

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILE 8672

1143 SCOMM 34: HOUSE SPEC. COMMITTEE ON STATE LOANS 1983-84 310

Programs (continued)

Since the inception of the Tax-Exempt Mortgage Loan Program in December of 1981, through June 30, 1982, AHFC had purchased 494 mortgages totaling \$37,218,000.*

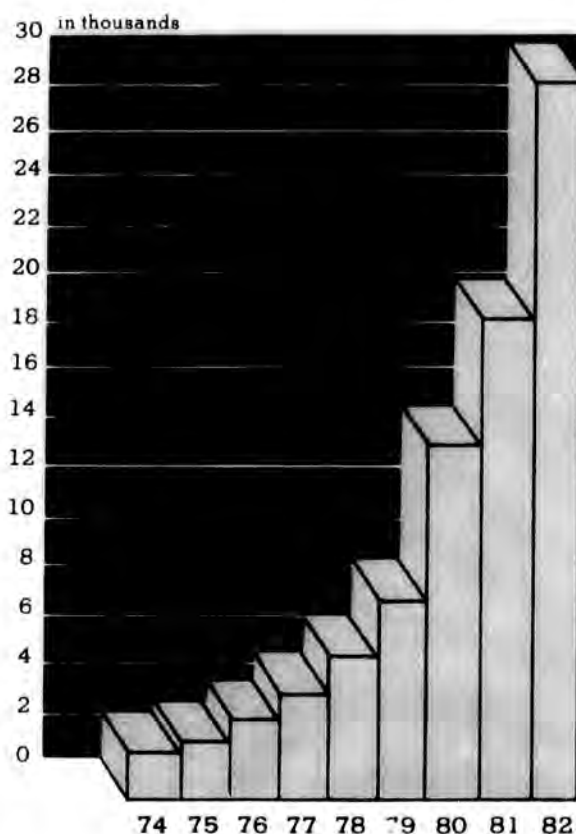
In September of 1982, the Tax Act broadened the tax-exempt regulations and allowed 10 percent of the bond proceeds to be used for borrowers who would not have qualified previously under the prior home ownership restrictions. The Corporation has adopted regulations which limit the use of that 10 percent to borrowers applying under the Homeownership Assistance Program. The 1982 Tax Act also raised the purchase price limitation from 90 percent to 110 percent of the average area purchase price. The new purchase price limits are \$104,986 for an existing single-family dwelling; \$128,143 for a proposed or newly constructed single-family dwelling; and \$122,829 for

an existing duplex (must be an existing dwelling for five years). The Corporation conducts studies on a periodic basis to determine the average area purchase price.

Mobile Home Loan Program

In response to the unique role provided by mobile homes in Alaska, AHFC became the first housing finance entity to implement a mobile home program of its type. In the past, financing for mobile homes has been difficult to obtain with interest rates and restrictions prohibitive to potential borrowers. The Program provides reasonable rates, thus enabling more residents of the State to achieve the benefits of home ownership. The Program was initially funded in 1980 through a \$10,000,000 loan from the State of Alaska. The State appropriated \$12.5 million in cash in 1981 to supplement the program and directed AHFC to bring the Mobile Home Loan Program under the Special Mortgage Loan Purchase Program. In 1982, the State appropriated an additional \$18 million for the program.

In FY 82, AHFC purchased 1,324 loans under the Program totaling \$34,263,450.



Mortgages Held
As of June 30, 1982,
AHFC held 29,037
loans in its portfolio.

Second Mortgage Loan Purchase Program

This Program offers three types of second mortgages financed through the issuance of taxable and tax-exempt bonds. Taxable bonds fund the Second for Purchase Program and a Home Improvement Loan Program. In addition, a Home Improvement Loan Program financed through the sale of tax-exempt bonds is available.

Second for Purchase

This Program allows individuals to receive a second mortgage for the purchase of an owner-occupied single-family or duplex residence, where the dwelling is subject to an existing assumable first mortgage. The total-financing-to-value ratio may not exceed 90 percent of the appraised value or sales price, whichever is less. The balance of the outstanding first mortgage, when combined with the second mortgage, may not exceed the Corporation's current loan maximums of \$160,500 for a single-family residence and \$205,200 for a duplex.

Home Improvement Loan (Taxable)

Individuals may receive a loan for the purpose of making improvements or additions to their present owner-occupied single-family or duplex dwelling under this Program. The total-financing-to-value ratio may not exceed 90 percent of the appraised value after completion of the improvements and, as above, the combination of the balance of the outstanding first mortgage and the second mortgage may not exceed the current loan maximums.

Home Improvement Loan (Tax-Exempt)

Second mortgage loans offered under this Program are subject to the restrictions of the Mortgage Subsidy Bond Tax Act. The maximum loan amount is \$15,000, and the proceeds from the loan must be used for the purpose of making home improvements which enhance the basic livability or energy efficiency of the dwelling. Improvements which are recreational in nature are prohibited.

Under all the Second Mortgage Loan Purchase Programs, the maximum term is 15 years if the loan amount is for more than \$12,450. If the second mortgage is between \$6,500 and \$12,450, then the maximum term is 10 years and below \$6,450, the maximum term is 5 years. As with the first mortgage program, AHFC provides financing up to \$90,000 at a subsidized rate. For any portion above \$90,000, the borrower is required to pay an interest rate equal to the cost of funds.

The Second Mortgage Loan Purchase Program was implemented in the latter part of March and as of June 30, 1982, the Corporation had purchased 25 mortgage loans totaling \$806,350 to the Program.

Programs (continued)

Rural Housing Mortgage Purchase Program

The Program was developed in 1978 to expand mortgage loan financing in the remote and underdeveloped areas of the State. Due to special considerations associated with providing title and hazard insurance, reasonable mortgage loan financing had been unavailable.

Through appropriations of \$6.5 million in cash in FY 81 and \$20 million in FY 82, AHFC offered rural mortgage financing at an interest rate of 8.75 percent. The maximum loan amounts are the same as under the SMLPP with a 95 percent loan-to-value ratio for single-family residences and 90 percent for duplex dwellings.

The Corporation continued its outreach efforts in FY 82 by conducting statewide information meetings and by allowing not only the Regional Housing Authorities, but all of the approved lending institutions, to participate in the Program. These efforts brought about an increased recognition of the Program's availability resulting in a 44 percent increase in the number of loans purchased over FY 81.

In FY 82, 190 loans were purchased for a total of \$16,831,100.**

Non Owner-Occupied Rural Mortgage Purchase Program

This Program differs from all other programs offered by AHFC in that owner-occupancy is not a requirement. This aspect of the Rural Housing Program was developed in 1979 to respond to the need for safe, sanitary, and decent rental housing in the remote, underdeveloped or blighted areas of the State.

Initially funded by a \$2.6 million loan from the State and appropriations in FY 81 of \$4.5 million and \$5 million in FY 82, AHFC has offered mortgage financing for non owner-occupied residences at an interest rate of 9.5 percent.

In FY 82, the Corporation committed \$2,326,750 to the Program by purchasing 17 loans which provided a total of 59 rental units.**

** Effective July 1, 1982, Free Conference Committee Substitute for Senate Bill 666 transferred the Rural Housing Mortgage Purchase Program and the Non Owner-Occupied Rural Mortgage Purchase Program to Community and Regional Affairs. See Legislative Changes.

Delinquency Experience

Alaska Housing Finance Corporation has experienced delinquency averages substantially below the national level. Based on the Corporation's statistics and the National Delinquency Survey, the percentage of AHFC's loans with installments past due as of June 30, 1982, was less than one-half of the U.S. average.

Delinquency Averages
AHFC loan
installments past
due compared to the
national average, as
of June 30, 1982.

AHFC		U.S. Average	
30 day	1.73%	30 day	3.62%
60 day	30%	60 day	88%
90 day	28%	90 day	68%
	2.31%		5.18%

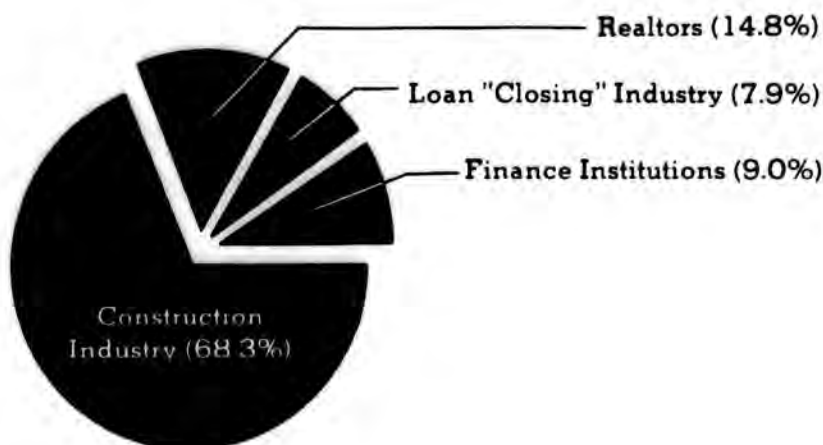
In 1982, the national housing industry continued to suffer adverse conditions and housing became one of the most talked about problems throughout the nation. Housing starts continued their downward trend, interest rates steadily climbed, and the bond market was more unsettled and adverse than ever before. During the same period, however, the Alaska Housing Market flourished. While the residents of other states competed for the limited amount of financing, or were forced to abandon their dream of homeownership, the residents of Alaska had access to virtually an unlimited amount of mortgage funding at below market interest rates. The availability of mortgage funding can be attributed to both the financial support and continued interest which the Legislature pledged to the Corporation's programs. In addition, the Corporation's strong financial position and its ability to structure and market bonds has permitted AHFC to raise capital on a timely basis.

It was a year of sustained growth for AHFC. The Corporation issued an unprecedented \$802 million in taxable and tax-exempt bonds, and gained national recognition in the bond market by becoming the third largest corporate borrower of taxable U.S. dollars in the world, preceded only by General Motors Acceptance Corporation and The World Bank. The stabilizing effect of AHFC's Programs created a dramatic increase in housing activity which was felt throughout the Alaskan economy.

The extent to which the Corporation's programs impacted the residential construction industry and generated additional related income during calendar year 1981, was addressed by Recon Research Corporation in its report, "The In-State Impact of the Alaska Housing Finance Corporation." The charts demonstrate the influence which the programs of the Corporation have played in the growth and development of the State's economy.

Home Sales Generated	5993
New Single Family Units Generated	1921
Construction Jobs Created	1671
"Direct" Resident Income Generated (Mill. \$)	229.6
From Sales	58.1
From Construction	171.5
"Indirect" Resident Income Generated (Mill. \$)	114.8
From Sales	29.1
From Construction	85.7
Total Resident Income Generated (Mill. \$)	344.4

Impact Figures
Additional home sales, jobs, and income generated during Calendar Year 1982, as a result of AHFC's Programs



Distribution of Direct Funds
Breakdown, by industry, of the \$299.6 million generated in direct residential income

Legislative Change

During its ten-year existence, Alaska Housing Finance Corporation has proven to be a highly flexible entity with the ability to both incorporate new programs and implement changes mandated by the Legislature. The 1982 Legislative Session altered the scope of the Corporation's mortgage lending ability and expanded the options available for dealing with extremely volatile capital markets.

In response to concerns about the number of rental units available throughout the state, legislation was enacted which established an owner-occupied triplex and four-plex mortgage loan program. The program allows a maximum loan amount of \$247,650 for a triplex, \$307,950 for a four-plex; and the loan-to-ratio value may not exceed 90 percent. The interest rate on the first \$105,000 for a new triplex and \$140,000 for a new four-plex will be at the subsidized rate, while existing dwellings will receive that rate on the first \$90,000.

1982 Legislation expanded the ability of the Corporation to make second mortgages by allowing the borrower access to a total of \$90,000 at a subsidized rate, provided the first mortgage is not a subsidized AHFC loan. This reflects the Legislature's intent to give all residents the same opportunity to borrow up to \$90,000 of mortgage money that will be subsidized with state funds.

With the development of the Housing Assistance Division (HAD) in the Department of Community and Regional Affairs, concerns were raised regarding the duality of AHFC's and HAD's rural programs. Senate Bill 666 transferred the Rural Owner-Occupied and the Non Owner-Occupied Rural Housing Mortgage Purchase Programs to HAD. The transfer was designed to minimize duplication of programs and to maximize the use of the local offices previously established by HAD.

In recognition of the need to respond quickly to changing capital market conditions, legislation was enacted permitting 24 hour public notice for board meetings where the issuance of Corporation bonds are considered. A second important aspect of the legislation was authorization for the Corporation to undertake the necessary steps to access the international capital markets. From time to time, rates may be substantially more advantageous in the international market than in the domestic market. This alternative will assist the Corporation in borrowing at the lowest effective cost and will provide an important alternative source of funds.

Extreme interest rate fluctuations make it difficult for potential homeowners to plan their purchase of a home and for developers to assess the feasibility of their projects. Amendments were passed which specifically allowed for the adoption of regulations to establish a procedure for the commitment of an individual mortgage loan at a specific interest rate.

