

S B

4 2 7

# SENATE FINANCE COMMITTEE REPORT

DATE: 3/22/90

FURTHER:

DATE TURNED INTO OFFICE: 3/23/90

The Finance Committee considered

SB 427

AHFC housing programs; exempting the corporation from the Executive Budget Act and the State Procurement Code; amending the special mortgage loan purchase program and progressively reducing the maximum level of loan amounts eligible for a reduction under a mortgage loan subsidy; amending mortgage loan subsidy program; efd.

and recommended:

replace with \_\_\_\_\_ CS SB 427<sup>2d</sup> (Finance)
 or adopt \_\_\_\_\_ CS \_\_\_\_\_

attached amendment(s)

\_\_\_\_\_ letter of intent adopted

same title  
 new title  
 technical title change (HB only)

do pass

do not pass

no recommendation

individual recommendations

further referral to \_\_\_\_\_

ATTACHES NEW FISCAL NOTE(S):

Dept/Date:

fiscal note(s) \_\_\_\_\_

zero fiscal note(s) \_\_\_\_\_

APPROVES PREVIOUS:

Dept/Date:

fiscal note(s) \_\_\_\_\_

zero fiscal note(s) DOH 3/5/90

DOH 2/28/90

appropriation-no fiscal note

SIGNING DO PASS:

\_\_\_\_\_

*Paul Ueh*

\_\_\_\_\_

\_\_\_\_\_

OTHER RECOMMENDATIONS:

*Alman - no Rec. (may need Procurement Code Amend.)*

*Paul Ueh Note - do not pass*

*wait amend ment*

*in procurement preference for Alaska bidders*

1. \_\_\_\_\_

2. \_\_\_\_\_

Co-Chairs: Signatures and Recommendations

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_ Agency Affected: Administration  
 Title: "An Act relating to program and  
administration requirements of certain\* BRU: General Services and Supply  
 Sponsor: Rules/Housing Finance Task Force Components: Purchasing  
 Requestor: \_\_\_\_\_

\*corporations; expending. . .

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
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
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
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	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0

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 if necessary)

Section 9 of the bill deletes the requirement for the Alaska Railroad to adopt procurement procedures which are substantially equivalent to the procedures prescribed under the procurement code and resultant regulations. Section 10 of this bill revises the definition of agency to allow for the Alaska Housing Finance Corporation to purchase under procedures established by their board of directors which are substantially equivalent to the procedures and regulations established by the executive branch under the procurement code. There is no fiscal impact to the Department of Administration if this bill becomes law.

Prepared by: Robert J. Link, Director Phone: 465-2250  
 Division: General Services and Supply Date: 3/5/90

Approved by Commissioner: Frank S. Baxter Date: 3/5/90  
 Agency: Department of Administration

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

Changes in CSSB 427 (Fin)  
 have no fiscal impact.  
 This fiscal note is  
 appropriate. 3/23/90 *www*

# FISCAL NOTE

**REQUEST:**

Revision Date: 2/27/90  
Title: Program and Administration of AHFC  
Sponsor: Senator Pat Rodey  
Requestor: Senator Pat Rodey

Agency Affected:  
BRU: Alaska Housing Finance Corporation  
Components: \_\_\_\_\_

**EXPENDITURES/REVENUES:** (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
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 :** (Attach a separate page if necessary)

Prepared by: Robert Sullivan  
Division: Mortgage Department

Phone: 564-9315  
Date: 2/25/90

Approved by Commissioner: [Signature]  
Agency: Revenue

Date: 2/28/90

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

Changes in CSSB <sup>2d</sup>427 (Fin) have no fiscal impact. This fiscal note is appropriate. 3/23/90 vlv

Original sponsor(s): Rules/Housing Finance Task Force

IN THE SENATE

BY THE FINANCE COMMITTEE

CS FOR SENATE BILL NO. 427 (2d Finance)  
IN THE LEGISLATURE OF THE STATE OF ALASKA  
SIXTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to program and administration requirements of certain state corporations; expanding the number of directors of the Alaska Housing Finance Corporation; exempting the Alaska Housing Finance Corporation from the State Procurement Code and making an exception for the corporation under the Executive Budget Act; amending the corporation's special mortgage loan purchase program and progressively reducing the maximum level of loan amounts eligible for a reduction under a mortgage loan subsidy; amending the corporation's mortgage loan subsidy program for persons of lower and moderate income; and relating to procurement practices of certain state corporations; and providing for an effective date."

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

\* Section 1. AS 18.56.030(a) is amended to read:

(a) The corporation shall be governed by a board of directors consisting of

(1) the commissioner of revenue and the commissioner of commerce and economic development;

(2) one other member who is the head of a [THE] principal department of the executive branch of state government appointed by the governor; and

(3) four [TWO] public members appointed by the governor, one of whom shall be a representative of the financial community and one of whom shall be a person licensed as a real estate broker under AS 08.88.171(a).

\* Sec. 2. AS 18.56.091 is amended by adding a new subsection to read:

(b) Notwithstanding (a) of this section, the loan amount eligible for assistance under the subsidy authorized by (a) of this section is the amount determined under AS 18.56.098(f).

\* Sec. 3. AS 18.56.098(f) is amended to read:

(f) In this section and in AS 18.56.099

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

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

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

(2) "loan amount eligible for assistance" means the amount of a mortgage loan that does not exceed the amount of the loan established by law; if an amount has not been established by law, the amount is zero;

(3) "mortgage loan" includes a beneficial interest or participation in a mortgage loan; [(3) REPEALED]

(4) "residence" means

(A) an owner-occupied, single-family residence,

including a mobile home; [,] or

(B) an owner-occupied duplex, triplex, or fourplex.

\* Sec. 4. AS 18.56.098(f) is repealed and reenacted to read:

(f) In this section and in AS 18.56.091 and 18.56.099

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

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

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

(2) "loan amount eligible for assistance" means

(A) the first \$50,000 of a mortgage loan for persons of lower or moderate income whose purchase of a home is assisted under AS 18.56.091; or

(B) except as to persons whose purchase of a home is assisted under AS 18.56.091, the amount of a mortgage loan that does not exceed the amount of the loan established by law; if an amount has not been established by law, the amount is zero;

(3) "mortgage loan" includes a beneficial interest or participation in a mortgage loan;

(4) "residence" means

(A) an owner-occupied, single-family residence, including a mobile home; or

(B) an owner-occupied duplex, triplex, or fourplex.

\* Sec. 5. AS 18.56.098(g) is amended to read:

(g) The corporation shall establish the interest rate on a first mortgage loan purchased under (a) of this section in accordance with the following:

(1) The interest rate on the loan amount eligible for assistance [FIRST \$90,000] of a mortgage loan purchased with the proceeds of an issue of taxable bonds of the corporation is three percent less than the cost of funds of that issue, except that

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

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

(2) An interest rate determined under this subsection on the loan amount eligible for assistance [FIRST \$90,000] of a mortgage loan that is not purchased from the proceeds of bonds that are qualified veterans' mortgage bonds under the applicable provisions of 26 U.S.C. (Internal Revenue Code) [26 U.S.C. 103A (MORTGAGE SUBSIDY BOND TAX ACT OF 1980), AS AMENDED,] shall be reduced by one percentage point if the loan is made to an eligible veteran under AS 18.56.101.

(3) The interest rate for the amount of a mortgage loan purchased under (a) of this section that exceeds the loan amount eligible for assistance [\$90,000] is equal to the cost of funds to the corporation attributable to that part of the loan.

(4) The interest rate on the loan amount eligible for assistance [FIRST \$90,000] of a mortgage loan purchased with money that is not the proceeds of either taxable or tax-exempt bonds is the rate the corporation determines is appropriate by application of the provision of (1) of this subsection.

(5) The interest rate on the loan amount eligible for

assistance [FIRST \$90,000] of a mortgage loan purchased from the proceeds of bonds that are exempt from taxation other than bonds that constitute qualified veterans' bonds under (i) of this section, is equal to the interest rate determined under (1) and (2) of this subsection on a loan purchased under (a) of this section from the proceeds of the most recent applicable issue of taxable bonds sold by the corporation. A higher or lower interest rate shall be established on the entire loan amount if required to ensure the tax-exempt status of the bonds.

(6) The corporation shall determine the interest rate on a mortgage loan that is an adjustable rate mortgage loan as provided in this subsection. The corporation shall recalculate the interest rate from time to time based on changes in the cost to the corporation of the funds used to purchase the adjustable rate mortgage loan. However, the corporation may establish a minimum interest rate applicable to an adjustable rate mortgage loan, and the interest rate on the adjustable rate mortgage loan may not be less than the minimum interest rate so established regardless of the cost of funds to the corporation.

(7) For loans made under this section, the corporation shall give effect to interest rate changes applicable to the loans based on time of loan application, time of issuance of the corporation's bonds issued to purchase loans, or other factors as the corporation determines.

(8) [(7)] In this subsection

(A) "cost of funds" means the true interest cost expressed as a rate on bonds of the corporation plus an additional percentage as determined by the corporation to represent the allocable expenses of operation, costs of issuance, and

mortgage servicing;

(B) "taxable bonds" means bonds bearing interest that is taxable under applicable provisions of 26 U.S.C. (Internal Revenue Code) and which were [26 U.S.C. 103A (MORTGAGE SUBSIDY BOND TAX ACT OF 1980)] issued to finance the purchase of first mortgage loans.

\* Sec. 6. AS 18.56.098(h) is amended to read:

(h) The corporation shall establish the interest rate on a second mortgage loan purchased under (a) of this section in the manner established for computing the interest rates on a first mortgage loan under (g) of this section except that, in the case of a second mortgage loan, if the first mortgage loan made to the same borrower is held by the corporation and was purchased under the special mortgage loan purchase program, the outstanding principal balance of the existing first mortgage loan is subtracted from the loan amount eligible for assistance [\$90,000] to determine the amount of the loan that is eligible for an interest rate on a second mortgage loan determined by reference to (g) of this section.

\* Sec. 7. AS 18.56.098(i) is amended to read:

(i) The interest rate on the loan amount eligible for assistance [FIRST \$90,000] of a mortgage loan purchased from the proceeds of bonds that constitute qualified veterans' mortgage bonds under applicable provisions of 26 U.S.C. (Internal Revenue Code) is [26 U.S.C. 103A (MORTGAGE SUBSIDY BOND TAX ACT OF 1980) AS AMENDED, IS THE GREATER OF (1) FOUR PERCENT LESS THAN THE COST OF FUNDS OR (2)] the rate for other loans to veterans under (g)(2) of this section [AS 18.56.098(g)(3)]. A higher or lower interest rate shall be established on the entire loan amount if required by applicable provisions of 26 U.S.C. (Internal Revenue Code) [UNDER 26 U.S.C. 103A].

\* Sec. 8. AS 36.30.015(e) is amended to read:

(e) The boards of directors of the Alaska Railroad Corporation, the Alaska Housing Finance Corporation, and the Alaska State Housing Authority shall adopt procedures to govern the procurement of supplies, services, professional services, and construction for [BY] the respective public corporations [CORPORATION]. The procedures must

(1) reflect competitive bidding principles and provide vendors reasonable and equitable opportunities to participate in the procurement process; and

(2) include procurement methods to meet emergency and extraordinary circumstances [BE SUBSTANTIALLY EQUIVALENT TO THE PROCEDURES PRESCRIBED IN THIS CHAPTER AND IN REGULATIONS ADOPTED UNDER THIS CHAPTER].

\* Sec. 9. AS 36.30.990(1) is amended to read:

(1) "agency"

(A) means a department, institution, board, commission, division, authority, public corporation, the Alaska Pioneers' Home, or other administrative unit of the executive branch of state government;

(B) does not include

(i) [, EXCEPT FOR] the University of Alaska;

(ii) [,] the Alaska State Housing Authority;

(iii) the [AND] Alaska Railroad Corporation;

(iv) the Alaska Housing Finance Corporation;

(v) [IT DOES NOT INCLUDE] a regional Native housing authority created under AS 18.55.996, or a regional electrical authority created under AS 18.57.020;

\* Sec. 10. AS 37.07 is amended by adding a new section to read:

Sec. 37.07.085. ALASKA HOUSING FINANCE CORPORATION BUDGET. (a)

Notwithstanding the provisions of AS 37.07.080(h), the Alaska Housing Finance Corporation may, by resolution adopted by the board of directors, increase an item appropriated from corporation receipts if

(1) the board of directors determines that circumstances require an increase in expenditures in excess of an existing appropriation made under the authority conferred by this chapter; and

(2) additional corporation receipts are available.

(b) Before the resolution required by (a) of this section takes effect, the board of directors shall submit a revised program to the governor for approval as provided in AS 37.07.080(d). A copy of the revised program shall be submitted to the legislative budget and audit committee.

(c) The increase authorized by (a) of this section may not extend beyond the end of the fiscal year in which the resolution is adopted.

\* Sec. 11. LOAN AMOUNTS ELIGIBLE FOR ASSISTANCE FOR LOANS ISSUED UNDER AS 18.56.098 DURING STATE FISCAL YEARS 1991 - 1993. For first and second mortgage loans purchased by the Alaska Housing Finance Corporation from the special mortgage loan purchase program and from qualified veterans' mortgage bonds

(1) after June 30, 1990, and before July 1, 1991, the loan amount eligible for assistance under AS 18.56.098 is \$70,000;

(2) after June 30, 1991, and before July 1, 1992, the loan amount eligible for assistance under AS 18.56.098 is \$50,000;

(3) after June 30, 1992, and before July 1, 1993, the loan amount eligible for assistance under AS 18.56.098 is \$30,000.

\* Sec. 12. Of the two additional public members appointed by the governor under AS 18.56.030(a), amended by sec. 1 of this Act, one member shall serve a term of two years and one shall serve a term of one year. When

making the appointments, the governor shall specify the length of the term of each person appointed.

\* Sec. 13. Sections 2 and 4 of this Act take effect July 1, 1992.

\* Sec. 14. Except for secs. 2 and 4 of this Act, this Act takes effect July 1, 1990.

Amend #1      ② moved 3/22/90 SB 427  
Adopted.      Roddy  
3/22/90

\* Sec. AS 37.07 is amended by adding a new section to read:

Sec. 37.07.085. ALASKA HOUSING FINANCE CORPORATION BUDGET. (a) Notwithstanding the provisions of AS 37.07.080(h), the Alaska Housing Finance Corporation may, by resolution adopted by the board of directors, increase an item appropriated from corporation receipts if:

(1) the board of directors determines that circumstances require an increase in expenditures in excess of an existing appropriation made under the authority conferred by this chapter; and

(2) additional corporation receipts are available.

(b) Before the resolution required by (a) of this section takes effect, the board of directors shall submit a revised program to the governor for approval as provided in 37.07.080(d). A copy of the revised program shall be submitted to the legislative budget and audit committee.

