

HB

161

HOUSE COMMITTEE REPORT

(7)

Date Referred: February 8, 1989

FURTHER REFERRALS: FINANCE

Date of Committee Action: 2/6/89

The LABOR & COMMERCE Committee considered:

HB 161

HOUSE BILL NO. 161 [APPROP: REVITALIZATI /DEVELOPMENT FUND]
"An Act providing for the issuance of general obligation bonds in the amount of \$11,000,000 for the purpose of paying the cost of an appropriation to the neighborhood revitalization and development fund; and providing for an effective date."

RECOMMENDS:

- [ ] replacing with CS HB 161 (L+C) [ ] the same title [ ] a new title
[ ] the attached amendment(s)
[ ] 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
[ ] zero fiscal note
[ ] zero with analysis

APPROVES PREVIOUS:

- [ ] fiscal note(s) published:
[ ] zero fiscal notes(s) published:

SIGNING DO PASS:

SIGNING OTHER THAN DO PASS: (Do Not Pass, No Recommendation, Amend)

Handwritten signatures on the left side of the page.

Handwritten signatures on the right side of the page, including 'no rec' and 'no rec.'.

Chairman's signature: David Dowley

# HOUSE LABOR AND COMMERCE COMMITTEE

ALASKA STATE LEGISLATURE

P.O. BOX Y, JUNEAU 99811

(907) 465-3892

## HOUSE LABOR AND COMMERCE COMMITTEE LETTER OF INTENT

### HB 161 - "General Obligation Bonding for Neighborhood Revitalization and Development"

It is the intent of the House Labor and Commerce Committee in passing out HB 161, relating to the issuance of general obligation bonds for neighborhood revitalization and development, that the House Finance Committee carefully review the concerns expressed by the Department of Revenue regarding possible consequences to the State's bond rating. It is further our intent that the House Finance Committee consider alternative sources of funding for neighborhood revitalization and development, including local seed grants for administrative costs.

# HOUSE LABOR AND COMMERCE COMMITTEE

ALASKA STATE LEGISLATURE

P.O. BOX Y, JUNEAU 99811

(907) 465-3892

February 16, 1989

## M E M O R A N D U M

To: Members, House Labor and Commerce Committee

From: Representative Dave Donley, Chair  
House Labor and Commerce Committee

Re: Proposed Committee CS for HB 160/161

You have before you two versions of proposed committee substitutes for HB 160/161, relating to the Alaska Neighborhood Revitalization program.

The first, labeled "Set A", consists of a proposed CS for HB 161 that takes the \$11 million dollars to fund the revitalization program out of the Railbelt Energy Fund. The attached proposed CS for HB 160 reflects the new funding source and contains a condition that no less than 50 percent of the projects funded under the program must be located within railbelt communities.

The second, labeled "Set B", consists of a proposed CS for HB 161 that takes the appropriation from the unrestricted balance of the AHFC revolving fund. The attached CS for HB 160 deletes language in the original bill dealing with the restrictions on the use of funds generated from GO bonds. Attached to the draft CS's is a letter from AHFC describing what they anticipate will be the effect of this action.

The two sets of draft CS's were prepared as a result of yesterday's informal work session to discuss alternative funding sources for the revitalization program. Alternative sources discussed included bonding, general fund appropriation, AIDEA, AHFC, and the Railbelt Energy Fund.

As a result the Committee has three versions to consider today: the original bills as filed (GO bonds as a funding source), Set A (Railbelt Energy Fund) and Set B (AHFC). The Senate Labor and Commerce Committee passed out identical measures to the original HB 160/161 yesterday. They are now in the Senate Finance Committee.

dd/gb

**HOUSE LABOR AND COMMERCE COMMITTEE**

ALASKA STATE LEGISLATURE

P.O. BOX Y, JUNEAU 99811

(907) 465-3892

February 21, 1989

M E M O R A N D U M

To: Representative Ron Larson, Co-chair  
Representative Lyman Hoffman, Co-chair  
House Finance Committee

From: Representative Dave Donley, Chair  
House Labor and Commerce Committee

Re: Request for hearing - HB 160 and HB 161

I am writing to request that you schedule a hearing on HB 160 and HB 161, the enabling and appropriation bills for the Alaska Neighborhood Revitalization Program, before the House Finance Committee at your earliest convenience.

The Alaska Neighborhood Revitalization Initiative (HB 160) and the companion funding bill (HB 161) creates a statewide program modeled after Anchorage Neighborhood Housing Services to leverage state money with secondary financial markets, both public and private, to redevelop commercial business zones. This program will provide as much as a four to one match for every dollar the state puts in.

The purpose of the Alaska Neighborhood Revitalization Initiative is to provide an opportunity to develop a public/private partnership in communities to:

- Create new short term and long term jobs.
- Create an incentive for attracting new businesses to an area.
- Help make existing businesses more viable, attractive, and stable.
- Leverage business loans made with conventional financing.
- Create a business climate that better serves the Community

There is overwhelming support for the enabling legislation creating the Alaska Neighborhood Revitalization Initiative from the administration, the Legislature, the Alaska Municipal League, and small businesses throughout the state. HB 160 provides an unprecedented opportunity for economic development that will benefit Alaskans everywhere. However, identifying a secure and appropriate funding source for the seed money needed to initiate the program presents a significant challenge, given our current economic climate.

The House Labor and Commerce Committee introduced similar legislation last year with a direct general fund appropriation as the funding source. The measures, HB 430 and 431 passed the House but failed to come before the Senate for a vote prior to adjournment.

The original versions filed this year would have authorized the sale of \$11 million dollars in general obligation bonds as the funding source. Testimony

by the Department of Revenue regarding the possible negative effects of this approach on the state's bond rating convinced the Labor and Commerce Committee to explore other funding sources. Other sources we considered included:

General Fund Appropriation

In view of the state of our economy, the Committee felt that a general fund appropriation in the amount needed to reasonably fund the program was not an appropriate or feasible funding source and that we should make a more definitive recommendation.

