both economic and non-economic factors.

Initially, many homeowners either lost their jobs or experienced some other decrease in earnings which left them unable to meet their financial obligations. Consequently, many homeowners defaulted on their mortgages. Foreclosures skyrocketed. Today, homeowners continue to default and face ultimate foreclosure due solely to economic reasons.

These initial "economic" foreclosures spawned a wave of "non-economic" foreclosures. As foreclosed residences were resold at depressed market values, homeowners began experiencing a continual decline in their property values to present levels substantially below their mortgage balances. Condominium, zero-lot line and mobile homeowners have been the groups most affected by the declining values. Faced with increasing negative equities, many homeowners have chosen foreclosure to avoid inevitable future losses. Although able to meet their financial obligations this group of homeowners default for "non-economic" reasons.

Nevertheless, many homeowners have not defaulted. Many are not only able to meet their current financial needs but are actually able to qualify for higher priced homes and mortgages. Many families have outgrown their homes. They seek to improve their standard of living but are prevented from doing so by their inability to sell their current residences which is necessary to purchase better housing. Given the likelihood that these homeowners will never again enjoy a positive equity position, there is nothing but a sense of ethics and moral obligation tying them to their loans. Their negative equities and inability to sell even at a loss leaves them not only frustrated and dissatisfied, but with little incentive to continue paying their mortgages. Currently, default is the only option available to improve their situation.

On the other hand, many people who have experienced a decrease in earnings are depleting their cash reserves in an effort to remain current on their mortgages. In many of these cases default will eventually occur. Although there are programs available to assist these homeowners, they provide only temporary relief at best. Moreover, these programs do not improve the homeowners equity position but worsen it thereby creating a yet greater incentive to default. As such, they merely delay the inevitable.

Each foreclosure increases the supply of housing available in the market thereby further decreasing market value. As values decline, more defaults occur and the cycle repeats. As a result, many lenders and mortgage insurers have unwittingly become real estate barons. Their assets have been converted from predominantly cash and securities to real property making them less liquid and less able to meet their cash needs. Additional foreclosures will only further deteriorate their financial positions.

The solution is obvious: decrease the current rate of foreclosures. This objective may be achieved in one of two ways:

1. The market can correct itself naturally without structured intervention by the private or public sectors. However, if current trends continue unchecked, there is little doubt that the market will not be corrected for many years. During this period, AHFC and its insurers will be forced to continue to acquire and maintain foreclosed residential property further depleting their cash reserves.

2. The market can be corrected through the development and implementation of a plan to reverse the trend in foreclosures. It is the objective of the Residential Interest Group for Housing Trades (RIGHT) to assist in developing such a program by allowing homeowners to trade their existing AHFC loans for residences previously foreclosed upon by the AHFC, thus providing more suitable and/or affordable housing for Alaskan homeowners. To develop a solution, we must first analyze the problem.

Whenever a foreclosure occurs three parties are directly affected:

1. the homeowner;
2. AHFC;
3. the mortgage insurance company.

The cost to each party is equal to 100% of its maximum exposure. The homeowners lose their residence and their credit is destroyed. AHFC loses future revenue and earnings in the form of mortgage payments and interest. Since AHFC is nearly 100% insured (see 1987 AHFC Annual Report, p. 4), it is the least impacted by foreclosure. Nevertheless, AHFC suffers its greatest loss with foreclosure.

It is the mortgage insurer that bears the greatest loss in terms of actual dollars. The insurer's policy limits are exceeded because of the low resale price. Accordingly, the insurer pays 100% of its maximum exposure on the property and now must also pay for upkeep of the residence if it obtains title. If not, resale and upkeep costs fall upon AHFC. In short, everyone loses everything in a foreclosure situation.

RIGHT envisions a situation wherein everyone wins a little. A typical trade would occur as follows:

1. The homeowner selects a residence for purchase from AHFC inventory. He then buys down his existing mortgage by paying to AHFC an amount equal to a percentage of the negative equity thus lowering the balance of that AHFC loan. He would then purchase the new home at its current market price financed through AHFC at 100% of its value;

2. The mortgage insurer would also buy down the mortgage by paying to AHFC an amount equal to a percentage of the maximum amount of its exposure had a foreclosure occurred. In exchange, AHFC would tender a policy release on that loan;

3. AHFC would then own the original property and be at liberty to dispose of it in a variety of ways. It could either sell the property or rent it as low income housing thus replacing the current blighted low income housing.

By adopting such a program everyone would benefit. The homeowner would be able to obtain, for a price, a better or more affordable home. His incentive to default produced by his current negative equity or financial distress would be eliminated.

