

SB

209

SENATE COMMITTEE REPORT

FURTHER:

DATE TURNED INTO OFFICE 5/1/87 (5/5/87)

Mr. President:

FINANCE

Committee considered SB 209

mortgage loans purchased by the Alaska Housing Finance Corporation; relating to bonds issued by the Alaska Housing Finance Corporation; efd.

and recommended:

replace with _____ CS FOR SB 509 (Jud)) same title
 or adopt _____ CS FOR _____) new title

attached amendment(s) and

do pass

do not pass

no recommendation

individual recommendations

further referral to _____

letter of intent adopted _____

Committee attached or adopted fiscal note(s)

new updated or previous
 zero fiscal impact

MEMBERS SIGNING DO PASS

OTHER RECOMMENDATIONS

[Signature]
[Signature]
Paul F. Cook
[Signature]
[Signature]
[Signature]

[Signature] No Rec.
Chairman signature and recommendation

Committee Backup Attached

5

**STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE**

REQUEST: _____

Bill Version: SB209
Publish Date: _____

Revision Date: _____
Title: An Act relating to mortgage loans
purchased by Alaska Housing Finance Corp.
Sponsor: _____
Requestor: Governor

Agency Affected: Revenue
ARU: Alaska Housing Finance Corporation

Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
---------	-----	-----	-----	-----	-----	-----

REVENUE	-0-	-0-	-0-	-0-	-0-	-0-
---------	-----	-----	-----	-----	-----	-----

FUNDING: (Thousands of Dollars)

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

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS :

*Reported Out
5/1/87
as HB 209 (old)*

Prepared by: Ron Lehr
Division: Alaska Housing Finance Corporation

99
6, 1987

Approved by Commissioner: _____ Date: _____
Agency: _____

Distribution (by preparer):

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

Original sponsor: Rules/Governor

1 IN THE SENATE BY THE JUDICIARY COMMITTEE
2 CS FOR SENATE BILL NO. 209 (Judiciary)
3 IN THE LEGISLATURE OF THE STATE OF ALASKA
4 FIFTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to mortgage loans purchased or made
7 by the Alaska Housing Finance Corporation; relating
8 to bonds issued by the Alaska Housing Finance Corpo-
9 ration; and providing for an effective date."

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

11 * Section 1. AS 18.56.096(b) is amended to read:

12 (b) The loan-to-value limitation established in (a)(4) of this
13 section does not apply to a mortgage [QUALIFIED] loan that is feder-
14 ally insured or guaranteed. The loan-to-value limitations established
15 in (a)(1) and (4) of this section do not apply to a mortgage loan that
16 is a refinancing mortgage loan under AS 18.56.102.

17 * Sec. 2. AS 18.56.098(a) is amended to read:

18 (a) The corporation shall establish a special mortgage loan
19 purchase program. Under the special mortgage loan purchase program,
20 the corporation may purchase [REFINANCING LOANS OR] first or second
21 mortgage loans. A first or second mortgage loan purchased under this
22 subsection must be [, INCLUDING GRADUATED PAYMENT MORTGAGE LOANS,]
23 made for the purchase, improvement, or rehabilitation of a residence
24 or must be a refinancing loan. First or second mortgage loans pur-
25 chased under this subsection may include graduated payment mortgage
26 loans and adjustable rate mortgage loans [RESIDENCES].

27 * Sec. 3. AS 18.56.098(g) is amended by adding a new paragraph to read:

28 (7) The corporation shall determine the interest rate on a
29 mortgage loan that is an adjustable rate mortgage loan as provided in

1 this subsection. The corporation shall recalculate the interest rate
2 from time to time based on changes in the cost to the corporation of
3 the funds used to purchase the adjustable rate mortgage loan. Howev-
4 er, the corporation may establish a minimum interest rate applicable
5 to an adjustable rate mortgage loan, and the interest rate on the
6 adjustable rate mortgage loan may not be less than the minimum inter-
7 est rate so established regardless of the cost of funds to the corpo-
8 ration.