Alaska Industrial Development and Export Authority

The effect of taking the appropriation from AIDEA would be to render the agency inoperable and could likely place them in noncompliance with their debt service coverage requirements (see attached letter from AIDEA).

Alaska Housing Finance Corporation

We considered taking the appropriation from AHFC's unrestricted loan account, as per the enclosed proposed Labor and Commerce CS. We asked AHFC to respond to the proposed CS's with a statement about their perception of the effects of such action. Our Committee was sufficiently concerned about the arguments outlined in their response (see enclosed letter) that we looked elsewhere for a funding source, although we were not completely convinced that their concerns were insurmountable.

Railbelt Energy Fund

The Committee's decision, as reflected in the CS HB 160/161 (L&C), was to fund the program through an appropriation from the Railbelt Energy Fund with the condition that no less than ninety percent of the projects funded through the program must be located in Railbelt communities.

\* \* \* \*

The program envisioned under HB 160 is essential to promote economic recovery for Alaska's communities. However, there may be a better funding source for the appropriation bill, and we ask that the House Finance Committee consider all options for financing the program when reviewing our committee substitute for HB 161.

# Moody's **Municipal** Credit Report

Alaska Housing Finance Corporation

August 15, 1988

Update

Housing

Moody's rating: Aa

Housing Mortgage Bonds

Moody's rating: A1 (revised from A)

Insured Mortgage Bonds

Moody's rating: Aa

State Assisted Mortgage Bonds, Series H

Moody's rating: Aa

State Assisted Mortgage Bonds, Series I

Moody's rating: Aa

State Assisted Mortgage Bonds, Series J

Moody's rating: Aa

State Assisted Mortgage Bonds, Series K

Moody's rating: Aa

State Assisted Mortgage Bonds, Series L

Moody's rating: Aa

State Assisted Mortgage Bonds, Series M

Moody's rating: Aa

State Assisted Mortgage Bonds, Series N

Moody's rating: Aa

Home Mortgage Bonds, 1981 First Series

Moody's rating: Aa

Home Mortgage Bonds, 1981 Second Series

Moody's rating: Aa

Home Mortgage Bonds, 1982 First Series

Moody's rating: Aa

Home Mortgage Bonds, 1982 Second Series

Moody's rating: Aa

Home Mortgage Bonds, 1983 First Series

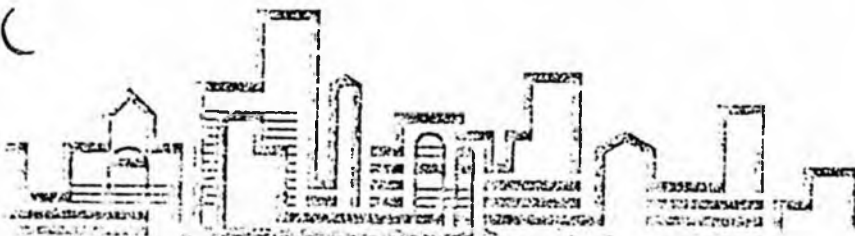
Moody's rating: Aa

Home Mortgage Bonds, 1983 Second Series

## general overview:

This report updates 15 single-family housing bond ratings assigned to outstanding debt of the corporation issued from 1972-83. The Housing Mortgage, Insured Mortgage, State Assisted Mortgage, and Home Mortgage Bonds reviewed here represent all the rated debt of the corporation that is not guaran-

teed by the State of Alaska or collateralized by GNMA/FNMA/FHLMC mortgage-backed securities. The outstanding principal amount of debt reviewed is approximately \$1.6 billion or 37% of the corporation's total debt. Specific credit factors



## Alaska Housing Finance Corporation

related to each rating are discussed later in this report.

The corporation is an established state housing agency and represents the major source of mortgage funds within the state. Currently the corporation has approximately \$4.4 billion principal amount of bonds outstanding (including approximately \$790 million of state-guaranteed bonds). All of the corporation's outstanding bonds are general obligations, although most of its outstanding bonds were issued under separate indentures.

The corporation administers a variety of housing programs including tax-exempt single family, taxable single family, veterans' single-family, several refinance programs, a mobile home program and, most recently, a home ownership assistance program. Given its prominent position, the corporation can significantly influence the state's housing and mortgage markets.

Alaska has experienced a significant economic downturn over the last two years, due primarily to the sharp drop in oil prices in early 1986. State spending of oil-generated revenue was the major force behind the state's rapid economic growth in the 1970s and early 1980s. The state estimates that every \$1.00 change in the price of oil affects state revenues by roughly \$150 million. During 1987, employment in the oil & gas and construction industries, and in state and local government, continued to contract. Although these losses were stemmed somewhat by growth in such traditional industries as fishing, timber, and metal mining and by increased federal government employment, the state's economy remains highly dependent on the oil and gas industry. The current economic situation is worsened by a severe oversupply of housing brought on by overbuilding (particularly of condominiums) during 1982-84. Together these developments have produced increased unemployment, a dramatic drop in construction activity, and a significant drop in housing values (estimated housing value declines range from 20%-40%). In fact, in many cases housing values have declined below the outstanding principal amount of the mortgage loans securing the related properties.