Additional revisions resulting from the passage of 1982 legislation were:

- Mortgages cannot be purchased by the Corporation unless the work has been performed by a contractor registered under AS 08.18. This does not apply if the borrower performs the construction, improvements or rehabilitation.
- The Corporation's bond authorization for FY 83 was increased to \$980 million and an additional \$210 million was authorized for FY 82.
- Approval was given to place an amendment to the Constitution allowing state general obligation bonding for veteran's housing and a two year bonding authorization of \$400 million on the November General Election Ballot.

Goals and Performances

Alaska Housing Finance Corporation's legislated mandate is to assist private enterprise in providing decent, safe, and sanitary residential housing at rates of interest which Alaskan residents of most income levels can afford, thereby increasing the stock and quality of housing in the state. In order to achieve this goal, AHFC is empowered to use appropriated funds in combination with other capital sources accessed by AHFC, to provide below market mortgage interest rates.

The various programs of the Corporation have provided assistance to families of low and moderate income through the Home Ownership Assistance Program; offered a means by which to retain the lower interest rate on an existing first mortgage through the Second Mortgage Loan Purchase Program; and provided a Mobile Home Loan Purchase

Program that is unique in the industry. In addition, AHFC was one of the first entities to sell its maximum allocation of \$200 million in tax-exempt bonds authorized under the Mortgage Subsidy Bond Tax Act, thereby providing lower interest rates and affording many qualifying residents the benefit of homeownership.

By virtue of generous Legislative appropriations, prudent fiscal management, and a history of excellence, the Corporation currently functions as the principal source of residential mortgage loan financing in Alaska with a mortgage loan portfolio at the end of FY 82 of \$2,075,912,888 which has an estimated market value of \$1,294,330,294 discounted to maturity. As the new fiscal year commences, AHFC is confident in its continued ability to provide decent, safe, and sanitary housing to a significant portion of the State.

MORTGAGE INVESTMENT, STATE APPROPRIATION AND FINANCING LEVELS

Year Ending June 30, 1983	Loan Purchases		State Appropriations		Bonds Issued	
	Proposed	Actual	Loan Subsidy	Mortgage Purchase	Authorized	Actual
(In Millions)						
Special Mortgage Loan Purchase Program	\$1,282.0		\$105.0*		\$980.0	
Mobile Home Loan Purchase Program	45.0			\$ 45.0		
Home Ownership Subsidy Fund			45.0			
Total	\$1,327.0		\$150.0	\$ 45.0	\$980.0	
Year Ending June 30, 1982						
Special Mortgage Loan Purchase Program	\$ 885.0	\$765.8	\$222.0		\$802.0	\$802.0
Mobile Home Loan Purchase Program	18.0	34.3		\$ 18.0		
Rural Housing Mortgage Purchase Program	20.0	16.8		20.0		
Non Owner-Occupied Rural Mortgage Purchase Program	5.0	2.3		5.0		
Home Ownership Subsidy Fund			43.0			
Total	\$ 946.0	\$819.2	\$265.0	\$ 43.0	\$802.0	\$802.0

*Total Subsidy for FY 83 is estimated at \$300 million. The additional subsidy required will be derived from previous appropriations pledged to 1980 bond issues which release from such pledge in January, 1983.



To the Board of Directors
Alaska Housing Finance Corporation

In our opinion, the accompanying balance sheets and the related statements of revenues, expenses and retained earnings and of changes in financial position, present fairly the financial position of Alaska Housing Finance Corporation at June 30, 1982 and 1981 and the results of its operations and the changes in its financial position for the year ended June 30, 1982 and the seven months ended June 30, 1981, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse

Alaska Housing Finance Corporation Combined Balance Sheet

	June 30,	
	1982	1981
	(in thousands)	
ASSETS		
Cash	\$ 458	\$ 1,435
Investments	925,868	509,407
Mortgage loans, net of discounts	2,030,458	1,352,679
Mobile home loans	44,395	13,101
Deed of trust note receivable from Alaska State Housing Authority	4,052	4,149
Accrued interest receivable	27,774	13,567
Bond issuance costs, net of amortization	5,471	1,788
Capital investment in State Mortgage Insurance Fund	1,000	1,000
Office equipment and improvements, net	381	196
Other receivables	6,205	674
	<u>\$3,046,062</u>	<u>\$1,897,996</u>
LIABILITIES AND FUND EQUITY		
Liabilities:		
Bonds and notes payable, net of discounts -		
Mortgage bonds	\$1,982,062	\$1,207,835
Payable to the State of Alaska	29,580	31,394
Accrued interest payable	21,850	10,540
Accrued expenses and other liabilities	7,058	2,908
Total liabilities	<u>2,040,550</u>	<u>1,252,677</u>
Fund Equity:		
Contributed capital -		
Designated as security for outstanding obligations or other purposes allowed within the respective funds	815,000	550,000
Retained earnings -		
Designated as security for outstanding obligations or other purposes allowed within the respective funds	165,261	75,204
Undesignated	25,251	20,115
Total fund equity	<u>1,005,512</u>	<u>645,319</u>
Commitments	<u>\$3,046,062</u>	<u>\$1,897,996</u>

See accompanying notes to financial statements

Alaska Housing Finance Corporation
Combined Statement of Revenues, Expenses and Retained Earnings

	Year Ended June 30, 1982	Seven Months Ended June 30, 1981
	(in thousa. ds)	
Revenues:		
Interest income -		
Mortgages and loans	\$167,925	\$ 60,440
Investments	104,561	39,616
	272,486	100,056
Loan fees and other	5,079	2,193
Total revenues	277,565	102,249
Operating Expenses:		
Interest on notes and bonds	170,046	53,298
Mortgage service fees	6,816	2,613
General and administrative expenses	2,122	881
Trustee fees, insurance and financing costs	1,186	397
Mortgage payment assistance subsidies	1,875	137
Provision for loan losses	304	65
Other	23	
Total operating expenses	182,372	57,391
Net income	95,193	44,858
Retained earnings, beginning of year	95,319	50,461
Retained earnings, end of year	\$190,512	\$ 95,319

See accompanying notes to financial statements

Alaska Housing Finance Corporation

Combined Statement of Changes in Financial Position

	Year Ended June 30, 1982	Seven Months Ended June 30, 1981
	(in thousands)	
Sources of Financial Resources:		
From operations -		
Net income	\$ 95,193	\$ 44,858
Add (deduct) items not requiring (providing) cash -		
Net amortization of discounts, premiums and bond issuance costs	1,842	560
Depreciation	52	7
Increase in accrued interest receivable	(14,207)	(806)
Increase (decrease) in accrued interest payable	11,310	(22,246)
Net increase (decrease) in accrued expenses and other receivables	(6)	841
Increase (decrease) in deferred fee income	(1,375)	456
Provision for loan losses	304	65
Financial resources provided by operations	93,113	23,735
Mortgage and loan principal repayments	121,303	61,575
Net proceeds from sale of mortgage bonds	780,181	373,081
Net proceeds from State of Alaska notes		7,310
Contributions of capital from the State of Alaska	265,000	150,000
Other	138	93
	<u>\$1,259,735</u>	<u>\$615,794</u>
Uses of Financial Resources:		
Increase in investments	\$ 416,461	\$180,006
Acquisition of mortgages and loans	830,499	427,833
Payment of mortgage bonds	11,660	7,690
Payment of State of Alaska notes	1,814	329
Purchase of office equipment and improvements	278	96
Decrease in cash	(977)	(160)
	<u>\$1,259,735</u>	<u>\$615,794</u>

See accompanying notes to financial statements

Alaska Housing Finance Corporation Combining Balance Sheet

Year Ended June 30, 1982

	Corporation Operating Fund	Housing Mortgage Bond Fund	Insured Mortgage Bond Fund	Insured Rural Mortgage Bond Fund	Housing Develop- ment Fund	State Appro- priated Loan Funds	State Assisted Mortgage Fund	State Assisted Mortgage Bond Series A Fund
(in thousands)								
ASSETS:								
Cash	\$ 125	\$ 1	\$ 2		\$ 320	\$ 4		\$ 1
Investments	19,686	5,747	185,311	\$1,646	503	4,715	\$ 53,582	6,468
Mortgage loans, net of dis- counts and reserve for loan losses	80	105,115	859,950	7,844	4,869	9,305	300,093	228,437
Mobile home loans, net of reserve for loan losses					8,247	13,522		
Deed of trust note receivable from Alaska State Housing Authority					4,052			
Accrued interest receivable ..	530	677	8,759	88	145	161	3,456	1,653
Capital investment in State Mortgage Insurance Fund ..	1,000							
Bond issuance costs, net of amortization		279	1,248	16			105	381
Office equipment and im- provements, net	381							
Other receivables	1,346	542	2,772	31	25	48	367	347
	<u>\$23,148</u>	<u>\$112,361</u>	<u>\$1,058,042</u>	<u>\$9,625</u>	<u>\$18,161</u>	<u>\$27,755</u>	<u>\$357,603</u>	<u>\$237,287</u>
LIABILITIES AND FUND EQUITY								
Liabilities:								
Bonds and notes payable, net of discounts -								
Mortgage bonds		\$ 98,053	\$ 942,639	\$8,935				\$147,822
Payable to the State of Alaska			12,087		\$17,493			
Accrued interest payable		544	7,485	56	346			2,031
Accrued expenses and other liabilities	\$ 1,994	142	1,215	13	51	\$ 158	\$ 1,179	543
Total liabilities	<u>1,994</u>	<u>98,739</u>	<u>963,426</u>	<u>9,004</u>	<u>17,890</u>	<u>158</u>	<u>1,179</u>	<u>150,396</u>
Fund Equity:								
Contributed capital -								
Designated as security for outstanding obligations or other purposes allowed within the respective funds						23,500	696,000	
Interfund transfers repre- sented State loan subsidy			46,920				(426,034)	86,591
Retained earnings -								
Designated as security for outstanding obligations or other purposes allowed within the respective funds		13,622	47,696	621	271		86,458	300
Undesignated	21,154					4,097		
Total fund equity	<u>21,154</u>	<u>13,622</u>	<u>94,616</u>	<u>621</u>	<u>271</u>	<u>27,597</u>	<u>356,424</u>	<u>86,891</u>
Commitments	<u>\$23,148</u>	<u>\$112,361</u>	<u>\$1,058,042</u>	<u>\$9,625</u>	<u>\$18,161</u>	<u>\$27,755</u>	<u>\$357,603</u>	<u>\$237,287</u>

State Assisted Mortgage Bond Series B & C Fund	State Assisted Mortgage Bond Series D & E Fund	State Assisted Mortgage Bond Series F Fund	Home Mortgage Bond 1981 First Series Fund	Home Mortgage Bond 1981 Second Series Fund	Home Owner- ship Fund	Second Mortgage Bond Series A Fund	Home Improve- ment Loan Bond Fund	Fairbanks North Star Borough Residential Mortgage Bond Fund	Combined
(in thousands)									
\$ 26,613	\$ 5,212	\$ 1 287,335	\$ 83,168	\$ 121,613	\$ 30,004	\$ 34,089	\$ 4 19,790	\$ 40,386	\$ 458 925,868
218,243	196,163	172	45,030		52,940	784	21	1,412	2,030,458
					22,626				44,395
1,863	1,768	2,257	1,165	1,181	1,502	1,241	704	624	4,052 27,774
									1,000
474	537	953	317	684		109	123	185	5,471
339	300		43		44	1			381 6,205
\$247,532	\$203,980	\$290,718	\$129,783	\$123,478	\$107,116	\$36,224	\$20,642	\$42,607	\$3,046,062
\$146,628	\$146,002	\$221,528	\$ 97,886	\$ 97,888		\$25,978	\$14,590	\$34,113	\$1,982,062
									29,580
2,250	2,250	2,859	990	963		363	717	996	21,850
706	500	45	161	105	\$ 182	29	16	19	7,058
149,584	148,752	224,432	99,037	98,956	182	26,370	15,323	35,128	2,040,550
					95,500				815,000
94,957	56,145	66,162	29,597	23,380		9,787	5,151	7,344	
2,991	(917)	124	1,149	1,142	11,434	67	168	135	165,261 25,251
97,948	55,228	66,286	30,746	24,522	106,934	9,854	5,319	7,479	1,005,512
\$247,532	\$203,980	\$290,718	\$129,783	\$123,478	\$107,116	\$36,224	\$20,642	\$42,607	\$3,046,062

See accompanying notes to financial statements

Alaska Housing Finance Corporation

Combining Statement of Revenues, Expenses and Retained Earnings

Year Ended June 30, 1982

	Corporation Operating Fund	Housing Mortgage Bond Fund	Insured Mortgage Bond Fund	Insured Rural Mortgage Bond Fund	Housing Develop- ment Fund	State Appro- priated Loan Funds	State Assisted Mortgage Fund	State Assisted Mortgage Bond Series A Fund
	(in thousands)							
Revenues:								
Interest income -								
Mortgages and loans	\$ 196	\$ 8,378	\$ 81,691	\$ 737	\$1,536	\$1,652	\$28,455	\$19,171
Investments	2,310	2,036	22,571	287	97	1,399	23,427	6,879
	2,506	10,414	104,262	1,024	1,633	3,051	51,882	26,050
Loan fees and other	5,079							
Total revenues	7,585	10,414	104,262	1,024	1,633	3,051	51,882	26,050
Operating Expenses:								
Interest on notes and bonds		6,595	81,772	745	1,385			24,579
Mortgage service fees	9	356	3,270	44	108	137	1,255	684
General and administrative expenses	2,122							
Trustee fees, insurance and financing costs		33	224	2			13	181
Mortgage payment assistance subsidies								
Provision for loan losses	123				13	53		
Interfund operating charge (credit)	(1,776)	86	808	9	27			182
Other	2					3		
Total operating expenses	480	7,070	86,074	800	1,533	193	1,268	25,626
Net income (loss)	7,105	3,344	18,188	224	100	2,858	50,614	424
Retained earnings (deficit), beginning of year	14,049	10,278	29,508	397	171	1,239	35,844	(124)
Retained earnings (deficit), end of year	\$21,154	\$13,622	\$ 47,696	\$ 621	\$ 271	\$4,097	\$86,458	\$ 300