9 * Sec. 4. AS 18.56 is amended by adding a new section to read:

10 Sec. 18.56.102. SIMPLIFIED REFINANCING MORTGAGE LOAN PURCHASE
11 PROGRAM. (a) The corporation shall establish a simplified refinanc-
12 ing mortgage loan purchase program. Under the simplified refinancing
13 mortgage loan purchase program, the corporation may purchase refinanc-
14 ing mortgage loans to provide relief to borrowers under circumstances
15 described by regulations adopted by the corporation.

16 (b) AS 18.56.098(c), (e), and (k) apply to refinancing mortgage
17 loans purchased under (a) of this section.

18 (c) Subject to (d) of this section, the interest rate on a
19 refinancing mortgage loan purchased under (a) of this section is three
20 percent less than the cost to the corporation of the money used to
21 purchase the refinancing mortgage loan, except that if the cost of
22 money

23 (1) is 10 percent or less, the interest rate is equal to
24 the cost of money; and

25 (2) is more than 10 percent, the interest rate may not be
26 less than 10 percent.

27 (d) If the refinancing mortgage loan is an adjustable rate
28 mortgage loan, the corporation shall establish the initial interest
29 rate as provided in (c) of this section and shall recalculate the

1 interest rate from time to time in accordance with (c) of this sec-
2 tion. However, notwithstanding (c)(1) of this section, the corpo-
3 ration may establish a minimum interest rate applicable to an adjust-
4 able rate refinancing mortgage loan; the interest rate on the adjust-
5 able rate refinancing mortgage loan may not be less than the minimum
6 interest rate so established, regardless of the cost of money to the
7 corporation. The corporation may adopt regulations to implement this
8 section, including regulations to define "cost of money" for purposes
9 of this section. The regulations may provide for recalculation of the
10 cost of money under this subsection at the times and frequencies the
11 corporation considers appropriate. The time and frequency for a
12 recalculation under this subsection is not required to match the time
13 or frequency of a change in the cost of money to the corporation.

14 (e) Equity extraction may not be allowed under this program.

15 (f) In this section, "refinancing mortgage loan" means a loan
16 refinancing another mortgage loan owned by the corporation.

17 * Sec. 5. AS 18.56.106(b) is amended to read:

18 (b) The corporation shall adopt regulations under this section
19 that establish conditions and terms for nonconforming housing loans
20 including terms and conditions relating to owner and nonowner occu-
21 pancy, the number of loans that may be made to a single borrower, and
22 borrower eligibility requirements. The corporation shall permit loans
23 under this section for nonconforming housing located on land to which
24 a borrower has agricultural rights.

25 * Sec. 6. AS 18.56.110(g) is amended to read:

26 (g) Notwithstanding AS 18.56.090(12) and (a) of this section,
27 the corporation may not issue bonds [, OTHER THAN REFUNDING BONDS,] in
28 any 12-month period beginning after June 30, 1983, in an amount that
29 exceeds the amount of bonds authorized to be issued during the

1 preceding period, unless a different amount is authorized by the
2 legislature. This subsection does not apply to the issuance by the
3 corporation of refunding bonds or to the issuance by the corporation
4 of bonds the proceeds of which are intended to be used to refinance
5 mortgage loans held by the corporation.

6 * Sec. 7. AS 18.56.900 is amended by adding a new paragraph to read:

7 (13) "adjustable rate mortgage loan" means a mortgage loan with
8 respect to which the interest rate varies or is expected to vary from
9 time to time by reference to an index or formula or other reference
10 point.

11 * Sec. 8. This Act takes effect immediately under AS 01.10.070(c).

Alaska HOUSING FINANCE CORPORATION



April 28, 1987

The Honorable Fran Ulmer
Representative, State of Alaska
Port Office Box A
Juneau, AK 99811

Dear Representative Ulmer:

The purpose of this letter is to provide the information you requested on AHFC's proposed Simplified Refinance Program. Specifically, you wanted to know what the financial effect on AHFC would be both in terms of total resources and liquidity. As I explained, because the actual interest rates of the proposed program are, of course, unknown, and because the existing loans and bond issues that would be affected by this program cover such a wide range, it is impossible to provide an exact description of what will happen. However, I believe that it is possible to provide a representative example that can be used to understand the financial impact of this program on AHFC.