The corporation has incurred mounting loan delinquencies and a growing real estate owned problem as the current economic slump continues (in June

1986 the corporation held \$57 million in real estate owned and by March 1988 the corporation held \$238 million in REO). In 1987, the corporation foreclosed on approximately 2,800 mortgage loans with an aggregate outstanding principal balance of \$252 million; during the same year the corporation disposed of approximately 1,300 properties acquired through foreclosure (representing \$126 million in unpaid principal) through sale or conveyance to third-party guarantors (primarily WMAC or FNMA). The corporation reports that approximately 15% of the 43,336 loans (excluding mobile home loans) held in its total portfolio were delinquent and/or in foreclosure as of December 31, 1987. In general, loans originated during the early 1980s (under the State-Assisted and Home Mortgage programs) are performing worse than those originated in the 1970s (under the Housing Mortgage and Insured Mortgage programs). Most of the loans made under the State Assisted and Home Mortgage programs are growing equity mortgages, structured with annual 5% increases in the monthly payments during years four through nine of the mortgage terms; this feature has contributed to deteriorated portfolio performance. The corporation reports that roughly 25% of the mortgage loans securing the State Assisted and Home Mortgage bond issues are delinquent and/or in foreclosure.

In response to this portfolio deterioration, the corporation has established a special credit division to manage delinquent loans and foreclosed properties. Furthermore, the corporation is currently taking steps to address the oversupply of condominiums in the state by developing proposals to stabilize that segment of the housing market through coordinated efforts of lenders, insurers, and borrowers.

The corporation has also initiated its Homeowners Assistance Program which allows borrowers who are experiencing financial hardship to refinance mortgage loans at lower rates of interest and to receive temporary assistance payments. To the extent borrowers participate in this program, significant prepayments and early bond calls are likely to arise with respect to the corporation's outstanding bonds, including those reviewed in this report; such prepayments should have a positive effect on the credit strength of the overcollateralized State

## Alaska Housing Finance Corporation

Assisted and Home Mortgage Bonds. The corporation hopes this program will stem the tide of foreclosures until the state's economy rebounds. Also in response to the economic downturn, the corporation has established more restrictive mortgage underwriting standards and has relaxed regulations to allow borrowers to rent their homes.

Despite the downturn in the economy and the dramatic increase in delinquent and foreclosed mortgage loans, the corporation remains cushioned from financial loss on defaulted loans by provision for loan loss protection on the greater part of its portfolio. Loans made prior to 1981 are protected by significant appreciation of the underlying properties and by the seasoned nature of mortgages (under the Housing Mortgage Bonds and Insured Mortgage Bonds). Loans originated from 1981 through early 1984 are afforded strong protection by sizable and largely untapped WMAC pool insurance policies with advance claim provisions; the pool insurance policies originally amounted to 15%-20% of each original pool of loans but now represent 20%-35% of each remaining pool of loans as the loans have amortized or pre-paid (under the State Assisted Mortgage Bonds and the Home Mortgage Bonds under review here, as well as the State-Guaranteed Bonds). Finally, loans originated subsequent to mid-1984 were collateralized by FNMA, FHLMC, and GNMA mortgage backed securities, and loan loss risk for the majority of these loans is not borne by the corporation.

In our evaluation of the relative strength of the fifteen specific bond indentures reviewed here, we applied a stress test to measure each indenture's ability to withstand continued high default rates and losses of 20%-30% of the defaulted mortgage amounts (after accounting for primary mortgage insurance recoveries). In our stress test we discounted the stated program fund balances to account for: (1) the inclusion of REOs in program assets and (2) required overcollateralizations (in the State Assisted and Home Mortgage Programs) necessary to generate sufficient cash flow given that mortgage rates are lower than the bond rates in these subsidized programs. All 15 programs remained financially healthy after a scenario in which all current REO's are disposed at a 20%-30% loss and all loans 60 days or more delinquent

are assumed to default and the related properties are disposed with the same 20%-30% loss. After such a scenario, the State Assisted and Home Mortgage program had remaining pool coverage, on average, equal to 30% of remaining loans outstanding. The Housing Mortgage and Insured Mortgage programs, which do not have pool policies, weathered this test comfortably because of their sizable fund balances and their lower delinquency and REO levels.

All the programs demonstrated sufficient pool insurance and/or fund balance available to withstand far more severe scenarios where one half to three-fourths of the loans in the portfolios default and sustain losses closer to 50% of the defaulted mortgage amounts. Given the ability of the programs to withstand such stressful scenarios, we are comfortable confirming the outstanding ratings on these bonds despite the poor performance of the loan portfolios and the continuing statewide economic recession.

Furthermore, bondholders are afforded added security by the financial strength backing the corporation's general obligation pledge. All of the corporation's bonds and notes are general obligations. As of March 31, 1988, the corporation reports a combined fund balance of \$1.5 billion (or approximately 36% of total bonds outstanding), of which \$479 million is unrestricted by any of the corporation's bond indentures. These significant financial resources have allowed the corporation to respond flexibly to its loan portfolio problems, manage its REO inventory, and absorb uninsured foreclosure losses. In fact, despite all the corporation's difficulties during the past two years of statewide economic recession, the corporation still managed to earn a positive net income of \$21 million in fiscal year 1987 and \$27 million for the nine months ended March 31, 1988.

Although the corporation's balance sheet remains quite healthy, its strength has been diluted somewhat by a variety of factors. The corporation is exposed to potential losses on its sizable mobile home loan portfolio and through its agreements to repurchase non-performing mortgage loans that were exchanged for approximately \$500 million of FNMA/GNMA mortgage-backed securities (the

## Alaska Housing Finance Corporation

corporation has stepped up its loan loss set-aside provisions in response to these exposures). Additionally, the corporation has been utilizing unrestricted funds in its operating and revolving funds to front REO expenses until insurance claims have been received. Finally, the corporation has been and expects to continue allocating sizable amounts from its revolving fund to overcollateralize and fund reserves for its Homeowners Assistance Program bond issues.