The insurer has cut its losses from 100% to whatever percentage it agrees to pay for AHFC's policy release. Assuming the property purchased was from the insurer's inventory, the insurer has now sold to the homeowner one of its properties previously foreclosed upon. Since it has acquired no additional property in the trade, it has decreased its inventory and associated costs by one. Finally, trades will substantially decrease the number of foreclosures thus decreasing the potential for future losses.

AHFC directly benefits by the influx of cash from the homeowner and the insurer in "buying down" the mortgage. Moreover, such a program benefits AHFC by substantially decreasing future foreclosures. Although, arguably, AHFC may end up with less marketable property, this same result would occur were foreclosures to continue at current levels. The difference, however, is that in a trade situation AHFC receives cash at the time of repossession. In a foreclosure, AHFC receives nothing absent judgment and successful execution. Moreover, AHFC will be taking back a loan while at the same time financing a new one whenever a trade occurs thereby maintaining a steady cash flow which is not present in a foreclosure situation.

Although AHFC will accumulate an inventory of less desirable housing in the form of condominiums and mobile homes when low cost property is traded for higher priced residences, title to these dwellings will vest in one owner - AHFC. As a governmental agency, ultimate ownership by AHFC is more desirable than ownership by private mortgage insurers which usually occurs in a foreclosure. Unlike private enterprise, the government, through AHFC, is in a better position and has greater incentive to dispose of the property in such a way as will benefit the public good. Accordingly, the trade program could be utilized in conjunction with a program developed to dispose of the lower cost housing either through resale or rental as public housing or through demolition and removal (mobile homes) for resale in a more viable market.

Two factors must be kept in mind in structuring this program:

1. Costs - closing costs and realtor fees must be streamlined and reduced. For example, realtor commissions could be lowered from 6% through a competitive bidding process. Bank fees could be eliminated by direct financing through AHFC.

2. Homeowner costs - to make the program viable, the buy down payment required must be affordable. Further, should a party be unable to produce all of the buy down payment, alternative financing must be available. Perhaps a second deed of trust equal to the unpaid balance of the buy down payment could be taken out on the new home purchased through AHFC. Homeowners trading down could pay zero down, with their buy down cost transferred to the new loan.

In conclusion, RIGHT recognizes that the cost of improving the residential market should not be borne by any one group. Under current conditions the burden is placed solely upon the individual homeowner. As the foreclosure rate indicates, the homeowner is unwilling to accept this burden and it is ultimately AHFC and the mortgage insurers who must bear the loss. RIGHT offers a program through which all parties assume a share of the costs in exchange for a lessening of their burden.

Contrary to some beliefs, legislation is necessary to enable AHFC to effectuate a trade as no statute or regulation exists authorizing such activity by AHFC. In order to establish a trade program, the legislature must take steps

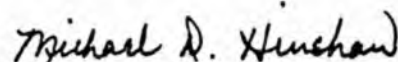
to obtain the attendance of all necessary parties at the bargaining table. This can best be achieved by the legislative appointment of a panel consisting of realtors, financial experts and representatives from AHFC, the mortgage insurance companies and the homeowners. We urge you to appoint a panel to review and develop a plan consistent with this proposal. Immediate action is necessary in order to obtain passage of this important piece of legislation during this session.

Again, thank you for your efforts in this matter. If you have any questions or wish to discuss this proposal in further detail, please do not hesitate to contact us.

Very truly yours,



Trena L. Heikes  
Co-chairman,  
Residential Interest Group for  
Housing Trades



Michael Hinshaw  
Co-chairman,  
Residential Interest Group for  
Housing Trades

pledge any additional assets or responsibility. There will be losses in the program irrespective of the quality of the underwriting standards, but these losses will appear at least a year or two in the future. We also recommend that there be a 1-to-4 ratio of reserves to program commitment at the start with the Board of AIDEA having the flexibility to adjust reserves to reflect actual experience. This means that there needs to be an appropriation of loans which will generate \$25 million if we are to do \$100 million in guarantees for the program to have the impact desired. We recommend a \$100 million program at the start.

3. HB 422 -- Payment for Purchases by Various Public Entities -- DCED supports this expansion of current law.
4. HB 429 -- Optional Exemption from Property Taxes on Vacated Land -- The Department is supportive of this concept and would suggest elimination of the limitation of its applications by removing the 30-year-old requirement on improvements currently included in the bill. So long as this proposal does not directly affect the revenues of the state, and is optimal for local governments, it should be considered.
5. HB 430 - 431 -- Neighborhood Business Development Programs and Appropriation -- The Department is conceptually supportive of these bills. We understand the difficulties associated with balancing the state's budget and do not represent that this is an essential \$3 million item. Hence, a threshold question is identifying a source of funding.