My procedure will involve the comparison of a representative "old" loan versus a "new" loan, under two different circumstances, and then a comparison of an "old" versus a "new" bond issue. The following assumptions will be used:

Old Loans

These are intended to represent the existing loans that would be refinanced by the proposed program. Assume that the loan rate is 10% and the total cost of funds (bond costs plus servicing and other costs) is 13%. Hence, there would be a 3% subsidy on these loans. Please note that this hypothetical loan (and bond) are intended to represent an average example of those loans which we believe would refinance under this program. In fact, the Corporation has loan rates ranging from under 7% to over 18%, and subsidies ranging from 0% to over 7%.

Also, assume these loans all have the Alaskan's Building Equity (ABE) graduated payment structure, hence average loan length about 17 years. Finally, assume the average loan balance is \$87,000.

New Loans

These are intended to represent the new loan that would be made under the Simplified Refinance Program. Since these loans would be adjustable rate mortgages based upon floating rate debt, calculation of a potential subsidy is much more problemmatical. For purposes here, assume the WORST case, that is the loan rate to the borrower is at 10% throughout the 20 year life of the loan. The total cost of funds, in this worst case, is assumed to be 10% for the first three years, and then 13% for the remaining life of the loan. Again, assume an \$87,000 loan.

Case 1: Loans stay out their entire stated maturity

Subsidy for old loan - \$18,121

Maximum subsidy for new loan - \$11,992

Case 2: Loans are paid off after five years (based on expected average life)

Subsidy for old loan - \$10,001

Maximum subsidy for new loan - \$3,346

Case 3: Overcollateralization for bond issues

Financial considerations require that the maximum possible amount needed for subsidy be made available at the time of a bond issue in the form of "overcollateralization". That is, it requires a greater dollar amount of loans than there are bonds, based upon the presumption that the interest rate is lower on the loans than it is on the bonds. Other up-front costs for bond issues are the various issuance costs, which must be paid at the time of issuance, and which are recovered from the borrowers as part of their interest rate. The following values are based upon the subsidy calculations of Case 1, assuming a \$100 million bond issue, and bond issuance costs and reserves not related to possible subsidies.

Overcollateralization for

old bond issue - \$20.8 million, or approximately 21%

Overcollateralization for

new bond issue - \$18.8 million, or approximately 19%

The Honorable Fran Ulmer
April 29, 1987
Page Three

One point is essential with respect to all of these figures. The examples for the old loans represent guaranteed subsidies, whereas the examples for the new loans represent the worst possible case of subsidies. It is far more likely that for the new loans there will be either no subsidies, or very little subsidies. Furthermore, as the years go by and the subsidy is not needed (for the new loans) the excess collateral can be freed up from the bond issues so that it can be used for other corporate purposes, such as supporting future bond issues.

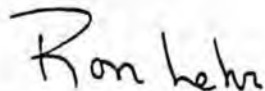
Finally, as new loans are made, and old loans are (simultaneously) paid off, the old bond issues that were the source of funds for the old loans can also be paid off. As the old bond issues are paid off, this frees up the excess overcollateralization that was pledged to support the old bond issue. This collateral can be used as the source of overcollateralization for new bond issues - that is, it can be recycled, so to speak. Hence, the net effect on AHFC with respect to overcollateralization from the Simplified Refinance would be nil.

Two further questions are obvious. First, how representative is the example? We believe it is quite valid, since, using a 10% loan rate as a floor, AHFC then has loan rates ranging from 10% to over 18%, with accompanying subsidies ranging from 1% to over 7% - so this represents a middle ground. Second, won't there be a time when both the old and new bond issues are out, that is, before the old bond issue can be totally called. Yes, there will be, but we believe that for the most part this "double bond issue" situation will be resolved within one year from the start of the program.

I hope this answers the questions that you raised about the proposed program. Please pardon me for using this opportunity to advertise on behalf of the program, however I think it is important to stress that the significance of this program runs far beyond expected levels of overcollateralization. Assuming the program works as intended, it will lower house payments for thousands of Alaskans, it will pump millions of dollars into the Alaskan economy, and it will save AHFC millions of dollars in subsidies.