State Assisted Mortgage Bond Series B & C Fund	State Assisted Mortgage Bond Series D & E Fund	State Assisted Mortgage Bond Series F Fund	Home Mortgage Bond 1981 First Series Fund	Home Mortgage Bond 1981 Second Series Fund	Home Owner- ship Fund	Second Mortgage Bond Series A Fund	Home Improve- ment Loan Bond Fund	Fairbanks North Star Borough Residential Mortgage Bond Fund	Combined
(in thousands)									
\$14,716	\$ 6,493		\$ 609		\$ 4,282	\$ 6		\$ 3	\$167,925
9,082	10,786	\$2,281	8,085	\$7,139	5,965	1,286	\$712	619	104,561
23,798	17,279	2,281	8,694	7,139	9,847	1,292	712	622	272,486
									5,079
23,798	17,279	2,281	8,694	7,139	9,847	1,292	712	622	277,565
19,919	17,581	2,112	7,302	5,870		1,194	524	468	170,046
461	188		23		281				6,816
									2,122
236	268	45	121	33	2	4	5	19	1,186
					1,875				1,875
					115				304
191	159		99	94	79	27	15		23
					18				
20,807	18,196	2,157	7,545	5,997	2,370	1,225	544	487	182,372
2,991	(917)	124	1,149	1,142	7,477	67	168	135	95,193
					3,957				95,319
\$ 2,991	\$ (917)	\$ 124	\$1,149	\$1,142	\$11,434	\$ 67	\$168	\$135	\$190,512

See accompanying notes to financial statements

Alaska Housing Finance Corporation

Combining Statement of Changes in Financial Position

Year Ended June 30, 1982

	Corporation Operating Fund	Housing Mortgage Bond Fund	Insured Mortgage Bond Fund	Insured Rural Mortgage Bond Fund	Housing Develop- ment Fund	State Approp- riated Loan Funds	State Assisted Mortgage Fund	State Assisted Mortgage Bond Series A Fund
	(in thousands)							
Sources of Financial Resources:								
From operations -								
Net income (loss)	\$ 7,105	\$ 3,344	\$18,188	\$ 224	\$ 100	\$ 2,858	\$ 50,614	\$ 424
Add (deduct) items not re- quiring (providing) cash -								
Net amortization of dis- counts, premiums and bond issuance costs		(118)	1,093					241
Depreciation	52							
(Increase) decrease in ac- crued interest receivable	(447)	23	(439)	(11)	25	94	(363)	(1,354)
Increase (decrease) in ac- crued interest payable ..		(11)	(24)	(6)	(37)			
Net Increase (decrease) in accrued expenses and other receivables	352	(317)	(1,657)	(16)	(4)	(172)	595	196
Decrease in deferred fee income	(1,375)							
Provision for loan losses ..	123				13	53		
Financial resources pro- vided (used) by operations	5,810	2,921	17,161	191	97	2,833	50,846	(493)
Transfer of subsidy from (to) other funds			8				(376,564)	84,033
Mortgages (purchased) sold to other funds	6,233		(5,024)			(1,209)	33,705	
Mortgage and loan principal repayments	3,396	12,120	66,255	1,018	1,520	1,184	22,013	3,018
Net proceeds from sale of mortgage bonds							(105)	(259)
Contribution of capital from the State of Alaska							222,000	
Other	41				97			
	\$15,480	\$15,041	\$78,400	\$1,209	\$1,714	\$ 2,808	\$ (48,105)	\$ 86,299
Uses of Financial Resources:								
Increase (decrease) in invest- ments	\$12,678	\$ (6,805)	\$18,306	\$ 55	\$ (155)	\$ (16,009)	\$ (84,059)	\$ (145,157)
Acquisitions of mortgages and loans	2,930	19,970	51,575	95	279	18,822	36,075	231,455
Payment of mortgage bonds		1,925	8,670	1,065				
Payment of State of Alaska notes			198		1,616			
Purchase of office equipment and improvements	278							
Increase (decrease) in cash	(406)	(49)	(349)	(6)	(26)	(5)	(121)	1
	\$15,480	\$15,041	\$78,400	\$1,209	\$1,714	\$ 2,808	\$ (48,105)	\$ 86,299

State Assisted Mortgage Bond Series B & C Fund	State Assisted Mortgage Bond Series D & E Fund	State Assisted Mortgage Bond Series F Fund	Home Mortgage Bond 1981 First Series Fund	Home Mortgage Bond 1981 Second Series Fund	Home Owner- ship Fund	Second Mortgage Bond Series A Fund	Home Improve- ment Loan Bond Fund	Fairbanks North Star Borough Residential Mortgage Bond Fund	Combined
(in thousands)									
\$ 2,991	\$ (917)	\$ 124	\$ 1,149	\$ 1,142	\$ 7,477	\$ 67	\$ 168	\$ 135	\$ 95,193
132	198	15	156	70		23	18	14	1,842 52
(1,863)	(1,768)	(2,257)	(1,165)	(1,181)	(932)	(1,241)	(704)	(624)	(14,207)
2,250	2,250	2,859	990	963		363	717	996	11,310
367	200	45	118	105	119	28	16	19	(6)
					115				(1,375) 304
3,877	(37)	786	1,248	1,099	6,779	(760)	215	540	93,113
94,957	56,145	66,162	29,597	23,380		9,787	5,151	7,344	
(33,705)	206		(206)						
5,463	785		116		4,414	1			121,303
146,022	145,267	220,560	97,353	97,134		25,846	14,449	33,914	780,181
					43,000				265,000 138
\$216,614	\$202,366	\$267,508	\$128,108	\$121,613	\$54,193	\$34,874	\$19,815	\$41,798	\$1,259,735
\$ 26,613	\$ 5,212	\$287,335	\$ 83,168	\$121,613	\$19,401	\$34,089	\$19,790	\$40,386	\$ 416,461
190,001	197,154	172	44,940		34,813	785	21	1,412	830,499 11,660
									1,814
		1			(21)		4		278 (977)
\$216,614	\$202,366	\$287,508	\$128,108	\$121,613	\$54,193	\$34,874	\$19,815	\$41,798	\$1,259,735

See accompanying notes to financial statements

Alaska Housing Finance Corporation

Combining Balance Sheet

June 30, 1981

	Corporation Operating Fund	Housing Mortgage Bond Fund	Insured Mortgage Bond Fund	Insured Rural Mortgage Bond Fund	Housing Develop- ment Fund	State Appro- priated Loan Funds	State Assisted Mortgage Fund	State Assisted Mortgage Bond Series A Fund	Home Owner- ship Fund	Combined
(in thousands)										
ASSETS										
Cash	\$ 531	\$ 50	\$ 351	\$ 6	\$ 346	\$ 9	\$ 121		\$ 21	\$ 1,435
Investments	7,008	12,552	167,005	1,591	658	20,724	137,641	\$151,625	10,603	509,407
First mortgage loans, net of dis- counts and reserve for loan losses	5,569	97,110	869,580	8,767	4,738	1,897	319,736		45,282	1,352,679
Mobile home loans, net of re- serve for loan losses	1,333				9,632	2,136				13,101
Deed of trust note receivable from Alaska State Housing Authority					4,149					4,149
Accrued interest receivable	83	700	8,320	77	170	255	3,093	299	570	13,567
Bond issuance costs, net of amortization		299	1,315	16				158		1,788
Capital investment in State Mortgage Insurance Fund	1,000									1,000
Office equipment and improve- ments, net	196									196
Other receivables	96	110	207	6	5		79	158	13	674
	\$15,816	\$110,821	\$1,046,778	\$10,463	\$19,698	\$25,021	\$460,670	\$152,240	\$56,489	\$1,897,996
LIABILITIES AND FUND EQUITY										
Liabilities:										
Bonds and notes payable, net of discounts -										
Mortgage bonds		\$ 99,961	\$ 950,257	\$10,000				\$147,617		\$1,207,835
Payable to the State of Alaska			12,285		\$19,109					31,394
Accrued interest payable		555	7,509	62	383			2,031		10,540
Accrued expenses and other liabilities	\$ 1,767	27	307	4	35	\$ 282	\$ 296	158	\$ 32	2,908
Total liabilities	1,767	100,543	970,358	10,066	19,527	282	296	149,806	32	1,252,677
Fund Equity										
Contributed capital -										
Designated as security for outstanding obligations or other purposes allowed with- in the respective funds						23,500	474,000		52,500	550,000
Interfund transfers repre- senting State loan subsidy			46,912				(49,470)	2,558		
Retained earnings -										
Designated as security for outstanding obligations for purposes allowed within the respective funds		10,278	29,508	397	171		31,017	(124)	3,957	75,204
Undesignated	14,049					1,239	4,827			20,115
Total fund equity	14,049	10,278	76,420	397	171	24,739	460,374	2,434	56,457	645,319
Commitments	\$15,816	\$110,821	\$1,046,778	\$10,463	\$19,698	\$25,021	\$460,670	\$152,240	\$56,489	\$1,897,996

See accompanying notes to financial statements

Alaska Housing Finance Corporation

Combining Statement of Revenues, Expenses and Retained Earnings

Seven Months Ended June 30, 1981

	Corporation Operating Fund	Housing Mortgage Bond Fund	Insured Mortgage Bond Fund	Insured Rural Mortgage Bond Fund	Housing Develop- ment Fund	State Appro- priated Loan Funds	State Assisted Mortgage Fund	State Assisted Mortgage Bond Series A Fund	Home Owner- ship Fund	Combined
	(in thousands)									
Revenues:										
Interest income:										
Mortgages and loans	\$ 410	\$ 4,609	\$38,109	\$411	\$769	\$ 39	\$13,776		\$2,317	\$ 60,440
Investments	399	1,289	24,627	272	87	1,204	10,701	\$ 300	737	39,616
	809	5,898	62,736	683	856	1,243	24,477	300	3,054	100,056
Loan fees and other	2,193									2,193
Total revenues	3,002	5,898	62,736	683	856	1,243	24,477	300	3,054	102,249
Operating Expenses:										
Interest on notes and bonds		3,893	47,799	436	746			424		53,298
Mortgage service fees	18	203	1,572	23	53	4	602		138	2,613
General and administrative expenses	881									881
Trustee fees, insurance and financing costs	345	12	39	1						397
Mortgage payment assistance subsidies									137	137
Provision for loan losses	6				48	11				65
Interfund operating charge (credit)	(1,208)	135	1,054	8	11					
Total operating expenses	42	4,243	50,464	468	858	15	602	424	275	57,391
Net income (loss)	2,960	1,655	12,272	215	(2)	1,228	23,875	(124)	2,779	44,858
Retained earnings (deficit), beginning of year	11,089	8,623	17,236	182	173	11	11,969		1,178	50,461
Retained earnings (deficit), end of year	\$14,049	\$10,278	\$29,508	\$397	\$171	\$1,239	\$35,844	\$(124)	\$3,957	\$ 95,319

See accompanying notes to financial statements

ALASKA HOUSING FINANCE CORPORATION

COMBINING STATEMENT OF CHANGES IN FINANCIAL POSITION

Seven Months Ended June 30, 1981

	Corporation Operating Fund	Housing Mortgage Bond Fund	Insured Mortgage Bond Fund	Insured Rural Mortgage Bond Fund	Housing Develop- ment Fund	State Approp- riate Loan Funds	State Assisted Mortgage Fund	State Assisted Mortgage Series A Fund	Home Owner- ship Fund	Combined
	(in thousands)									
Source of Financial Resources:										
From operations -										
Net income (loss)	\$2,960	\$ 1,655	\$ 12,272	\$ 215	\$ (2)	\$ 1,228	\$ 23,875	\$ (124)	\$2,779	\$ 44,858
Add (deduct) items not requiring (providing) cash -										
Net amortization of discounts, premiums and bond issuance costs		(95)	637	1				17		560
Depreciation	7									7
(Increase) decrease in accrued interest receivable	16	168	(1,441)	(29)	4	(244)	1,176	(299)	(157)	(806)
Increase (decrease) in accrued interest payable		(2,838)	(19,867)	(148)	201			406		(22,246)
Net increase (decrease) in accrued expenses and other receivables	526	(107)	(106)	(17)	13	282	201		49	841
Increase in deferred fee income	456									456
Provision for loan losses	6				48	11				65
Financial resources provided (used) by operations	3,971	(1,217)	(8,505)	22	264	1,277	25,252		2,671	23,735
Transfer of subsidy from (to) other funds			40,757				(43,315)	2,558		
Mortgage and loan principal repayments	3,216	7,796	35,561	1,086	330		10,805		2,681	61,575
Net proceeds from sale of mortgage bonds			219,618	4,396				149,067		373,081
Net proceeds from State of Alaska notes					7,310					7,310
Contributions of capital from the State of Alaska						17,000	133,000			150,000
Other					93					93
	<u>\$7,287</u>	<u>\$ 6,579</u>	<u>\$287,431</u>	<u>\$5,504</u>	<u>\$7,997</u>	<u>\$18,277</u>	<u>\$125,742</u>	<u>\$151,625</u>	<u>\$5,352</u>	<u>\$615,794</u>
Uses of Financial Resources:										
Increase (decrease) in investments	\$3,933	\$(5,282)	\$(17,103)	\$ 590	\$ 419	\$14,224	\$ 26,171	\$151,625	\$5,429	\$180,006
Acquisition of mortgages and loans	3,344	10,133	298,526	4,916	7,185	4,044	99,685			427,833
Payment of mortgage bonds		1,790	5,900							7,690
Payment of State of Alaska notes			184		145					329
Purchase of office equipment and improvements	96									96
Increase (decrease) in cash	(86)	(62)	(76)	(2)	248	9	(114)		(77)	(160)
	<u>\$7,287</u>	<u>\$ 6,579</u>	<u>\$287,431</u>	<u>\$5,504</u>	<u>\$7,997</u>	<u>\$18,277</u>	<u>\$125,742</u>	<u>\$151,625</u>	<u>\$5,352</u>	<u>\$615,794</u>