In addition to HB 429, 430, and 431, it is our perception that an appropriate public sector response to the supply/demand problem is public acquisition of developments for purposes of parks, neighborhood upgrade and to eliminate obsolete or nonconforming properties. Thus, special appropriations to entities such as the Heritage Land Bank and local governments would allow local governments and the state to take advantage of present price levels to improve the quality of life while beneficially impacting the supply/demand problem.

6. HB 432 -- AHFC Trades -- We are conceptually supportive of this bill; although by this time the Labor and Commerce Committee is fully cognizant of the limitations on AHFC's ability to unilaterally achieve the ends sought in this bill. The approach currently undertaken by the Labor and Commerce Committee seems to reasonably address this issue.

There are other changes in AHFC which would allow the agency to manage its revenues to be part of the solution rather than part of the problem. For example, AS 18.56.098 needs to be altered so that the interest rate formula is more flexible. Some recommended changes are:

Financial Provisions Changes - Currently, many AHFC financial provisions are "hard-wired." For instance, the interest rate formula as specified in AS 18.56.098 permits no flexibility in interest rate calculation, even though at times adding some flexibility could significantly help the market at little or no additional cost to AHFC.

One way to add some flexibility would be to develop a mechanism whereby the maximum amount of assistance that AHFC can provide for any individual loan is set, but the specific way in which it was applied would be flexible. Another possible change would be to permit more flexibility in the amount of assistance if the whole market was in bad shape. For instance, if the delinquency rate in a particular market exceeded, say, 10%. Additional assistance would have to be targeted at certain groups to achieve specified outcomes, or very quickly AHFC could use up its available resources.

For instance, assume AHFC wanted to target the condo market, either for trade ups to mid-high range condos, or to encourage the purchase of some of the many low end condos. Many of the current condo loans were based on a loan amount of \$75-80,000, with an interest rate of 10-12%. Consider the following figures:

<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Payment</u>
\$ 80,000	10%	\$702
125,000	6%	749
50,000	6%	300

In one case, a borrower can buy much more "house" for approximately the same payment, whereas in the other case, a borrower could buy a \$50,000 condo (which was likely originally an \$80,000 condo) for a payment of less than half of the original. Properly targeted this could help stabilize price and reduce the inventory of foreclosed properties. It is our belief that the "equity underwater" problem could be stabilized in targeted projects by offering financing opportunities for full prices sales.

Other changes would deal with AHFC's role in disposing of its real estate portfolio. For instance, if current plans are successful, AHFC could well own entire condo projects. These projects could eventually be sold as condos, but they might also be sold as apartment buildings. If AHFC were able to manage the building (via a contract) and perhaps provide financing to the ultimate buyer, the total loss might be much less. Possibly other types of nonowner-occupied financings to help in disposal of foreclosed properties should be added.

More flexibility would be most helpful in workout situations. HOAP will be sufficient for a great number of troubled borrowers, others will need far more assistance. AHFC, in conjunction with the applicable insurance companies, should be able to provide assistance to these borrowers in a variety of ways -- much lower interest rate, deferral of principal payments, etc. To hold down the ultimate cost of the program and to provide more assistance than is needed, AHFC should be able to design various approaches to recapturing some of this assistance if the property ever appreciates in value beyond its original loan amount.

We have discussed with various individuals the thought of establishing a subsidiary corporation of AHFC which would be granted broader powers to address critical issues in Alaska's current housing market. Such a subsidiary may be charged with acquisitions and/or eminent domain powers to achieve public purposes. Further, it could facilitate the consolidation of condominium owners to allow for the conversion of other condominium projects to other uses, including apartment complexes and public sector housing. We believe all such ideas should be explored in detail and are appropriate items to try to adopt this legislative session.

Lastly, AHFC should be given broader investment powers so that it could participate in acquisitions such as Hollywood Vista and Willow Park when it makes economic sense for the agency.

7. HB 433 -- Moratoriums on Judicial and Nonjudicial Foreclosures -- This is intended as a parochial attempt to preserve for Alaskans a greater opportunity to preserve their residence at the expense of lenders, a good portion of whom are nonresident. Similar legislation was adopted in two mid-western states as responses to the farm crisis. Their experience should be studied in detail before passage of this legislation.

While the approach has appeal on its surface, it appears to also generate considerable technical questions, especially with respect to bonded indebtedness of various Alaska debt issuers. Further, as probably the largest financier of Alaska real estate, various state entities, including the retirement funds, may be injured by this approach. We are also concerned about the potential ramifications if "outside" lenders respond to passage of this legislation by further restricting access of Alaskans to secondary money markets.