Please let me know if I can provide any further information on the Simplified Refinance Program.

Sincerely,



Dr. Ronald D. Lehr
Executive Director

RDL:de

1 IN THE SENATE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2

SENATE BILL NO. 209

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

6

For an Act entitled: "An Act relating to mortgage loans purchased by the
7 Alaska Housing Finance Corporation; relating to bonds
8 issued by the Alaska Housing Finance Corporation; and
9 providing for an effective date."

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

11 * Section 1. AS 18.56.096(b) is amended to read:

12 (b) The loan-to-value limitation established in (a)(4) of this
13 section does not apply to a mortgage [QUALIFIED] loan that is federal-
14 ly insured or guaranteed. The loan-to-value limitations established
15 in (a)(1) and (4) of this section do not apply to a mortgage loan that
16 is a refinancing mortgage loan under AS 18.56.102.

17 * Sec. 2. AS 18.56.098(a) is amended to read:

18 (a) The corporation shall establish a special mortgage loan
19 purchase program. Under the special mortgage loan purchase program,
20 the corporation may purchase [REFINANCING LOANS OR] first or second
21 mortgage loans. A first or second mortgage loan purchased under this
22 subsection must be [, INCLUDING GRADUATED PAYMENT MORTGAGE LOANS,]
23 made for the purchase, improvement, or rehabilitation of a residence
24 or must be a refinancing loan. First or second mortgage loans pur-
25 chased under this subsection may include graduated payment mortgage
26 loans and adjustable rate mortgage loans [RESIDENCES].

27 * Sec. 3. AS 18.56.098(g) is amended by adding a new paragraph to read:

28 (7) The corporation shall determine the interest rate on a
29 mortgage loan that is an adjustable rate mortgage loan as provided in

1 this subsection. The corporation shall recalculate the interest rate
2 from time to time based on changes in the cost to the corporation of
3 the funds used to purchase the adjustable rate mortgage loan. Howev-
4 er, the corporation may establish a minimum interest rate applicable
5 to an adjustable rate mortgage loan, and the interest rate on the
6 adjustable rate mortgage loan may not be less than the minimum inter-
7 est rate so established regardless of the cost of funds to the corpo-
8 ration.

9 * Sec. 4. AS 18.56 is amended by adding a new section to read:

10 Sec. 18.56.102. SIMPLIFIED REFINANCING MORTGAGE LOAN PURCHASE
11 PROGRAM. (a) The corporation shall establish a simplified refinanc-
12 ing mortgage loan purchase program. Under the simplified refinancing
13 mortgage loan purchase program, the corporation may purchase refinanc-
14 ing mortgage loans to provide relief to borrowers under circumstances
15 described by regulations adopted by the corporation.

16 (b) AS 18.56.098(c), (e), and (k) apply to refinancing mortgage
17 loans purchased under (a) of this section.

18 (c) Subject to (d) of this section, the interest rate on a
19 refinancing mortgage loan purchased under (a) of this section is three
20 percent less than the cost to the corporation of the money used to
21 purchase the refinancing mortgage loan, except that

22 (1) if the cost of money is 10 percent or less, the inter-
23 est rate is equal to the cost of money; and

24 (2) if the cost of money is more than 10 percent, the
25 interest rate may not be less than 10 percent.

26 (d) If the refinancing mortgage loan is an adjustable rate
27 mortgage loan, the corporation shall establish the initial interest
28 rate as provided in (c) of this section and shall recalculate the
29 interest rate from time to time in accordance with (c) of this

1 section. However, notwithstanding (c)(1) of this section, the corpo-
2 ration may establish a minimum interest rate applicable to an adjust-
3 able rate refinancing mortgage loan; the interest rate on the adjust-
4 able rate refinancing mortgage loan may not be less than the minimum
5 interest rate so established, regardless of the cost of money to the
6 corporation. The corporation may adopt regulations to implement this
7 section, including regulations to define "cost of money" for purposes
8 of this section. The regulations may provide for recalculation of the
9 cost of money under this subsection at the times and frequencies the
10 corporation considers appropriate. The time and frequency for a
11 recalculation under this subsection is not required to match the time
12 or frequency of a change in the cost of money to the corporation.