An additional factor concerning the corporation's general obligation pledge relates to the potential vulnerability of the corporation's fund balances to legislative action by the State of Alaska. Recently, the governor vetoed legislation that was potentially damaging to the corporation's financial health. The

vetoed legislation could have required the corporation to utilize unrestricted funds to purchase from the state \$150 million of uninsured rural mortgage loans. The purchase price would have been required at face value, although the actual value of the loans is estimated at \$80 million. Furthermore, the vetoed legislation limited the corporation's use of the cash flow from these loans to the making of new uninsured rural mortgage loans.

We derive some comfort from the governor's veto of this legislation; however, the potential for future attempts by the legislature to tap the corporation's financial assets remains a concern. Despite these factors, the corporation's general obligation pledge continues to be backed by considerable financial strength.

## financial factors:

Financial operations have weakened recently due to a variety of factors; however, the corporation's overall financial position remains strong, with a combined fund balance of approximately \$1.5 billion. The corporation's net income has been strained by an increase in delinquencies and foreclosures in its mortgage loan portfolio, a step-up in provisions for loan losses, insurance fund losses, and a growing real estate owned inventory. Additionally, revenues have been affected by a decrease in commitment fee income due to reduced lending activity and a reduction in reinvestment earnings during a period of declining interest rates.

Furthermore, net income was reduced by acceleration of discounts and costs of issuance associated with bonds called for early redemption and by

negative arbitrage resulting from a lag between receipt of mortgage loan prepayments and the associated redemptions. Despite all these financial strains the corporation earned \$21 million in net income representing 3.77% of gross income during fiscal year 1987, and has already earned over \$27 million or 7.13% of gross income for the nine months ended March 31, 1988.

The state has made sizable contributions to the corporation in the past, which is reflected in the corporation's overall financial position. However, by 1984 the corporation became self-sustaining and ceased to request financial support from the state; the corporation does not contemplate future requests for legislative appropriations.

## Key Financial Data (\$ 000)

	6/30/85	6/30/86	6/30/87	3/31/88
Undesignated fund balance <sup>[1]</sup>	\$ 496,784	\$ 433,145	\$ 541,117	\$ 479,571
Combined fund balance <sup>[1]</sup>	1,458,373	1,500,208	1,521,136	1,548,294
Net revenues as % of gross revenue	13.87	7.11	3.77	7.13
Undesignated fund balance as % of bonds outstanding	13.02	9.32	13.58	11.09
Combined fund balance as % of bonds outstanding <sup>[1]</sup>	38.10	32.25	38.24	35.80

<sup>[1]</sup>Consists of the fund balance of the corporation's operating fund and the general account of the revolving fund, the assets of these funds are not specifically pledged to any particular bond indenture but rather secure all bonds equally.

<sup>[1]</sup>Includes real estate owned (listed at net estimated realizable value) which on June 30, 1985 amounted to \$14,411,000; on June 30, 1986 amounted to \$57,455,000; on June 30, 1987 amounted to \$165,146,000; and on March 31, 1988 amounted to \$248,000,000.

Memo to Board of Directors  
Re: New Legislation  
May 23, 1988  
Page 3

HB543 represents the potential purchase of HAD loans by AHFC. This is a long appropriation bill, the germane sections are:

"Section 285: The sum of \$150,000,000 is appropriated from the housing assistance loan fund (AS 44.47.380) to the general fund."

"Section 301: Section 285 of this Act takes effect on the date of purchase by the Alaska Housing Finance Corporation of \$150,000,000 of the loan portfolio held by the housing assistance loan fund (AS 44.47.380)."

Originally, the intent was that AHFC would pay \$80 million cash for \$150 million (par value) of HAD loans. The \$80 million in cash, which would then be in the Housing Assistance Loan Fund, could be appropriated to the general fund as a source of revenue. AHFC would package up the \$150 million in loans to back an \$80 million bond sale to obtain the cash. AHFC would arrange with HAD to continue to have HAD originate loans in rural areas, the difference being that the loans would be based on AHFC standards, instead of HAD standards.

The combination of HB555 and HB543 causes two critical changes in this intended approach. First, it changes the \$80 million purchase price to \$150 million. Fortunately, the Governor can, if he chooses, change this by reducing the amount of the appropriation in Section 285. The second change is much more critical and damaging. This change is the addition of the wording in HB555 that was discussed above. Taken together, these bills mean that whatever amount AHFC pays for these loans is essentially a removal of assets from AHFC, with the amount of the removal being equal to the purchase price.

The important question is the potential impact of these bills on AHFC. There are two aspects to this question: 1) what if the transaction actually takes place, and 2) what if the transaction doesn't take place, but simply remains as a potential. This latter situation would be the case if the Governor did not veto Section 285 of HB543, or HB555, but the Board had not yet agreed to purchase the loans.

Although we may distinguish between these two cases, I believe it is fair to say the financial community will focus on what happens if the transaction takes place, since inevitably most attention in constructing a financial transaction is on what happens if things don't work out as planned.

Memo to Board of Directors  
Re: New Legislation  
May 23, 1988  
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If the transaction were to take place, it would affect both our liquidity position and our net worth. Using our financials as of 3/31/88, we have:

Total fund equity	\$1,548.3 million
less Pledged assets	<u>(1,068.7)</u>
equals Unrestricted assets	479.6 million

Liquidity Position

On the attached sheet I have provided a more complete breakdown of the Unrestricted assets, but in summary they are:

Liquid assets	272.5
Less short-term obligations	<u>(74.0)</u>
Net liquid assets	198.5
Long-term assets	181.7
Other assets net of liabilities	<u>99.4</u>
Total net unrestricted assets	479.6

It would appear that AHFC has adequate liquid assets, but as shown in Attachment I over \$100 million of these are in loans in the "pipeline" - that is, loans purchased from lenders that have not yet been put in a bond issue. Although this number fluctuates, as long as AHFC is still actively making loans, some amount of pipeline funding is necessary.

