

**HB**

**93**

# Alaska State Legislature

## SESSION

State Capitol Building, Suite 409  
Juneau, Alaska 99801-1182  
Phone: 907-465-4527  
Fax: 907-465-2197  
Toll Free: 800-491-4527  
E-mail: Representative\_Carl\_Morgan@legis.state.ak.us



## MEMBER

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

## INTERIM

P.O. Box 243  
Aniak, Alaska 99557  
Phone: 907-675-4413

## 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.

# FISCAL NOTE

Bill version: HB 93  
 (H) Publish Date: 2/24/99

STATE OF ALASKA  
 1999 LEGISLATIVE SESSION

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						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>CAPITAL EXPENDITURES</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>CHANGE IN REVENUES ( )</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>

**FUND SOURCE** (Thousands of Dollars)

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

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. Bitney, 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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Mailing Address  
PO Box 101020  
Anchorage, AK 99510-1020  
Internet Web Site  
<http://www.ahfc.state.ak.us>

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"



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As of February 18, 1999, there are 2,571 Rural Mortgage loans at a value of \$523,825,093.

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.

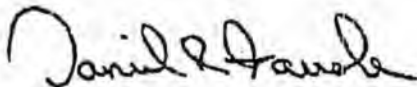
The current definition (AS 18.56.600) limits the term "housing" to either owner-occupied single-family or duplexes for the Rural Mortgage program. HB 93 would bring this term into compliance with current industry standards for lending by allowing owner-occupied housing up to four units. This is the same 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



ALASKA ASSOCIATION OF REALTORS, INC.  
747 Sesame Street, Suite 100 • Anchorage, Alaska 99503  
Telephone 907-563-7133 • Fax 907-561-1779

February 26, 1999

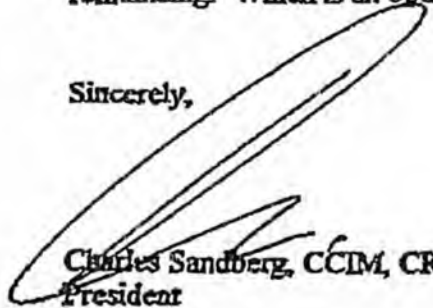
Representative Carl Morgan  
State Capital  
Juneau, Alaska 99801

Dear Representative Morgan,

The Alaska Association of REALTORS, with its over 1100 members statewide wish to express their support for HB 93/A relating to Alaska Housing Finance Corporation.

This legislation would enhance the availability of home ownership in rural areas of the state. It will also allow existing homeowners in rural areas to use AFHC programs for refinancing. Which is an option that is not currently open to rural areas.

Sincerely,



Charles Sandberg, CCIM, CRS, GRI  
President



# Rural mortgage measure clears step

By the Journal Staff



House Bill 93, allowing refinancing of rural Alaska Housing Finance Corp. mortgages, passed out of the House Community and Regional Affairs Committee and is now in the Finance Committee.

The intent is to make AHFC's rural mortgage programs conform with the state housing corporation's urban programs, which allow refinancing.

"Right now, the rate for a new rural 30-year loan is about 6.125 percent. Just over 1,100 of AHFC's outstanding rural loans have interest rates over 8 percent; that's about \$115 million," Rep. Carl Morgan, R-Aniak, said.

Rural default rates are about the same as urban rates, he said. "This is a win-win bill."

HB 93 also expands the types of dwellings that can qualify for rural AHFC loans, again to conform with urban programs.

Morgan is sponsor of the measure.

## BILLS TO WATCH

### Finance cuts Y2K request

The Senate Finance Committee slashed two supplemental budget requests from the Knowles administration.

One was for \$19.5 million for state year 2000 computer system repairs and testing, which was cut to \$12.6 million. A second was a cut of a University of Alaska request from \$5 million to \$2.7 million.

The full Y2K appropriation has passed the House, but the Senate committee questioned whether the needs are real.

"We understand the importance of making sure vital state functions continue operating safely and efficiency" after the end of 1999, said Sen. Sean Parnell, R-Anchorage, "but it seemed as though every time we raised specific questions about the numbers in the governor's request, we found the hard costs weren't there."

For example, the committee

found that of \$110,000 requested in the special appropriation to assess Y2K compatibility in the new state ferry Kennicott, all but \$32,000 was included in a separate \$600,000 Y2K request for the entire ferry system.

The committee also felt the ferry's builder should be pressed to pay for Y2K repairs, Parnell said.

"Scrutiny of the governor's request revealed many similar opportunities for reductions," said Sen. Gary Wilken, R-Fairbanks, who chaired a Finance subcommittee on the request.

### Bill rewrites securities laws

A complex, 70-page rewrite of state laws governing securities transactions was voted out of the House Labor and Commerce Committee and is now in the Judiciary Committee.

House Bill 83 is intended to bring Alaska into compliance with the federal National Markets Securities Act.

The state Department of Commerce and Economic Development has been working on the bill for some time and has circulated drafts, along with proposed regulations, in the Alaska financial community.

A revised law and regulations must be in effect by October to comply with the new federal act, state commerce officials told the Labor and Commerce committee.