13 (e) Equity extraction may not be allowed under this program.

14 (f) In this section, "refinancing mortgage loan" means a loan
15 refinancing another mortgage loan owned by the corporation.

16 * Sec. 5. AS 18.56.110(g) is amended to read:

17 (g) Notwithstanding AS 18.56.090(12) and (a) of this section,
18 the corporation may not issue bonds [, OTHER THAN REFUNDING BONDS,] in
19 any 12-month period beginning after June 30, 1983, in an amount that
20 exceeds the amount of bonds authorized to be issued during the preced-
21 ing period, unless a different amount is authorized by the legisla-
22 ture. This subsection does not apply to the issuance by the corpo-
23 ration of refunding bonds or to the issuance by the corporation of
24 bonds the proceeds of which are intended to be used to refinance
25 mortgage loans held by the corporation.

26 * Sec. 6. AS 18.56.900 is amended by adding a new paragraph to read:

27 (13) "adjustable rate mortgage loan" means a mortgage loan with
28 respect to which the interest rate varies or is expected to vary from
29 time to time by reference to an index or formula or other reference

1 point.

2 * Sec. 7. This Act takes effect immediately under AS 01.10.070(c).

wo1327sL ✓
Levy
4/30/87

Original sponsor: Rules/Governor

1 IN THE SENATE

BY THE FINANCE COMMITTEE

2 CS FOR SENATE BILL NO. 209 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to mortgage loans purchased or made
7 by the Alaska Housing Finance Corporation; relating
8 to bonds issued by the Alaska Housing Finance Corporation; and providing for an effective date."
9

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

11 * Section 1. AS 18.56.096(b) is amended to read:

12 (b) The loan-to-value limitation established in (a)(4) of this
13 section does not apply to a mortgage [QUALIFIED] loan that is feder-
14 ally insured or guaranteed. The loan-to-value limitations established
15 in (a)(1) and (4) of this section do not apply to a mortgage loan that
16 is a refinancing mortgage loan under AS 18.56.102.

17 * Sec. 2. AS 18.56.098(a) is amended to read:

18 (a) The corporation shall establish a special mortgage loan
19 purchase program. Under the special mortgage loan purchase program,
20 the corporation may purchase [REFINANCING LOANS OR] first or second
21 mortgage loans. A first or second mortgage loan purchased under this
22 subsection must be [, INCLUDING GRADUATED PAYMENT MORTGAGE LOANS,]
23 made for the purchase, improvement, or rehabilitation of a residence
24 or must be a refinancing loan. First or second mortgage loans pur-
25 chased under this subsection may include graduated payment mortgage
26 loans and adjustable rate mortgage loans [RESIDENCES].

27 * Sec. 3. AS 18.56.098(g)(1) is amended to read:

28 (1) The interest rate on the first \$90,000 of a mortgage
29 loan purchased with the issue of taxable bonds of the

CSSB 209(Fin)

As / This version never considered SFC members do not have copies

621509

wo1327sL ✓
Levy
4/30/87

5/1/87

Original sp

CS SB 209 (Fin)

*This version
never considered*

1 IN THE SENATE

*SFC members do
not have copies*

BY THE FINANCE COMMITTEE

209 (Finance)

3 E STATE OF ALASKA

4 - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to mortgage loans purchased or made
7 by the Alaska Housing Finance Corporation; relating
8 to bonds issued by the Alaska Housing Finance Corpo-
9 ration; and providing for an effective date."

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

11 * Section 1. AS 18.56.096(b) is amended to read:

12 (b) The loan-to-value limitation established in (a)(4) of this
13 section does not apply to a mortgage [QUALIFIED] loan that is feder-
14 ally insured or guaranteed. The loan-to-value limitations established
15 in (a)(1) and (4) of this section do not apply to a mortgage loan that
16 is a refinancing mortgage loan under AS 18.56.102.