See accompanying notes to financial statements

Alaska Housing Finance Corporation
Notes to Financial Statements
June 30, 1982 and 1981

Note 1 - Authorizing Legislation and Funds:

Authorizing Legislation -

The Alaska Housing Finance Corporation (the Corporation) was created in 1971 by an act of the Alaska Legislature. The Corporation was established to assist in the financing, development, sale and rental of dwelling units within Alaska. Generally the Corporation accomplishes its objectives by functioning as a secondary market for qualified real estate loans originated by financial institutions and native regional housing authorities. In addition, the Corporation has special programs which are specifically designed to meet the housing needs of low and moderate income borrowers.

The Corporation is authorized as approved by the Legislature to issue its own bonds, bond anticipation notes and other obligations in such principal amounts as in the opinion of the Corporation will be necessary to provide sufficient funds for carrying out its purpose. Amounts so issued shall not be deemed to constitute a debt of the State of Alaska.

Programs and Related Funds -

The following describes the programs and related funds maintained by the Corporation, all of which conform with the authorizing legislation, legislative appropriations and bond resolutions.

Corporation Operating Fund -

The Corporation Operating Fund was established to record the receipt of income not directly pledged to the repayment of specific notes and bonds or requiring separate accounting due to Legislative appropriations. Operating expenses of the Corporation are initially recorded in this fund and then charged to the various other funds.

Housing Mortgage Bond Fund -

The Housing Mortgage Bond Fund was established pursuant to the General Housing Mortgage Bond Resolution to account for the proceeds from the sale of the bonds, the related debt service requirements of the bond indebtedness, mortgage loans made with bond proceeds, and allowable program expenses. The majority of mortgages in the fund are insured by government agencies such as the Veterans Administration and the Federal Housing Administration.

Insured Mortgage Bond Fund -

The Insured Mortgage Bond Fund was established pursuant to the General Insured Mortgage Program Bond Resolution to account for the proceeds from the sale of the bonds and the related debt service requirements of the bond indebtedness, mortgage loans made with bond proceeds, and allowable program expenses. In contrast with the Housing Mortgage Bond Fund, mortgages purchased and held under the Insured Program are primarily conventional in nature, carrying private mortgage insurance and being also insured under a State Mortgage Insurance Fund (See Note 7).

Insured Rural Mortgage Bond Fund -

The Insured Rural Mortgage Bond Fund was established pursuant to the General Insured Rural Mortgage Program Bond Resolution to account for the proceeds from the sale of the bonds and the related debt service requirements of the bond indebtedness, mortgage loans made with bond proceeds, and allowable program expenses. Mortgages purchased under this program provide financing for housing located in remote, underdeveloped or blighted areas of the State. The mortgages are conventional in nature carrying private mortgage insurance and being also insured under a State Mortgage Insurance Fund (See Note 7).

For those mortgages financing property for which satisfactory mortgage title insurance and/or hazard insurance is not available from private insurance companies, a Rural Housing Title Insurance Fund and Rural Housing Hazard Insurance Fund have been created to provide the necessary insurance to protect the Corporation's interest in the property (See Note 7).

Alaska Housing Finance Corporation

Notes to Financial Statements (continued)

Housing Development Fund -

The Housing Development Fund was established to account for amounts borrowed from the State of Alaska pursuant to various agreements, mortgages purchased with the note proceeds, and the related debt service requirements.

Housing Development Notes in the aggregate amount of \$22,270,000 have been issued by the Corporation to the State of Alaska and the proceeds therefrom have been deposited in the Housing Development Fund for the purpose of providing mortgage loans in remote areas of the State and for financing other projects, including a 98-unit housing project in Juneau.

State Appropriated Loan Funds -

The State Appropriated Loan Funds were established to account for amounts appropriated from the State of Alaska for the purpose of making mortgage loans of the type specified in the appropriation. This fund is distinguished from the Housing Development Fund in that repayment to the State is not required.

The State Assisted Mortgage Program and Related Funds -

The State Assisted Mortgage (SAM) Program was established by the Corporation in 1980 in connection with a major expansion of the Corporation's functions by the Alaska Legislature. Since June 1980, the SAM program has been the primary funding source for financing owner-occupied housing in the State of Alaska.

The SAM Program Funds -

State Assisted Mortgage Fund -

The State Assisted Mortgage Fund (the "SAM" Fund) was established as the basic operating fund for administration of the SAM Program to allow the Corporation to purchase mortgages bearing legislatively mandated interest rates significantly below that rate the Corporation must pay to obtain the funds to purchase the mortgages. This is accomplished by transferring assets to the respective fund described below which purchases the mortgages in an amount necessary to provide a sufficient cash flow to service the related bonds over a specified term. To the extent the bonds are outstanding less than the term upon which the mortgage subsidy calculation is based, the amount of subsidy transferred by the Corporation may be in excess of that required to service the bonds. The SAM Fund's assets may also be pledged as additional security for bonds issued.

The SAM Fund was established by direct appropriations of mortgage loans and cash from the State of Alaska.

State Assisted Mortgage Bond Funds - Series A, B and C, D and E, F -

The State Assisted Mortgage Bond Funds were created pursuant to the State Assisted Mortgage Bond Resolutions to account for the proceeds from the sale of each series of taxable bonds and the related debt service requirements of the bond indebtedness, mortgage loans made with bond proceeds and the allowable program expenses.

Home Mortgage Bond Funds - 1981 First and Second Series -

The Home Mortgage Bond Funds were established pursuant to the Home Mortgage Program Bond Resolutions to account for the proceeds from the sale of each series of tax-exempt bonds and the related debt service requirements of the bond indebtedness, mortgage loans made with bond proceeds, and allowable program expenses.

Home Ownership Fund -

The Home Ownership Fund was established to implement a program of assistance payments to encourage home ownership by low and moderate income persons and families. The Fund was capitalized by appropriations of mortgage loans and cash from the State of Alaska.

Second Mortgage Bond Fund -

The Second Mortgage Bond Fund was established pursuant to the Second Mortgage Program Bond Resolution to account for the proceeds from the sale of the taxable bonds and the related debt service requirements of the bond indebtedness, mortgage loans made with bond proceeds, and allowable program expenses.

Mortgage loans may be made with bond proceeds for the purchase, improvement or rehabilitation of qualified property on behalf of certain eligible borrowers.

Home Improvement Loan Bond Fund -

The Home Improvement Loan Bond Fund was established pursuant to the Home Improvement Loan Bond Resolution to account for the proceeds from the sale of the tax-exempt bonds and the related debt service requirements of the bond indebtedness, mortgage loans made with bond proceeds, and allowable program expenses.

Mortgage loans may be made with bond proceeds to finance home improvements of certain qualified property and secured by a first or second lien.

Fairbanks North Star Borough Residential Mortgage Bond Fund -

The Fairbanks North Star Borough Residential Mortgage Bond Fund was established pursuant to the Fairbanks North Star Borough Residential Mortgage Program Bond Resolution to account for the proceeds from the sale of the tax-exempt bonds and the related debt service requirements of the bond indebtedness, mortgage loans made with bond proceeds, and allowable program expenses.

Mortgage loans may be made with bond proceeds for the purchase or improvement of qualified property within the Fairbanks North Star Borough and secured by a first lien.

Note 2 - Accounting Policies:

Fund Accounting -

The financial activities of the Corporation, which are restricted by the Corporation's Bond Resolutions, requirements from the Alaska State Legislature, and Housing Development Fund Agreements, are recorded in various specific purpose funds and accounts as specified in such instruments or necessitated by appropriation requirements. Financial activities and resulting account balances which are not so restricted are recorded in the Corporation Operating Fund. The Corporation's funds are considered to be enterprise funds for financial reporting purposes.

Investments -

Investments purchased for long term purposes are carried at amortized cost. Investments of a short term nature are carried at the lower of amortized cost or market. Long-term investments of the Corporation with a book value of \$248,336,000 had a market value of approximately \$224,452,000 at June 30, 1982. These investments are generally expected to be held to maturity and, therefore, will be fully realized.

Mortgage Loans

Mortgage loans are carried at their unpaid principal balance less net unamortized discount or premium.

Alaska Housing Finance Corporation

Notes to Financial Statements (continued)

Provision for Loan Losses

Provision for loan losses is determined from specific evaluation of delinquencies and charged directly against operations in the period that the loss exposure becomes known.

The Corporation has entered into a mobile home lending program. It has no past mobile home loan loss experience and there are no similar mobile home lending programs on which to base an allowance for expected mobile home loan losses. Management, however, has established an allowance for mobile home loan losses at $\frac{1}{2}$ of 1% of outstanding mobile home loans at June 30, 1982 and 1981.

A summary of the reserve for loan losses at June 30, 1982 and 1981 follows:

Fund	June 30,	
	1982	1981
	(in thousands)	
Corporation Operating -		
First mortgage loans	\$242	\$119
Mobile home loans		6
Housing Mortgage Bond -		
First mortgage loans	40	40
Housing Development -		
First mortgage loans	84	67
Mobile home loans	41	48
State Appropriated Loan -		
Mobile home loans	70	11
Home Ownership -		
Mobile home loans	115	
	<u>\$592</u>	<u>\$291</u>

Amortization and Depreciation

Mortgage discounts and premiums are amortized over the life of the related mortgages on a method which approximates yield.

Discount, premium and issuance expenses on debt are deferred and amortized, on a method which approximates yield, over the terms of the related issue.

Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets. Estimated useful lives are 5 to 20 years. Accumulated depreciation at June 30, 1982 and June 30, 1981 was approximately \$65,000 and \$33,000, respectively.

Accrual of Interest Receivable -

Interest is accrued based upon the principal amount outstanding. However, interest is not accrued and no income is recognized on mortgages over four months in arrears or currently involved in foreclosure proceedings.

Commitment Fees -

Prior to April, 1982 commitment fees were received as blocks of funds were committed for specified periods of time to various lending institutions. Such fees were deferred and recorded as income as individual loans were funded. Since April, 1982 the Corporation no longer requires block fund commitments and accordingly loan commitment fees are collected and recognized as revenue upon issuance of each specific mortgage commitment contract.

Allocation of Expenses Among Funds -

The Corporation's administrative, operating, legal, accounting, and trustee fee expenses are accumulated in the Operating Fund. Expenses identifiable to a particular fund are charged to that fund directly while all other expenses are allocated based upon total assets of the fund. General operating expenses are not allocated, however, to the State Assisted Mortgage Fund or the State Appropriated Loan Funds due to their subsidy nature and source of capital.

Statement Presentation -

Certain amounts included in the comparative financial statements have been reclassified to achieve comparability. Such reclassification had no effect on previously reported net income.