(c) The increase authorized by (a) of this section may not extend beyond the end of the fiscal year in which the resolution is adopted.

3/23/90 RO CSSB 427 (2d Fin)

This Am appears on pp 7-8 (lines 28-29 & 1-12),  
Section 10

3/22/90 Hand out for review  
p.m.

SB 427

Discussion Only.

Amend #A

\* Sec. AS 37.07 is amended by adding a new section to read:

Sec. 37.07.085. ALASKA HOUSING FINANCE CORPORATION.

(a) All unrestricted mortgage loan interest payments and all other receipts, including, without limitation, mortgage loan commitment fees, received by or accrued to the Alaska Housing Finance Corporation, and all income earned on assets of the corporation, are appropriated to the Alaska housing finance revolving fund (AS 18.56.082) for the purposes described in AS 18.56.

(b) Notwithstanding the provisions of AS 37.07.080(h), the Alaska Housing Finance Corporation may, by resolution adopted by the board of directors, increase an item appropriated from corporation receipts if:

(1) the board of directors determines that circumstances require an increase in expenditures in excess of an existing appropriation made under the authority conferred by this chapter; and

(2) additional corporation receipts are available.

(c) Before the resolution required by (a) of this section takes effect, the board of directors shall submit a revised program to the governor for approval as provided by 37.07.080(d). A copy of the revised program shall be submitted to the legislative budget and audit committee.

(d) The increase authorized by (b) of this section may not extend beyond the end of the fiscal year in which the resolution is adopted.

*This memo not distributed  
to SFC.*

STATE OF ALASKA  
THE LEGISLATURE  
LEGISLATIVE AFFAIRS AGENCY

POUCH Y - STATE CAPITOL  
JUNEAU, ALASKA 99811  
907 465-3800

MEMORANDUM

March 23, 1990

SUBJECT: Alaska Housing Finance Corporation  
(CSSB 427(2d Fin))

TO: Senator Rick Uehling

FROM: Tamara Brandt Cook *TBC*  
Director  
Division of Legal Services

Here is the draft committee substitute you requested incorporating language you supplied to me. As requested, no changes have been made to this language. Since, we were directed to use the language exactly as submitted, we have not reviewed it for technical or legal problems.

TBC:pl  
WKP3/073

Enclosure

*This is not distributed to SFC.*

6-2074M,  
Cook/  
Chenoweth  
3/23/90

Original sponsor(s): Rules/Housing Finance Task Force

1 IN THE SENATE

BY THE FINANCE COMMITTEE

2 CS FOR SENATE BILL NO. 427 (2d Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to program and administration re-  
7 quirements of certain state corporations; expanding  
8 the number of directors of the Alaska Housing Finance  
9 Corporation; exempting the Alaska Housing Finance  
10 Corporation from the State Procurement Code and  
11 making an exception for the corporation under the  
12 Executive Budget Act; amending the corporation's  
13 special mortgage loan purchase program and progres-  
14 sively reducing the maximum level of loan amounts  
15 eligible for a reduction under a mortgage loan sub-  
16 sidy; amending the corporation's mortgage loan sub-  
17 sidy program for persons of lower and moderate in-  
18 come; and relating to procurement practices of cer-  
19 tain state corporations; and providing for an effec-  
20 tive date."

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

22 \* Section 1. AS 18.56.030(a) is amended to read:

23 (a) The corporation shall be governed by a board of directors  
24 consisting of

25 (1) the commissioner of revenue and the commissioner of  
26 commerce and economic development;

27 (2) one other member who is the head of a [THE] principal  
28 department of the executive branch of state government appointed by  
29 the governor; and

1 (3) four [TWO] public members appointed by the governor,  
2 one of whom shall be a representative of the financial community and  
3 one of whom shall be a person licensed as a real estate broker under  
4 AS 08.88.171(a).

5 \* Sec. 2. AS 18.56.091 is amended by adding a new subsection to read:

6 (b) Notwithstanding (a) of this section, the loan amount eligi-  
7 ble for assistance under the subsidy authorized by (a) of this section  
8 is the amount determined under AS 18.56.098(f).

9 \* Sec. 3. AS 18.56.098(f) is amended to read:

10 (f) In this section and in AS 18.56.099

11 (1) "graduated payment mortgage loan" means a mortgage loan  
12 the terms of which provide for monthly principal and interest payments  
13 that

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

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

22 (2) "loan amount eligible for assistance" means the amount  
23 of a mortgage loan that does not exceed the amount of the loan estab-  
24 lished by law; if an amount has not been established by law, the  
25 amount is zero; [REPEALED] *Out in final run*

26 (3) "mortgage loan" includes a beneficial interest or  
27 participation in a mortgage loan;

28 (4) "residence" means

29 (A) an owner-occupied, single-family residence,

1 including a mobile home; [,] or

2 (B) an owner-occupied duplex, triplex, or fourplex.

3 \* Sec. 4. AS 18.56.098(f) is repealed and reenacted to read:

4 (f) In this section and in AS 18.56.091 and 18.56.099

5 (1) "graduated payment mortgage loan" means a mortgage loan  
6 the terms of which provide for monthly principal and interest payments  
7 that

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

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

16 (2) "loan amount eligible for assistance" means

17 (A) the first \$50,000 of a mortgage loan for persons  
18 of lower or moderate income whose purchase of a home is assisted  
19 under AS 18.56.091; or

20 (B) except as to persons whose purchase of a home is  
21 assisted under AS 18.56.091, the amount of a mortgage loan that  
22 does not exceed the amount of the loan established by law; if an  
23 amount has not been established by law, the amount is zero;

24 (3) "mortgage loan" includes a beneficial interest or  
25 participation in a mortgage loan;

26 (4) "residence" means

27 (A) an owner-occupied, single-family residence, in-  
28 cluding a mobile home; or

29 (B) an owner-occupied duplex, triplex, or fourplex.

1 \* Sec. 5. AS 18.56.098(g) is amended to read:

2 (g) The corporation shall establish the interest rate on a first  
3 mortgage loan purchased under (a) of this section in accordance with  
4 the following:

5 (1) The interest rate on the loan amount eligible for  
6 assistance [FIRST \$90,000] of a mortgage loan purchased with the  
7 proceeds of an issue of taxable bonds of the corporation is three  
8 percent less than the cost of funds of that issue, except that

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

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

13 (2) An interest rate determined under this subsection on  
14 the loan amount eligible for assistance [FIRST \$90,000] of a mortgage  
15 loan that is not purchased from the proceeds of bonds that are qual-  
16 ified veterans' mortgage bonds under the applicable provisions of 26  
17 U.S.C. (Internal Revenue Code) [26 U.S.C. 103A (MORTGAGE SUBSIDY BOND  
18 TAX ACT OF 1980), AS AMENDED,] shall be reduced by one percentage  
19 point if the loan is made to an eligible veteran under AS 18.56.101.

20 (3) The interest rate for the amount of a mortgage loan  
21 purchased under (a) of this section that exceeds the loan amount  
22 eligible for assistance [\$90,000] is equal to the cost of funds to the  
23 corporation attributable to that part of the loan.

24 (4) The interest rate on the loan amount eligible for  
25 assistance [FIRST \$90,000] of a mortgage loan purchased with money  
26 that is not the proceeds of either taxable or tax-exempt bonds is the  
27 rate the corporation determines is appropriate by application of the  
28 provision of (1) of this subsection.

29 (5) The interest rate on the loan amount eligible for

1 assistance [FIRST \$90,000] of a mortgage loan purchased from the  
2 proceeds of bonds that are exempt from taxation other than bonds that  
3 constitute qualified veterans' bonds under (i) of this section, is  
4 equal to the interest rate determined under (1) and (2) of this sub-  
5 section on a loan purchased under (a) of this section from the pro-  
6 ceeds of the most recent applicable issue of taxable bonds sold by the  
7 corporation. A higher or lower interest rate shall be established on  
8 the entire loan amount if required to ensure the tax-exempt status of  
9 the bonds.

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

20 (7) For loans made under this section, the corporation  
21 shall give effect to interest rate changes applicable to the loans  
22 based on time of loan application, time of issuance of the corpora-  
23 tion's bonds issued to purchase loans, or other factors as the corpora-  
24 tion determines.

25 (8) [(7)] In this subsection

26 (A) "cost of funds" means the true interest cost  
27 expressed as a rate on bonds of the corporation plus an addi-  
28 tional percentage as determined by the corporation to represent  
29 the allocable expenses of operation, costs of issuance, and

1 mortgage servicing;

2 (B) "taxable bonds" means bonds bearing interest that  
3 is taxable under applicable provisions of 26 U.S.C. (Internal  
4 Revenue Code) and which were [26 U.S.C. 103A (MORTGAGE SUBSIDY  
5 BOND TAX ACT OF 1980)] issued to finance the purchase of first  
6 mortgage loans.

7 \* Sec. 6. AS 18.56.098(h) is amended to read:

8 (h) The corporation shall establish the interest rate on a  
9 second mortgage loan purchased under (a) of this section in the manner  
10 established for computing the interest rates on a first mortgage loan  
11 under (g) of this section except that, in the case of a second mort-  
12 gage loan, if the first mortgage loan made to the same borrower is  
13 held by the corporation and was purchased under the special mortgage  
14 loan purchase program, the outstanding principal balance of the exist-  
15 ing first mortgage loan is subtracted from the loan amount eligible  
16 for assistance [\$90,000] to determine the amount of the loan that is  
17 eligible for an interest rate on a second mortgage loan determined by  
18 reference to (g) of this section.

19 \* Sec. 7. AS 18.56.098(i) is amended to read:

20 (i) The interest rate on the loan amount eligible for assistance  
21 [FIRST \$90,000] of a mortgage loan purchased from the proceeds of  
22 bonds that constitute qualified veterans' mortgage bonds under appli-  
23 cable provisions of 26 U.S.C. (Internal Revenue Code) is [26 U.S.C.  
24 103A (MORTGAGE SUBSIDY BOND TAX ACT OF 1980) AS AMENDED, IS THE GREAT-  
25 ER OF (1) FOUR PERCENT LESS THAN THE COST OF FUNDS OR (2)] the rate  
26 for other loans to veterans under (g)(2) of this section [AS 18.56.-  
27 098(g)(3)]. A higher or lower interest rate shall be established on  
28 the entire loan amount if required by applicable provisions of 26  
29 U.S.C. (Internal Revenue Code) [UNDER 26 U.S.C. 103A].

1 \* Sec. 8. AS 36.30.015(e) is amended to read:

2 (e) The boards of directors of the Alaska Railroad Corporation,  
3 the Alaska Housing Finance Corporation, and the Alaska State Housing  
4 Authority shall adopt procedures to govern the procurement of sup-  
5 plies, services, professional services, and construction for [BY] the  
6 respective public corporations [CORPORATION]. The procedures must

7 (1) reflect competitive bidding principles and provide  
8 vendors reasonable and equitable opportunities to participate in the  
9 procurement process; and

10 (2) include procurement methods to meet emergency and  
11 extraordinary circumstances [BE SUBSTANTIALLY EQUIVALENT TO THE PROCE-  
12 DURES PRESCRIBED IN THIS CHAPTER AND IN REGULATIONS ADOPTED UNDER THIS  
13 CHAPTER].

14 \* Sec. 9. AS 36.30.990(1) is amended to read:

15 (1) "agency"

16 (A) means a department, institution, board, commis-  
17 sion, division, authority, public corporation, the Alaska Pio-  
18 neers' Home, or other administrative unit of the executive branch  
19 of state government;

20 (B) does not include

21 (i) [, EXCEPT FOR] the University of Alaska;

22 (ii) [,] the Alaska State Housing Authority;

23 (iii) the [AND] Alaska Railroad Corporation;

24 (iv) the Alaska Housing Finance Corporation;

25 (v) [IT DOES NOT INCLUDE] a regional Native  
26 housing authority created under AS 18.55.996, or a regional  
27 electrical authority created under AS 18.57.020;

28 \* Sec. 10. AS 37.07 is amended by adding a new section to read:

29 Sec. 37.07-085. ALASKA HOUSING FINANCE CORPORATION BUDGET. (a)

1 Notwithstanding the provisions of AS 37.07.080(h), the Alaska Housing  
2 Finance Corporation may, by resolution adopted by the board of direc-  
3 tors, increase an item appropriated from corporation receipts if

4 (1) the board of directors determines that circumstances  
5 require an increase in expenditures in excess of an existing appro-  
6 priation made under the authority conferred by this chapter; and

7 (2) additional corporation receipts are available.

8 (b) Before the resolution required by (a) of this section takes  
9 effect, the board of directors shall submit a revised program to the  
10 governor for approval as provided in AS 37.07.080(d). A copy of the  
11 revised program shall be submitted to the legislative budget and audit  
12 committee.

13 (c) The increase authorized by (a) of this section may not  
14 extend beyond the end of the fiscal year in which the resolution is  
15 adopted.

16 \* Sec. 11. LOAN AMOUNTS ELIGIBLE FOR ASSISTANCE FOR LOANS ISSUED UNDER  
17 AS 18.56.098 DURING STATE FISCAL YEARS 1991 - 1993. For first and second  
18 mortgage loans purchased by the Alaska Housing Finance Corporation from the  
19 special mortgage loan purchase program and from qualified veterans' mort-  
20 gage bonds

21 (1) after June 30, 1990, and before July 1, 1991, the loan  
22 amount eligible for assistance under AS 18.56.098 is \$70,000;

23 (2) after June 30, 1991, and before July 1, 1992, the loan  
24 amount eligible for assistance under AS 18.56.098 is \$50,000;

25 (3) after June 30, 1992, and before July 1, 1993, the loan  
26 amount eligible for assistance under AS 18.56.098 is \$30,000.

27 \* Sec. 12. Of the two additional public members appointed by the gover-  
28 nor under AS 18.56.030(a), amended by sec. 1 of this Act, one member shall  
29 serve a term of two years and one shall serve a term of one year. When

1 making the appointments, the governor shall specify the length of the term  
2 of each person appointed.

3 \* Sec. 13. Sections 2 and 4 of this Act take effect July 1, 1992.

4 \* Sec. 14. Except for secs. 2 and 4 of this Act, this Act takes effect  
5 July 1, 1990.

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

6-2074J  
Chenoweth  
3/23/90

Original sponsor(s): Rules/Housing Finance Task Force

1 IN THE SENATE

2 CS FOR SENATE BILL NO. 427 ( )

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to program and administration re-  
7 quirements of certain state corporations; expanding  
8 the number of directors of the Alaska Housing Finance  
9 Corporation; exempting the Alaska Housing Finance  
10 Corporation from the State Procurement Code and  
11 making an exception for the corporation under the  
12 Executive Budget Act; amending the corporation's  
13 special mortgage loan purchase program and progres-  
14 sively reducing the maximum level of loan amounts  
15 eligible for a reduction under a mortgage loan sub-  
16 sidy; amending the corporation's mortgage loan sub-  
17 sidy program for persons of lower and moderate in-  
18 come; and relating to procurement practices of cer-  
19 tain state corporations; and providing for an effec-  
20 tive date."