Another major use of our liquid assets is to provide AHFC's contribution to bond issues. Since 3/31/88 we have used \$20 million of these liquid assets as collateral for bond issues, further reducing our available liquid assets.

Although some of our long-term assets could be turned into cash, it is clear from the composition of these assets that not a lot of cash will be forthcoming.

The largest component of the other assets net of liabilities is receivables from various insurance companies for advances made by AHFC to bond issues for delinquent loans or for expenses on foreclosed properties. This is not the kind of asset that is easy to turn into cash.

During the next few months there will be a strong demand on our liquid assets for purposes such as funding HOAP loans in the pipeline, putting AHFC's contributions into HOAP and other bond issues (lately about 25% of the issue), making advances as needed on delinquent loans and foreclosed properties, providing in-house financing when applicable, and capitalizing a mortgage insurance company.

Memo to Board of Directors  
Re: New Legislation  
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Generally, if we run low on liquid capital, we can supplement it with our Euro commercial paper program. We currently, for instance, have \$85 million in Euro commercial paper outstanding. However, one has to be cautious about assuming this source will always be available.

#### Euro Commercial Paper Program

AHFC has a \$150 million (maximum) Euro commercial paper program, backed (and supplemented) by a \$150 million Euro Revolving Facility. Together these allow us to issue short-term unsecured debt on the Euro market at reasonably low rates (currently we are paying about 7-1/2%). The security to lenders buying AHFC commercial paper is the financial condition of AHFC. As such, it is necessary for us to make a variety of covenants and representations regarding our financial condition, and potential changes in it. To summarize them, we agree to maintain a certain minimum financial condition, and furthermore, we must notify participants of any "material adverse change" in our condition. If the latter happens, it will likely mean the end of our Euro commercial paper program (and any other unsecured borrowing). Hence, a material adverse change, such as removal of, say, \$80 million in cash, will not only severely jeopardize our liquidity, but it also will most likely cause us to lose our major short-term borrowing facility.

#### Future Financings

As one may suspect, we have similar requirements in many of our other financings. Hence, a material adverse change would trigger the notification of many of our financial partners (and whatever consequences are involved). We have numerous examples of these covenants if any members are interested. Many of these notifications are triggered by the potential of an adverse change, rather than waiting until a change has actually occurred. For instance, in our letter of credit with Credit Suisse (an AAA Swiss bank), we agree to deliver to the bank:

" . . . promptly, notice of each action, suit or proceeding before any court or other governmental authority or other regulatory body or any arbitrator which may materially adversely affect the condition or operation, financial or otherwise, of the Corporation or the Program."

Note the use of the word "may". This is understood to mean that we must notify them even if there is only the potential for the adverse change. Clearly, a potential loss of, say, \$80 million in cash would trigger this clause.

Memo to Board of Directors  
Re: New Legislation  
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In summary, this means that virtually all of our current financial partners would become aware of the situation. Although this should not have much effect on outstanding long-term debt (unless so much were actually removed from AHFC that a financial covenant were breached), it would likely have a significant impact on the possibility of future bond issues. This legislation has, for instance, raised significant concern on the part of FSA, the bond insurance company that has guaranteed both HOAP issues. A number of questions will be raised, by FSA and others, but the two most critical ones will be:

1. How does the removal of \$X million affect AHFC's ability to operate?, and
2. Is this just the first of many "raids" on AHFC's assets?

Future business will be determined by our answers to those questions, and the confidence that others in the financial community have in those answers.

As must be obvious from the above discussion, I am very concerned about the impact of this legislation on AHFC's ability to continue its many programs. In fact, I view this situation as the most critical one that has confronted AHFC during my three year tenure. I believe the most likely consequence of this legislation is not that we will be immediately shut out of the market. Rather, we would most likely have to put up much more collateral to do bond issues, to insure that anyone who does business with us is totally protected within any bond issue, since reliance could no longer be placed upon the general assets of AHFC. Increasing the collateral requirements would quickly use up our available liquid resources, thereby shutting us out of the market, and requiring credit rationing even for existing bond issues.

As a result, I recommend in the strongest possible manner that the Board recommend to the Governor that he veto entirely Section 285 of HB543. I realize that this can create a potential revenue imbalance to the extent that some revenue from this transaction was anticipated. However, it may be appropriate to point out that this potential source of revenue (i.e., the cash value of the HAD portfolio) is not eliminated. The next Legislature could remedy the undesired effects (that is, delete the section in HB555 dedicating the cash flow to more HAD-type loans), at which time the transaction could proceed and the revenue could be obtained.

Finally, I recommend that the Board provide a positive recommendation to the Governor on HB555. Other than the one portion dealing with HAD loans, the bill is potentially very helpful to AHFC and the housing market.

Schedule of AHFC Net Unrestricted Assets  
(in millions of dollars)

<u>Liquid Assets</u>	<u>3/31/88</u>
Cash and investments	\$ 165.0
Loans scheduled for pooling	51.7
Loans already pooled	<u>55.8</u>
	272.5
<u>Short-term Obligations</u>	
Euro commercial paper	<u>(74.0)</u>
<u>Liquid assets net of short-term obligations</u>	<u>198.5</u>
<u>Long-term Assets</u>	
Mobile home loans	30.1
State VA loans	75.4
Second mortgage loans	25.0
Rural loans	5.3
Rural non-owner occupied	3.6
Non-conforming loans	9.5
Notes receivable	26.5
Other loans	11.7
less allowance for loan losses	<u>(5.4)</u>
	181.7
Other assets net of other liabilities	<u>99.4</u>
Total net unrestricted assets	<u>479.6</u>



**Alaska  
Housing**  
FINANCE CORPORATION

520 East 34th St.  
Anchorage, AK 99503  
(907) 561-1900

P.O. Box 101020  
Anchorage, AK 99510

TO: Board of Directors

Date: January 6, 1989

FROM: Mark K. Cameron  
Finance Director

SUBJECT: Five-Year Liquidity Projection

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Attached are several selected schedules providing overview information regarding the five-year liquidity projection for the Corporation. The projection is for discussion purposes only at this time.