Note 3 - Unamortized Discount on Mortgages:

The net unamortized discount on mortgages outstanding at June 30, 1982 and 1981 is comprised of the following:

Fund	June 30, 1982		
	Mortgage Principal Balance	Net Unamortized Discount	Net
	(in thousands)		
Corporation Operating	\$ 80		\$ 80
Housing Mortgage Bond	105,764	\$649	105,115
Insured Mortgage Bond	860,055	105	859,950
Insured Rural Mortgage Bond	7,844		7,844
Housing Development	4,869		4,869
State Appropriated Loan	9,305		9,305
State Assisted Mortgage	300,093		300,093
State Assisted Mortgage Bond - Series A	228,437		228,437
State Assisted Mortgage Bond - Series B and C	218,243		218,243
State Assisted Mortgage Bond - Series D and E	196,207	44	196,163
State Assisted Mortgage Bond - Series F	172		172
Home Mortgage Bond 1981 First Series	45,067	37	45,030
Home Ownership	52,940		52,940
Second Mortgage Bond Series A	784		784
Home Improvement Loan Bond	21		21
Fairbanks North Star Borough Residential Mortgage Bond	1,412		1,412
	<u>\$2,031,293</u>	<u>\$835</u>	<u>\$2,030,458</u>

Alaska Housing Finance Corporation
Notes to Financial Statements (continued)

Fund	June 30, 1981		
	Mortgage Principal Balance	Net Unamortized Discount	Net
	(in thousands)		
Corporation Operating	\$ 5,569		\$ 5,569
Housing Mortgage Bond	97,914	\$804	97,110
Insured Mortgage Bond	869,710	130	869,580
Insured Rural Mortgage Bond	8,767		8,767
Housing Development	4,738		4,738
State Assisted Mortgage	319,736		319,736
Home Ownership	45,282		45,282
State Appropriated Loan	1,897		1,897
	<u>\$1,353,613</u>	<u>\$934</u>	<u>\$1,352,679</u>

Note 4 - Bonds Payable:

The Corporation's obligations are not a debt of the State of Alaska and the State is not directly liable thereon. Bonds outstanding at June 30, 1982 and 1981 are as follows:

	Bonds Outstanding		
	Original Amount	June 30, 1982	1981
	(in thousands)		
Housing Mortgage Program:			
1972 Series A, 5.4% to 5.8% due 1982-2002	\$ 13,500	\$ 11,580	\$ 11,860
1973 Series A, 5.5% to 5.75% due 1982-2002	13,000	11,230	11,505
1973 Series B, 5.8% to 7% due 1982-2003	36,000	31,910	32,585
1975 Series A, 7% to 8.75% due 1982-2005	35,000	32,465	32,980
1975 Series B, 6.65% to 7.75% due 1982-2005	12,000	11,120	11,300
Total Housing Mortgage Bonds at Par	<u>109,500</u>	<u>98,305</u>	<u>100,230</u>
Unamortized discount		(252)	(269)
Net Housing Mortgage Bonds		<u>98,053</u>	<u>99,961</u>
Insured Mortgage Program:			
1975 First Series, 7.9% to 9% due 1982-2005	5,000	4,745	4,800
1976 First Series, 6.5% to 7.5% due 1982-2006	20,000	19,035	19,255
1976 Second Series, 5.4% to 7.125% due 1982-2006	25,000	23,850	24,115
1977 First Series, 5.35% to 6.625% due 1982-2007	35,000	33,005	33,550
1977 Second Series, 5.2% to 6.5% due 1982-2007	48,000	45,375	46,095
1977 Third Series, 4.85% to 6.5% due 1982-2007	40,000	37,750	38,400
1978 First Series, 4.9% to 6.375% due 1982-2007	47,225	45,375	46,000
1978 Second Series, 5.6% to 7.5% due 1982-2007	55,000	52,960	53,670
1978 Third Series, 5.7% to 7.125% due 1982-2008	44,000	42,870	43,450
1979 First Series, 5.8% to 7.3% due 1982-2008	60,000	58,750	59,400
1979 Second Series, 5.5% to 7.125% due 1982-2009	105,000	102,500	103,800

Original Amount	Bonds Outstanding	
	June 30, 1982	1981
(in thousands)		

Insured Mortgage Program:

(continued) -

1980 First Series, 6.8% to 8.75% due 1982-2009	\$ 39,400	\$ 39,080	\$ 39,400
1980 Second Series, 5.5% to 9.2% due 1982-2010	230,000	227,970	230,000
1980 Third Series, 7.4% to 11% due 1982-2011	230,000	230,000	230,000
Total Insured Mortgage Bonds at Par	<u>983,625</u>	<u>963,265</u>	<u>971,935</u>
Unamortized discount		<u>(20,626)</u>	<u>(21,678)</u>
Net Insured Mortgage Bonds		<u>942,639</u>	<u>950,257</u>

Insured Rural Mortgage Program:

1979 First Series, 7.5% due 1982-2009, issued without discount to the State of Alaska	5,600	4,780	5,600
1980 First Series, 7.5% due 1982-2010, issued without discount to the State of Alaska	4,400	4,155	4,400
Total Insured Rural Mortgage Bonds	<u>10,000</u>	<u>8,935</u>	<u>10,000</u>

State Assisted Mortgage Program:

Series A, 16.25% due 1984-1999	150,000	150,000	150,000
Series B, 17.5% and Series C, 18.5% due 1991-2001	150,000	150,000	
Series D, 17.75% and Series E, 18.375% due 1983-2001 ..	150,000	150,000	
Series F, 15.25% due 1985-1992	225,000	225,000	
Total State Assisted Mortgage Bonds at Par	<u>675,000</u>	<u>675,000</u>	<u>150,000</u>
Unamortized discount		<u>(13,020)</u>	<u>(2,383)</u>
Net State Assisted Mortgage Bonds		<u>661,980</u>	<u>147,617</u>

Alaska Housing Finance Corporation
Notes to Financial Statements (continued)

	Bonds Outstanding		
	Original Amount	June 30, 1982	1981
	(in thousands)		
Home Mortgage Program:			
1981 First Series, 9% to 12.75% due 1983-2001	\$ 100,000	\$ 100,000	
1981 Second Series, 9% to 13.375% due 1983-2012	100,000	100,000	
Total Home Mortgage Bonds at Par	200,000	200,000	
Unamortized discount		(4,226)	
Net Home Mortgage Bonds		195,774	
Second Mortgage Program:			
1982 Series A, 16.125% due 1983-1997	27,000	27,000	
Unamortized discount		(1,022)	
Net Second Mortgage Bonds		25,978	
Home Improvement Loan Program:			
1982 Series A, 8.75% to 13.5% due 1983-1998	15,000	15,000	
Unamortized discount		(410)	
Net Home Improvement Loan Bonds		14,590	
Fairbanks North Star Borough			
Residential Mortgage Program:			
Series 1982, 8.25% to 12.75% due 1983-2002	35,000	35,000	
Unamortized discount		(887)	
Net Fairbanks North Star Borough Residential Mortgage Bonds		34,113	
Total Bonds Outstanding	\$2,055,125	\$1,982,062	\$1,207,835

The bonds are secured, as described in the applicable bond resolutions, by the revenues, moneys, investments, mortgage loans and other assets in the funds and accounts established by the respective bond resolutions. Substantially all of the assets of the Corporation are pledged to the outstanding obligations of the Corporation. Additionally, a Special Pledged Fund (approximately \$12,825,000 and \$15,161,000 at June 30, 1982 and 1981, respectively) consisting of permitted investments and cash held by the Commissioner of Revenue of the State of Alaska is available and pledged to the Housing Mortgage Program Bonds in addition to the assets held in the Housing Mortgage Bond Fund. This Special Pledged Fund is not reflected in the accompanying financial statements.

The bonds are subject to certain early redemption provisions both mandatory and at the option of the Corporation as to various issues.

The minimum principal payments including sinking fund principal payments related to all bond indebtedness (except Insured Rural Mortgage Program Bonds) for the five years subsequent to June 30, 1982 are as follows (in thousands):

Year Ending June 30,	Housing Mortgage Bonds	Insured Mortgage Bonds	State Assisted Mortgage Bonds Series A	State Assisted Mortgage Bonds Series B & C	State Assisted Mortgage Bonds Series D & E	State Assisted Mortgage Bonds Series F
	(in thousands)					
1983	\$2,060	\$10,640	\$ -	\$ -	\$ 3,183	\$ -
1984	2,210	11,370	3,750	-	10,152	-
1985	2,360	12,015	5,250	-	12,660	-
1986	2,510	12,780	6,750	-	11,914	1,350
1987	2,675	13,550	8,250	-	10,977	3,600

Year Ending June 30,	Home Mortgage Bonds 1981 First Series	Home Mortgage Bonds 1981 Second Series	Second Mortgage Bonds	Home Improve- ment Loan Bonds	Fairbanks North Star Borough Residential Mortgage Bonds	Total
	(in thousands)					
1983	\$ -	\$ -	\$ 210	\$ -	\$ -	\$16,093
1984	750	210	485	370	1,130	30,427
1985	3,040	705	585	470	2,040	39,125
1986	5,860	1,340	695	515	2,325	46,039
1987	6,780	1,580	830	570	2,215	51,027

Insured Rural Mortgage Program Bonds are held by the State of Alaska. Principal reductions are required on these bonds each December 1 in an amount approximately equal to the mortgage principal repayments received in the preceding twelve month period ended October 1 of each year through 2008 for the 1979 First Series and through 2009 for the 1980 First Series.

For selected bond issues, the Corporation has entered into letter of credit and bank loan facility arrangements with certain commercial banks to borrow certain amounts related to portions of debt service or unpaid bond principal. Varying commitment fees are required, generally ¼ to ½ of 1% per annum of the aggregate bank liability or commitment amount.

The \$35,000,000 Fairbanks North Star Borough Residential Mortgage Bond Program is administered by the Corporation and the bonds are secured in substantially the same manner as bonds issued by the Corporation except that they are not secured by the faith and credit of the Corporation; they are a special obligation of the Fairbanks North Star Borough. Upon retirement of these bonds all assets remaining in the program revert to the Corporation.

Additionally, the 1980 Second and Third Series Insured Mortgage Program Bonds are subject to a special mandatory redemption which requires the Corporation to redeem these bonds at par following the enactment of any legislation by the 97th Congress of the United States which would subject interest on the bonds to federal income tax. The bonds are not subject to redemption in the event such legislation passes any Congress subsequent to the 97th Congress. Approximately \$356,051,000 of assets of the State Assisted Mortgage Fund are pledged to the special redemption obligation.

Alaska Housing Finance Corporation
Notes to Financial Statements (continued)

Note 5 - Notes Payable to the State of Alaska:

The Corporation has entered into agreements with the State of Alaska (the "State") and Alaska State Housing Authority ("ASHA"), whereby the Corporation borrowed \$4,420,000 from the State for a term of 37 years at a rate of 3.47% under the terms of a deed of trust note secured by an apartment building located in Juneau, Alaska.

The terms of the note payable to the State and the deed of trust note receivable from AHSA are identical and require annual payments of \$240,932 each March 1, through 2008. The remaining unpaid principal and interest is due and payable March 1, 2009; the outstanding balance of the note payable and the related receivable from ASHA is \$4,052,000 and \$4,149,000 at June 30, 1982 and 1981, respectively.

Additionally, under the Housing Development Fund programs, the Corporation has notes payable to the State of Alaska with balances outstanding as follows:

	Notes Outstanding	
	June 30,	
	1982	1981
	(in thousands)	
Housing Development Fund		
Notes, 6%	\$ 2,427	\$ 2,558
Housing Development Fund		
Notes, 8.5%	2,574	2,590
Housing Development Fund		
Note, 9.5%	8,440	9,812
	<u>\$13,441</u>	<u>\$14,960</u>

Principal reductions are required on these notes in an amount equal to the principal portion of the payments on the mortgage loans assigned as security for the notes. The note agreements provided for final maturities of the 6% and 9.5% notes during the years ended June 30, 2015 and 2000, respectively.

Under the Insured Mortgage Bond Program, the Corporation is required to maintain a Capital Reserve Fund equal to 10% of the outstanding balance of Insured Mortgage Bonds. In order to fulfill a portion of this requirement, the Corporation borrowed \$12,800,000 from the State with outstanding balances as follows:

	June 30,	
	1982	1981
	(in thousands)	
1975 First Series	\$ 475	\$ 480
1977 First Series	3,300	3,355
1977 Second Series	4,537	4,610
1977 Third Series	3,775	3,840
	<u>\$12,087</u>	<u>\$12,285</u>

The capital reserve requirement for all other Insured Mortgage Program Issues was financed with bond proceeds.

The interest rate on the loans is equal to earnings on the proceeds of such loans deposited in the Capital Reserve Fund with principal reductions pro-rata to those required for the Insured Mortgage Bonds relating to such loans. Principal payments (in thousands) required on the above notes for the five years subsequent to June 30, 1982 are as follows:

Year Ending June 30,	
1983	\$208
1984	\$225
1985	\$240
1986	\$254
1987	\$267

Note 6 - Contributed Capital:

Contributions to capital (in thousands) during the year ended June 30, 1982 and seven months ended June 30, 1981 were as follows:

	Insured Mortgage Bond Fund	State Appropriated Loan Funds	State Assisted Mortgage Fund	State Assisted Mortgage Bond Series A Fund	State Assisted Mortgage Bond Series B&C Fund	State Assisted Mortgage Bond Series D&E Fund	State Assisted Mortgage Bond Series F Fund
Balance, November 30, 1980	\$ 6,155	\$ 6,500	\$334,845				
Contribution from the State of Alaska		17,000	133,000				
Transfer representing State loan subsidy	40,757		(43,315)	\$ 2,558			
Balance, June 30, 1981	46,912	23,500	424,530	2,558			
Contributions from the State of Alaska			222,000				
Transfer representing State loan subsidy	8		(376,564)	84,033	\$94,957	\$56,145	\$66,162
Balance, June 30, 1982	\$46,920	\$23,500	\$269,966	\$86,591	\$94,957	\$56,145	\$66,162

	Home Mortgage Bond 1981 First Series Fund	Home Mortgage Bond 1981 Second Series Fund	Home Owner- ship Fund	Second Mortgage Bond Series A Fund	Home Improve- ment Loan Bond Fund	Fairbanks North Star Borough Residential Mortgage Bond Fund	Combined
Balance, November 30, 1980			\$52,500				\$400,000
Contribution from the State of Alaska							150,000
Transfer representing State loan subsidy							
Balance, June 30, 1981			52,500				550,000
Contributions from the State of Alaska			43,000				265,000
Transfer representing State loan subsidy	\$29,597	\$23,380		\$9,787	\$5,151	\$7,344	
Balance, June 30, 1982	\$29,597	\$23,380	\$95,500	\$9,787	\$5,151	\$7,344	\$815,000

Note 7 - Insurance Funds:

In connection with the establishment of the Insured Mortgage and Insured Rural Mortgage Programs described in Note 1, insurance funds of the State of Alaska have been created for the exclusive purpose of insuring the acquired mortgages and the Corporation's interest in the related property. These are special funds of the State with certain rights, duties, powers, responsibilities and obligations being delegated to the Corporation pursuant to the various insurance agreements with the State. These Funds are not included in the Corporation's financial statements, except for the capital investment in the State Mortgage Insurance Fund.