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

22 \* Section 1. AS 18.56.030(a) is amended to read:

23 (a) The corporation shall be governed by a board of directors  
24 consisting of

25 (1) the commissioner of revenue and the commissioner of  
26 commerce and economic development;

27 (2) one other member who is the head of a [THE] principal  
28 department of the executive branch of state government appointed by  
29 the governor; and

1 (3) four [TWO] public members appointed by the governor,  
2 one of whom shall be a representative of the financial community and  
3 one of whom shall be a person licensed as a real estate broker under  
4 AS 08.88.171(a).

5 \* Sec. 2. AS 18.56.089 is amended to read:

6 Sec. 18.56.089. EXECUTIVE BUDGET ACT. Except as provided in (b)  
7 and (c) of this section, the [THE] operating budget of the corporation  
8 is subject to the Executive Budget Act (AS 37.07). To further ensure  
9 effective budgetary decision making by the legislature, the corpo-  
10 ration shall present a complete accounting of all assets of the corpo-  
11 ration, including assets of the Alaska housing finance revolving fund,  
12 to the legislature by January 10 of each year. The accounting shall be  
13 audited by an independent outside auditor and must [SHALL] include a  
14 full description of all mortgage loan interest and principal repay-  
15 ments and program receipts, including mortgage loan commitment fees,  
16 received by or accrued to the corporation during the preceding fiscal  
17 year, and all income earned on assets of the corporation during that  
18 period, including earnings on assets of the state assisted mortgage  
19 fund.

20 \* Sec. 3. AS 18.56.089 is amended by adding new subsections to read:

21 (b) Notwithstanding the provisions of AS 37.07.080(b), the  
22 corporation may, by resolution adopted by the board, increase an item  
23 appropriated from program receipts of the corporation if

24 (1) the board determines that circumstances require an in-  
25 crease in expenditures in excess of an existing appropriation made  
26 under the authority conferred by this chapter; and

27 (2) additional program receipts of the corporation are  
28 available.

29 (c) Before an increase authorized by a resolution required by

1 (b) of this section takes effect, the board shall submit a revised  
2 program that is consistent with AS 37.07.080(d) to the governor and  
3 the Legislative Budget and Audit Committee.

4 (d) The increase authorized by (b) of this section may not  
5 extend beyond the end of the fiscal year in which the resolution is  
6 adopted.

7 \* Sec. 4. AS 18.56.091 is amended by adding a new subsection to read:

8 (b) Notwithstanding (a) of this section, the loan amount eligi-  
9 ble for assistance under the subsidy authorized by (a) of this section  
10 is the amount determined under AS 18.56.098(f).

11 \* Sec. 5. AS 18.56.098(f) is amended to read:

12 (f) In this section and in AS 18.56.099

13 (1) "graduated payment mortgage loan" means a mortgage loan  
14 the terms of which provide for monthly principal and interest payments  
15 that

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

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

24 (2) "loan amount eligible for assistance" means the amount  
25 of a mortgage loan that does not exceed the amount of the loan estab-  
26 lished by law; if an amount has not been established by law, the  
27 amount is zero; [REPEALED]

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

1 (4) "residence" means

2 (A) an owner-occupied, single-family residence, in-  
3 cluding a mobile home; [,] or

4 (B) an owner-occupied duplex, triplex, or fourplex.

5 \* Sec. 6. AS 18.56.098(f) is repealed and reenacted to read:

6 (f) In this section and in AS 18.56.091 and 18.56.099

7 (1) "graduated payment mortgage loan" means a mortgage loan  
8 the terms of which provide for monthly principal and interest payments  
9 that

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

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

18 (2) "loan amount eligible for assistance" means

19 (A) the first \$50,000 of a mortgage loan for persons  
20 of lower or moderate income whose purchase of a home is assisted  
21 under AS 18.56.091; or

22 (B) except as to persons whose purchase of a home is  
23 assisted under AS 18.56.091, the amount of a mortgage loan that  
24 does not exceed the amount of the loan established by law; if an  
25 amount has not been established by law, the amount is zero;

26 (3) "mortgage loan" includes a beneficial interest or  
27 participation in a mortgage loan;

28 (4) "residence" means

29 (A) an owner-occupied, single-family residence, in-

1 cluding a mobile home; or

2 (B) an owner-occupied duplex, triplex, or fourplex.

3 \* Sec. 7. AS 18.56.098(g) is amended to read:

4 (g) The corporation shall establish the interest rate on a first  
5 mortgage loan purchased under (a) of this section in accordance with  
6 the following:

7 (1) The interest rate on the loan amount eligible for  
8 assistance [FIRST \$90,000] of a mortgage loan purchased with the  
9 proceeds of an issue of taxable bonds of the corporation is three  
10 percent less than the cost of funds of that issue, except that

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

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

15 (2) An interest rate determined under this subsection on  
16 the loan amount eligible for assistance [FIRST \$90,000] of a mortgage  
17 loan that is not purchased from the proceeds of bonds that are qual-  
18 ified veterans' mortgage bonds under the applicable provisions of 26  
19 U.S.C. (Internal Revenue Code) [26 U.S.C. 103A (MORTGAGE SUBSIDY BOND  
20 TAX ACT OF 1980), AS AMENDED,] shall be reduced by one percentage  
21 point if the loan is made to an eligible veteran under AS 18.56.101.

22 (3) The interest rate for the amount of a mortgage loan  
23 purchased under (a) of this section that exceeds the loan amount  
24 eligible for assistance [\$90,000] is equal to the cost of funds to the  
25 corporation attributable to that part of the loan.

26 (4) The interest rate on the loan amount eligible for  
27 assistance [FIRST \$90,000] of a mortgage loan purchased with money  
28 that is not the proceeds of either taxable or tax-exempt bonds is the  
29 rate the corporation determines is appropriate by application of the

1 provision of (1) of this subsection.

2 (5) The interest rate on the loan amount eligible for  
3 assistance [FIRST \$90,000] of a mortgage loan purchased from the  
4 proceeds of bonds that are exempt from taxation other than bonds that  
5 constitute qualified veterans' bonds under (i) of this section, is  
6 equal to the interest rate determined under (1) and (2) of this sub-  
7 section on a loan purchased under (a) of this section from the pro-  
8 ceeds of the most recent applicable issue of taxable bonds sold by the  
9 corporation. A higher or lower interest rate shall be established on  
10 the entire loan amount if required to ensure the tax-exempt status of  
11 the bonds.

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

22 (7) For loans made under this section, the corporation  
23 shall give effect to interest rate changes applicable to the loans  
24 based on time of loan application, time of issuance of the corpora-  
25 tion's bonds issued to purchase loans, or other factors as the corpora-  
26 tion determines.

27 (8) [(7)] In this subsection

28 (A) "cost of funds" means the true interest cost  
29 expressed as a rate on bonds of the corporation plus an addi-

1 tional percentage as determined by the corporation to represent  
2 the allocable expenses of operation, costs of issuance, and  
3 mortgage servicing;

4 (B) "taxable bonds" means bonds bearing interest that  
5 is taxable under applicable provisions of 26 U.S.C. (Internal  
6 Revenue Code) and which were [26 U.S.C. 103A (MORTGAGE SUBSIDY  
7 BOND TAX ACT OF 1980)] issued to finance the purchase of first  
8 mortgage loans.

9 \* Sec. 8. AS 18.56.098(h) is amended to read:

10 (h) The corporation shall establish the interest rate on a  
11 second mortgage loan purchased under (a) of this section in the manner  
12 established for computing the interest rates on a first mortgage loan  
13 under (g) of this section except that, in the case of a second mort-  
14 gage loan, if the first mortgage loan made to the same borrower is  
15 held by the corporation and was purchased under the special mortgage  
16 loan purchase program, the outstanding principal balance of the exist-  
17 ing first mortgage loan is subtracted from the loan amount eligible  
18 for assistance [\$90,000] to determine the amount of the loan that is  
19 eligible for an interest rate on a second mortgage loan determined by  
20 reference to (g) of this section.

21 \* Sec. 9. AS 18.56.098(i) is amended to read:

22 (i) The interest rate on the loan amount eligible for assistance  
23 [FIRST \$90,000] of a mortgage loan purchased from the proceeds of  
24 bonds that constitute qualified veterans' mortgage bonds under appli-  
25 cable provisions of 26 U.S.C. (Internal Revenue Code) is [26 U.S.C.  
26 103A (MORTGAGE SUBSIDY BOND TAX ACT OF 1980) AS AMENDED, IS THE GREAT-  
27 ER OF (1) FOUR PERCENT LESS THAN THE COST OF FUNDS OR (2)] the rate  
28 for other loans to veterans under (g)(2) of this section  
29 [AS 18.56.098(g)(3)]. A higher or lower interest rate shall be estab-

1 lished on the entire loan amount if required by applicable provisions  
2 of 26 U.S.C. (Internal Revenue Code) [UNDER 26 U.S.C. 103A].

3 \* Sec. 10. AS 36.30.015(e) is amended to read:

4 (e) The boards of directors of the Alaska Railroad Corporation,  
5 the Alaska Housing Finance Corporation, and the Alaska State Housing  
6 Authority shall adopt procedures to govern the procurement of sup-  
7 plies, services, professional services, and construction for [BY] the  
8 respective public corporations [CORPORATION]. The procedures must

9 (1) reflect competitive bidding principles and provide  
10 vendors reasonable and equitable opportunities to participate in the  
11 procurement process; and

12 (2) include procurement methods to meet emergency and  
13 extraordinary circumstances [BE SUBSTANTIALLY EQUIVALENT TO THE PROCE-  
14 DURES PRESCRIBED IN THIS CHAPTER AND IN REGULATIONS ADOPTED UNDER THIS  
15 CHAPTER].

16 \* Sec. 11. AS 36.30.990(1) is amended to read:

17 (1) "agency"

18 (A) means a department, institution, board, commis-  
19 sion, division, authority, public corporation, the Alaska Pio-  
20 neers' Home, or other administrative unit of the executive branch  
21 of state government;

22 (B) does not include

23 (i) [, EXCEPT FOR] the University of Alaska;

24 (ii) [,] the Alaska State Housing Authority;

25 (iii) the [AND] Alaska Railroad Corporation;

26 (iv) the Alaska Housing Finance Corporation;

27 (v) [IT DOES NOT INCLUDE] a regional Native  
28 housing authority created under AS 18.55.996, or a regional  
29 electrical authority created under AS 18.57.020;

1 \* Sec. 12. LOAN AMOUNTS ELIGIBLE FOR ASSISTANCE FOR LOANS ISSUED UNDER  
2 AS 18.56.098 DURING STATE FISCAL YEARS 1991 - 1993. For first and second  
3 mortgage loans purchased by the Alaska Housing Finance Corporation from the  
4 special mortgage loan purchase program and from qualified veterans' mort-  
5 gage bonds

6 (1) after June 30, 1990, and before July 1, 1991, the loan  
7 amount eligible for assistance under AS 18.56.098 is \$70,000;

8 (2) after June 30, 1991, and before July 1, 1992, the loan  
9 amount eligible for assistance under AS 18.56.098 is \$50,000;

10 (3) after June 30, 1992, and before July 1, 1993, the loan  
11 amount eligible for assistance under AS 18.56.098 is \$30,000.

12 \* Sec. 13. Of the two additional public members appointed by the gover-  
13 nor under AS 18.56.030(a), amended by sec. 1 of this Act, one member shall  
14 serve a term of two years and one shall serve a term of one year. When  
15 making the appointments, the governor shall specify the length of the term  
16 of each person appointed.

17 \* Sec. 14. Sections 4 and 6 of this Act take effect July 1, 1992.

18 \* Sec. 15. Except for secs. 4 and 6 of this Act, this Act takes effect  
19 July 1, 1990.  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29

6-2074Hb  
Cook

3/23/90

Pierce

A M E N D M E N T

(Not Adopted by SFC  
Request to be  
made to Rules  
by SFC chair)  
BY SEN. SZYMANSKI

OFFERED IN THE SENATE

TO: CSSB 427 (Finance)

Page 7, after line 4:

Insert

"(1) comply with requirements of AS 36.30.170;"

Renumber the following paragraphs accordingly.

STATE OF ALASKA  
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

3/16/90  
(RO 3/15/90)

POUCH Y STATE CAPITOL  
JUNEAU, ALASKA 99811  
907-465-3800

MEMORANDUM

March 15, 1990

SUBJECT: Alaska Housing Finance Corporation  
(CSSB 427(Fin))

TO: Senator Pat Rodey

FROM: Tamara Brandt Cook *TBC*  
Director  
Division of Legal Services

Max Gifford of your office has supplied me with a proposed letter of intent to CSSB 427(Fin) and asked whether this alone would authorize AHFC to hire additional employees to implement the new legislation without "going through the hoops" of the executive budget act. In my opinion it would not because AS 37.07.080(d) specifically limits the ability of an agency to add new employees not provided for in the approved operations plan of the agency. Under subsection (f) the operations plan of an agency may be modified. So, AHFC may be able to add employees under existing law if its operations plan is modified during the fiscal year. Otherwise, AHFC will not be able to increase the number of its employees over that provided for in the operations plan without an exemption from the provision of AS 37.07.080(d) enacted as law. I suggest the following language to accomplish this:

Sec. AS 18.56.089 is amended by adding a new subsection to read:

(b) Notwithstanding AS 37.07.080(d) and (f), if the board of directors determines that it is in the best interests of the corporation, the corporation may employ additional employees not authorized under its approved operations plan and make reductions in other expenditures if necessary. A determination by the board to hire additional employees must be set forth in

Senator Pat Rodey  
Page 2  
March 15, 1990

a resolution adopted by the board that explains the basis for the determination. A copy of the resolution shall be submitted to the governor and to the Legislative Budget and Audit Committee.

TBC:gc  
G13/120

Enclosure

STATE OF ALASKA  
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

POUCH Y STATE CAPITOL  
JUNEAU, ALASKA 99811  
907 465 3800

3/16/90  
MS 427  
(RO 3/15/90)

MEMORANDUM

March 15, 1990

SUBJECT: Authority for Alaska Housing Finance Corporation to operate outside of constraints of Executive Budget Act based on language in Act making annual operations for expenditures of state government operations

TO: Senator Pat Rodey  
ATTN: Max Gifford

FROM: Jack Chenoweth  
Legislative Counsel

You have asked whether sec. 14, ch. 116, SLA 1989, authorizes the Alaska Housing Finance Corporation to operate outside of constraints imposed by the Executive Budget Act (AS 37.07) relating to employment of additional personnel not authorized by ch. 116. In my opinion, the language does not and, since it is an act making appropriations, it cannot.