You will note that the liquid assets of the Corporation decreases by \$61,257,000 from \$186,540,000 as of September 30, 1988 to \$125,283,000 as of June 30, 1993. The decrease is mainly due to subsidy for bond issuance.

It is important to note that the projections involve estimates of substantial sums the actual amounts of which are beyond the control of the Corporation. Specifically, the mortgage loan purchase estimates are totally dependent upon the delivery schedules of our Seller/ Servicers and the reissuance of Euro commercial paper assumes the dealers will be able to sell new paper providing funds the same day the existing commercial paper matures.

EC:nrs  
CHA008

Attachments



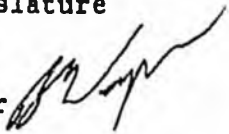
ALASKA INDUSTRIAL DEVELOPMENT  
AND EXPORT AUTHORITY

HB161

1577 "C" STREET • SUITE 304 • ANCHORAGE, ALASKA 99501-5177 • (907) 274-1651

M E M O R A N D U M

TO: The Honorable Members  
House Labor & Commerce Committee  
Alaska State Legislature

FROM: Bertram L. Wagnon   
Executive Director

DATE: February 21, 1989

SUBJECT: Authority Assets

The question has been asked of the Authority of how much money they have and how much can be removed by the legislature. Additionally, people have wanted to know what the consequences of such a removal would have on the Authority.

In order to answer these questions, it is necessary to look at the liabilities the Authority has outstanding, primarily bonds payable, and the covenants under which these bonds were sold. Utilizing June 30, 1988 audited financials, bonds payable totaled \$177,275,000. These are outstanding obligations which are general obligations of the Authority secured by all of our assets and future income. As set forth in a typical official statement offering the bonds for sale, language appears as follows:

"The Bonds constitute general obligations of the Authority, and the full faith and credit of the Authority is pledged to the payment of the principal of and interest on the Bonds. The Bonds are further secured by the Taxable Umbrella Bond Capital Reserve Fund and the moneys, properties, assets and revenues described herein. The Authority does not have the power to levy taxes for any purpose. The

Bonds do not constitute an indebtedness or liability of the State of Alaska and do not directly, indirectly or contingently obligate the State of Alaska to apply money from, or levy or pledge, any form of taxation whatever to the payment of the Bonds."

It is fairly obvious from the above that great pains were taken to advise all investors that the State of Alaska had no obligation whatsoever for payment of this debt. In order to make such a promise and still entice investors to purchase the debt of the corporation, the Authority had to pledge all of its assets and future stream of income to payment of the bonds, in effect, making them general obligations of the Authority.

Additionally, two particular statutes have bearing when considering the assets of the Authority. AS 44.88.130 sets forth the pledge the state makes with holders of the Authority's bonds:

"Sec. 44.88.130 Pledge of the state. The state pledges to and agrees with the holders of the bonds issued under this chapter and with the federal agency that lends or contributes funds in respect to a project or development project financed under AS 44.88.155 - 44.88.159 or 44.88.172 - 44.88.177, or in respect to an exporting transaction financed, guaranteed, or insured under AS 44.88.300 - 44.88.390 that the state will not limit or alter the rights and powers vested in the authority by this chapter to fulfill the terms of a contract made by the authority with the holders or federal agency and that the state will not in any way impair the rights and remedies of the holders until the bonds, together with the interest on them with interest on unpaid installments of interest, and all costs and expenses in connection with an action or proceeding by or on behalf of the holders are fully met and discharged. The authority is authorized to include this pledge and agreement of the state, insofar as it refers to holders of bonds of the authority, in a contract with the holders and, insofar as it relates to a federal agency, in a contract with the federal agency. (§ 1 ch 64 SLA 1967; am § 19 ch 42 SLA 1987)"

Should the legislature take assets out of the Authority, an aggrieved bond hold may argue that AS 44.88.130 has been violated. Whether such an agreement would be successful is of course, subject to the courts.

Secondly, AS 44.88.190(b) should be looked at. While quite possibly it does not mean what it appears to say an aggrieved party could use such language to protest a taking which would diminish the security of a bond holder. AS 44.88.190(b) states:

"(b) The funds, income or receipts of the authority shall not be considered or constitute money of the state, nor shall real property in which the authority has an interest be considered land owned in fee by the state or to which the state may become entitled or in any way lands belonging to the state, or state lands referred to in Art. VIII of the Alaska Constitution."

The caution that needs to be considered is if the state takes any action that gives a bond holder a course of action, the possibility exists that, that action could be set aside or by such action the state itself could be assuming liability for the debt.

The Authority has two negative covenants that restrict actions that the Authority may take if the parameters of these covenants are exceeded.

The first is an unrestricted surplus test. The covenant requires that the Authority's unrestricted surplus be at least equal to its general obligation indebtedness and in no event less than \$100 million. Currently the Authority has \$177 million in bonds outstanding which require the maintenance of at least an unrestricted surplus of that amount. At June 30, 1988, unrestricted surplus was \$319.6 million. As can be seen, the Authority exceeds this covenant by a wide margin.

The second major negative covenant is referred to as the coverage test. This test requires that in each year that the Authority has general obligation indebtedness outstanding, net income will be at least 150% of the general obligation annual debt service requirement. In essence, this covenant mandates that the Authority produce income at least equal to 150% of the amount required to pay principal and interest on our bonds. On June 30th coverage was at 181% and at December 31, 1988, had fallen to 162%. The reason of course being the poor performance of the real estate loan portfolio.

