

HB

93

Alaska State Legislature

SESSION

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MEMBER

Community & Regional Affairs Committee
Health, Education & Social Services Committee
House Resources Committee
Special Committee on Fisheries

INTERIM

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Representative Carl M. Morgan, Jr. District 36

MEMORANDUM

To: Representative Andrew Halcro, Co-Chair
Representative John Harris, Co-Chair
Community and Regional Affairs Committee

From: Representative Carl Morgan 

Date: February 10, 1999

Re: Scheduling HB 93

Please accept this memorandum as a formal request in order that HB93 be considered before the Community and Regional Affairs Committee at your earliest convenience.

Attached is a copy of the bill, An Act relating to the Alaska Housing Finance Corporation's rural assistance loan program and to the definition of "housing" for purposes of the corporation's housing assistance loan program; and providing for an effective date. Additionally, a sponsor statement is provided for the committee's information and bill file.

Thank you for your consideration. If you have any questions, please contact me or my staff regarding this bill.

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Representative Carl M. Morgan, Jr. District 36

Sponsor Statement HB 93

“An Act relating to the Alaska Housing Finance Corporation’s rural assistance loan program and to the definition of ‘housing’ for purposes of the corporation’s housing assistance loan program; and providing for an effective date.”

This legislation would modify AHFC’s Rural Mortgage to allow two simple changes:

1. The Rural Mortgage program would allow for refinancing of home loans in the same manner any conventional mortgage allows. While many people across Alaska and the United States have taken advantage of low interest rates to refinance their home mortgages, state law simply does not provide this as an option under the rural lending program.
2. The current definition in state law limits the term “housing” to either single-family and owner-occupied duplexes. This legislation would bring this term into compliance with current industry standards for lending by allowing owner-occupied housing up to four units. Simply, the Rural Mortgage program would be allowed to finance up to four-plexes. This is the same standard that is used by the VA, FHA, Fannie Mae, Freddie Mac and AHFC’s conventional urban loan program.

It is important to note that this bill does not allow the Rural Mortgage loan program to make any kinds of loans that are not allowed under conventional lending practices or industry standards. Simply, the bill attempts to allow the Rural Mortgage loan program to make the same kind of loans allowed for any conventional urban loan program.

For example, in February of 1998, AHFC established a Streamline Refinance program that allowed borrowers with an AHFC urban mortgage to refinance their home loans with minimal transaction costs. By allowing homeowners to take advantage of current low interest rates, AHFC reports that over 1,100 loans were refinanced in 1998. This bill would amend state law to simply allow the same kind of opportunity for rural borrowers.

AHFC’s rural loan portfolio has over 1,100 loans with interest rates over 8% totaling approximately \$115 million. Of these loans, just over 500 have a rate higher than 9%. The current interest rate for the Rural Mortgage loan program is 6.125% for a 30 year loan. Lowering home loans by whole percentage points can lower monthly payments by hundreds of dollars – essentially putting this buying power back into the homeowners pocket and the state economy.

This is not in any sense a “give-away” program. The Rural Mortgage loan program is a revolving fund. AHFC reports that default rates in the Rural Mortgage loan program are generally the same or often less than the rate of defaults on conventional urban loans.

In short, this legislation attempts to make two simple changes that will allow a lending program to make the same kind of loans considered standard practice under convention lending. Not only is it an issue of fairness for rural borrowers, but it is also good business for AHFC. These are good loans, and will also provide financing opportunity to assist the rural housing market.



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February 18, 1999

The Honorable Carl Morgan
Alaska House of Representatives
State Capitol Building
Juneau, Alaska

Dear Representative Morgan:

This letter is intended to provide comments regarding AHFC's review and analysis of HB 93.

It is the mission of AHFC "to provide Alaskans access to safe, quality, affordable housing." This legislation, as introduced, will allow the corporation to better accomplish its mission and goals for all residents who qualify for this program.

Sectional Analysis

Section 1 of the legislation would allow for refinancing of loans made under AHFC's Rural Mortgage program (page 1, line 13). Current statute allows for the origination and purchase of loans, but does not authorize refinancing of existing loans.