Sec. 14, ch. 116, SLA 1989 appropriates the income received by the corporation during FY 1990 "to the Alaska housing finance revolving fund (AS 18.56.082) for the purposes described in AS 18.56." Without the appropriation, income received by the corporation from the sources identified in that section would be unavailable to the corporation and would lapse into the state's general fund.

AS 18.56.089 subjects the corporation to the Executive Budget Act. AS 37.07.080(d) precludes agencies subject to the Executive Budget Act from hiring additional personnel not authorized by law "except in accordance with law." Essentially, state law requires approval of employment of additional personnel by the legislature, if in session, or by the Legislative Budget and Audit Committee under AS 37.07.-080(h). Since acts making appropriations must be confined to appropriations, article II, section 13, Alaska

Senator Pat Rodey  
Page 2  
March 15, 1990

Constitution, and may not serve to modify or nullify substantive law, there is no merit to the contention that sec. 14, ch. 116, SLA 1989 excepts the corporation from the provisions of the Executive Budget Act.

JC:gc  
G13/123

# SENATE FINANCE COMMITTEE REPORT

DATE: 2/28/90

FURTHER:

DATE TURNED INTO OFFICE: 3/15/90

The Finance Committee considered

SB 427

Alaska Housing Finance Corporation and its housing programs; exempting the corporation from the Executive Budget Act and the State Procurement Code; amending the special mortgage loan purchase program and progressively reducing the maximum level of loan amounts eligible for a reduction under a mortgage loan subsidy; amending the mortgage loan subsidy program for persons of lower and moderate income; efd.

and recommended:

replace with \_\_\_\_\_ CS SB 427 (Fin)
 or adopt \_\_\_\_\_ CS \_\_\_\_\_

attached amendment(s)

Senate Finance letter of intent adopted

same title  
 new title  
 technical title change (HB only)

do pass

do not pass

no recommendation

individual recommendations

further referral to \_\_\_\_\_

ATTACHES NEW FISCAL NOTE(S):

fiscal note(s) \_\_\_\_\_ Dept/Date: \_\_\_\_\_

APPROVES PREVIOUS:

fiscal note(s) \_\_\_\_\_ Dept/Date: \_\_\_\_\_

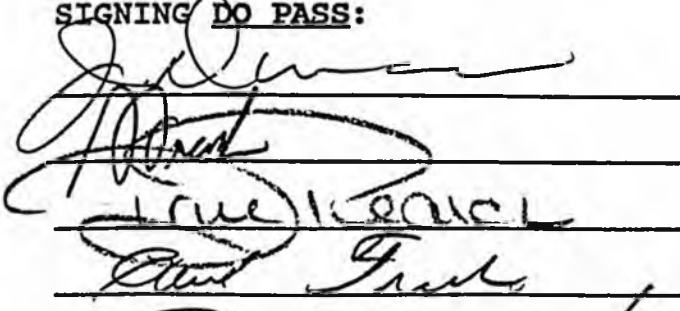
zero fiscal note(s) \_\_\_\_\_  
DDA 3/5/90  
DAR 2/28/90

zero fiscal note(s) \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

appropriation-no fiscal note

SIGNING DO PASS:

OTHER RECOMMENDATIONS:

  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

1. John Kelly (DO PASS)

[REDACTED]  
(LFD)  
[REDACTED]

CSSB 427 (Finance)

LETTER OF INTENT

In changing the provisions of AS 36.30.015(e), it is the intent of the Senate Finance Committee to allow the Alaska Railroad Corporation, the Alaska Housing Finance Corporation and the Alaska State Housing Authority to adopt procurement regulations which will allow each corporation to operate within their respective markets in a cost-effective manner while at the same time ensuring a public and competitive bidding process. It is not the intent of the Senate Finance Committee that these regulations be the same as or "substantially equivalent" to the State Procurement Code.

It is also the intent of the Senate Finance Committee that the Alaska Housing Finance Corporation present interim changes to its annual operating budget to the Legislative Budget & Audit Committee as a matter of information notwithstanding AHFC's budget authority to expend funds provided in the front section of the General Appropriations Act.

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_ Agency Affected: Administration  
 Title: "An Act relating to program and  
administration requirements of certain\* BRU: General Services and Supply  
 Sponsor: Rules/Housing Finance Task Force Components: Purchasing  
 Requestor: \_\_\_\_\_

\*corporations; expending. . .

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
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
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
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	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0

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 if necessary)

Section 9 of the bill deletes the requirement for the Alaska Railroad to adopt procurement procedures which are substantially equivalent to the procedures prescribed under the procurement code and resultant regulations. Section 10 of this bill revises the definition of agency to allow for the Alaska Housing Finance Corporation to purchase under procedures established by their board of directors which are substantially equivalent to the procedures and regulations established by the executive branch under the procurement code. There is no fiscal impact to the Department of Administration if this bill becomes law.

Prepared by: Robert J. Link, Director Phone: 465-2250  
 Division: General Services and Supply Date: 3/5/90  
 Approved by Commissioner: Frank S. Baxter Date: 3/5/90  
 Agency: Department of Administration

Distribution (by preparer):

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

Changes in CSSB 427 (Fin)  
 have no fiscal impact.  
 This fiscal note is  
 appropriate. 3/15/90 RL

## FISCAL NOTE

**REQUEST:**

Revision Date: 2/27/90  
 Title: Program and Administration of AHFC  
 Sponsor: Senator Pat Rodey  
 Requestor: Senator Pat Rodey

Agency Affected:  
BRU: Alaska Housing Finance Corporation  
 Components: \_\_\_\_\_

**EXPENDITURES/REVENUES:** (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	0	0	0	0	0	0
<b>CAPITAL</b>	0	0	0	0	0	0
<b>REVENUE</b>	0	0	0	0	0	0

**FUNDING:** (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
<b>TOTAL</b>	0	0	0	0	0	0

**POSITIONS:**

FULL-TIME						
PART-TIME						
TEMPORARY						

**ANALYSIS :** (Attach a separate page if necessary)

Prepared by: Robert Sullivan  
 Division: Mortgage Department  
 Approved by Commissioner: [Signature]  
 Agency: Revenue

Phone: 554-9315  
 Date: 2/23/90  
 Date: 2/28/90

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

Changes in CSSB 427 (Fin)  
 have no fiscal impact.  
 This fiscal note is  
 appropriate. 3/15/90 pu

Original sponsor(s): Rules/Housing Finance Task Force

1 IN THE SENATE

BY THE FINANCE COMMITTEE

2 CS FOR SENATE BILL NO. 427 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to program and administration re-  
7 quirements of certain state corporations; expanding  
8 the number of directors of the Alaska Housing Finance  
9 Corporation; exempting the Alaska Housing Finance  
10 Corporation from the State Procurement Code; amending  
11 the corporation's special mortgage loan purchase  
12 program and progressively reducing the maximum level  
13 of loan amounts eligible for a reduction under a  
14 mortgage loan subsidy; amending the corporation's  
15 mortgage loan subsidy program for persons of lower  
16 and moderate income; and relating to procurement  
17 practices of certain state corporations; and provid-  
18 ing for an effective date."

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

20 \* Section 1. AS 18.56.030(a) is amended to read:

21 (a) The corporation shall be governed by a board of directors  
22 consisting of

23 (1) the commissioner of revenue and the commissioner of  
24 commerce and economic development;

25 (2) one other member who is the head of a [THE] principal  
26 department of the executive branch of state government appointed by  
the governor; and

27 (3) four [TWO] public members appointed by the governor,  
28 one of whom shall be a representative of the financial community and

*Redey  
Amend.  
Adopted  
3-15-90*

1 one of whom shall be a person licensed as a real estate broker under  
2 AS 08.88.171(a).

3 \* Sec. 2. AS 18.56.091 is amended by adding a new subsection to read:

4 (b) Notwithstanding (a) of this section, the loan amount eligi-  
5 ble for assistance under the subsidy authorized by (a) of this section  
6 is the amount determined under AS 18.56.098(f).

7 \* Sec. 3. AS 18.56.098(f) is amended to read:

8 (f) In this section and in AS 18.56.099

9 (1) "graduated payment mortgage loan" means a mortgage loan  
10 the terms of which provide for monthly principal and interest payments  
11 that

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

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

20 (2) "loan amount eligible for assistance" means the amount  
21 of a mortgage loan that does not exceed the amount of the loan estab-  
22 lished by law; if an amount has not been established by law, the  
23 amount is zero; [REPEALED]

24 (3) "mortgage loan" includes a beneficial interest or  
25 participation in a mortgage loan;

26 (4) "residence" means

27 (A) an owner-occupied, single-family residence, in-  
28 cluding a mobile home; [,] or

29 (B) an owner-occupied duplex, triplex, or fourplex.

1 \* Sec. 4. AS 18.56.098(f) is repealed and reenacted to read:

2 (f) In this section and in AS 18.56.091 and 18.56.099

3 (1) "graduated payment mortgage loan" means a mortgage loan  
4 the terms of which provide for monthly principal and interest payments  
5 that

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

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

14 (2) "loan amount eligible for assistance" means

15 (A) the first \$50,000 of a mortgage loan for persons  
16 of lower or moderate income whose purchase of a home is assisted  
17 under AS 18.56.091; or

18 (B) except as to persons whose purchase of a home is  
19 assisted under AS 18.56.091, the amount of a mortgage loan that  
20 does not exceed the amount of the loan established by law; if an  
21 amount has not been established by law, the amount is zero;

22 (3) "mortgage loan" includes a beneficial interest or  
23 participation in a mortgage loan;

24 (4) "residence" means

25 (A) an owner-occupied, single-family residence, in-  
26 cluding a mobile home; or

27 (B) an owner-occupied duplex, triplex, or fourplex.

28 \* Sec. 5. AS 18.56.098(g) is amended to read:

29 (g) The corporation shall establish the interest rate on a first

1 mortgage loan purchased under (a) of this section in accordance with  
2 the following:

3 (1) The interest rate on the loan amount eligible for  
4 assistance [FIRST \$90,000] of a mortgage loan purchased with the  
5 proceeds of an issue of taxable bonds of the corporation is three  
6 percent less than the cost of funds of that issue, except that

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

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

11 (2) An interest rate determined under this subsection on  
12 the loan amount eligible for assistance [FIRST \$90,000] of a mortgage  
13 loan that is not purchased from the proceeds of bonds that are qual-  
14 ified veterans' mortgage bonds under the applicable provisions of 26  
15 U.S.C. (Internal Revenue Code) [26 U.S.C. 103A (MORTGAGE SUBSIDY BOND  
16 TAX ACT OF 1980), AS AMENDED,] shall be reduced by one percentage  
17 point if the loan is made to an eligible veteran under AS 18.56.101.

18 (3) The interest rate for the amount of a mortgage loan  
19 purchased under (a) of this section that exceeds the loan amount  
20 eligible for assistance [\$90,000] is equal to the cost of funds to the  
21 corporation attributable to that part of the loan.

22 (4) The interest rate on the loan amount eligible for  
23 assistance [FIRST \$90,000] of a mortgage loan purchased with money  
24 that is not the proceeds of either taxable or tax-exempt bonds is the  
25 rate the corporation determines is appropriate by application of the  
26 provision of (1) of this subsection.

27 (5) The interest rate on the loan amount eligible for  
28 assistance [FIRST \$90,000] of a mortgage loan purchased from the  
29 proceeds of bonds that are exempt from taxation other than bonds that

constitute qualified veterans' bonds under (i) of this section, is equal to the interest rate determined under (1) and (2) of this subsection on a loan purchased under (a) of this section from the proceeds of the most recent applicable issue of taxable bonds sold by the corporation. A higher or lower interest rate shall be established on the entire loan amount if required to ensure the tax-exempt status of the bonds.

(6) The corporation shall determine the interest rate on a mortgage loan that is an adjustable rate mortgage loan as provided in this subsection. The corporation shall recalculate the interest rate from time to time based on changes in the cost to the corporation of the funds used to purchase the adjustable rate mortgage loan. However, the corporation may establish a minimum interest rate applicable to an adjustable rate mortgage loan, and the interest rate on the adjustable rate mortgage loan may not be less than the minimum interest rate so established regardless of the cost of funds to the corporation.

(7) For loans made under this section, the corporation shall give effect to interest rate changes applicable to the loans based on time of loan application, time of issuance of the corporation's bonds issued to purchase loans, or other factors as the corporation determines.

(8) [(7)] In this subsection

(A) "cost of funds" means the true interest cost expressed as a rate on bonds of the corporation plus an additional percentage as determined by the corporation to represent the allocable expenses of operation, costs of issuance, and mortgage servicing;

(B) "taxable bonds" means bonds bearing interest that

1 is taxable under applicable provisions of 26 U.S.C. (Internal  
2 Revenue Code) and which were [26 U.S.C. 103A (MORTGAGE SUBSIDY  
3 BOND TAX ACT OF 1980)] issued to finance the purchase of first  
4 mortgage loans.

5 \* Sec. 6. AS 18.56.098(h) is amended to read:

6 (h) The corporation shall establish the interest rate on a  
7 second mortgage loan purchased under (a) of this section in the manner  
8 established for computing the interest rates on a first mortgage loan  
9 under (g) of this section except that, in the case of a second mort-  
10 gage loan, if the first mortgage loan made to the same borrower is  
11 held by the corporation and was purchased under the special mortgage  
12 loan purchase program, the outstanding principal balance of the exist-  
13 ing first mortgage loan is subtracted from the loan amount eligible  
14 for assistance [\$90,000] to determine the amount of the loan that is  
15 eligible for an interest rate on a second mortgage loan determined by  
16 reference to (g) of this section.

17 \* Sec. 7. AS 18.56.098(i) is amended to read:

18 (i) The interest rate on the loan amount eligible for assistance  
19 [FIRST \$90,000] of a mortgage loan purchased from the proceeds of  
20 bonds that constitute qualified veterans' mortgage bonds under appli-  
21 cable provisions of 26 U.S.C. (Internal Revenue Code) is [26 U.S.C.  
22 103A (MORTGAGE SUBSIDY BOND TAX ACT OF 1980) AS AMENDED, IS THE GREAT-  
23 ER' OF (1) FOUR PERCENT LESS THAN THE COST OF FUNDS OR (2)] the rate  
24 for other loans to veterans under (g)(2) of this section [AS 18.56.-  
25 098(g)(3)]. A higher or lower interest rate shall be established on  
26 the entire loan amount if required by applicable provisions of 26  
27 U.S.C. (Internal Revenue Code) [UNDER 26 U.S.C. 103A].

