

**HB**

**274**



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## Senate Bill 274

Senate Bill 274 will replace the Housing Assistance Loan Fund with a new Housing Assistance Loan Program. This bill will also repeal the Rural Teacher Housing Loan Program and replace it with a Rural Multi-Family Loan Program.

### **The Housing Assistance Loan Program**

When the rural and energy efficiency programs of the Department of Community and Regional Affairs were merged into Alaska Housing Finance Corporation in 1992, the Corporation purchased the rural Housing Assistance Loan Fund (the "HALF") from the State for approximately \$200 million. The HALF is currently a revolving fund within the Corporation from which loan payments can only be used to purchase new loans under our rural loan program. That revolving feature has begun to cause liquidity concerns at AHFC.

With the Dividend plan written into Statute during the last legislative session with House Bill 256, the Corporation is obligated to pay dividends to the State General Fund of \$103 million for the next two fiscal years, and percentages of its Change in Net Assets (net income) thereafter. Since the HALF has only unleveraged assets in it, the percentage of AHFC's net income that is unavailable from which to make Dividend payments has grown with the Fund.

At June 30, 2003, there was \$544 million in assets in the Fund, with net income generated of \$25 million—in excess of 35% of the Corporation's total net income. That net income is included in the determination of the Dividend to be paid, but unavailable to actually make a payment. The result is the Corporation's working capital—the amount of liquid assets available for day-to-day mortgage purchases and operations of the Corporation—is declining at an accelerated rate.

In addition, the "revolving" fund hasn't really revolved for several years. The new loans made under the HALF have exceeded the amount of cash available in the Fund causing the Corporation to use its working capital to purchase and hold loans for reimbursement from the Fund as money becomes available.

What this legislation will allow the Corporation to do is to leverage those assets by selling bonds and replenish the working capital borrowed by the HALF. Without the legislation, the working capital of the Corporation will continue to be eroded to such a point that it will affect the other successful programs throughout the State.

Other than this change the program will continue to operate in the same way.



### **The Rural Multifamily Loan Program**

Prior to 2002, a feature of the Rural Loan Program was a program called the Rural Non-Owner Occupied Loan Program (the "Program"). The Program accounted for approximately 2.5% of the Rural Loan Program activity. The Program provided loans for construction, purchase, or rehabilitation of rental units. The property could be rented to any tenant without regard to occupation, but the borrower could not occupy it.

Senate Bill 181 became law in 2002 and replaced the Program with the Rural Teacher Housing Loan Program (the "Teacher Program"). The Teacher Program provides loans for construction, purchase, or rehabilitation of housing that must be occupied by teachers and other education professionals. The properties may be owner occupied or non-owner occupied duplexes and above. Each unit must have at least one occupant who is employed as a teacher or other education professional in a public elementary or secondary school in a small community and holds a valid (unexpired) teacher certificate under AS 14.20 and 4 AAC 12.010-12.900.

If at any time before the loan is paid in full, the borrower fails to comply with the occupancy requirement of this section, the interest rate on the remaining balance of the loan amount will be increased to the AHFC Taxable Program rate in effect on the date the mortgage loan was submitted to the Corporation for commitment. Lenders are required to certify occupancy on an annual basis.

The Teacher Program became effective October 3, 2002 and since that time no loans have been made or committed to. It is surmised that the reason for this is three-fold: (i) the requirement that all units be occupied by a teacher or other education professionals; (ii) if tenants other than teachers or education professionals occupy a unit, the interest rate on the remaining balance of the loan amount will be increased as stated above; and (iii) the additional burden placed on a lender to certify occupancy on an annual basis.

Restricting the occupancy to only teachers or other educational professionals significantly increases the risk of the borrower; in that, it severely limits the universe of tenants to draw from. Additionally, it is very common that teachers and other educational professionals in rural areas leave the area for the summer and return in the fall when school starts. Therefore, unless the borrower can find other teachers or educational professionals to occupy the units, they will sit vacant until school begins. This in itself seriously affects the financial feasibility of the rental property but when combined with the restriction of renting to only teachers or other educational professionals, as well as the increased interest rate penalty in event the borrower has to rent to other than teachers or other education professionals to "make ends meet," creates a risk which apparently no borrower is willing to accept; therefore, resulting in an ineffective program.

This legislation will replace the Teacher Program with a Rural Multi-Family Loan Program which would be very similar to what the Rural Non-Owner Occupied program was but would allow the borrower to occupy the property. The Rural Non-Owner Occupied program has already proven to be effective. Additionally, to allow a borrower to occupy the property adds an attractive feature to the program. Finally, the occupation of the tenants would not be restricted and would include all occupations, including teachers and other educational professionals.