We are also confused by the language which suggests that a non-judicial foreclosure entitles the mortgagor to a right of redemption. This appears to be antithetical to the main purpose of nonjudicial foreclosures.

8. SCR xx -- Loan Approval Withheld for New Construction -- The Department ~~has been~~ asked to comment on a draft of this resolution. We do not agree with this approach. We do agree that financing agencies must be sensitive to the oversupply of several categories of real estate and should coordinate their financing policies to assure that they do not inadvertently exacerbate a serious problem. We also believe that the inventory of some classes of property may require additional construction to meet a growing demand in the near term. It would be much more appropriate, from our perspective, to allow market forces and coordinated state policy development, such as through the Alaska Housing Marketing Council, to address the concerns expressed in this draft resolution. For example, there are market segments which would be severely paralyzed by a generalized moratorium. It is more appropriate to add private sector representatives to the Housing Market Council.

We feel any response of this nature should be in the manner in which municipalities issue building permits and carry out inspections. As Chairman of AHFC, it seems indisputable that many of AHFC's problem projects were not inspected.

#### Other

Bridge Bank and Hallwood Trust - we conceptually support these, as well as other initiatives to have assets held by the FDIC or banks managed to minimize the adverse impact on the economy. There needs to be consideration given to both the management difficulties and the carrying costs which will be incurred. In addition, we need to recognize that any state guarantee or stand-by letter of credit could most likely be used.

There are three possible options at this time. Any one, or a combination of these, may work. They are the Anchorage Economic Development Corp., the Sealaska REIT group, and the Hallwood Trust. Should the state choose to participate in one of these structures, it should be prepared to contribute cash as well as properties. Cash flows to fund such an entity will not likely, in the short run, be sufficient to meet expenses. Hence, initial capitalization will be important to help assure success -- understanding that success includes the avoidance of increases of property liquidations.

#### Distribution

Garrey Peska, Chief of Staff, Office of the Governor  
Bob Evans, Legislative Liaison, Office of the Governor  
The Honorable Jan Faiks  
The Honorable Max Gruenberg  
The Honorable David Donley  
Gregg Erickson, Office of Management & Budget,

JAS/sh5144M  
3488c

Original sponsors: Donley, Ellis,  
Boucher, et al.

1 IN THE HOUSE BY THE JUDICIARY COMMITTEE

2 CS FOR HOUSE BILL NO. 432 (Judiciary)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act authorizing the Alaska Housing Finance Corpo-  
7 ration to accept trades in certain cases; and provid-  
8 ing for an effective date."

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

10 \* Section 1. PURPOSE AND AUTHORIZATION. (a) The legislature finds  
11 that a sizeable proportion of the residents of the state have mortgages  
12 that exceed both the present value of the property and the present ability  
13 of the mortgagors of the property to make the payments agreed to in the  
14 past. The purpose of this Act is to direct the Alaska Housing Finance  
15 Corporation to use creative solutions to the present crisis in the housing  
16 market and, at the same time, to permit the corporation to seek the dis-  
17 posal of surplus residences within the corporation's inventory.

18 (b) The Alaska Housing Finance Corporation may permit mortgagors who  
19 are experiencing difficulty in meeting their mortgage payments to return  
20 the residence and its mortgage to the Alaska Housing Finance Corporation  
21 and to enter into a new mortgage for different residential property subject  
22 to the control of the corporation at payments that are more within the  
23 ability of the mortgagors.

24 (c) The Alaska Housing Finance Corporation may also permit a mortga-  
25 gor who is willing to accept the responsibility for a larger mortgage to  
26 offer an existing residence and its mortgage to the corporation and enter  
27 into a new mortgage for different residential property subject to the  
28 control of the corporation.

29 (d) The Alaska Housing Finance Corporation and the mortgagor shall in

1 each case work to assist in mitigating, through loan restructuring and  
2 other methods, the financial hardship that may be present.

3 (e) In this section, "residence" includes mobile homes.

4 \* Sec. 2. This Act is repealed July 1, 1991.

5 \* Sec. 3. This Act takes effect immediately under AS 01.10.070(c).

1 IN THE HOUSE

BY DONLEY, ELLIS, BOUCHER, KOPONEN,  
FURNACE, MENARD, BROWN, GRUENBERG,  
BOYER, COLLINS, ULMER, HUDSON AND  
ZAWACKI

2

HOUSE BILL NO. 432

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

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FIFTEENTH LEGISLATURE - SECOND SESSION

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