28 \* Sec. 8. AS 36.30.015(e) is amended to read:

29 (e) The boards of directors of the Alaska Railroad Corporation,

the Alaska Housing Finance Corporation, and the Alaska State Housing Authority shall adopt procedures to govern the procurement of supplies, services, professional services, and construction for [BY] the respective public corporations [CORPORATION]. The procedures must

(1) reflect competitive bidding principles and provide vendors reasonable and equitable opportunities to participate in the procurement process; and

(2) include procurement methods to meet emergency and extraordinary circumstances [BE SUBSTANTIALLY EQUIVALENT TO THE PROCEDURES PRESCRIBED IN THIS CHAPTER AND IN REGULATIONS ADOPTED UNDER THIS CHAPTER].

\* Sec. 9. AS 36.30.990(1) is amended to read:

(1) "agency"

(A) means a department, institution, board, commission, division, authority, public corporation, the Alaska Pioneers' Home or other administrative unit of the executive branch of state government;

(B) does not include

(i) [, EXCEPT FOR] the University of Alaska;

(ii) [,] the Alaska State Housing Authority;

(iii) the [AND] Alaska Railroad Corporation;

(iv) the Alaska Housing Finance Corporation;

(v) [IT DOES NOT INCLUDE] a regional Native housing authority created under AS 18.55.996, or a regional electrical authority created under AS 18.57.020;

\* Sec. 10. LOAN AMOUNTS ELIGIBLE FOR ASSISTANCE FOR LOANS ISSUED UNDER AS 18.56.098 DURING STATE FISCAL YEARS 1991 - 1993. For first and second mortgage loans purchased by the Alaska Housing Finance Corporation from the special mortgage loan purchase program and from qualified veterans'

mortgage bonds

(1) after June 30, 1990, and before July 1, 1991, the loan amount eligible for assistance under AS 18.56.098 is \$70,000;

(2) after June 30, 1991, and before July 1, 1992, the loan amount eligible for assistance under AS 18.56.098 is \$50,000;

(3) after June 30, 1992, and before July 1, 1993, the loan amount eligible for assistance under AS 18.56.098 is \$30,000.

\* Sec. 11. Of the two additional public members appointed by the governor under AS 18.56.030(a), amended by sec. 1 of this Act, one member shall serve a term of two years and one shall serve a term of one year. When making the appointments, the governor shall specify the length of the term of each person appointed.

\* Sec. 12. Sections 2 and 4 of this Act take effect July 1, 1992.

\* Sec. 13. Except for secs. 2 and 4 of this Act, this Act takes effect July 1, 1990.

6-2074 H  
Chenoweth  
3-14-90

*Rodley - suggestive add.*

*Adopted*

*one of which is a member of the financial community and one of which is a licensed real estate broker*

*Delete Sec. 2*

(3) four [TWO] public members appointed by the governor.

\* Sec. 2. AS 18.56.089 is amended by adding a new subsection to read:

(b) Notwithstanding the prohibition against employing additional employees under AS 37.07.080(d), if the board of directors determines that it is in the best interests of the corporation, the corporation may employ additional employees without obtaining prior approval of the Legislative Budget and Audit Committee. If the board of directors determines to employ additional employees, the board shall implement its decision by a board resolution. The board shall promptly submit its resolution to the Legislative Budget and Audit Committee, ~~if within 45 days after receipt of the board's resolution the committee disapproves the resolution, the board shall immediately terminate the persons it employed under the resolution.~~

*Delete*

*During the interim and to HRS Finance Committee when the legislature is in session*

*Adopted*

*Adopted*

\* Sec. 3. AS 18.56.091 is amended by adding a new subsection to read:

(b) Notwithstanding (a) of this section, the loan amount eligible for assistance under the subsidy authorized by (a) of this section is the amount determined under AS 18.56.098(f).

\* Sec. 4. AS 18.56.098(f) is amended to read:

(f) In this section and in AS 18.56.099

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

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

(B) during subsequent years of the mortgage loan are graduated to provide for the same return over the term of the loan that would have been provided by a level payment mortgage





Official Business

# Alaska State Legislature

SENATE

*Committee on Finance*

P.O. Box V  
State Capitol  
Juneau, Alaska 99811

CSSB 427 (*Finance*)

LETTER OF INTENT

In changing the provisions of AS 36.30.015(e), it is the intent of the Senate Finance Committee to allow the Alaska Railroad Corporation, the Alaska Housing Finance Corporation and the Alaska State Housing Authority to adopt procurement regulations which will allow each corporation to operate within their respective markets in a cost-effective manner while at the same time ensuring a public and competitive bidding process. It is not the intent of the Senate Finance Committee that these regulations be the same as or "substantially equivalent" to the State Procurement Code.

*Add. Sec. 2 provisions*

# AHFC: Phase out subsidy

Director counters sudden-elimination recommendation

By JACQUES PICARD  
Times Writer

The subsidy of home mortgages by the Alaska Housing Finance Corporation should be phased-out over the next five years, rather than eliminated immediately, said Thomas Behan, executive director of AHFC.

Behan's statement was a response to a report by Ernst & Young which recommended prompt elimination of the subsidies during a "unique window of opportunity" that presently exists.

When AHFC's cost of mortgage loan funds rise above 10 percent, AHFC currently subsidizes the interest rate to borrowers by up to three percentage points.

However, AHFC's cost of funds is generally below 10 percent at this time, and demand for mortgages is

low, noted the Ernst & Young report in its recommendation for elimination of the subsidy.

Behan said that the subsidy should be phased-out by lowering the amount of a loan eligible for a sub-



Thomas Behan

sidy by \$20,000 each year from the current \$90,000 limit. "We believe this approach would more reasonably extract the subsidy from the marketplace and would best protect

both AHFC and Alaska's residential real estate market from a high interest rate cycle while providing the most benefit to low-to-moderate income homebuyers," Behan said.

AHFC fears the real estate buyers might get "cold feet" from the sudden elimination of the subsidy, resulting in lower prices and slower sales, said Margaret Nelson, AHFC spokeswoman.

"I think every Alaskan is concerned about buying (a home) knowing that one day they will be a seller," Behan said. Potential buyers will have greater confidence if they know that financing will be available when they want to sell, he said.

AHFC constitutes a large portion of the market, Nelson said, holding two-thirds of mortgage loans in the

See AHFC, page C-3

## AHFC: Home mortgage subsidy phase-out

Continued from page C-1

state and 4,000 foreclosed properties for sale and issuing 60 percent of all mortgage loans.

"We want any changes to be gradual," said Nelson.

As the loan subsidy is phased out, Behan expects that demand for mortgage loans through AHFC also will drop. Borrowers will then turn to banks and federal loan programs.

However, Behan does not want to eliminate AHFC's ability to provide unsubsidized loans, in case other sources of loans are not readily available in the future.

Behan also wants to replace the Home Ownership Fund, or HOF program, which provides mortgage payment subsidies based on a borrower's income. "We don't think it's a very good program," he said.

Behan would like AHFC to be

able to subsidize mortgage loans up to \$50,000 by up to three percentage points, based on the borrower's income. Once such a program were in place, the HOF program would be eliminated.

Such a program would be consistent with the Ernst & Young report's recommendation that AHFC's role be refocused on supporting housing for low-and-moderate income Alaskans, Behan said.

A subsidy of smaller mort-

gages based on income also would help "shore up" the condominium market over the long-term, Behan said.

Although AHFC is an independent, state-owned agency, changes in AHFC programs must be made by the legislature.

The Alaska Legislature's Housing Finance Task Force intends to introduce legislation to change AHFC programs by Jan. 31; said Rep. C.E. Swackhammer, R-Soldotna.



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

P.O. Box 101020  
Anchorage, AK 99510

---

# POSITION PAPER

---

2/26/90

RE: SB 427  
REGARDING AHFC EXEMPTION FROM EXECUTIVE BUDGET ACT  
AND STATE PROCUREMENT CODE

Alaska Housing Finance Corporation firmly embraces measures in the proposed legislation which will, if enacted, exempt the Corporation from the Executive Budget Act and the State Procurement Code.

In seeking these exemptions, it is not the intent of AHFC to dodge accountability to the state government. To the contrary, these measures will place accountability with the Corporation's Board of Directors, each of whom is appointed by and accountable to the Governor.

In their report to the Housing Finance Task Force, Ernst and Young stated that "exemption [from the Executive Budget Act] would allow AHFC to respond more quickly to its staffing needs, and operate more efficiently as a result."

In governmental accounting terminology, AHFC is an "enterprise fund" of the State of Alaska. Designation as an enterprise fund is appropriate where the operations of the governmental entity are expected to be supported primarily by those whom services (mortgage loans) are to be provided. Generally, it is recognized that an enterprise must adopt a "business budget" approach as opposed to strict dollar limit caps. The business budget approach takes a variety of internal and external (market) factors into consideration to develop a budget required to be approved by the AHFC board of directors. Under a business budget, the Corporation retains accountability while it gains the ability to respond quickly to changing market conditions and constituent needs.

Exemption from the Executive Budget Act (also recommended in the Ernst and Young report) would similarly afford the Corporation the ability to respond in a timely and cost-effective manner to changing market demands. Under this measure, the Corporation would develop and implement a separate procurement code, which, while upholding the letter of the law, would eliminate wasteful time lags which result from the logistics of distance from Juneau as well as the bureaucratic process inherent in state government.

The effect of these delays can be illustrated with the example of the Corporation's experience in procuring signage for its foreclosed properties. In August, 1989, AHFC requested authorization to purchase 5500 property signs locally. After a 30-day decision process, this request was denied. Ultimately, the contract was split between two suppliers (one of which was a non-profit organization) and awarded in October, 1989. Signs began arriving at AHFC in Anchorage in mid-November, but shipment was not complete until late January. Had the authorization been issued in August to purchase locally, the entire order could have been delivered and in the hands of

brokers within 45 days. This loss of time not only effects the marketability of AHFC's foreclosed properties, but also costs extra staff resources to negotiate and supervise the order.

In another recent procurement experience, a software order was so delayed that by the time it received final approval, the software specified was obsolete and no longer available from the vendor. Another entire process must be begun for the new software version. Productive time lost due to lack of proper software: 5 months.

Exemption from the procurement code will not absolve AHFC from accountability. Any proprietary AHFC procurement code will incorporate the same high standards for fair competition and equal opportunity as the state code. However, a proprietary code will afford the Corporation the ability to acquire needed resources quickly, therefore enhancing the level of service provided to the public and conserving public funds in the process.

THE FOLLOWING DOCUMENT HAS  
NOT BEEN FILMED BUT IS  
AVAILABLE IN THE ORIGINAL  
FILE

**STATE OF ALASKA  
LEGISLATURE**

**HOUSING FINANCE  
TASK FORCE**

**Evaluation of Policy Options  
Concerning the Future of the  
Alaska Housing Finance  
Corporation**

January 12, 1990

**Ernst & Young**

## EXECUTIVE SUMMARY

The State of Alaska Legislature established the Housing Finance Task Force in 1989 to review and recommend changes in publicly-assisted residential finance programs, including those loan programs managed by the Alaska Housing Finance Corporation (AHFC). This study was commissioned to provide information regarding potential changes in AHFC programs, and included addressing the following concerns of the Task Force:

- Availability of a return on the State's \$1 billion investment in AHFC, without impairing AHFC's financial condition
- Affect on AHFC's financial standing from a change in the subsidy policy
- Impact on AHFC's financial position and on the State's housing market, due to changes in the AHFC subsidy and/or a return of AHFC to its original legislative intent
- Feasibility of "privatizing" AHFC.

The results of our analysis are summarized in following subsections of this Executive Summary:

- *AHFC Present Activities*
- *AHFC Financial Position and Availability of Funds*
- *Policy Option to Change AHFC Subsidy*
- *Policy Option to Return AHFC to Original Legislative Intent*
- *Policy Option to Change Ownership of AHFC*
- *Conceptualization of an Idealized AHFC.*

### A. AHFC PRESENT ACTIVITIES

The Legislature created AHFC in 1971 to provide housing for low-income Alaskans. Since that time, the Legislature has progressively expanded AHFC's role, where the Corporation now provides financing for the varying housing needs of all

qualified Alaskan homebuyers. AHFC's core activities are selling bonds and purchasing home loans originated by Alaskan lending institutions.

During fiscal year 1988/89, AHFC purchased 2,740 new loans. One half of these new loans were purchased under the tax-exempt, first-time homebuyers program. In addition to purchases of new loans, AHFC also refinanced 6,316 existing AHFC loans in the same fiscal year. In total, AHFC purchased approximately 9,000 loans totalling almost \$900 million.

Over the past five years AHFC's purchases of new loans have dramatically declined while refinancings have significantly increased. In total, AHFC loan purchase activity has increased slightly in the past five years.

#### **B. AHFC FINANCIAL POSITION AND AVAILABILITY OF FUNDS**

In June of 1980, legislation was passed which allowed the State to subsidize interest rates on mortgage loans purchased by AHFC. In connection with the legislation, the State contributed monies to AHFC to provide for the overcollateralization of these loans so that qualified residents could obtain interest rates on mortgages below market rates.

Through fiscal year 1983/84, just over \$1 billion was contributed by the State to AHFC. Of this amount, \$808 million was contributed for the overcollateralization purposes described above. The remaining \$225 million was provided for various other specifically identified purposes. The Corporation has not required a direct State capital infusion since 1984.

The Corporation's ability to operate as a going concern depends on both its liquidity and solvency. The concept of liquidity includes AHFC's ability to meet necessary cash flow payments. Currently, the Corporation is experiencing liquidity problems as reflected in the most recent year's net loss of income. The concept of solvency includes AHFC's equity strength and general credit worthiness. The financial community still generally views the Corporation as financially stable because of the solvency of its balance sheet.

However, further extraction of Corporation assets, in any form, may have a serious impact on Corporate financial health.

Under the current AHFC practice of using general obligation financing, if funds were appropriated from the Corporation, a precedent would be set and the bond programs would likely be less solvent and credit worthy. Additionally, if funds were withdrawn, the State could conceivably run the risk of being held responsible for any resultant future losses in the bond programs.

AHFC had retained earnings of over \$300 million as of June 30, 1989. However, these cumulative earnings were principally a result of interest earned on State contributions, and that without prior State contributions the Corporation would reflect a deficit to-date.

As of June 30, 1989, AHFC had \$519 million of net Corporate assets not pledged as collateral for specific bond indentures. The \$519 million equity balance is only as strong as the Corporation's assets. Based upon our review, it appears that a fairly significant portion of these assets may not be liquid, if collectible or realizable at all. In addition, a significant portion of the mortgage loans maintained in the Corporate Operating and General accounts were either already pooled, or scheduled for pooling, to be subsequently pledged to a bond issue. Although these receivable balances (pooled loans) represent valid and collectible assets, the principal intent is to place these balances into a bond issue. Finally, AHFC's short-term borrowing agreements require minimum equity balances be maintained, which AHFC has met.

Therefore, after deducting from the \$519 million equity balance those assets considered non-liquid, and adjusting for current borrowing arrangements, we estimated AHFC had only \$10 million in unrestricted net liquid assets as of June 30, 1989. Virtually all of AHFC's \$519 million equity balance is thus restricted.

