

SB

181

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FILE

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 2003	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

Amended

HOUSE CS FOR CS FOR SENATE BILL NO. 181(CRA)
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-SECOND LEGISLATURE - SECOND SESSION

BY THE HOUSE COMMUNITY AND REGIONAL AFFAIRS COMMITTEE

Offered: 5/10/02
Referred: Finance

Sponsor(s): SENATE FINANCE COMMITTEE

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to and increasing the interest rate on that portion of a loan for a single
2 family house or owner-occupied duplex in a small community that exceeds ^{\$250,000} ~~\$300,000~~;
3 relating to the Alaska Housing Finance Corporation's rural assistance loan program
4 and to loans for teacher housing in small communities."

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

6 * Section 1. AS 18.56.420(a) is amended to read:

7 (a) There is created in the corporation, as a revolving loan fund, the housing
8 assistance loan fund consisting of money appropriated to it by the legislature and
9 deposited in it by the corporation, and repayments of principal and interest on loans
10 made or purchased from the assets of the fund. The corporation shall

11 (1) adopt regulations to administer the housing assistance loan fund
12 under AS 18.56.400 - 18.56.600; and

13 (2) subject to appropriation, provide money for a rural assistance loan
14 program to originate, purchase, [OR] participate in the purchase of, or refinance

- 1 (A) small community housing mortgage loans;
 2 (B) loans made for building materials for small community
 3 housing;
 4 (C) loans made for renovations or improvements to small
 5 community housing;
 6 (D) loans made for the construction of owner-occupied small
 7 community housing other than loans to builders or contractors or loans that
 8 compensate an owner for the owner's labor or services in constructing the
 9 owner's own housing.

10 * Sec. 2. AS 18.56.470(a) is amended to read:

11 (a) The interest rate on a mortgage loan originated or purchased in whole or in
 12 part under AS 18.56.420 for small community housing or teacher housing under
 13 AS 18.56.580 is one percent less than the interest rate, as determined under
 14 AS 18.56.098(f)(1) - (4), on a mortgage loan purchased under AS 18.56.098(a) from
 15 the proceeds of the most recent applicable issue of taxable bonds before the
 16 origination or purchase of the mortgage loan originated or purchased under
 17 AS 18.56.420. However, other than a loan for teacher housing under
 18 AS 18.56.580, the interest rate on that portion of a loan for a single-family house
 19 or owner-occupied duplex that exceeds \$300,000 is the same as the interest rate
 20 determined under AS 18.56.098(f)(1) - (14).

21 * Sec. 3. AS 18.56.580 is amended to read:

22 **Sec. 18.56.580. Loans for teacher [NONOWNER OCCUPIED] housing.**
 23 (a) In addition to the powers authorized by AS 18.56.400, the corporation shall
 24 [MAY] adopt regulations under AS 18.56.088 allowing the use of money in the
 25 housing assistance loan fund to make loans for the purchase or development of
 26 teacher [NONOWNER OCCUPIED] housing in small communities. The
 27 regulations must implement the requirements of (b) of this section and establish
 28 other terms and conditions for teacher housing loans, including those relating to
 29 borrower eligibility and the number of loans that may be made to a single
 30 borrower. The corporation may require the borrower to pay costs associated
 31 with a loan.

1 (b) A loan may be made under this section only for teacher housing in
 2 which each unit that is not vacant is occupied by at least one individual who is
 3 employed as a certificated teacher or education professional in a public
 4 elementary or secondary school in a small community. Notwithstanding
 5 AS 18.56.470(a), if, before the loan is entirely repaid, the occupancy requirement
 6 of this subsection is not complied with, the interest rate on the remaining balance
 7 of the loan amount becomes the same as the interest rate determined under
 8 AS 18.56.098(f)(1) - (4) on a mortgage loan purchased under AS 18.56.098(a)
 9 from the proceeds of the most recent applicable issue of taxable bonds before the
 10 loan under this section was made [THE RATE OF INTEREST ON A LOAN
 11 AUTHORIZED BY THIS SECTION MAY NOT EXCEED 10-1/2 PERCENT A
 12 YEAR].

13 (c) The principal amount of loans made for teacher [NONOWNER
 14 OCCUPIED] housing under this section may not exceed 20 percent of the total
 15 principal amount of loans made for small community housing under AS 18.56.400 -
 16 18.56.600.

17 (d) In this section,

18 (1) "development" means the construction of a new residence or the
 19 acquisition, repair, remodeling, rehabilitation, or expansion of an existing residence;

20 (2) "teacher [NONOWNER OCCUPIED] housing" means [A
 21 SINGLE-FAMILY RESIDENCE OR] a multi-family residence [HAVING UP TO
 22 EIGHT DWELLING UNITS AND] that may be nonowner occupied or [IS NOT]
 23 occupied by the owner [; THE CORPORATION MAY MODIFY THIS DEFINITION
 24 IF IT DETERMINES THAT THERE IS A SPECIAL NEED FOR NONOWNER
 25 OCCUPIED HOUSING AND THAT A CHANGE IN THE DEFINITION IS
 26 NECESSARY TO ENABLE THE CORPORATION TO MEET THAT NEED].

