

C S H B

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SENATE COMMITTEE REPORT

FURTHER

4/30/88

DATE TURNED INTO OFFICE 5/7/88

Mr. President:

Finance Committee considered CSHB 432 (JUD)

authorizing the Alaska Housing Finance Corporation to accept trades in certain cases; efd

and recommended

[] replace with _____ CS _____) [] same title
[] or adopt _____ CS _____) [] new title

[] attached amendment(s) and

[] do pass

[] do not pass

[] no recommendation

[x] individual recommendations

[] further referral to _____

[] letter of intent adopted _____

Committee [] attached or [] adopted fiscal note(s)

[] new [] updated or [x] previous ODOR
[x] zero [] fiscal impact

MEMBERS SIGNING DO PASS

[Signature]

OTHER RECOMMENDATIONS

[Signature]
Dan Fish No Rec
John B. [Signature] No Rec

[Signature] do pass
Chairman signature and recommendation

[] Committee Backup attached

STATE OF ALASKA
1988 LEGISLATIVE SESSION

BILL VERSION: CSHB 432 (JUD)
PUBLISH DATE: HOUSE 4/8/88

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 Judiciary

Agency Affected: Revenue
Bku: AhFC
Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 88	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: (Attach a separate page if necessary)

Impact undeterminable (see attached memo)

Prepared By: AhFC Phone: 276-5599
Division: Alaska Housing Finance Corporation Date: 4/6/88
Approved by Commissioner: Hugh Malone Date: 465-2300
Agency: Department of Revenue

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

CSHB 432 (FIN)
HOUSE 4/27/88ALASKA 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

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).

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.

March 7, 1988

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

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.

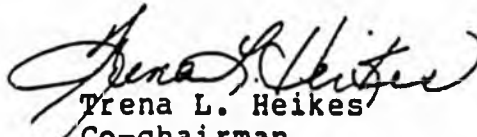
In conclusion, RIGHT recognizes that the cost of improving the residential market should not be borne by any one group. Under current conditions the burden is placed solely upon the individual homeowner. As the foreclosure rate indicates, the homeowner is unwilling to accept this burden and it is ultimately 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

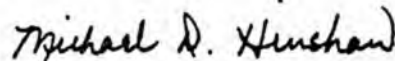
to obtain the attendance of all necessary parties at the bargaining table. This can best be achieved by the legislative appointment of a panel consisting of realtors, financial experts and representatives from AHFC, the mortgage insurance companies and the homeowners. We urge you to appoint a panel to 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

REPRESENTATIVE DAVE DONLEY

ALASKA STATE LEGISLATURE

PO. BOX V, JUNEAU 99811

DISTRICT ELEVEN • SPENARD

(907) 465-3892

NORTHWOOD • SPENARD • THOMPSON • TURNAGAIN • UPPER MIDTOWN • WINDEMERE



RECEIVED MAY 2 1988

CHAIRMAN
LABOR AND COMMERCE
COMMITTEE

MEMBER
STATE AFFAIRS COMMITTEE
HEALTH, EDUCATIONAL
AND SOCIAL SERVICES COMMITTEE

DATE: May 2, 1988

TO: Senator John Binkley, Co-chair
Senator Rick Halford, Co-chair
Senate Finance Committee

FROM: Representative Dave Donley

SUBJECT: Request for Hearing, House Bill 432
"An Act Authorizing the Alaska Housing Finance Corporation
to Accept Trades in Certain Cases; and Providing for an
Effective Date."

I am writing to request that the Senate Finance Committee schedule HB 432, "An Act Authorizing the Alaska Housing Finance Corporation to Accept Trades in Certain Cases; and Providing for an Effective Date." commonly known as the AHFC Trade-up and Trade-down Bill for a committee hearing at your earliest convenience.

As you know there seems to be a "gridlock" within the housing market and especially among the Alaska Housing Finance Corporation's foreclosed properties. This has created serious hardships on Alaskan families. I felt it was necessary to introduce a piece of legislation like HB 432 to allow movement in the market place.

Many citizens across the state have expressed to me their desire to take part in a trade program if one was available. Because AHFC has such a large part of the market it is important that they take a lead in this type of program.