The asset base the Authority relies upon to make repayment to holders of its debt are primarily from loans and investments. Currently the loan portfolio is running 28% delinquent and additionally, \$49 million in loans have been modified to less than their contract rate of payment. For the year ended June 30, 1988, the Authority suffered its first loss in history of \$7.7 million. The investment income is carrying the debt service requirement, not the loans. If dollars are taken the investments are decreased and coverage will decrease accordingly.

The policy argument concerning withdrawing assets from the Authority revolves around the state's policy maker's expectations of the Authority. If a consensus exists that the Authority has outlived its usefulness, than appropriate decisions can be made to wind up its affairs. If however, the expectation is that the Authority can contribute to the economy of the state, it is imperative not to strip out its assets now because how can one expect investors to continue to purchase Authority debt when at the most difficult time in its history, the legislature is removing the finest quality assets.

# The Neighborhood Reinvestment Corporation

A congressionally-chartered, public nonprofit corporation, Neighborhood Reinvestment was established in 1978 (P.L. 95-557) to continue the efforts of the Urban Reinvestment Task Force. Its mission includes the revitalization of declining lower income neighborhoods for the benefit of their current residents, and the provision of affordable housing to neighborhood residents.

The Corporation achieves these goals primarily through the development and support of local neighborhood-based partnerships. The most widely known of these is the Neighborhood Housing Services (NHS) program, a partnership of neighborhood residents, business leaders and local government officials.

These and other local partnership organizations form the NeighborWorks system—the nation's largest and most successful systematic approach to neighborhood revitalization. NeighborWorks members are at work in 239 neighborhoods in 137 cities across the country. An additional 52 formerly-declining neighborhoods have been returned to substantial self-reliance through the efforts of NeighborWorks members.

As the anchor for this national system of local partnerships, Neighborhood Reinvestment provides a range of training and technical assistance to help each local partnership establish neighborhood goals and develop the strategies needed to achieve those goals.

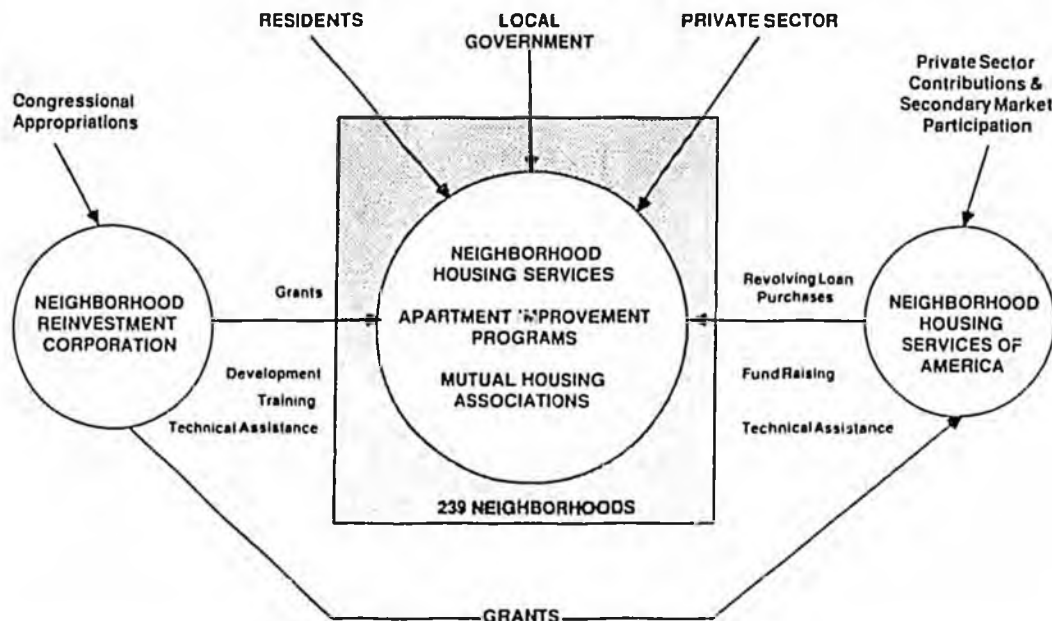
Neighborhood Reinvestment also makes small seed money grants to the local partnerships, which are matched many times over by contributions from local governments, businesses and foundations. In addition, the Corporation provides grants to Neighborhood Housing Services of America, the system's national secondary market.

The Corporation received a \$19 million federal appropriation in fiscal year 1987. Since 1974, a total expenditure of \$135 million in federal appropriations by the Corporation and its predecessor has produced an impact of more than \$4 billion in neighborhoods across the country.

The Corporation's board of directors is composed of a Governor of the Federal Reserve, the Comptroller of the Currency, the Secretary of Housing and Urban Development, the Chairman of the Federal Home Loan Bank Board, the Chairman of the Federal Deposit Insurance Corporation, and the Chairman of the National Credit Union Administration.

Although the Corporation is headquartered in Washington, D.C., the majority of its staff are based in nine districts across the country to better assist the local partnerships they serve.

## The NeighborWorks System



HBI 61

TABLE 1.11

State of Alaska  
State General Obligation Bonds  
Annual Debt Service

<u>Years Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1988	\$108,685,000	\$ 39,220,555	\$147,905,555
1989	103,727,000	31,784,971	135,511,971
1990	95,560,000	24,746,290	120,306,290
1991	77,499,000	17,983,980	95,482,980
1992	56,149,000	12,052,225	68,201,225
1993	51,363,000	8,325,187	59,688,187
1994	28,398,000	5,531,975	33,929,975
1995	19,096,000	3,987,625	23,083,625
1996	18,610,000	2,864,412	21,474,412
1997	14,865,000	1,800,418	16,665,418
1998	13,380,000	1,008,193	14,388,193
1999	8,640,000	368,931	9,008,931
2000	<u>2,531,000</u>	<u>69,081</u>	<u>2,600,081</u>
Total	\$598,503,000	\$149,743,843	\$748,246,843

Source: Department of Administration, Bonded Debt and Debt Service, June 30, 1984.



