

SB

181



SENATOR DAVE DONLEY

ALASKA STATE LEGISLATURE

Memorandum

May 8, 2002

To: House Community and Regional Affairs Committee Members

From: Senator Dave Donley Co Chair
Senate Finance Committee

Subject: Senate Bill 181 - Housing Allowance Loan Fund

I urge you to pass SB181 out of your committee. Failure to pass this measure sends a mixed message to your constituents. Last week the house passed a series of revenue generating bills that included new broad based taxes. Failure to pass SB181 sends the message that although you are asking Alaskan workers to pay an income tax, you are not willing to cap housing loan subsidies at reasonable levels. Capping the subsidized portion of the program at \$200,000 sends the message that the state should not be subsidizing portions of loans that require family incomes in excess of \$60,000 annually to qualify.

You are also telling Alaskans that you are unwilling to reform a currently blatantly discriminatory and unfair housing loan program so that it provides incentives for building needed housing for rural school teachers.

Again, I urge you to vote your conscious when making a recommendation on this legislation but do not oppose passing SB181 out of your committee.

DD:pc

Co-Chair: Senate Finance Committee

Vice-Chair: Senate Judiciary Committee

Member: Legislative Budget and Audit Committee • Legislative Council

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: 1
 Bill Version: SB 181
 (S) Publish Date: 4/24/02

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title Small Community Housing Loans BRU AHFC
 Component Operations
 Sponsor Senate Finance Committee
 Requester Senate Finance Committee Component No. 110

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2u03	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
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						
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CHANGE IN REVENUES ()	**	**	**	**	**	**
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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--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2002) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2003 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

SB181 would repeal the interest rate for loans under the Housing Assistance Loan Fund set at 1% below the taxable loan rate. The Housing Assistance Loan Fund (HALF) is a revolving loan fund that originates and purchases home loans and building material loans in "small communities," defined as those with a population of 6,500 or less that are not connected by road/rail to Anchorage or Fairbanks and communities of 1,600 or less if connected by road/rail.

As of September 30, 2001, the HALF held assets of \$426,519,000. In FY01, the HALF generated \$20 million in net income.

SB181 will affect the ability of residents in small communities to afford the purchase of homes where costs are often higher and lending capital is not readily available. With the loss of this business activity caused by the increase in interest rates, AHFC's net income will be reduced. Calculations by AHFC estimate that a 15% drop in loan volume would be the "break-even" point if the interest rate was increased 1 percent, with a more realistic loss expected to exceed 50% of current loan volume. SB181 will result in a loss of loan volume and net income for AHFC's Housing Assistance Loan Fund.

Prepared by: John Bitney, Legislative Liaison Phone _____
 Division: Alaska Housing Finance Corporation Date/Time 1/28/02 12:48 PM
 Approved by: Larry Persily, Deputy Commissioner Date 01/28/2002
 Agency: Department of Revenue

Sponsor Statement for CS for SB 181 (FIN) am

Small Community Housing Loans

"An Act relating to and increasing the interest rate on that portion of a loan for a single-family house or owner-occupied duplex that exceeds \$200,000 where the loan is for a house or duplex in a small community with a population of 6,500 or less that is not connected by road or rail to Anchorage or Fairbanks, or with a population of 1,600 or less that is connected by road or rail to Anchorage or Fairbanks for purposes of the small community housing program of the Alaska Housing Finance Corporation; relating to loans for teacher housing in which each unit that is not vacant is occupied by at least one individual who is employed as a certificated teacher in a public elementary or secondary school in a small community with a population of 6,500 or less that is not connected by road or rail to Anchorage or Fairbanks, or with a population of 1,600 or less that is connected by road or rail to Anchorage or Fairbanks, and increasing the interest rate on the loans if this occupancy requirement is not complied with; and providing for an effective date"

This Committee Substitute makes four changes to the AHFC rural housing loan program established by AS 18.56.420 and known as the HALF program. The changes are:

- Makes the program available for owner occupied single family or duplex homes but not investment property.
- Limits the subsidized portion of loans to \$200,000.
- Allows AHFC to offer blended rate mortgages; a loan amount in excess of the subsidized portion would be at market rates.
- Allows multi family non-owner occupied housing loans to be subsidized only if the tenants are certificated teachers.