### **C. POLICY OPTION TO CHANGE AHFC SUBSIDY**

For virtually all AHFC loan programs, a subsidy is provided to the borrower if the cost of AHFC's funds used to purchase a loan is greater than ten percent (nine percent to veterans). By law, this subsidy cannot exceed three percent. With the current level of

market interest rates, there is no subsidy on tax-exempt programs, an approximate 0.75 percent subsidy on the taxable program, and an estimated two percent subsidy on the Home Owners' Assistance Program.

We believe the subsidy program is presently not desirable because it presents a major drain on increasingly scarce AHFC assets and it prevents the re-entry of outside capital into the Alaska market. The cessation of the subsidy will not only make possible some long-term future return on prior State appropriations, it also will provide a great stride towards long-term fiscal responsibility for the Corporation.

Furthermore, a unique window of opportunity exists now to eliminate the subsidy because AHFC's cost of funds is generally below the ten percent threshold rates (although some slight subsidy is in effect for the taxable program), demand for mortgages is low as compared to the last couple of years, the price of housing appears to be at or near the bottom, and market interest rates are expected to remain stable in the short-term.

However, we wish to emphasize that elimination of the subsidy as of a set date (June 30, 1990) is only appropriate under the conditions noted above. A significant time delay in implementation could result in changed market and economic circumstances. Therefore, as a possible backstop, a ratchet mechanism may be wise to consider. That is, eliminate the subsidy through revised legislation as of a set date (again June 30, 1990 seems to be appropriate), but provide for the ability to extend this date if conditions are not actually favorable at that time.

We addressed the impact of changing the subsidy as to its effect on the housing market, AHFC, and the State (appropriated funds). Below is a summary of what we determined to be the impacts:

*Market:* We addressed the impact to the housing market under three separate circumstances, and determined that only in a worse case scenario (interest rates increasing significantly during the transition period) would any negative effects likely to occur. In this event, some form of ratcheting (such as extending the effective date of eliminating the subsidy until conditions were more favorable or phasing-out the subsidy over time)

would eliminate this problem. However, based on projected interest rates, we do not currently believe this to be the likely scenario.

*AHFC:* Either the elimination or phase-out of the interest rate subsidy will provide for a financially stronger Corporation and no negative effects to Corporation bond or loan covenants, or bond ratings from credit agencies. Without the interest rate subsidy for the taxable programs, the Corporation will lose much of its competitive market advantages over the private sector. In the long-term, this could lead to a healthier competitive capital market environment.

Without any future changes to the subsidy, and no further State capital injections, we have projected that the Corporation will have a major decrease in its unrestricted net liquid assets over the next five-year period. Because of the immaterial amount of total unrestricted net liquid assets available as of June 30, 1989 (only \$10 million), any substantial decrease in unrestricted assets will have the following two important negative impacts on the Corporation's short-term borrowing arrangements:

- If minimum unrestricted net liquid asset balances are not maintained, the Corporation may be in a default position on its working capital debt
- If net losses resulting from bond programs continue in the future, the critical short-term Corporation borrowing arrangements necessary for day-to-day operations may be severely jeopardized.

*State Appropriations:* Because elimination of the subsidy will provide for a more financially solvent AHFC, this may be one of the few ways for the State to ever receive a return on their substantial contributed capital. This is assuming the AHFC has to reach at least break-even operations in order to be able to return a dividend from operations to the State.

The net effect over a five-year period of eliminating the subsidy may range from \$43 million to \$91 million, depending on market conditions. In summary, elimination of the subsidy will reduce costs, either to the State or to the Corporation, by these substantial amounts.

**D. POLICY OPTION TO RETURN AHFC  
TO ORIGINAL LEGISLATIVE INTENT**

The original legislative intent was for AHFC to provide housing for low- to moderate-income individuals. Based on this interpretation of intent, we made a determination that the taxable program and the second mortgage program did not meet original legislative intent. Because the magnitude of the second mortgage program is negligible, we then estimated the impact of phasing-out the taxable program on Alaska's housing market and on the financial position of AHFC and the State.

The effect of phasing-out the taxable program on AHFC's financial position is measured by the change in unrestricted net liquid assets. The potential change in these assets arises from two sources:

- First, to the extent that loans under the taxable program are subsidized, terminating this program means that further subsidies are unnecessary and these assets, therefore, should increase
- Second, because bond issues supporting the program are overcollateralized as a credit enhancement measure, terminating this program frees up assets which would otherwise be pledged as collateral.

The additive effect (over and above elimination of the subsidy) of eliminating the taxable program as of June 30, 1990, would be to reduce by \$45 million the level of unrestricted net liquid assets otherwise required over the five-year period of fiscal years 1990 through 1994.

Due to the generally perceived role of AHFC, its long-term institutional relationships with other secondary market purchasers, and the continuing importance of the taxable program to the Corporation's REO sales, any phase-out of the program should proceed carefully and take place over an extended period of time. A careful implementation of the phase-out will avoid market disruption because if any disruption does become evident, mechanisms will then be in place to slow the phase-out and stabilize the situation.

In summary, AHFC programs supported by taxable bonds compete directly with private sector sources of financing. The AHFC, in absence of the subsidy, adds no unique value to these taxable mortgage programs, over and above the private sector. In addition, AHFC is not serving primarily low- to moderate-income persons with its taxable programs. However, it should be clarified that even though AHFC programs supported by taxable bonds appear to be presently expendable, we are not suggesting that this occur. These taxable programs must remain accessible to AHFC, but only on an "as needed" basis.

#### **E. POLICY OPTION TO CHANGE OWNERSHIP OF AHFC**

The legislature requested an evaluation of the potential for "privatizing" all or a portion of AHFC. Typically, privatization has been an arrangement in which the private sector supplies goods, facilities, and services that have been traditionally provided by the public sector. However, in the case of the Housing Finance Task Force request, this policy option actually extends to selling all, or a portion, of the Corporation's assets and related liabilities to a third party.

The sale of AHFC assets is probably not feasible for several reasons:

- There is little or no interest in the purchase
- The price paid could be far below State investment in AHFC
- Legal problems may exist with respect to the Alaska constitution and various bond covenants.

However, contracting out of the REO disposition process may be a viable option, and could offer cost-savings to AHFC. The REO functions performed are commercially available, non-governmental in nature, somewhat routine, and easily defined in terms of workload. A private firm(s) could avoid many government restrictions which presently hamper the AHFC REO disposition process, such as civil service requirements, procurement restrictions, and difficulty in authorizing needed additional staff positions. Competitive bidding for providing the services could lower the cost of disposing of REO properties. If AHFC used the private sector, rather than its own employees, to deliver the REO service, it would not have to give up its responsibility to provide the service.

## F. CONCEPTUALIZATION OF AN IDEALIZED AHFC

We recommend the Legislature consider a new formal mandate for AHFC in order to redefine its role in the years ahead. We believe that the role of AHFC, as described below, makes good public policy sense and serves to stabilize Alaska's cyclical housing market, both in good times and bad.

The net effects of the proposed legislative mandate would be positive to the State, AHFC, and the Alaska real estate market, and would make AHFC a more effective organization in carrying out public policy. We recommend, therefore, that the Legislature consider the following long-term mandates:

- Focus AHFC'S role on low- and moderate-income housing, but retain AHFC in a "backstop role" to provide taxable mortgage financing, as required. This will help stabilize the Alaska housing market in the long-term
- Restructure AHFC's financing mechanisms to concentrate on tax-exempt revenue bonds. This will be consistent with its focus on low- and moderate-income housing and holds the long-term potential of freeing up part of AHFC's capital base
- Enable AHFC (through elimination of the subsidy and by operations improvements) to operate on a break-even or profitable basis. This will provide funding for the housing backstop role and provide the potential to pay dividends from operations to the State
- Make AHFC more independent of close legislative control. This will promote both efficiency of operations and the ability to respond to market conditions based on long-term legislative policy
- Require AHFC to pay operating dividends to the State. This is a reasonable condition considering the large investment already made by the State
- Protect AHFC's capital base and avoid new capital infusions by the State. This will protect AHFC's financial integrity. Also, because AHFC will be breaking even or making a project, no new capital will be required.

## A. POLICY OPTIONS

Three options were evaluated during the course of this study:

- Phase-out or eliminate the interest rate subsidy
- Return AHFC to original legislative intent of providing for low- and moderate-income housing
- Change the ownership of AHFC.

Each of these is described in the subsections which follow.

### 1. Change AHFC Subsidy

The first option evaluated was a change in the current interest rate subsidy now provided by AHFC. This change could range from a gradual phasing out of the subsidy to its one-time elimination. Phasing out of the subsidy would allow adjustment by the housing sector, including mortgage financing sources, in the removal of AHFC as a below market price source of mortgage funds. On the other hand, a one-time elimination of the subsidy, rather than a gradual phasing-out, would make sense if market conditions were such that AHFC was no longer providing lower than market rate financing.

Phasing out of the subsidy can be done by either of the following two methods:

- Reducing the spread between AHFC's cost of funds and the rate provided to a borrower (e.g., from three percent to zero percent over time)
- Reducing the loan amount on which the subsidy is applied (e.g., from the first \$90,000 to some lower figure over time, eventually to no subsidy).

There may not be any effective difference between the above two alternatives if AHFC cost of funds are low enough that there is no subsidy being provided. It was pointed out in Section II of this report that there was no subsidy on most new loans purchased in fiscal year 1986 and 1987, and only with an increase in the costs of bonds issued in 1988 and 1989 has the subsidy actually reappeared for some AHFC programs. Depending on where

interest rates may head in the future, and AHFC's resulting cost of funds, there may be no significant subsidy provided by AHFC currently, and in the very near future.

By State statute, AHFC currently provides a subsidy of residential mortgage rates. For most loans purchased by AHFC, the interest rate on the first \$90,000 is three percent less than the cost of funds used to purchase the loan, except that: (1) if the cost of funds is less than ten percent, the interest rate is equal to the cost of funds, and (2) if the cost of funds is greater than ten percent, the interest rate may not be less than ten percent. A qualifying veteran is provided an additional one percent subsidy on the first \$90,000 of a loan. The interest rate on the remaining balance of a loan is at AHFC's cost of funds.

The only exceptions to how the interest rate on a loan is determined under the subsidy statutes are as follows:

- MGIC special financing of selected properties with previous MGIC pool insurance. The interest rate is to be selected by MGIC or by AHFC, depending on the property being financed. The weighted average interest rate on all 161 loans purchased in fiscal year 1989 was 9.1 percent, about one-half of one percent higher than the tax-exempt rate for fiscal year 1989.
- Non-Conforming property loans, which carry an interest rate which is one-quarter of one percent higher than the taxable rate for the same loan amount. The reason for the interest rate adjustment is because the risk is greater to AHFC, and because the loan cannot be sold to FNMA and must be held by AHFC.

## **2. Return AHFC to Original Legislative Intent**

The second policy option examined involved restructuring AHFC housing programs to include just those which provide affordable housing for persons and families of low and moderate income, as well as for persons living in remote, underdeveloped, or blighted areas. Determining which existing programs actually meet the original legislative mandates can be accomplished in two ways:

- Identify programs whose eligibility requirements include income or asset ceilings, or provide an incentive (or remove a barrier) to financing properties in remote areas

The AHFC has income or asset limits on just two programs: tax-exempt bond financed program and the Home Ownership Assistance (HOF) program. None of the other programs have limits placed on a borrower's income or assets, and there are no programs specifically designed for persons in remote, underdeveloped, or blighted areas. A rural program is provided by the Department of Community and Regional affairs which makes loans at one percent less than AHFC, although this program is not limited specifically to underdeveloped or blighted areas

- Identify programs actually used by persons and families of low and moderate income, or who purchase housing in remote, underdeveloped, or blighted areas

Determining who uses the programs can be accomplished by reviewing the demographic data maintained by AHFC on each borrower and on the entire loan portfolio

The determination of what is low- or moderate-income has been made by AHFC for the tax-exempt program, following federal regulations. The borrower's annual family income cannot exceed 115 percent of the median income of the area. The maximum annual incomes which AHFC has established for nine geographic areas of the State range from \$53,130 (all "other" areas of the State) to \$71,530 (Juneau). The average income of the borrowers in each of the following programs is well below the lowest AHFC limit of \$53,130 as shown in Table 1, on the following page.<sup>1</sup>

---

<sup>1</sup> AHFC also has established for the tax-exempt program the maximum purchase price of the home, based again on federal regulations. Federal regulations limit the purchase price to 90 percent of the area's average sale price.

Table 1  
Average Annual Income of AHFC Borrowers

AHFC Program	Borrower Average Annual Income <sup>2</sup>
• Home Ownership Assistance (HOF)	\$25,431
• Mobile Homes	\$33,018
• MGIC Special Financing	\$36,507
• Tax Exempt	\$42,305
• Non Conforming Property	\$42,354

The alternatives we examined included a gradual phase out of the two programs which are not specifically designed to provide for low- or moderate-income housing and which have not historically been used primarily by individuals of low or moderate income. These two other programs are taxable and second mortgage.

The veterans program was assumed maintained as an active AHFC housing program for financing of new loans. In addition, we assumed that AHFC would continue the Home Owners' Assistance Program (HOAP), although this program is not actually a low- to moderate-income program. This refinancing program is needed to assist AHFC borrowers in lowering their monthly payments, and to help mitigate the potential impact on AHFC's financial position from loans which may otherwise become delinquent or go into foreclosure.

Finally, although the mobile home loan program has resulted in significant losses to the AHFC, the program provides housing for that sector of Alaskans who may not otherwise be able to purchase a home. We have assumed that the mobile home program would be continued. We understand that AHFC is planning changes to the mobile home

<sup>2</sup> The programs listed are ranked by the average annual income of all borrowers obtaining financing in the program over the last three fiscal years (July 1, 1986 through June 30, 1989).

loan program which would increase the down payment required and reduce the loan terms to be more in line with industry underwriting practices for mobile home loans.

### **3. Change Ownership of AHFC**

This third option was the most difficult to define of the three options examined. This option generally involves selling a portion or all of the Corporation to a third party. This could possibly include the following alternatives:

- Selling all AHFC assets
- Selling a selected portion of AHFC assets
  - Real estate owned (foreclosed) properties
  - Loans of a selected type or bond program
- Creating a joint venture of financial institutions and the State Permanent Fund
- Creating and selling stock in the Corporation and paying a dividend to stockholders
- Contracting with a private firm(s) to manage the disposition of real estate owned properties.

During the course of this study, we did not identify a single potential buyer of any AHFC assets. It should be pointed out that most of the financial institutions participating in AHFC programs do not maintain residential real estate loans but rather sell these to either AHFC or other secondary mortgage purchasers. We found little support or basis for assuming that these same institutions would buy back the loans or foreclosed properties, unless for a very deep discount on the assets.