None of the Insurance Funds have recorded any provision for loan losses since no losses have presently been experienced. It is the opinion of management of the Corporation that such losses, if any, will be minimal in view of the traditional economic strength of the Alaska housing market and the loan-to-value criteria described in the following paragraphs which must be met by eligible loans in the Insured Mortgage and Insured Rural Mortgage Programs.

Alaska Housing Finance Corporation

Notes to Financial Statements (continued)

State Mortgage Insurance Fund - Insured Mortgage Program Account -

This account provides insurance against losses suffered by the Corporation on obligations acquired under the Insured Mortgage Program. Mortgage Loans which may be insured by the account must either have a loan-to-value ratio which does not exceed 80% or be the subject of insurance or guarantee by the Federal Housing Administration, Veterans Administration or other federal agency or by private mortgage insurance to the extent that such ratio is greater than 80%. The capital of the account is required to be maintained at an amount equal to the greater of 2% of the unpaid principal amount of all acquired mortgages or a percentage which the Corporation and the State agree is actuarially sound for operation of the account. The initial capital requirements associated with 1975 through 1977 First Series Bonds were partially funded by contributions from the Corporation Operating Fund. The Corporation considered these initial contributions of \$600,000 to be permanent costs of initiating the program and charged such amounts against operations; subsequent contributions of \$1,000,000 have been capitalized since the ongoing nature of the program is expected to produce a probable likelihood of return. Such return is, however, limited to amounts in excess of the capital requirement described previously and contingent upon that requirement having been continuously met for two consecutive fiscal years preceding the withdrawal.

The account is held in trust by a commercial lending institution pursuant to a custody agreement entered into by the State of Alaska and administered by the management of the Corporation. Generally, the account's activities through June 30, 1982 have been limited to receipt of capital contributions, premiums and interest on investments.

State Mortgage Insurance Fund - Insured Rural Mortgage Program Account -

The State of Alaska has made contributions totalling \$825,000 to establish an Insured Rural Mortgage Program Account within the State Mortgage Insurance Fund. The capital of the account is required to be maintained at an amount equal to 2% of the unpaid principal amount of all acquired mortgages or a percentage which the Corporation and the State agree is actuarially sound for operation of the Fund. As described above, the account is held in trust by a commercial lending institution.

A summary of the Funds' financial position as of June 30, 1982 and 1981 follows:

	June 30,	
	1982	1981
	(in thousands)	
Assets:		
Cash, short term investments and accrued interest	\$26,374	\$22,906
Liabilities:		
Deferred premium income	\$ 75	\$ 100
Fund Equity:		
Insured Mortgage Program Account	25,378	21,981
Insured Rural Mortgage Program Account	921	825
	<u>\$26,374</u>	<u>\$22,906</u>

Rural Housing Title and Hazard Insurance Funds - Insured Rural Mortgage Program -

These funds provide the necessary title and hazard insurance to protect the Corporation's interest in the property securing obligations acquired under the Insured Rural Mortgage Program when such insurance is not available from private companies on reasonable terms. The funds are required to be maintained in an amount not less than 25% of the principal amount of the acquired obligations for which such insurance is provided. The State of Alaska has made contributions of \$250,000 and \$380,000 to the Rural Housing Hazard Insurance and Rural Housing Title Insurance Funds, respectively.

A summary of the Funds' financial position as of June 30, 1982 follows:

	Rural Housing Title Insurance Fund	Rural Housing Hazard Insurance Fund
	(in thousands)	
Assets:		
Cash, short-term investments and accrued interest	\$404	\$266
Fund Equity:		
Contributed capital - State of Alaska	\$380	\$250
Retained earnings	24	16
	<u>\$404</u>	<u>\$266</u>

Note 8 - Fiscal Year Change:

The Corporation adopted a short seven-month reporting period from December 1, 1980 through June 30, 1981 with fiscal years ending June 30, beginning in 1982 and each year thereafter. This change from a November 30 fiscal year-end was made to provide a fiscal reporting period for the Corporation consistent with that of the State of Alaska.

Note 9 - Commitments:

At June 30, 1982 the Corporation had outstanding commitments to purchase first mortgage loans of approximately \$146,960,000.

The Corporation leases its office facilities under terms of a lease expiring in 1986 requiring minimum annual lease payments of \$164,400 through 1985 and \$116,450 in 1986.

Note 10 - Events Subsequent to June 30, 1982:

Effective June 1, 1982 the State of Alaska Legislature appropriated \$150,000,000 to the Corporation to be utilized for mortgage loan subsidies and loan programs. Additionally, the Legislature authorized the Corporation to issue up to \$980,000,000 of additional bonds during the year ended June 30, 1983.

Approved Seller/Serviceers

Alaska Bank of Commerce
Alaska Continental Bank
Alaska Federal Savings & Loan
Association
Alaska Mutual Bank
Alaska National Bank of the North
Alaska Pacific Bank
Alaska School Employees Federal
Credit Union
Alaska Statebank
Alaska USA Federal Credit Union
Alaska Teamsters Federal Credit
Union
Aleutian Housing Authority
Arctic First Federal Savings
AVCP Regional Housing Authority
B.M. Behrends Bank
City Deposit Corporation
Colonial Mortgage Services Co.
First Alaskan Mortgage & Escrow
First Bank
First Federal Savings & Loan
First National Bank of Anchorage

First National Bank of Fairbanks
Frontier Savings & Loan Association
General Electric Mortgage
Corporation
Home Savings & Loan Association
Interior Regional Housing Authority
Kodiak Island Regional Housing
Authority
Lomas & Nettleton
Mt. McKinley Mutual Savings Bank
NANA Regional Housing Authority
National Bank of Alaska
Peninsula Savings & Loan
Peoples Bank & Trust
Rainier Mortgage Company
Security National Bank
Security Pacific Mortgage
Spokane Mortgage Company
Suburban Mortgage Trust
Tlingit-Haida Regional Housing
Authority
United Bank of Alaska

Managing Underwriters

Saloman Brothers Incorporated
Goldman, Sachs & Company
E.F. Hutton & Company, Incorporated
Kidder, Peabody & Company, Incorporated
Merrill Lynch White Weld Market Group
Merrill Lynch, Pierce, Fenner & Smith
Incorporated

Underwriter Counsel

Cravath, Swaine & Moore

Independent Certified Public Accountants

Price Waterhouse & Company

Bond Counsel

Wohlforth & Flint

Trustee

Bank of America NT & SA

Financial Advisor

John Nuveen & Company

Design and Production by Murphy Designs
Photography by Frank Flavin
Printing by Heath Printers and Northern Printing

2 - 4 UNITS -- "OWNER OCCUPIED"RENTAL INCOME CALCULATION / HOW TO FIGURE RATIOSAHFC - (DUPLEX)

MAXIMUM LOAN	_____
DOWN PAYMENT	_____ <i>5%</i>
RATIO	_____
RATE	_____

EXAMPLE:

...	5,000	Monthly Income
...	850	Rental Income
...	1,600	Payment on Duplex
...	550	Monthly Debts

1st RATIO

850	Rent Income	5,000	Mo. Income
80%	Less Exp.	680	Net
680	Net	5,680	Total Income

$$\frac{\text{PMT}}{1,600} \div \frac{\text{Income}}{5,680} = \underline{28.2\% \text{ RATIO}}$$

2ND RATIO

550	Mo. Debts	5,000	Mo. Income
1,600	Duplex Pmt.	+ 680	Net
2,150	Total Debts	5,680	Total Income

$$\frac{\text{Total PMTS}}{2,150} \div \frac{\text{Income}}{5,680} = \underline{37.9\% \text{ RATIO}}$$

AHFC - 3 to 4 UNITS

ABE MORTGAGE

MAXIMUM LOAN:

TRI-PLEX _____

FOUR-PLEX _____

105,000
140,000

TERM OF LOAN:

DOWN PAYMENT:

10%

PRIVATE MORTGAGE INSURANCE:

RATIO:

RATE:

APPRAISAL:

EXAMPLE

... 5,000 Monthly Income
... 1,400 Rental Income
... 2,250 Payment on Tri-Plex
... 600 Monthly Debts

1ST RATIO

1,400	RENTAL INCOME	5,000	MO. INCOME	1,400	INCOME
-500	LESS EXP.	x 28%		+900	NET
900	NET	1,400	INCOME TOWARD TRI-PLEX PMT	2,300	TOTAL INCOME

PMT INCOME
2,250 ÷ 2,300 = 97.8% RATIO

Should be

2ND RATIO

600	MO. DEBTS	5,000	MO. INCOME	1,800	INCOME
+2,250	TRI-PLEX PMT	x 36%		+900	NET
2,850	TOTAL DEBTS	1,800	INCOME TOWARD TRI-PLEX PMT	2,700	TOTAL INCOME

TOTAL PMTS INCOME
2,850 ÷ 2,700 = 105.6% RATIO

or less

Alaska

HOUSING



FINANCE CORPORATION

January 21, 1983

Rec'd
JAN 27 1983

The Honorable Rick Uehling
House of Representatives
Pouch V
Juneau, Alaska 99811

Sir:

Enclosed is a copy of Alaska Housing Finance Corporation's FY 1982 Annual Report. I am extremely pleased with the publication and find it a fitting summary of a successful year for the Corporation.

Sincerely,

Michael S. Lynch
Executive Director

MSL:sel

Enclosure



RECORDS CERTIFICATION



I, the undersigned, an employee of the State of Alaska, do hereby certify that the microfilm images on this microform are accurate reproductions of the original records of the State of Alaska as accumulated during the regular course of business, and that it is the established policy and practice of this State to microfilm its records and to dispose of the original records after microfilm reproductions have been made.


Signature of Camera Operator


Date

SCOMM

#34.5

STATE OF ALASKA

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

Bill Sheffield, Governor

POUCH K - STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3600

December 6, 1982

FILE COPY

D.A. Hostak, Director
Division of Business Loans
and Veterans Affairs
Department of Commerce
and Economic Development
Pouch D
Juneau, Alaska 99811

Re: Constitutionality of Residence
Requirement for Fishing Loans
(AS 16.10.310).
Our file 366-161-83.

Dear Mr. Hostak:

In a November 26, 1982 opinion, this office concluded that the five-year durational residency requirements for commercial fishing loans in AS 16.10.310(a)(1) clearly are unconstitutional, that no good faith defense of the requirements could be advanced if they were challenged in court, and that the requirements were not severable. As a result, we concluded that the Department of Commerce and Economic Development, Division of Business Loans and Veterans' Affairs, had no choice but to suspend the program until the legislature had an opportunity to amend the enabling legislation.

Governor Sheffield asked us to review the conclusions of that opinion to determine whether the program legally can be

D.A. Hostak, Director
Division of Business Loans & Veterans' Affairs
Dept. of Commerce & Economic Development
366-161-83

December 6, 1982
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reinststituted between now and the time the legislature has an opportunity to address the problem created by the five-year durational residency requirement. Governor Sheffield's request stemmed from a strong desire to minimize the adverse consequences resulting from suspension of the program at this time. 1/

In response to the governor's request, we have undertaken a thorough review of the November 26, 1982 opinion. Following that review, we remain satisfied that two of the conclusions reached in that opinion are correct: (1) the five-year durational residency requirements are unconstitutional; and (2) no good faith defense of those requirements could be advanced if they were challenged in court.

However, we are not as certain about the conclusion regarding the severability of those requirements from the remainder of the statute. Under Lynden Transport, Inc. v. State, 532 P.2d 700 (Alaska 1975), a two-step test for severability is employed. First, it must appear that legal effect can be given to the remainder of the statute after the offensive provision is stricken. Here, legal effect certainly can be given to all three subparagraphs of AS 16.10.310(a)(1) if the words "of five years" are deleted from each subparagraph. If those deletions

1/ This time period -- i.e., between Thanksgiving and early spring -- is the fishing off-season. Accordingly, it is the busiest time of year for financial transactions most directly impacted by a suspension of the commercial fishing loan program.

D.A. Hostak, Director
Division of Business Loans & Veterans' Affairs
Dept. of Commerce & Economic Development
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are made, the eligibility requirement in general would be that applicants "have been state residents for a continuous period [OF FIVE YEARS] immediately preceding the date of application for a loan." AS 16.10.310(a)(1)(A) (material in brackets deleted).