It is clearly not good public policy to have a state program that rewards rich and well off people in low cost construction areas with a special discriminatory housing loan subsidy that also discourages formation and unification of local governments. But that is just what AS18.56.420 (the HALF program) does. The program includes a statutory 1 percent below market interest rate for the Housing Assistance Loan Fund (HALF) program. AS 18.56.420 creates the HALF program to provide housing loans to residents in communities of less than 6,500. AS 18.56.420 currently requires that these loans be made at 1 percent below market rates. This loan program is managed by AHFC. The 1 percent discount on HALF loans costs the state on average over \$40,000 in lost income over the life of one of these loans. The Committee Substitute modifies the program by capping the subsidized portion of the loan. Capping the subsidized portion of the loan amount at \$200,000 will make the program more profitable to AHFC, make more loans available to other borrowers, and will stop the current subsidizing the full cost of higher priced homes.

1. A September 2000 legislative audit concluded that the need for the program has been eliminated through other programs and private entities meeting the needs of homeowners. Testimony before the Senate Finance Committee showed that the program is a vital program in small communities.

2. The Committee Substitute contains provisions that are intended to enhance teacher recruitment in small communities. Subsidized loans can be used to finance multiple-unit housing as long as certificated teachers' are residents.
3. By limiting the subsidized portion of the loans, AHFC should be able earn additional income while still offering a subsidized program to qualified borrowers.
4. Providing these low cost loans to borrowers who don't need the subsidy while denying such a subsidy to other less well off Alaskans is unfair discrimination. The Committee Substitute also provides that any loan amount in excess \$200,000 can be offered at market rates.
5. The Committee Substitute also provides for financing of certificated teacher occupied multi-family homes. Loans for multi-family homes that do not have certificated teachers as residents are not eligible for this subsidized program.
6. AHFC have indicated that they have changed their lending regulations so that the program no longer inhibits formation, consolidation and unification of local governments and these changes will further reduce that disincentive.

At Senate Finance Committee hearings held last year and during the past few months indicated that support existed for continuation of this program. Accordingly, this committee substitute was drafted so that the program would continue. The program should also be limited to financing a primary residence or teacher occupied residence. In fiscal years 98 and 99 there were 1,026 HALF-subsidized loans made. During that two-year period the 1 percent subsidized loans were made to 166 borrowers with annual incomes over \$100,000. 74 percent of the loans made during this period were to borrowers in areas where home construction costs are less than in the Anchorage area. The average price of a home receiving a subsidized loan during this period was \$167,000. During this same period 148 loans were made for amounts above \$200,000. 11 loans were for amounts greater than \$300,000, the highest loan being for \$400,000. The 1 percent subsidy on that \$400,000 loan will cost the state close to \$100,000 in lost income over the life of that loan. In order to eliminate the abuse of residents receiving loans to finance expensive homes, the subsidized loan amounts are capped at \$200,000.

The HALF program was intended to give people a chance at home ownership when they didn't have other options. However, the eligibility requirements need to be tightened up so that those who can afford other programs or are already in low cost construction areas are not eligible. The eligibility requirements included in the Committee Substitute include limiting the loans to owner occupied single family or owner occupied duplex homes. This should continue to provide an attractive loan program while providing more income to the state and AHFC. It's just not good public policy to subsidize a multi unit housing development to increase the owner's profits. Even though no loans have been made for housing units larger than two units, it is good policy to place the prohibition in statute. It is probable that the people building multi unit housing have the income and /or the financial strength to use other non-subsidized programs. A subsidy program is usually reserved for those whose circumstances require it.

It is clearly not good public policy to have a state program that rewards rich and well off people in low cost construction areas with a special discriminatory housing loan subsidy that

discourages formation and unification of local governments. For these reasons the HALF 1 percent subsidy program should be modified so that high value loans cannot be fully subsidized under this state loan program.