**B. EVALUATION METHODOLOGY**

We determined the implications of each feasible policy option on the following:

- **Alaska State housing market.** We considered the potential impact on the present demand for home loans. Given an oversupply of housing in most geographic areas of the State, we focused on resales rather than new construction.
- **AHFC financial position.** Specifically, we projected the change in AHFC net unrestricted (or "liquid") assets through fiscal year 1993/94.
- **State Funds.** We estimated whether an additional injection of state funds would be needed to support AHFC programs, or if AHFC had sufficient financial resources to provide a return to the State on its current investment in the Corporation.

**1. Methodology to Evaluate Impact of Policy Options on Alaska State Housing Market**

We estimated the total number of new loans originated statewide and AHFC's approximate share of that market. This included an estimate of the type of loans purchased, that is, whether the loans were FHA or VA insured, or were conventional loans which have private mortgage insurance or at most an 80 percent loan-to-value ratio. For each option we determined the number of new loans which may or may not be purchased by AHFC and whether there would be a secondary market for loans AHFC was no longer purchasing. A discussion is presented of the likely impact that AHFC's withdrawal from a market segment would have on the ability of home buyers to obtain financing at a reasonable cost.

**2. Methodology to Evaluate Impact of Policy Options on AHFC Financial Position**

Our measure of the financial position of AHFC was unrestricted net liquid assets available to the Corporation. As noted earlier in Section III of this report, unrestricted assets include cash, investments which mature over the five-year projection period, and mortgage loans available for pledging to bond issues. These assets are net of short-term

obligations of the Corporation. Also included are loans and investments which are currently pledged to a bond issue but which will be released when a specific bond issue is paid off during the five year projection period.

Under baseline conditions, that is, assuming continuation of existing AHFC volume of purchases under each major loan program, we projected what the change in unrestricted net liquid assets would be over the next five years (fiscal year 1989/90 through fiscal year 1993/94). For each policy option, we then estimated the change (i.e., increase or decrease) in net unrestricted assets over the next five years, due either to a change in the subsidy provided, a change in the number of loans purchased under a program, or both.

### **3. Methodology to Evaluate Impact of Policy Options on State Funds**

Based upon the estimated change in net unrestricted assets over the next five years, we determined whether additional State funds would need to be appropriated to AHFC, or whether funds were available to return to the State. This estimate was judgmental because there is no legal requirement nor definition of appropriating funds from AHFC.

## VI. POLICY OPTION TO CHANGE AHFC SUBSIDY

This section of the report reviews the policy option to change the AHFC subsidization of interest rates. It is organized under the following headings:

- *Overview of Subsidy*
- *Description of Alternatives to Change Subsidy*
- *Analysis of Elimination of Subsidy*
- *Analysis of Phase-Out of Subsidy*
- *Impacts of Changing the Subsidy*
- *Conclusions Concerning the Subsidy.*

### A. OVERVIEW OF SUBSIDY

This section is intended to review the impact of changing AHFC's practice of subsidizing residential mortgage rates, either through immediate elimination of the subsidy or through some form of phase-out. For purposes of this section, we are referring to the term "subsidy" as the Corporation's practice of providing interest rates to mortgage holders at a rate below the Corporation's cost of funds. This subsidy is essentially financed through overcollateralizing bond issues (through the influx of Corporate capital).

The section is intended to only address bond-financed programs and not the various programs offered by the Corporation which are financed directly and/or entirely by State appropriated monies. Additionally, elimination or reduction of the subsidy as discussed in this section pertains only to the "buy-down" of interest and is not related to those interest rates necessary to ensure the tax-exempt status of applicable bonds.

The Corporation's (and State's) subsidization of interest rates first came about as a result of legislation passed in 1980 which stipulated the following<sup>1</sup>:

- The interest rate may not exceed nine percent for the first \$90,000 of the loan if the loan is made to an eligible veteran
- The interest rate may not exceed 10 percent for the first \$90,000 if the loan is made to a person other than an eligible veteran
- The interest rate for the amount of the loan which exceeds \$90,000 shall equal the mortgage program costs to the Corporation attributable to that part of the loan.

Subsequently, in an effort to reduce the Corporation's exposure in times of escalating interest costs, a ratcheting measure was introduced to establish a cap on the subsidy. This was done in 1981, through changes in legislation. The principal effect of this change was to cap the Corporation's exposure to a three percent subsidy on the first \$90,000 of a loan.

The Corporation's practice of subsidizing interest rates for almost ten years has accounted for an exhaustion of significant resources appropriated to AHFC by the State of Alaska. Eventually, depending on the scenario predicted for the future in regards to interest

---

<sup>1</sup> Excerpt from Alaska State law Chapter 106, Sec. 18.56.098 (1) (2) (3).

rates and loan demand, these State appropriations will be totally depleted if this practice is continued. Accordingly, without additional State appropriations sometime in the future, the Corporation's capital base will gradually be weakened and its ability to provide any assistance (even to first-time homebuyers) may some day no longer exist.

**B. DESCRIPTION OF ALTERNATIVES TO CHANGE SUBSIDY**

In this section we address alternatives for changing the historic and current practice of subsidizing interest rates. Although many possible alternatives exist, we believe the following three are the most meritorious, and we will therefore limit our discussion to these:

- Complete elimination of the subsidy as of a pre-determined future date (for purposes of this Section we chose June 30, 1990 for reasons shown below)
- Complete elimination of the subsidy as of a pre-determined future date, but only if conditions (principally interest rates) are favorable at that time
- A phase-out of the subsidy over a future period of time (such as would result from a draft bill dated October 5, 1989, proposed by Mr. Robert Mintz, Chairman of the Board, AHFC).

These alternatives, and their possible impacts on the market, the Corporation, and State appropriated monies, are discussed below.

**C. ANALYSIS OF ELIMINATION OF SUBSIDY**

Although the subsidy of interest rates provided valuable benefits to Alaskan homeowners at a time when the State had a need to attract buyers of residential property and also had the available resources to fund such an effort, today, circumstances have significantly changed. Specific negative attributes which are directly associated with the present subsidy are as follows:

- The subsidy may have historically contributed to artificially increased housing prices
- The subsidy may have acted as a factor in driving out of the market competitive sources of mortgage capital
- The subsidy is not a sound economic or financial practice for AHFC, and funds already appropriated will run out at some future date
- The subsidy today may be construed to be an indiscriminate use of increasingly scarce State resources.

Because of the above probable detrimental effects of the subsidy and the dramatic changes in the economy since the early-to-mid 1980's, the sooner the practice of subsidizing interest rates is terminated (as long as it is done properly), the better. Although we tried to consider all possible ramifications of subsidy elimination, our analysis of a termination of the subsidy was strongly motivated by the need to restore financial soundness to the AHFC.

Because we firmly believe that some change in the subsidy is inevitable, we determined under what conditions cessation of the subsidy would be most favorable. We believe the conditions when the least negative impact would be felt from elimination of subsidy would be at a time when:

- The Corporation's cost of funds pertaining to bond issuances are below threshold rates
- The demand for new mortgage loan applications is minimal
- Housing prices are at, or near, a low point in comparison with the recent past and expected (at least in the short-term) future
- Market interest rates, projected over at least the short-term, are expected to remain constant or decline.

We reviewed the current situation regarding the supply of unused bond proceeds at AHFC. Exhibit VI-1, following this page, lists all of the Corporation's currently active bond-financed programs and illustrates the proceeds (or overcommitted amounts) remaining for financing loans as of December 31, 1989. The exhibit includes proceeds from bonds issued through this date.

For purpose of Exhibit VI-1, the availability of proceeds (funds) includes not only investor pools already purchased, but investor pools ready to be purchased, mortgages ready to be pooled, and outstanding commitments to mortgage loans. Therefore, the "uncommitted funds" (or overcommitted amounts in some cases) reflect a minimum level of total availability of bond proceeds. We have included overcommitments on this exhibit merely to illustrate the demand level for certain of the programs. Along with this information, we have included the Corporation's cost of funds pertaining to the associated bond issuances. All information shown was made available from AHFC internal records.

Our observations of Exhibit VI-1, as well as our other analyses, is presented below. We have segregated this discussion into three principal program categories, as follows:

- Tax-exempt and Veterans bond programs
- Refinancing bond programs (HOAP)
- Taxable bond programs (other than HOAP).

*Tax-exempt and Veterans' Bond Programs:* An opportunity appears to currently exist for the complete elimination of the subsidy pertaining to these programs for the following reasons:

- The cost of the Corporation's funds are sufficiently below the threshold rates (10 percent and 9 percent, respectively)
- According to AHFC management, and recent history of loan applications, there currently exists sufficient available proceeds to meet demand over at least the next year.

**AHFC Schedule of Available Funds  
As of December 31, 1989  
(\$ Millions)**

Bond-Financed Program	Uncommitted (Over Committed) Funds	Cost of Funds
First-Time Homebuyers:		
1987 A	\$ (2)	8.92%
1988 A-1	(1)	8.57%
1988 A-2	(5)	8.43%
1988 A-3	25	8.65%
1989 Series A(a)	-	-
1989 Series B(b)	<u>148</u>	Floating
	<u>\$165</u>	
Veterans:		
1988 First	\$ (5)	8.81%
1989 First	<u>45</u>	8.25%
	<u>\$ 40</u>	
Taxable:		
CMO 1989-2	(1)	10.78%
CMO 1989-4	<u>12</u>	10.42%
	<u>\$ 11</u>	
HOAP:		
1988-1(c)	\$ (7)	
1988-2(c)	(7)	
CMO 1989-1	(20)	12.23%
CMO 1989-3(d)	<u>-</u>	-
	<u>\$(34)</u>	

- (a) Original issuance was for \$90 million. This was subsequently refunded from proceeds of 1989 Series B.
- (b) Issuance closed near the end of November 1989. Initial interest at 6.19 percent; cost of funds is currently below 10 percent.
- (c) Cost of funds were unavailable, however rates were estimated at substantially above 10 percent.
- (d) A \$70 million issuance was sold late in 1989. All proceeds were committed at December 31, 1989.

Also, with regards to these two programs, a "subsidy" would still remain (only in a different form) because tax-exempt financings (by the very nature of these bond structures) should continue to provide qualified applicants with below market interest rates.

*HOAP Bond Programs:* We have segregated the HOAP programs from other taxable programs because of the importance of the Corporation's attempt to provide a vehicle to restructure (in the form of refinancings) certain of the earlier programs sponsored by the AHFC. Therefore, even though there is currently a definite subsidy involved with loans issued under the HOAP programs, we would not necessarily suggest that this particular subsidy be universally ceased.

We understand from AHFC management that demand for these loans has recently slowed and that total future bond proceeds expected to be necessary as of December 31, 1989, to fund the expected loans necessary to complete the HOAP programs, is estimated at \$90 million. This will be accomplished through the issuances of bonds under the HOAP III program. Although the loan funding period is expected to continue throughout the Corporation's 1990 and 1991 fiscal years, two alternatives exist under the scenario of eliminating the subsidy in the HOAP programs as of June 30, 1990, as follows:

- The Corporation could issue all bond(s) necessary to fund the entire HOAP III program prior to the change in legislation as of June 30, 1990. We suggest this method be given top priority as it is the most financially sound alternative and because it treats all programs equitably with regards to removal of the subsidy
- If the first alternative is not feasible, we suggest a change in legislation as of June 30, 1990, with the intent of eliminating the subsidy, but specifically segregating refinancings with elimination of the subsidy under the HOAP programs as of June 30, 1991, if not before. However, from a legal perspective, this may result in due process concerns. Finally, if the second alternative is chosen, we would support a formal cost-benefit analysis be performed showing that the subsidy cost to AHFC for the HOAP III refinancings is offset by future savings in REO or other costs.

*Taxable Bond Programs:* As can be seen from Exhibit VI-1, the taxable programs present a potential downside to the proposal of eliminating the subsidy.

as recent bonds issued have a cost of funds at a rate slightly higher than the ten percent threshold rate. Also, even though some uncommitted funds exist, demand over the next few months will most likely exceed the amount of these available funds.

However, we believe that a window of opportunity still exists currently to eliminate the subsidy for taxable programs because of the following rationale:

- Interest rates, according to numerous industry sources (including the National Association of Realtors, economists polled by Wall Street, and representatives from the Federal Reserve Board) are expected to remain stable or decrease slightly in 1990<sup>2</sup>
- Demand for new home loans is at a low point as compared to the past couple of years
- The price of housing, according to local Anchorage real estate and financial institution representatives, appears to be at or near the bottom
- Additional taxable bonds could be issued, based on expected demand, to provide for a cushion of available funds, if necessary. This issuance of additional taxable bonds could provide for a smoother transition prior to the date set for elimination of the subsidy. However, this action should be taken only if interest rates are advantageous and it makes general economic sense considering all relevant factors.

In summary, because of the above considerations, it appears that a very unique window of opportunity currently exists to allow for the complete elimination of the subsidy. However, we wish to emphasize that an elimination as of a set date (June 30, 1990) is only appropriate under the conditions noted above. A significant time delay in implementing the change could result in changed market and economic circumstances. Therefore, as a possible backstop, a ratchet mechanism may be wise to consider. That is, eliminate the subsidy through revised legislation as of a set date (again June 30, 1990 seems to be appropriate), but provide for the ability to extend this date if conditions are not actually favorable at that time.

---

<sup>2</sup> On January 8, 1990, major U.S. banks cut their prime lending rates a half point to ten percent in a move that should translate into lower borrowing costs for consumers and businesses. First National Bank of Chicago took the first step and was followed by Citicorp, Bank of America, Wells Fargo, and First Interstate Bank of California. Reports indicate that long-term mortgage rates will also decline slightly.

**D. ANALYSIS OF PHASE-OUT OF SUBSIDY**

As an alternative to eliminating the subsidy as of a set date, it could be phased out over a period of time. A phase-out could be accomplished by either of two principal means. Either the maximum interest rate differential (between the threshold rate, and the Corporation's cost of funds) could be scaled back over time, or the dollar amount of the loan subsidized (currently \$90,000) could be reduced pro-rata over a period of time. We understand that the latter method is currently being proposed in a draft bill by Mr. Robert Mintz, Chairman of the Board of AHFC.

Although either of the above two methods would eventually result in the same effect as the entire elimination of subsidy as of a set date, we believe that the more timely elimination is preferable. This is principally because of the unique window of opportunity which we feel currently exists in the near-term and which may not exist over the longer term. Also, earlier elimination of the subsidy will have less negative financial impacts to the AHFC and the State.