520 East 34th St.  
Anchorage, AK 99503  
(907) 561-1900

P.O. Box 101020  
Anchorage, AK 99510

February 16, 1989

Members, House Labor & Commerce Committee  
P.O. Box V  
Juneau, AK 99811

RE: House Bills 160, 161

Dear Members:

Your committee staff has requested an analysis of the potential impact to the Alaska Housing Finance Corporation should the Legislature appropriate \$11 million from Corporation reserves to fund a neighborhood revitalization and development fund. Although certain legal arguments have been raised in the past regarding the Legislature's ability to take funds out of the Corporation, including whether such a move would be subject to a bondholders' lawsuit, for the purposes of this response, we assume that there are no legal problems.

The short answer to the question is that such a move could effectively shut down AHFC as a lender which in turn could devastate the conventional housing market. Further details are outlined below.

If the Legislature were to take funds from AHFC, it would effectively eliminate AHFC's ability to purchase loans. To understand why this is the case, it is necessary to have some background on how AHFC functions. First, a prospective Alaskan homebuyer selects a home to buy and then applies for a loan from a lender (bank). If the potential borrower qualifies, the lender makes the loan and then sells the loan to AHFC. To buy this loan, and many others made over the course of the year, AHFC must go to the bond market to raise funds.

The requirement of having to go to the bond market, or in essence borrow money, is the crucial aspect. AHFC is not a direct general fund lender. As a result, we must be very sensitive to the concerns of the financial entities (insurers, banks, investors) upon whom we rely to raise funds. It is important to remember that nothing compels these parties to do business with us, particularly with the current state of the economy.

All of these entities, which include some of the world's top-rated banks, do business with AHFC based upon the premise of the Corporation's financial condition. Our high foreclosure and delinquency rates lately have been offset by almost exclusively our good financial position. You may recall that in a recent review of bond issues by bond rating agencies, AHFC's ratings were affirmed due to the sound financial management of the Corporation.

In recent business dealings with these financial institutions, many have expressed general concerns having to do with: 1) the current state of the Alaskan economy; and 2) the specific financial condition of AHFC. They have specifically informed us that if the Legislature appropriates funds from AHFC, they would be very hesitant to continue doing business with the Corporation. If these entities refuse to do business with AHFC, or restrict their business, AHFC may no longer be able to purchase conventional loans from Alaskan lenders since the Corporation will not be able to raise new funds for those purchases.

The concern goes even deeper. Almost all those doing business with AHFC have raised concerns about potential legislative actions. In all cases, the message from them was clear--if funds are removed from AHFC, they will not do business with AHFC since they believe their security would be jeopardized. Even hints of "legislative raids" in newspaper stories have caused the Corporation to receive a number of phone calls from investors wanting to know "what's going on" and then they reaffirm their concerns.

Finally, mention should be made of past legislative wishes with respect to the Corporation's reserves. Twice in the Corporation's history the Corporation has helped carry out some of the legislature's wishes. These include purchase of Department of Community and Regional Affairs, Housing Assistance Division loans and, last year, creation of a Stabilization Fund. In both instances there was a reasonable expectation that the Corporation's actions were significantly tied to housing and the benefit to the Corporation was equal to the actions taken.

Specifically with regard to the proposed \$11 million appropriation, AHFC believes that such an appropriation is too far from the scope of AHFC's mission of financing housing. It would be extremely difficult for the Corporation to represent to the financial community that it would receive \$11 million in housing benefits.

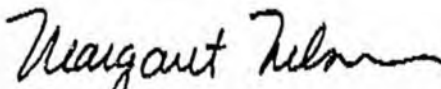
In addition, it should be noted that if AHFC funds are depleted, AHFC may not be able to continue efforts to stabilize the housing market such as the recently completed Home Owners' Assistance Program and the proposed Condominium Stabilization Program.

Since 1984, AHFC has not received any funds from the general fund and the Corporation hopes to continue operations in this manner. However, if funds are removed, it is not inconceivable that AHFC may end up itself, asking for appropriations in the future.

Another issue involving appropriation of funds from AHFC deals with the separate legal entity concept and separation of legal responsibility for debt repayment. As you are aware, debt issued by the State of Alaska is subject to vote approval. AHFC is established as a public instrumentality separate and distinct from the State of Alaska. The appropriation of funds by the State of Alaska opens the door for litigation from AHFC bond holders who may claim that if assets have been re-appropriated the separate legal existence does not in fact exist and the State does have responsibility for the approximately \$4 billion in AHFC debt outstanding.

If I can provide further assistance, please feel free to contact me.

Sincerely,



Margaret Nelson  
Special Assistant/Public Information Officer

ec

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_ Agency Affected: State Bond Committee  
 Title: Neighborhood Revitalization and BRU: \_\_\_\_\_  
Development General Obligation Bonds  
 Sponsor: Labor and Commerce Components: \_\_\_\_\_  
 Requestor: House Labor and Commerce

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
OPERATING						
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LANDS & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	385.0	1,566.2	1,566.2
TOTAL OPERATING	0	0	0	385.0	1,566.2	1,566.2
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	385.0	1,566.2	1,566.2
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	0	0	0	385.0	1,566.2	1,566.2

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: attach a separate page for analysis.

Debt Service

Assumes 10 year bonds at an average interest rate of 7.0 percent.  
 FY91 is one semi-annual interest only payment.

Prepared By: Milt Barker MB  
 Division: Treasury  
 Approved by Commissioner: [Signature]  
 Agency: Department of Revenue

Phone: 465-2350  
 Date: \_\_\_\_\_  
 Date: 2/13/89

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