17 * Sec. 2. AS 18.56.098(a) is amended to read:

18 (a) The corporation shall establish a special mortgage loan
19 purchase program. Under the special mortgage loan purchase program,
20 the corporation may purchase [REFINANCING LOANS OR] first or second
21 mortgage loans. A first or second mortgage loan purchased under this
22 subsection must be [, INCLUDING GRADUATED PAYMENT MORTGAGE LOANS,]
23 made for the purchase, improvement, or rehabilitation of a residence
24 or must be a refinancing loan. First or second mortgage loans pur-
25 chased under this subsection may include graduated payment mortgage
26 loans and adjustable rate mortgage loans [RESIDENCES].

27 * Sec. 3. AS 18.56.098(g)(1) is amended to read:

28 (1) The interest rate on the first \$90,000 of a mortgage
29 loan purchased with the proceeds of an issue of taxable bonds of the

wo 1327sL ✓
 Levy
 4/30/87

Original sponsor: Rules/Governor

1 IN THE SENATE

BY THE FINANCE COMMITTEE

2 CS FOR SENATE BILL NO. 209 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to mortgage loans purchased or made
 7 by the Alaska Housing Finance Corporation; relating
 8 to bonds issued by the Alaska Housing Finance Corpo-
 9 ration; and providing for an effective date."

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

11 * Section 1. AS 18.56.096(b) is amended to read:

12 (b) The loan-to-value limitation established in (a)(4) of this
 13 section does not apply to a mortgage [QUALIFIED] loan that is feder-
 14 ally insured or guaranteed. The loan-to-value limitations established
 15 in (a)(1) and (4) of this section do not apply to a mortgage loan that
 16 is a refinancing mortgage loan under AS 18.56.102.

17 * Sec. 2. AS 18.56.098(a) is amended to read:

18 (a) The corporation shall establish a special mortgage loan
 19 purchase program. Under the special mortgage loan purchase program,
 20 the corporation may purchase [REFINANCING LOANS OR] first or second
 21 mortgage loans. A first or second mortgage loan purchased under this
 22 subsection must be [, INCLUDING GRADUATED PAYMENT MORTGAGE LOANS,]
 23 made for the purchase, improvement, or rehabilitation of a residence
 24 or must be a refinancing loan. First or second mortgage loans pur-
 25 chased under this subsection may include graduated payment mortgage
 26 loans and adjustable rate mortgage loans [RESIDENCES].

27 * Sec. 3. AS 18.56.098(g)(1) is amended to read:

28 (1) The interest rate on the first \$90,000 of a mortgage
 29 loan purchased with the proceeds of an issue of taxable bonds of the

1 corporation is one and one-half [THREE] percent less than the cost of
2 funds of that issue, except that

3 (A) if the cost of funds of that issue is less than 10
4 percent, the interest rate is equal to the cost of funds; and

5 (B) if the cost of funds of that issue is more than 10
6 percent, the interest rate may not be less than 10 percent.

7 * Sec. 4. AS 18.56.098(g) is amended by adding a new paragraph to read:

8 (7) The corporation shall determine the interest rate on a
9 mortgage loan that is an adjustable rate mortgage loan as provided in
10 this subsection. The corporation shall recalculate the interest rate
11 from time to time based on changes in the cost to the corporation of
12 the funds used to purchase the adjustable rate mortgage loan. Howev-
13 er, the corporation may establish a minimum interest rate applicable
14 to an adjustable rate mortgage loan, and the interest rate on the
15 adjustable rate mortgage loan may not be less than the minimum inter-
16 est rate so established regardless of the cost of funds to the corpo-
17 ration.

18 * Sec. 5. AS 18.56 is amended by adding a new section to read:

19 Sec. 18.56.102. SIMPLIFIED REFINANCING MORTGAGE LOAN PURCHASE
20 PROGRAM. (a) The corporation shall establish a simplified refinanc-
21 ing mortgage loan purchase program. Under the simplified refinancing
22 mortgage loan purchase program, the corporation may purchase refinanc-
23 ing mortgage loans to provide relief to borrowers under circumstances
24 described by regulations adopted by the corporation.

25 (b) AS 18.56.098(c), (e), and (k) apply to refinancing mortgage
26 loans purchased under (a) of this section.