The second element of the Lynden Transport test is that it must appear the legislature intended the remainder of the statute to stand if the offensive provision was stricken. In AS 16.10.300, the legislature declared the policy underlying the commercial fishing loan program: "It is the policy of the state, under secs. 300-370 of this chapter, to promote the rehabilitation of the state's fisheries, development of a predominantly resident fishery, and continued maintenance of commercial fishing gear and vessels throughout the state by means of long-term low interest loans." Neither the rehabilitation of the state's fisheries nor the continued maintenance of commercial fishing gear and vessels is related, either directly or indirectly, to a durational residency requirement. If the five-year durational residency requirement is not severable and the program must be suspended as a result, these legislative purposes clearly will be thwarted. We believe the presence of legislative purposes wholly unrelated to the durational residency requirement may be viewed as evidence that the legislature intended the remainder of the statute to stand if the durational residency requirements were stricken.

D.A. Hostak, Director
Division of Business Loans & Veterans' Affairs
Dept. of Commerce & Economic Development
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Moreover, the express legislative purpose of promoting development of a predominately resident fishery and the implied legislative purpose of ensuring that only bona fide state resident commercial fishermen qualify for commercial fishing loans both can be accomplished quite easily without a statutory five-year durational residency requirement. Without that requirement, eligibility still would be limited by statute to those who "have been state residents for a continuous period" -- i.e., bona fide Alaska residents.

In other words, all of the legitimate legislative purposes underlying both the statutory commercial fishing loan program as a whole and the specific five-year durational residency requirements can be satisfied even if the five-year requirements are severed. As a result, we believe it is reasonable to conclude that the legislature would have intended the remainder of the statutory commercial fishing loan program to stand if the unconstitutional five-year durational residency requirements were stricken.

Accordingly, under Lynden Transport, the offensive five-year durational residency requirement can be found severable. We believe that is the result the Alaska Supreme Court would reach if the question was presented to it. As a result, we believe you should reinstitute the program under AS 16.10-.310(a)(1), but without the five-year durational residency re-

D.A. Hostak, Director
Division of Business Loans & Veterans' Affairs
Dept. of Commerce & Economic Development
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quirement. That conclusion is supported by AS 01.10.030, the state's general severability clause 2/, which the Alaska Supreme Court views as establishing at least a weak presumption in favor of severability. Williams v. Zobel, 619 P.2d 422 (Alaska 1980).

Once the five-year durational residency requirements are severed, the statute then requires only that applicants have been state residents for a continuous period immediately prior to applying for a loan as an objective test of residency. To establish a legally defensible objective standard for the length of the statutorily required continuous period of residency, we believe the Department of Commerce and Economic Development should adopt emergency regulations under AS 16.10.310(a)(3) and AS 44-.62.250.

The length of any period of residency required by such regulations should be within a range which could be defended in court. Under the cases cited in the November 26, 1982 opinion, 30 days clearly would be permissible. One year almost certainly

2/ AS 01.10.030 provides:

Any law heretofore or hereafter enacted by the Alaska Legislature which lacks a severability clause shall be construed as though it contained the clause in the following language, "If any provision of this Act, or the application thereof to any person or circumstance is held invalid, the remainder of this Act and the application to other persons or circumstances shall not be effected [sic] thereby."

D.A. Hostak, Director
Division of Business Loans & Veterans' Affairs
Dept. of Commerce & Economic Development
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would be permissible. A good faith argument could be made that two years is permissible because of the highly transient nature of fishermen, although it is more likely than not that a two-year durational residency requirement would be found unconstitutional if challenged in court. To assist your department in adopting the necessary emergency regulations, we are attaching a draft finding of emergency, order of adoption, and amended regulation conforming to the requirements of AS 44.62.250. 3/

We are aware that the Alaska Supreme Court has acknowledged the doctrine of separation of powers. See e.g., Bradner v. Hammond, 553 P.2d 1 (Alaska 1976); Public Defender Agency v. Superior Court, 534 P.2d 947 (Alaska 1975). Under that doctrine, some might criticize a policy under which the attorney general concludes that constitutionally offensive provisions are severed under the Lynden Transport analysis with the executive branch then proceeding to implement the remainder of the statute. 4/ It apparently was for this reason -- i.e. that severing the constitutional portion of the statute could be viewed as impermissible

3/ Your department must then follow the additional steps outlined in the Drafting Manual for Administrative Regulations. See checklist on pp. 12-13 and chapter 5.

4/ This is precisely what happened when this department proposed to settle a court challenge to the state's longevity bonus program by severing the program's unconstitutional residency requirements and establishing a one-year durational residence requirement in their place.

D.A. Hostak, Director
Division of Business Loans & Veterans' Affairs
Dept. of Commerce & Economic Development
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legislating by the executive branch -- that former Attorney General Condon concluded that you had no choice but to suspend the program pending a legislative solution.

However, in the extraordinary situation where a statutory requirement clearly is unconstitutional and cannot be defended in court, I believe the better result is for the legislative will expressed in the overall statutory scheme to be implemented without the constitutionally offensive provisions if they can be severed under the Lynden Transport analysis. This gives the executive branch much more flexibility when the legislature passes a statute which is unconstitutional in part. Under a policy where offensive provisions cannot be severed, the difficult choice is between continuing to implement an unconstitutional statute or suspending an entire program. However, if an offensive provision can be severed, the executive branch can implement the legislative will in a constitutional manner, thereby satisfying the programmatic desires expressed by the legislature without running afoul of constitutional constraints.

If the legislature is dissatisfied with this result, or disagrees with the attorney general's conclusion regarding severability, it always has the option of amending the statute or repealing it altogether. Ultimately, the legislature must take final responsibility for the statutes which govern the state.

D.A. Hostak, Director
Division of Business Loans & Veterans' Affairs
Dept. of Commerce & Economic Development
366-161-83

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To intrude as little as possible into the legislative sphere, Governor Sheffield has made it clear that the solution outlined above is to be an interim solution only. Under AS 44.62-.260(a), emergency regulations expire 120 days after they are adopted. At that time, if the legislature has not addressed the problem presented by the unconstitutional five-year durational residency requirements, the program should again be suspended.

We are sending copies of this opinion to Senator Kerttula and Representative Hayes to ensure that the legislature has notice that the program will be suspended upon expiration of the emergency regulation if there is no legislative action before then. Consequently, the legislature will have to act if it desires the program to continue beyond the expiration date of the emergency regulation.

The administration is considering proposing legislation to remedy this problem, although no decision has been made in that regard. However, any permanent solution to the problem created by the unconstitutional five-year durational residency requirement in AS 16.10.310(a)(1) must be provided by the legislature. The interim solution outlined above is simply a pragmatic approach to solving the problem temporarily to avoid the considerable hardship immediate suspension of the program would work on the commercial fishing industry while the legislature considers this matter.

D.A. Hostak, Director
Division of Business Loans & Veterans' Affairs
Dept. of Commerce & Economic Development
366-161-83

December 6, 1982
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We will be happy to work with you in putting this suggested interim solution into practice.

Sincerely,

A handwritten signature in dark ink, appearing to read "Norm Gorsuch", with a stylized flourish at the end.

Norman C. Gorsuch
Attorney General

NCG:GTK:dlm

Attachment

cc: Senator Jalmar Kerttula
Representative Joe L. Hayes



Official Business

Alaska State Legislature

House of Representatives

November 5, 1982

Pouch V
State Capitol
Juneau, Alaska 99811

MEMORANDUM

TO: The Honorable Joe Hayes
Speaker of the House
Anchorage

FROM: Mark K. Johnson
Juneau

Subjects: Proposed legislation regarding (a) Commercial Fishing Loan Act and (b) Fishermen's Mortgage and Note Fund.

Each of these programs was identified by the Attorney General in his letter of September 1, as posing constitutional problems because of durational residency requirements. After some research and reflection it was determined that attempts to cure the problems with these programs should be simple rather than complex.

In the Commercial Fishing Loan Act, AS 16.10.310-16.10.360, the Department of Commerce is given the authority to make loans to individual commercial fishermen and eligible business ventures for "the repair, restoration or upgrading of existing vessels and gear, for the purchase of entry permits and gear and for the construction and purchase of vessels...". The program also imposed a five year continuous residency requirement for eligibility for these loans.

The proposed legislation would delete the five year residency requirement entirely but expand a requirement that an applicant have actively participated in the fishery from one out of the last five years to three out of the last five years. Inasmuch as there is no residency requirement for the holding of a limited entry permit or on participation in the fishery as a crewmember, this may be a appropriate response.

Legislation creating the Fishermen's Mortgage and Note Fund, AS 16.10.650-16.10.720, also imposed a five year durational residency requirement on applicants for that program. The proposed legislative response would also delete this requirement from the law. But at the same time, the response would impose upon an applicant the burden of establishing that "he is likely to contribute to the economic stability of the state".

My understanding of the opinion of the U.S. Supreme Court in Zobel V. Williams, U.S., 72 L Ed 2d 672, (1982), is that the imposition of such a requirement is acceptable. Such a requirement does not suffer from the defect of being only backward looking but is rather, only concerned with the present and the future. I believe accordingly that such a requirement is a "legitimate state purpose". See the opinion of Justice Brennan at 72 L Ed 2d 672, at 684.

These last two pieces of proposed legislation represent the final areas in which legislative action is appropriate with the exception of the longevity bonus program. I will be spending some time on that issue to determine if some kind of legislative solution can be fashioned. I expect, however, that the likely conclusion is that the program must be scraped altogether or funded at a dramatically higher level.

*Sec 1: AS 16.10.310 is amended to read:

Sec. 16.10.310. Powers of the department. (a) The department may
(1) make loans to

(A) individual commercial fishermen who have had a crewmember or commercial fishing license under AS 16.05.480 or a permit under AS 16.43.010-16.43.380 for any three of the past five years and who actively participated in the fishery during that period, for the repair, restoration or upgrading of existing vessels and gear, for the purchase of entry permits and gear, and for the construction and purchase of vessels; and

(B) corporations, partnerships or joint ventures, 100 per cent of which are owned by individual commercial fishermen who have had a crewmember or commercial fishing license under AS 16.05.480 or a permit under AS 16.43.010-16.43.380 for any three of the last five years, and who actively participated in the fishery during that period, for the repair, restoration or upgrading of existing vessels and gear, for the purchase of gear, and for the construction and purchase of vessels;

- (2) designate agents and delegate its powers to them as necessary;
- (3) adopt rules and regulations necessary to carry out its functions;
- (4) establish amortization plans for repayment of loans, which may include extensions for poor fishing seasons;
- (5) enter into agreements with private lending institutions, other state agencies or agencies of the federal government to carry out the purposes of AS 16.10.300-16.10.370.

(b) The department shall consult with the Department of Fish and Game on regulations and procedures established under AS 16.10.010-16.10.720.

*Sec. 1: AS 16.10.680 is amended to read:

Sec. 16.10.680. Eligibility for loans . (a) The commissioner may purchase a mortgage or note under AS 16.10.660(b) if it secures a loan to an individual who meets one of the requirements of (b) of this section and who

(1) does not qualify for a loan for the purposes described in AS 16.10.670 under a state loan program;

(2) has not previously participated in the loan program established in AS 16.10.650-16.10.720 or in any other state loan program for the purposes described in AS 16.10.670; and

(3) meets the guidelines established by the commissioner to determine whether the applicant is reasonably likely to succeed as a commercial fisherman and be able to repay the loan.

(b) In addition to the requirements of (a)(1)-(4) of this section, the commissioner may purchase a mortgage or note under AS 16.10.660(b) only if it secures a loan to an individual who demonstrates under guidelines established by the commissioner that he is likely to contribute to the economic stability of the state and

(1) because of his lack of training or the lack of employment opportunities in the area in which he resides, he does not have occupational opportunities available to him other than commercial fishing; or

(2) he is economically dependent on commercial fishing for a livelihood and commercial fishing has been a traditional way of life for him in Alaska.

(c) The commissioner may not refuse to purchase a mortgage or note from a private financial institution under AS 16.10.660(b) solely because the applicant for the loan does not have a credit history.

(d) In determining whether the applicant is reasonably likely to be able to repay the loan under (a)(4) of this section, the private financial institution shall consider the applicant's income from commercial fishing and from other sources.

FINDING OF EMERGENCY

The Department of Commerce and Economic Development finds that an emergency exists and that the attached amendment is necessary for the immediate preservation of the public peace, health, safety, or general welfare. A statement of the facts constituting the emergency is:

1. In a November 26, 1982 opinion, the Department of Law concluded that the five-year durational residency requirements for commercial fishing loans in AS 16.10-310(a)(1)(A), (B) and (C) are unconstitutional.
2. In a December 6, 1982 opinion, the Department of Law concluded that the five-year durational residency requirements for a commercial fishing loan are severable from the remainder of the statutory program.
3. The commercial fishing loan program was initially enacted in 1972. Since that time, it has become very important to the continued viability of the commercial fishing industry in Alaska. In addition to providing financing for vessels and gear, the commercial fishing loan program provides the only mechanism for financing the purchase of limited entry permits using the permits as collateral. If the program is suspended, it will work an immediate and considerable hardship on the commercial fishing industry in Alaska. Therefore, 03 AAC 80.100 must be amended to remove the requirement that an individual be a five-year resident to qualify for a commercial fishing loan for the immediate preservation of the general welfare of the industry.
4. The Department of Law concluded that the five-year durational residency requirement in AS 16.10.310(a)(1)(A), (B) and (C) was intended to ensure that only bona fide residents of Alaska qualify for commercial fishing loans. The legislature has not funded this department with a sufficient staff to make individual inquiries of each applicant for a commercial fishing loan to determine on an individualized basis whether that applicant is in fact a bona fide resident of Alaska and, at the same time, to make the necessary evaluation of an applicant's financial situation for purposes of obtaining a loan. As a result, some legally permissible screening requirement to test the bona fides of residency must be adopted.
5. The Department of Law informs us that a one-year durational residency requirement almost certainly is constitutional when a fundamental right or basic necessity of life is not involved, and that eligibility to apply for a commercial fishing loan is not a fundamental right nor a basic necessity of life.