Section 2 amends the definition of "housing" under AHFC's Rural Mortgage program to allow lending for owner-occupied homes of up to four units (page 2, lines 10 & 11). Current statute limits the program to single family homes or duplexes.

Section 3 provides an immediate effective date.

Background Information

The Rural Mortgage program was merged into AHFC in 1992 from the Department of Community & Regional Affairs. Loans are made from the housing assistance loan fund (AS 18.56.420). The following is some general information about the loan program:

- The maximum loan term is 30 years or the remaining economic life of the property.
- Interest rates are established in statute as one percent less than the taxable bond rate.
- Loans made under this program are assumable by qualified borrowers.
- Conventional loans require a minimum down payment of 5 percent on a single-family residence and 10 percent on a duplex. For new construction built by the owner, the maximum financing is 100 percent of allowable cost, not to exceed 95 percent of appraised value on a single family residence, and 90% on a duplex. Loans in excess of 90% financing require mortgage insurance. Higher loan-to-values are available on certain federally insured or guaranteed loans.
- Currently, only single-family homes and duplexes are eligible for this program.
- Loans may only be made for homes located in small communities. "Small community" is defined as a community with a population of 6,500 or less that is not connected by road or rail to Anchorage or Fairbanks, or a community with a population of 1,600 or less that is connected by road or rail to Anchorage or Fairbanks.



"HOUSING FOR ALL ALASKANS"



HB 93 letter
February 18, 1999
Page 2

As of February 18, 1999, there are 2,571 Rural Mortgage loans at a value of \$323,825,093.

AHFC believes that allowing the opportunity to refinance existing loans will provide better affordability for many residents. As of February 18, 1999, there are 515 loans at a value of \$48,026,786 with an interest rate of 8% or higher. By allowing these borrowers to take advantage of current interest rates, monthly savings to these borrowers is estimated to range between \$130 and \$200 per month.

As an example, AHFC established a Streamline Refinance program that allowed borrowers with an AHFC urban mortgage to refinance their home loans with minimal transaction costs in February of 1998. To date, 1,499 loans worth over \$128 million have refinanced under the program. While some of these loans resulted in small payment increases for people who refinanced from a 30 to a 15 year loan, nearly 75% of the refinanced loans created average savings of \$193 per month. Put another way - close to \$2 million in buying power was put back into the annual Alaskan economy. HB 93 would allow the same kind of opportunity for borrowers under the Rural Mortgage program.

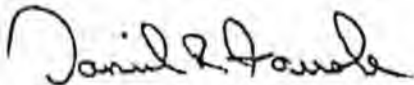
The current definition (AS 18.56.600) limits the term "housing" to either owner-occupied single-family or duplexes for the Rural Mortgage program. HB 93 would bring this term into compliance with current industry standards for lending by allowing owner-occupied housing up to four units. This is the same standard that is used by the VA, FHA, Fannie Mae, Freddie Mac, and AHFC's conventional urban loan programs.

Conclusion

This legislation attempts to make two changes that will allow the Rural Mortgage program to make the same kind of loans considered standard practice under conventional lending. Because the results of this legislation fit within the mission of AHFC to provide affordable and safe housing opportunities for Alaskans, the corporation supports passage of the bill.

Thank you for sponsoring HB 93 and the cooperative efforts you have extended to us in putting this bill together. AHFC staff will be available through the legislative committee process to testify and assist in the discussions. Please do not hesitate to refer anyone with questions or the need for information to contact my office.

Sincerely,



Daniel R. Fauske, CEO/Executive Director
Alaska Housing Finance Corporation

FISCAL NOTE

STATE OF ALASKA
1999 LEGISLATIVE SESSION

BILL NO. HB 93

Revision Date/Time (Note if correction) 2/17/99 Dept. Affected Revenue
 Title AHFC Rural Mortgages BRU Revenue Operations
 Component AHFC Operations
 Sponsor Rep. Carl Morgan
 Requester (H) C&RA Committee Component Serial No. 110

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
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CHANGE IN REVENUES ()	na	na	na	na	na	na
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of current year (FY99) cost: 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)

This legislation amends AHFC's Rural Mortgage program to both allow refinancing of existing loans and to amend the definition of "housing" to allow loans for owner-occupied dwellings of up to four units. Existing staff and budget resources will be adequate to handle changes in loan demands that will result from this legislation. AHFC currently has rural mortgage offices in Bethel, Nome, Dillingham, and in its Anchorage headquarters.