27 (c) Subject to (d) of this section, the interest rate on a
28 refinancing mortgage loan purchased under (a) of this section is three
29 percent less than the cost to the corporation of the money used to

1 purchase the refinancing mortgage loan, except that if the cost of
2 money

3 (1) is 10 percent or less, the interest rate is equal to
4 the cost of money; and

5 (2) is more than 10 percent, the interest rate may not be
6 less than 10 percent.

7 (d) If the refinancing mortgage loan is an adjustable rate
8 mortgage loan, the corporation shall establish the initial interest
9 rate as provided in (c) of this section and shall recalculate the
10 interest rate from time to time in accordance with (c) of this sec-
11 tion. However, notwithstanding (c)(1) of this section, the corpo-
12 ration may establish a minimum interest rate applicable to an adjust-
13 able rate refinancing mortgage loan; the interest rate on the adjust-
14 able rate refinancing mortgage loan may not be less than the minimum
15 interest rate so established, regardless of the cost of money to the
16 corporation. The corporation may adopt regulations to implement this
17 section, including regulations to define "cost of money" for purposes
18 of this section. The regulations may provide for recalculation of the
19 cost of money under this subsection at the times and frequencies the
20 corporation considers appropriate. The time and frequency for a
21 recalculation under this subsection is not required to match the time
22 or frequency of a change in the cost of money to the corporation.

23 (e) Equity extraction may not be allowed under this program.

24 (f) In this section, "refinancing mortgage loan" means a loan
25 refinancing another mortgage loan owned by the corporation.

26 * Sec. 6. AS 18.56.106(b) is amended to read:

27 (b) The corporation shall adopt regulations under this section
28 that establish conditions and terms for nonconforming housing loans
29 including terms and conditions relating to owner and nonowner

1 occupancy, the number of loans that may be made to a single borrower,
2 and borrower eligibility requirements. The corporation shall permit
3 loans under this section for nonconforming housing located on land to
4 which a borrower has agricultural rights.

5 * Sec. 7. AS 18.56.110(g) is amended to read:

6 (g) Notwithstanding AS 18.56.090(12) and (a) of this section,
7 the corporation may not issue bonds [, OTHER THAN REFUNDING BONDS,] in
8 any 12-month period beginning after June 30, 1983, in an amount that
9 exceeds the amount of bonds authorized to be issued during the preced-
10 ing period, unless a different amount is authorized by the legislature.
11 This subsection does not apply to the issuance by the corporation of
12 refunding bonds or to the issuance by the corporation of bonds the
13 proceeds of which are intended to be used to refinance mortgage loans
14 held by the corporation.

15 * Sec. 8. AS 18.56.900 is amended by adding a new paragraph to read:

16 (13) "adjustable rate mortgage loan" means a mortgage loan
17 with respect to which the interest rate varies or is expected to vary
18 from time to time by reference to an index or formula or other refer-
19 ence point.

20 * Sec. 9. This Act takes effect immediately under AS 01.10.070(c).
21
22
23
24
25
26
27
28
29

STEVE COWPER
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

March 24, 1987

The Honorable Jan Faiks
President of the Senate
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Senator Faiks:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to the purchase of mortgage loans by the Alaska Housing Finance Corporation (AHFC) and to the issuance of refinancing mortgage bonds by AHFC. The bill enables AHFC to establish a new program for AHFC purchase of refinancing mortgage loans. It also clarifies AHFC's ability to purchase adjustable rate mortgage loans.

Existing AS 18.56.096 imposes a number of limitations with respect to the terms of mortgage loans that AHFC may purchase. Existing AS 18.56.096(a)(1) and (4) set out loan-to-value ratio limits applicable to first mortgages for two- to four-unit houses and single-family houses, respectively. Existing AS 18.56.096(b) waives the loan-to-value ratio limit for single-family houses if the mortgage loan is federally insured or guaranteed. The amendment proposed in sec. 1 of the bill also waives the loan-to-value ratio limit for both single-family houses and two- to four-unit houses if the mortgage loan is a refinancing mortgage loan purchased under the new program established in proposed AS 18.56.102 (in sec. 4 of the bill).