### E. IMPACTS OF CHANGING THE SUBSIDY

We addressed the impact of changing the subsidy as to its effect on the housing market, AHFC, and the State (appropriated funds). Below is a summary of what we determined to be the impacts:

*Market:* We addressed the impact to the housing market under three separate circumstances, as follows:

- If no subsidy exists and is not expected to exist in at least the short-term future, there would theoretically be no effect on the housing market. This is currently the case with the tax-exempt and Veterans' programs
- If a minor subsidy is in effect, such as is the case with the taxable programs, the impact may be minor but it should not be significant because of the potential ability to create a cushion of available funds for financing loans during the transition period. Also, the premise that housing prices appear to be at or near the bottom should help to minimize any effect to the housing market
- If a minor subsidy exists, but interest rates increase significantly before the transition period, a more serious downside effect would occur. If this "worst-case scenario" were to take place, some form of ratcheting (such as extending the effective date of eliminating the subsidy until conditions were more favorable or phasing-out the subsidy over time) would obviously be necessary. However, based on projected interest rates, we do not currently believe this to be the likely scenario.

*AHFC:* Either the elimination or phase-out of subsidization of interest rates will definitely provide for a financially stronger Corporation. Other impacts to AHFC will be as follows:

- Generally, the eventual elimination of the subsidy will provide no negative effect to Corporation bond or loan covenants
- Because of the stronger financial condition which will result, there should be no negative effect to the Corporation's bond ratings from credit rating agencies. However, the cessation of interest rate subsidization must remain (in appearance as well as in fact) independent of any possible appropriations

by the State as it is important not to promote any form of an extraction of Corporate assets or equity

- Without the subsidization of interest rates for the taxable programs, the Corporation will appear to lose much of its competitive market advantages over the private sector. This may ultimately, in the long-term, lead to a healthier competitive capital market environment.

Perhaps even more important than the above considerations, without any future changes to the subsidy, and no further State capital injections, we have projected that the Corporation will have a major decrease in its unrestricted net liquid assets over the next five year period. Because of the immaterial amount of total unrestricted net liquid assets available as of June 30, 1989 (only \$10 million), any substantial decrease in unrestricted assets will have the following two important negative impacts on the Corporation's short-term borrowing arrangements:

- If minimum unrestricted net liquid asset balances are not maintained, the Corporation may be in a default position on its working capital debt
- If net losses resulting from bond programs continue in the future, the critical short-term Corporation borrowing arrangements necessary for day-to-day operations may be severely jeopardized.

*State Appropriations:* Because elimination of the subsidy will provide for a more financially solvent AHFC, this may be one of the few ways for the State to ever receive a return on their substantial contributed capital. This is assuming the AHFC has to reach at least break-even operations in order to be able to return a dividend from operations to the State.

We have analyzed the effect to the Corporation's Operating and General accounts (measured by net liquid assets) over the next five-year period (ending June 30, 1994) under the assumption of eliminating the subsidy as of June 30, 1990. We followed the methodology as in our baseline projections, discussed in Section V.

As can be seen in Appendix B, at the end of this report, the net effect of this subsidy elimination is estimated to increase unrestricted net liquid assets of the Corporation by \$43 million to \$91 million over our projection of an "as-is" scenario

for the same future period. Therefore, the net effect over a five year period of eliminating the subsidy may range from \$43 million to \$91 million, depending on market conditions. In summary, elimination of the subsidy will reduce costs, either to the State or to the Corporation, by substantial amounts.

## IX. CONCEPTUALIZATION OF AN IDEALIZED AHFC

The discussions in previous sections analyze the potential effects of implementing certain policy options with respect to AHFC. From time to time we have noted in text certain other measures that should be considered by the legislature in order to make AHFC more effective and to better define its role in Alaska's housing market.

In this section, we bring these comments together to present a blueprint for AHFC that should help define its role in the years ahead. We have attempted to ensure that the role of AHFC, as described in this section, makes good public policy sense and serves to stabilize Alaska's cyclical housing market in both good times and bad.

This section is organized as follows:

- *Introduction*
- *Define and Limit AHFC's Role in the Housing Market*
- *Structure AHFC to Operate on a Break-even or Profitable Basis*
- *Require AHFC to Adopt a Dividend Policy*
- *Protect AHFC's Capital Base and Avoid New Capital Infusions*
- *Restructure AHFC's Financing Mechanisms*
- *Make AHFC More Independent of Direct Legislative Control*
- *Summary of the Future of AHFC.*

**A. INTRODUCTION**

We understand from discussions with legislators and others that consideration of a reduction of AHFC's scope to its original legislative intent derives from the following:

- Belief that AHFC's current scope of activities, while possibly appropriate for good times, may contribute to a mis-allocation of scarce State resources in lean years
- Belief that AHFC's extensive involvement in the housing market may cause market distortions, and could possibly prevent the return of private capital to the market
- Belief that, were AHFC's scope to be more limited, its capitalization could be reduced and some contributed State capital might be returned to the State
- Finally, belief that State involvement in the housing market to the extent represented by AHFC's current role is questionable public policy in more general philosophic terms.

While these beliefs may not be universally held, our observations during the course of this study generally support them. Accordingly, we attempt in this section of the report to pursue the question of "return to original legislative intent" to its logical conclusion. In our view, return to original legislative intent should consist of more than just trimming programs. It requires a comprehensive, overall view of what AHFC should be and what role it should play. It also requires, ultimately, a clear legislative mandate with respect to AHFC defining its long-term direction.

Original legislative intent was to facilitate decent, safe, and sanitary housing for persons of low- or moderate-income, and for persons in remote, underdeveloped, or blighted areas. AHFC currently serves this intent through most of its programs, although the "remote, underdeveloped, or blighted areas" are perhaps more directly served by DCRA programs—AHFC's Non-conforming Loan Program is not currently very active. Reduction of the Taxable Program, as discussed in Section VII, would focus AHFC even more on its original intent.

Beyond original intent, however, we note that three additional issues have arisen which are of concern to the legislature:

- First, the State is expecting increasingly severe fiscal pressures from a likely diminution of oil revenues. It is asking whether it should perhaps expect some return on its investment in AHFC to help supplement other revenues in balancing future budgets
- Second, the State is asking whether or not the capital contributed to AHFC is totally committed, or whether under some future circumstances some of that capital might be returned to the State
- Third, there is the issue of AHFC's effectiveness both in operational terms and in terms of its freedom to act in accord with market versus political conditions.

The first and second questions have been briefly addressed in Section VII of this report, and will be further discussed below. The third question, we believe, can be dealt with only by removing AHFC a further step from day-to-day oversight and control by the legislature. We believe that, in order to address all three questions in an effective manner, a clear and formal legislative mandate is required to define policy for AHFC on a long-term basis. The elements of a proposed mandate are discussed below.

**B. DEFINE AND LIMIT AHFC'S ROLE  
IN THE HOUSING MARKET**

The first part of the proposed formal legislative mandate is that AHFC should generally serve homebuyers in lower income levels. This concept is evident in the enabling legislation. The basic premise is that scarce State resources should be allocated where they best serve public policy, that is, in providing decent housing for those otherwise unable to obtain it.

At the same time, it is important that AHFC retain a role as "backstop" for the more general housing market, should one ever be required. Alaska's residential mortgage market is capital-poor and depends almost entirely on outside capital to function. At the same time the State is largely dependent on commodity markets for its economic health, and commodity prices tend to fluctuate frequently and widely. Thus, residential mortgage demand and housing prices will continue in the future to be affected both positively and negatively by swings in the overall economy.

This combination of a capital-poor mortgage market and an unstable housing market dictates that the State maintain an ultimate housing backstop mechanism to add stability to the market. AHFC is the ideal mechanism because it is already established, it has existing institutional relationships with outside capital sources, it has an existing substantial equity base, and it has both experience and expertise in funding the residential market.

But the backstop role brings with it certain responsibilities and the necessity for discipline:

- First, this is a "reserve role." That is, the backstop function should only be brought into play in economically hard times. It should not be used as a social benefit in good times, as has been the case in the recent past
- Second, to fulfill this role, AHFC should be allowed to bank good years against bad. Since the backstop role is not compatible with AHFC's long-term goal of break-even or profitable operations, AHFC should be allowed to retain sufficient earnings in good years to subsidize the market as necessary in bad years.

Public policy, in other words, must avoid the temptation to use AHFC as a channel for public benefits at precisely those times when such benefits can best be afforded. It must instead allow AHFC to earn some profits in good years, bank some of those profits, and use the resulting reserves to support the market in bad years.

**C. STRUCTURE AHFC TO OPERATE ON  
A BREAK-EVEN OR PROFITABLE BASIS**

The second part of the proposed formal legislative mandate is to structure AHFC programs to operate on an overall break-even basis, or to earn some profit. This supports two policy goals:

- First, it generates funds in good years which AHFC can retain to perform its backstop role
- Second, it generates earnings from operations for dividends which can be paid to the State.

There are several mechanisms to increase profitability:

- Terminate the subsidy. The subsidy of mortgages below AHFC's cost of funds will cause AHFC to incur continuing losses, diminish State-contributed equity, and ultimately require further State funding
- Reduce the taxable program. Under current financing mechanisms, the requirement for overcollateralization of bond issues ties up significant amounts of cash, even without a subsidy
- Consider termination of programs with minimal demand. Several AHFC programs served fewer than thirty Alaskans in fiscal year 1989. The cost of retaining and administering such programs likely far outweighs any benefits received
- Consider termination of programs which are uneconomic by nature. Whenever AHFC programs fund housing types that other market sources avoid, or on terms substantially better than other market sources, the potential for ultimate loss exists and may well be realized.

**D. REQUIRE AHFC TO ADOPT A DIVIDEND POLICY**

The third part of the proposed formal legislative mandate is to require a prudent dividend policy of AHFC. To the extent that AHFC has positive earnings, and those earnings are not required to fund reserves for AHFC's backstop or other market critical stabilization roles, the State should expect that these earnings from operations will be returned to the State.

Although it is not evident from original intent that such a return was expected, it is also clear that AHFC's subsequent massive funding was not anticipated at that time. Taking the opportunity cost of funds into account, the State (viewed as an investor) is incurring substantial conceptual losses on its investment in AHFC. A prudent dividend policy, combined with a more profitable AHFC, should help remedy this situation.

Again, discipline will be needed. The temptation may be to seek dividends at precisely those times when Alaska's economy (and most likely the housing market as well) is undergoing difficulties. Since these will probably be the times when AHFC is fulfilling its backstop role, no dividends are likely to be available. In other words, dividends should be most available at the times when they are least needed.

**E. PROTECT AHFC'S CAPITAL BASE  
AND AVOID NEW CAPITAL INFUSIONS**

The fourth part of the proposed formal legislative mandate is two-fold:

- Rule out any appropriation of AHFC's capital base to the State, either directly or indirectly. An example of an indirect appropriation is the proposed Senate Bill 245 requiring AHFC to purchase mortgage loans from the Housing Assistance Division. We evaluated this proposal and report our findings in Appendix D to this report
- Clearly state a policy of not further subsidizing AHFC through capital infusions.

The first part of this mandate is to protect AHFC's financial integrity. So long as AHFC must access capital markets for funds on a general obligation basis, and so long as substantial general obligations of AHFC's capital base exist, any threat of capital appropriation may impact AHFC's borrowing ability. Financial markets see even the threat of appropriation as reducing the security of their loans. Furthermore, AHFC may need substantial reserves in the near future to deal with continuing REO losses and contingent losses from insurance disputes. Ultimately AHFC may not need such a substantial capital base if funding mechanisms are changed (see below), but for the time being it is important that its capital not be threatened.

The second part of the mandate offsets the first. If AHFC is to be put on a break-even or profitable basis, and if its capital is not to be threatened, then it is reasonable that AHFC and its capital markets expect that the State not supply further funding. Proper maintenance of reserves to support AHFC's backstop role will mean that, even in bad years when AHFC may be required to subsidize the market, no further capital will be required.

**F. RESTRUCTURE AHFC'S FINANCING MECHANISMS**

The fifth part of the proposed formal legislative mandate is that AHFC implement a long-term program to restructure its financing mechanisms. Because its focus is to support low- and moderate-income housing, it is reasonable that it consider tax-exempt revenue bonds as a primary funding source, as do other states with housing finance agencies operating in a similar role.

While original legislation clearly allowed issuance of general obligation bonds, the effect of those issuances has been to use all contributed State capital as collateral for money borrowed by AHFC. Revenue bonds, unlike general obligation bonds, are not guaranteed by the "full faith and credit" of the Corporation. Their security is far more limited.

As the situation currently stands, any appropriation of money from AHFC to the State is likely to be viewed as weakening AHFC's financial position, thus threatening the security of holders of AHFC bonds, regardless of specific collateral requirements of the bond indentures. Revenue bonds, since they are secured only by mortgage income streams plus whatever specific reserve funds are required for additional security, would not have this effect.

**G. MAKE AHFC MORE INDEPENDENT  
OF DIRECT LEGISLATIVE CONTROL**

The final part of the proposed formal legislative mandate would be to redefine AHFC's organizational positioning to allow more independence from legislative pressures, and limit the legislative role to providing long-term policy direction and assessment of management's success in fulfilling policy objectives. Particular steps to be considered include:

- Increase the size of AHFC's Board of Directors and allow a higher percentage of private sector representation on the Board. It is essential that the Board be composed of knowledgeable and active members, and that the private sector members adequately represent the range of industry interests in the housing markets
- Free AHFC from the legislative appropriation process so far as possible, and judge organizational effectiveness based on results obtained.
- Allow AHFC within reason to set its own personnel policies, including hiring, termination, promotion, and compensation levels
- Allow AHFC to obtain in-house counsel of a strength commensurate with the magnitude and complexity of its activities.

**H. SUMMARY OF THE FUTURE OF AHFC**

The net effects of the proposed legislative mandate would be positive, and would make AHFC a more effective organization in carrying out public policy:

- Focusing AHFC's role on low- and moderate-income housing would reduce AHFC losses. Retaining the backstop role would help stabilize the housing market in the longer term
- Restructuring AHFC to operate on a break-even or profitable basis would mean no need for new State capital, funding for a backstop role, and the potential of dividends for the State
- Requiring operating dividends to the State is a reasonable step considering the potential profitability of AHFC's operations and the investment made
- Protecting AHFC's capital base and avoiding new capital infusions are both desirable. One protects AHFC's financial integrity and minimizes its cost of doing business; the other follows from the fact that, since AHFC will be breaking even or making a profit, no new capital should be needed
- Restructuring AHFC's financing mechanisms to concentrate on tax-exempt revenue bonds is consistent with its newly redefined focus and holds the long-term potential of freeing up part of AHFC's capital base
- Making AHFC more independent of close legislative control promotes both operating efficiency and the ability to respond to market conditions based on long-term legislative policy.

These steps toward an "idealized AFHC" should allow AHFC to serve the residential mortgage market in Alaska more effectively, both in good times and in bad. Although implementation is likely to be a long and arduous process in some instances, we believe the proposed mandate is worthy of consideration by the legislature.