Any changes to the net income of AHFC are expected to be minimal. Refinancing of existing loans to lower interest rates will reduce revenues to the corporation by providing savings to the borrowers. However, this reduction in revenues is expected to be offset by revenues from increased loan activity for borrowers interested in financing 3 plexes and 4 plexes. (Additional comments and information is available in AHFC's Bill Analysis.)

Prepared by John W. Bitnev, Legislative Liaison
 Division Alaska Housing Finance Corporation
 Approved by Wilson L. Condon
 Commissioner
 Agency Department of Revenue

Phone 465-2301

Date/Time 2/17/99

Date 2/19/99

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**ALASKA HOUSING FINANCE CORPORATION
RURAL LOAN PORTFOLIO**

COMMUNITY	NUMBER OF LOANS	DOLLAR AMOUNT
Anchor Point	27	\$ 3,241,863
Anderson	1	67,500
Aniak	8	880,014
Barrow	131	19,465,492
Beluga	2	196,500
Bethel	207	26,556,379
Bettles Field	1	37,200
Chevak	1	27,000
Chignik	1	65,000
Clam Gulch	2	159,200
Cold Bay	1	120,000
Cooper Landing	2	292,000
Copper Center	11	1,232,147
Cordova	106	11,737,100
Craig	55	7,698,901
Delta Junction	22	1,754,772
Denali Park	1	92,000
Dillingham	70	8,475,057
Dutch Harbor	1	200,000
Eagle	1	54,000
Elfin Cove	1	73,800
Emmonak	1	49,500
Fort Yukon	3	118,275
Gakona	1	118,619

Galena	16	978,900
Gambell	1	58,500
Glennallen	15	1,653,431
Gustavus	3	339,500
Haines	66	6,123,170
Healy	19	2,425,800
Homer	84	10,980,340
Hoonah	15	1,254,850
Iliamna	3	276,950
Kake	3	278,869
Kasigluk	3	185,350
Kasilof	13	1,436,786
Kenai	55	7,111,680
Ketchikan	207	33,015,192
Kiana	4	385,854
King Cove	2	138,500
King Salmon	14	1,709,802
Klawock	8	1,132,638
Kodiak	411	60,701,374
Kotzebue	76	9,003,977
Koyuk	1	135,000
Lake Minchumina	1	28,900
Larson Bay	1	50,000
Manokotak	2	68,200
McGrath	9	676,764
Mekoryuk	3	170,000

Metlakatla	10	690,200
Naknek	17	2,150,346
Nenana	3	256,965
Nikiski	45	5,369,098
Nikolai	1	27,000
Ninilchik	11	1,260,092
Nome	169	18,822,601
Nondalton	1	62,027
Noorvik	2	311,531
Nuiqsut	1	103,500
Ouzinkie	1	130,000
Palmer	2	180,000
Pelican	9	640,525
Petersburg	205	25,253,409
Port Alexander	3	121,550
Port Heiden	1	65,000
Port Lions	1	38,000
Ruby	1	81,000
Salcha	1	81,000
Sand Point	10	836,693
Savoogna	1	31,000
Selawik	2	97,700
Seldovia	10	620,056
Seward	27	3,481,487
Shismaref	1	99,262
Skagway	28	2,407,849

Soldotna	105	12,989,849
St. George	1	41,923
St. Mary's	4	416,400
St. Paul Island	4	249,750
Stebbins	1	23,600
Sterling	37	4,959,504
Sutton	2	164,400
Talkeetna	9	1,072,150
Tanana	1	40,000
Tenakee	1	70,000
Thorne Bay	14	1,508,100
Tok	4	453,500
Trapper Creek	1	110,000
Unalakleet	6	775,071
Wasilla	1	85,000
Whale Pass	2	244,112
Wrangell	86	9,093,126
Yakutat	7	680,150
Totals	2,571	\$ 323,825,093