Rural HALF Program
Number of Loans by Census Area
1998 - 2002 (To Date)

Amount of Loan (In Thousands)

Census Area or Borough	Community	0 - 99	100 - 109	110 - 119	120 - 129	130 - 139	140 - 149	150 - 159	160 - 169	170 - 179	180 - 189	190 - 199	200 - 210	210 - 219	220 - 229	230 - 239	240 - 249	250 - 259	260 - 269	270 - 279	280 - 289	290 - 299	300 - 309	310 - 319	320 - 329	330 - 339	340 - 349	350+	Total
Prince of Wales - Outer Ketchikan Census Area																													
	Collman Cove	0	0	0	0	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2
	Craig	7	1	5	0	5	3	2	4	2	4	5	0	3	0	0	1	0	0	0	0	0	0	0	0	0	0	1	43
	Hyder	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1
	Klawock	3	0	1	0	2	2	3	2	2	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	16
	Metlakatla	1	0	0	1	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	3
	Meyers Chuck	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1
	Thorne Bay	3	0	1	1	0	1	0	1	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	8
	Whale Pass	1	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2
		16	2	7	2	10	6	5	8	5	4	5	0	3	0	1	1	0	0	0	0	0	0	0	0	0	0	1	76
Skagway-Hoonah-Angoon Census Area																													
	Angoon	1	0	0	0	0	0	0	0	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	3
	Gustavus	2	2	0	0	0	0	1	0	3	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	8
	Hoonah	3	1	2	0	0	0	0	0	1	0	1	0	0	1	0	1	0	0	0	0	0	0	0	0	0	0	0	10
	Palmer	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1
	Skagway	11	1	5	3	4	3	6	1	0	0	3	0	0	0	1	0	1	0	0	0	0	0	0	1	0	0	0	40
		17	4	7	4	4	3	7	1	6	0	4	0	0	1	0	2	0	1	0	0	0	0	0	1	0	0	0	62
Southeast Fairbanks Census Area																													
	Delta Junction	26	3	3	1	1	1	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	36
	Eagle	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1
	Tok	5	2	2	1	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	12
		32	5	5	2	3	1	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	49
Valdez-Cordova Census Area																													
	Copper Center	6	1	1	0	2	1	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	13
	Cordova	27	9	7	11	12	8	4	2	0	2	2	1	0	2	0	0	0	0	0	0	0	0	0	0	0	0	0	87
	Gakona	0	0	1	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2
	Glennallen	5	4	1	3	2	3	0	2	3	0	0	1	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	25
		38	14	10	14	16	13	4	4	4	2	2	2	0	2	1	0	0	0	0	0	0	0	0	1	0	0	0	127
Wade Hampton Census Area																													
	St Marys	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2
		2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2
Wrangell-Petersburg Census Area																													
	Kake	2	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	3
	Pelican	9	0	1	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	11
	Petersburg	24	11	13	17	16	6	7	7	5	5	2	5	2	3	2	1	2	2	0	1	0	2	0	2	0	2	0	135
	Wrangell	19	7	7	10	4	5	1	1	1	3	1	1	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	61
		54	18	21	27	20	11	9	8	5	6	5	6	3	3	3	1	2	3	0	0	1	0	2	0	2	0	0	210
Yakutat Borough																													
	Yakutat	5	1	0	0	0	0	1	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	8
		5	1	0	0	0	0	1	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	8
Yukon-Koyukuk Census Area																													
	Fort Yukon	9	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	9
	Galena	10	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	11
	Manley Hot Spr	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1
	Mcgrath	5	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	5
	Nenana	4	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	4
		29	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	30
TOTAL		707	210	239	248	223	223	202	178	186	130	127	68	52	63	32	32	17	18	4	12	14	7	12	4	10	5	15	3038



Official Business

Alaska State Senate

Senate Finance Committee

Sponsor Statement

Mail Stop 3100
State Capitol
Juneau, Alaska 99801-11

HOUSE CS FOR CS FOR SENATE BILL NO. 181(CRA)

"An Act relating to and increasing the interest rate on that portion of a loan for a single family house or owner-occupied duplex in a small community that exceeds \$300,000; relating to the Alaska Housing Finance Corporation's rural assistance loan program and to loans for teacher housing in small communities."

This Committee Substitute makes five changes to the AHFC rural housing loan program established by AS18.56.420 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 \$300,000.
- Allows AHFC to offer blended rate mortgages; a loan amount in excess of the subsidized portion would be at market rates.
- Adds the option of using this program to refinance other loans
- Allows multi family non-owner occupied housing loans to be subsidized only if the tenants are certificated teachers or other education professionals.

The House Community and Regional Affairs Committee made substantial changes in the measure. The bill as currently written does not fully reflect the Senate Finance Committee's intent. Their intent was to make the following changes:

- *Limit the use of this subsidized loan program to owner occupied homes.*
- *Limit the amount of a subsidized loan to an amount that would accommodate the loan for an "average" home.*

The Senate sent over a bill that had a \$200,000 cap on the amount of the loan that could be subsidized. The bill also had a provision that allowed, for the first time, the use of a "blended" loan. If the loan amount exceeded \$200,000, the amount over \$200,000 could be financed at non-subsidized interest rates. We added this provision at the request of AHFC. Senator Hoffman and Senator Donley agreed to the \$200,000 figure during debate on the Senate floor. The House CRA committee raised this to \$300,000.

During Senate Finance Committee hearings, Senator Hoffman added a section that included the ability of using this subsidized financing program for housing for teachers. The bill permitted multi-family, non-owner occupied homes to be financed by the program as long as certificated teachers are in residence. The CRA bill added other "educational professions".

Following is the balance of the sponsor statement sent to House CRA. It does not reflect the changes made by House CRA.

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.

DD/pc