HB 432 is designed to help AHFC solve the problem within the housing market as well as give flexibility to their program to deal with the ever growing foreclosures.

This legislation has been identified as needed by the Attorney General's office and the Board of Directors of the Alaska Housing Finance Corporation in order to do the Trade-up and Trade-down program as well as other innovative programs to solve the housing crisis.

Thank you for considering my request and if you have any questions please feel free to contact me or my legislative aide, Mark Begich at 3892.

HB 432

STEVE COWPER
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

April 26, 1988

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

Dear Chairman Adams:

As you know, the Alaska Housing Finance Corporation (AHFC) has been working closely with the Legislature on methods to stabilize the housing market while maintaining the value of residential property.

There has been much discussion and testimony on residential exchanges, demolition of substandard housing, refinancing of existing mortgages, conversion of housing units to other beneficial uses, and temporary removal from the resale market of residential housing owned by the corporation. The April 25, 1988 draft House Finance Committee Substitute for HB 432 would give AHFC the flexibility to act in a prudent manner to help accomplish the goal of market stabilization. Creation of the stabilization fund within AHFC to assist in financing the cost of demolishing state-owned residential housing is a positive step toward economic recovery.

To that end, I support the efforts of the sponsors of this legislation, the House Committee on Joint Economic Recovery, and the House Finance Committee in drafting this bill.

Sincerely,

Steve Cowper
Governor

148432

AHFC directors plan condo-trading project

By STAN JONES
Daily News reporter

The directors of the Alaska Housing Finance Corp. on Friday approved a proposal to shore up the ravaged Anchorage condominium market by emptying out some developments to fill others.

The projects emptied out would be demolished, converted to other uses — like apartments or public housing — or warehoused until conditions improve.

The legislature, mortgage insurance companies and perhaps other lenders must approve the plan before it can take effect, said Ron Lehr, AHFC executive director.

The state agency has 6,860 condo loans outstanding, but Lehr said he didn't yet have an estimate of how many owners might want to trade. AHFC has foreclosed on more than 1,300 condos, and a

quarter of its outstanding condo loans are delinquent.

The plan would work like this, according to a memo from Lehr:

Certain condo projects, called donor projects, would be selected to be emptied. These would likely be low-end developments with low occupancy, low salability, and possibly construction problems.

Other projects with fewer problems would be identified as receptor projects.

Owners in the donor projects would be allowed to trade their condos for units in the receptor projects.

A trader's buying power would be equal to the value of the condo he was abandoning, plus an "exchange credit" of as-yet undetermined magnitude. His original loan would be carried over to the new property.

If the cost of the new unit exceeded the trader's buying power, he could make up the difference by putting cash into the deal or possibly by taking out a new loan.

In addition to allowing the exchange credit, AHFC would pay the trader's moving costs, Lehr said.

Lehr said he expects to have a detailed "concept paper" to present to the various parties to the plan within two or three weeks.

In other business Friday, AHFC directors dropped plans for a stabilization fund that would have been used to make grants to state or municipal agencies, which the agencies would have spent to demolish substandard housing or to buy AHFC-owned real estate.

NOV 15 1988

REPRESENTATIVE DAVE DONLEY

ALASKA STATE LEGISLATURE

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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)

	Corporation Operating	Revolving Fund		Combined Insurance Fund
		General Account	Home Ownership Fund	
Assets				
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	40,942	60,801	291	—
Real estate owned	—	6,816	102	—
Mobile homes owned	767	4,971	12,568	—
Other assets	945	4,416	—	—
	<u>\$71,690</u>	<u>496,159</u>	<u>95,570</u>	<u>31,489</u>
Liabilities and Fund Equity				
Liabilities:				
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>
Fund equity:				
Contributed capital:				
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>—</u>	<u>189,990</u>	<u>103,381</u>	<u>11,758</u>
Retained earnings (deficit):				
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>\$71,690</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
4,286	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	5,512	7,827	6,610	2,112	21,976	65,309
—	—	—	—	—	—	5,585
26,070	11,547	5,118	31,157	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>4,187,631</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	1,531,136
<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

Amended
FY:
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

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