Most of AHFC's loan purchasing activities have been carried out under the special mortgage loan purchase program established in AS 18.56.098. The amendment to AS 18.56.098(a), proposed in sec. 2 of the bill, (1) reorganizes some of the language of that subsection to clarify its meaning, (2) preserves AHFC's ability to purchase refinancing loans under the special mortgage loan purchase program notwithstanding the addition of the new program for that purpose in sec. 4 of the bill, and (3) makes it clear that AHFC may purchase an adjustable rate mortgage loan.

Section 3 of the bill adds a new paragraph (7) to AS 18.56.-098(g), the subsection that deals with the setting of interest rates on mortgage loans purchased under the special mortgage loan purchase program. The new paragraph directs

that the interest rate for an adjustable rate mortgage loan be established as with any other mortgage loan except that (1) AHFC is to periodically review those interest rates, and (2) AHFC may establish a minimum interest rate for adjustable rate mortgage loans.

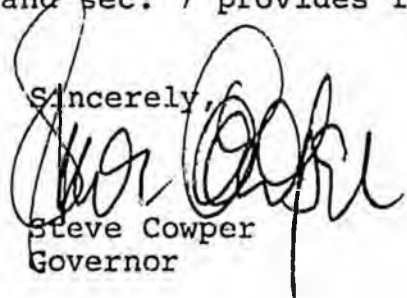
Section 4 of the bill adds AS 18.56.102, which establishes the simplified refinancing mortgage loan purchase program. The new program is intended to provide relief to borrowers under circumstances described by regulations to be adopted by AHFC. The interest rate for a mortgage loan purchased under the new program is set according to the cost to AHFC of the money used to purchase the mortgage loan. The interest rate is equal to the cost of the money if that cost is 10 percent or less; if the cost of the money is greater than 10 percent, the interest rate is 3 percent below the cost of the money, but may not be less than 10 percent. AHFC may purchase adjustable rate mortgage loans under the new program. The interest rates for the adjustable rate mortgage loans are to be periodically reviewed and are subject to a minimum interest rate if one is established by AHFC.

Certain provisions of the special mortgage loan purchase program in AS 18.56.098 will be applicable to the new refinancing mortgage loan purchase program, including the ability to pledge mortgage loans to bonds issued for the purposes of the program (AS 18.56.098(c)), the duty to adopt regulations with respect to the program and with respect to the ability to prepay mortgage loans purchased under the program (AS 18.56.098(e)), and a waiver of the application of the state usury limitation to loans purchased by AHFC (AS 18.56.098(k)).

Section 5 of the bill proposes an amendment to AS 18.56.110(g), to exempt bonds for the purchase of refinancing mortgage loans from the limitation, set in that subsection, on the amount of bonds that AHFC may issue during a 12-month period.

Section 6 of the bill adds to AS 18.56.900 a definition of "adjustable rate mortgage loan," and sec. 7 provides for an immediate effective date.

Sincerely,


Steve Cowper
Governor

SENATE COMMITTEE REPORT

FIRST COMMITTEE OF REFERRAL

Date of 3-26-85 5-DAY NOTICE
IN ACCORDANCE WITH UNIFORM RULE 23

FURTHER: FINANCE

**FISCAL NOTE(S) ATTACHED **
IN ACCORDANCE WITH AS 24.08.035
(see below) **Gov. Fiscal Note attached**

3/24/87 DATE TURNED INTO OFFICE _____

Mr. President:

JUDICIARY Committee considered SB 209

mortgage loans purchased by the Alaska Housing Finance Corporation;
relating to bonds issued by the Alaska Housing Finance Corporation;
efd.

and recommended:

replace with CS 209 (JUD) same title
 attached amendment(s) and new title

do pass

do not pass

no recommendation

individual recommendations

further referral to _____

letter of intent adopted and attached

** Committee attached or adopted fiscal note(s)
 zero fiscal impact

MEMBERS SIGNING DO PASS

OTHER RECOMMENDATIONS

Joe P. Josephson
William Stungeler

Committee Backup Attached

J. K. ...
Chairman signature and recommendation