ADOPTION ORDER

Under authority of AS 16.10.310(a)(3), the regulation is therefore adopted as an emergency regulation to take effect immediately upon filing by the lieutenant governor as provided in AS 44.62.180(3).

DATE: December 7, 1982
Juneau, Alaska

Richard A. Lyon, Commissioner.
Department of Commerce and
Economic Development

FILING CERTIFICATION

I, Stephen Alan McAlpine, Lieutenant Governor for the State of Alaska, certify that on December 7, 1982, at _____m., I filed the attached regulations according to the provisions of AS 44.62.

Stephen Alan McAlpine
Lieutenant Governor

3 AAC 80.100. DEFINITION OF TERMS. Unless the context requires otherwise, in this chapter and in the forms and instructions of the commissioner

. . .

(11) "resident" means a corporation, partnership or limited partnership 100 percent of which is owned by a resident commercial fisherman or an individual who, except for brief intervals, periods of military service, or attendance at an educational or training institution has resided in the state for one year [FIVE YEARS]; "residence" is determined by where the individual

(A) is registered to vote;

(B) maintains his permanent place of abode;

(C) files his tax returns;

(D) registers or licenses his personal property, including but not limited to cars, boats, trucks and trailers;

(E) is licensed to drive; and

(F) maintains bank accounts, savings accounts, lines of credit and other financial relationships. (Eff. 9/26/76, Reg. 59; am 5/16/81, Reg. 78; am / / , Reg.)

Authority: AS 16.10.310

STATE OF ALASKA THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

POUCH Y. STATE CAPITOL
JUNEAU ALASKA 99801
707.485.1800

MEMORANDUM

November 29, 1982

SUBJECT: Fishermen's Mortgage and Note Program
(Work Order No. 13-0126)

TO: Representative Joe L. Hayes
ATTN: Mark Johnson

FROM: Billy G. Berrier *BGB*
Director
Division of Legal Services

You have asked that AS 16.10.680 concerning the fishermen's mortgage and note program be amended to delete the residency requirement and to add another amendment.

This program was repealed last year by Chapter 113, SLA 1982 effective June 25, 1982. All assets were transferred to the commercial fishing revolving loan fund (AS 16.10.340).

I note you have requested amendments to that fund (Work Order No. 13-0115) which seem to take care of the concerns. I am, therefore, cancelling Work Order No. 13-0126. If there are still problems I do not see, please call me.

BGB:jdn

STATE OF ALASKA

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

JAY S. HAMMOND, GOVERNOR

POUCH K - STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3600

November 26, 1982

D.A. Hostak, Director
Division of Business Loans
and Veterans Affairs
Department of Commerce
and Economic Development
Pouch D
Juneau, Alaska 99811

FILE COPY

Re: Constitutionality of Residence
Requirement for Fishing Loans
(AS 16.10.310).
Our file 366-161-83.

Dear Mr. Hostak:

You requested our opinion regarding the constitutionality of the five-year durational residency requirement for commercial fishing loans under AS 16.10.300--16.10.370. AS 16.10.310(a)(1), repealed and reenacted earlier this year (1982 SLA, ch. 113, § 7), provides:

(a) The department may

(1) make loans to

(A) individual commercial fishermen who have been state residents for a continuous period of five years immediately preceding the date of application for a loan under AS 16.10.300--16.10.370 and have had a crewmember or commercial fishing license under AS 16.05.480 or a permit under AS 16.43 for any one of the past five years, and who actively participated in the fishery during that period, for the purchase of entry permits;

(B) an individual who has been a state resident for a continuous period of five years immediately preceding the date of application for a loan under AS 16.10.300--16.10.370, who (i) because of lack of training or lack of employment

opportunities in the area of residence does not have occupational opportunities available other than commercial fishing; or (ii) is economically dependent on commercial fishing for a livelihood and commercial fishing has been a traditional way of life for the individual in Alaska, for the repair, restoration or upgrading of existing vessels and gear, for the purchase of entry permits and gear, and for the construction and purchase of vessels;

(C) corporations, partnerships, or joint ventures, 100 percent of which are owned by individual commercial fishermen who have been state residents for a continuous period of five years immediately preceding the date of application for a loan under AS 16.10.310(a)(1)(B) and have had a crewmember or commercial fishing license under AS 16.05.480 or a permit under AS 16.43 for any one of the past five years, and who actively participated in the fishery during that period, for the repair, restoration or upgrading of existing vessels and gear, for the purchase of gear, and for the construction and purchase of vessels.

A common feature of each of the three subparagraphs is a five-year durational residency requirement for eligibility to apply for loans. 1/

1/ Under subparagraphs (A) and (B), individuals who have been Alaska residents for a continuous period of five years immediately preceding the date of application for a loan may apply. Under subparagraph (C), corporations, partnerships, or joint ventures, 100 percent of which are owned by commercial fishermen who have been state residents for a continuous period of five years immediately preceding the date of application for a loan, may apply. Although each of the three subparagraphs differ in additional eligibility requirements and the purposes for which loans may be made, those differences do not affect the constitutionality of the five-year durational residency requirements imposed. Accordingly, there is no need to discuss each subparagraph separately.

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For the reasons which follow, we believe each of the five-year durational residency requirements in AS 16.10.310(a)(1) is unconstitutional. Further, we believe this result is sufficiently clear that no good faith defense of the requirements could be made if they were challenged in court. Accordingly, we believe the commercial fishing loan program under AS 16.10.300 -- 16.10.370 must be suspended until the legislature changes the statutory scheme authorizing the program.

I. BACKGROUND

Durational residency requirements for eligibility to participate in state programs have been the subject of a number of judicial decisions, both in the Alaska Supreme Court and the United States Supreme Court. Because durational residency requirements have the effect of creating two classes of residents, only one of which is eligible to participate in the program, challenges to such requirements usually are based on the equal protection clauses of article I, section 1 of the Alaska Constitution and the Fourteenth Amendment to the United States Constitution.

An earlier opinion by this office discusses at great length the tests employed by the courts when a durational residency requirement is challenged as a denial of equal protection. 1982 Alaska Op. Atty. Gen. No. 7 (July 14) (expressing opinion that durational residency requirements for veterans loans are

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unconstitutional). If the durational residency requirement at issue penalizes the exercise of the right to travel, either through infringement of a fundamental right (such as voting) or through denial of a basic necessity of life (such as welfare or medical services), it is unconstitutional as a denial of equal protection under the United States Constitution unless it furthers a compelling state interest. Dunn v. Blumstein, 405 U.S. 330 (1972) (voting); Shapiro v. Thompson, 394 U.S. 618 (1969) (welfare); Memorial Hospital v. Maricopa County, 415 U.S. 450 (1974) (medical care). If it does not penalize the exercise of the right to travel, it is not unconstitutional as a denial of equal protection under the United States Constitution as long as it has a rational basis. Sosna v. Iowa, 419 U.S. 393 (1975). Under the Alaska Constitution, a durational residency requirement is not unconstitutional as a denial of equal protection if it substantially furthers the legitimate purposes of the legislation and the state interest in imposing the requirement outweighs the constitutional right involved. 2/ Williams v. Zobel, 619 P.2d

2/ As a general rule, the test for constitutionality under the Alaska Constitution when the exercise of the right to travel is not penalized is stricter than the rational basis test under the United States Constitution. Accordingly, if a challenged statute survives judicial scrutiny under the Alaska Constitution in the Alaska courts, it follows a fortiori that it is constitutional under the United States Constitution and no independent analysis is necessary. Williams v. Zobel, 619 P.2d 448, 457 (Alaska 1980); but see Zobel v. Williams, ___ U.S. ___, 72 L.Ed.2d 672 (1982).

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422, 427 (Alaska 1980) ("Zobel I"), applying State v. Erickson, 574 P.2d 1 (Alaska 1978).

II. ANALYSIS

The first inquiry is whether the durational residency requirement penalizes the exercise of the right to travel either through infringement of a fundamental right or through denial of a basic necessity of life. In our opinion, the five-year durational residency requirement for a commercial fishing loan is neither an infringement of a fundamental right nor a denial of a basic necessity of life and therefore does not penalize the exercise of the right to travel.

Obtaining a commercial fishing loan is not a fundamental right for purposes of equal protection analysis. Cf. Williams v. Zobel, 619 P.2d 448, 457 (Alaska 1980) ("Zobel II") (equality in distribution of permanent fund earnings is not a fundamental right), reversed on other grounds ___ U.S. ___, 72 L.Ed.2d 672 (1982); Commercial Fisheries Entry Commission v. Adokedak, 606 P.2d 1255, 1262 (1980) (eligibility to apply for a limited entry permit is not a fundamental right). It also seems clear that a commercial fishing loan is not a basic necessity of life. Cf. Zobel II at 455 ("a permanent fund earnings dividend is not a 'basic necessity'").

Accordingly, we believe the five-year durational residency requirements in AS 16.10.310(a)(1) do not have to satisfy

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the compelling state interest test. This view is consistent with what appears to be the general rule applied by the United States Supreme Court that statutes providing for governmental payments of monetary benefits are entitled to a strong presumption of constitutionality and should be upheld if they have a rational basis. See, e.g., Califano v. Torres, 435 U.S. 1, 5 (1978), and cases cited. ^{3/}

Since we believe the courts would not measure the five-year durational residency requirements of AS 16.10.310(a)(1) against the more stringent compelling state interest test, its constitutionality under the United States Constitution depends on whether it has a rational basis. Under the Alaska Constitution, it depends on whether it meets the substantially-further-the-purposes/balancing test of Erickson. Because a classification satisfying the Erickson test a fortiori satisfies the federal rational basis test, see n. 2 supra, the question becomes whether the requirements meet the Erickson test.

Under that test, the court

must look to the purpose of the statute, viewing the legislation as a whole, and the circumstances surrounding it. It must be determined that this purpose is legitimate, that it falls within the police power of the state. Examining the means used to accomplish the legislative objectives and the reasons advanced therefore, the court must

^{3/} The Alaska Supreme Court cited Torres with apparent approval in Zobel II at 463.

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then determine whether the means chosen substantially further the goals of the enactment. Finally, the state interest in the chosen means must be balanced against the nature of the constitutional right involved.

Erickson, 574 P.2d at 12 (footnotes omitted).

The first step in the analysis is to identify the purposes of the legislation and determine whether those purposes are legitimate.

In AS 16.10.300, the legislature declared the policy underlying the commercial fishing loan program: "It is the policy of the state, under secs. 300--370 of this chapter, to promote the rehabilitation of the state's fisheries, development of a predominantly resident fishery, and continued maintenance of commercial fishing gear and vessels throughout the state by means of long-term low interest loans." Three legislative purposes emerge from this statement: (1) promoting the rehabilitation of the state's fisheries; (2) promoting development of a predominantly resident fishery, and (3) promoting continued maintenance of commercial fishing gear and vessels throughout the state. Another obvious purpose -- albeit necessarily implied -- is that only bona fide state residents receive the commercial fishing loans authorized. A fifth plausible purpose -- again, only by implication -- is to limit those loans only to long-term (i.e., five-year) residents. Finally, a sixth plausible purpose -- again, only implied -- is to ensure that recipients of commercial fish-

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ing loans have an opportunity to become aware of the rigors of that profession and obtain some experience in the field before becoming independent operators.

The first purpose -- promoting rehabilitation of the state's fisheries -- clearly is permissible. See Alaska Constitution, article VIII, §§ 4 and 5.

The second purpose identified is "to promote the development of a predominantly resident fishery." AS 13.10.300 (in part). To the extent this statement is evidence of a legislative purpose to restrict Alaska's commercial fisheries to Alaska residents, there is a question whether it is permissible. 4/ How-

4/ Originally, the courts considered that states owned the fish and wildlife resources within their borders. As a result, it was held that a state could limit the privilege of taking those resources to its own residents, *Corfield v. Coryell*, 6 F. Cas. 546 (C.C.E.D. Pa. 1823) (No. 3,230) (oysters), and that a state could prohibit shipment of those resources outside its borders once they had been reduced to capture. *Geer v. Connecticut*, 161 U.S. 519 (1896) (game birds). However, in a long line of subsequent cases, the United States Supreme Court has made clear that a state does not own the fish and wildlife resources within its borders in a proprietary sense. In *Missouri v. Holland*, 252 U.S. 416, 434 (1920), a challenge to the federal Migratory Bird Treaty Act, Justice Holmes stated: "To put the claim of the state upon title is to lean upon a slender reed." "The whole ownership theory, in fact, is now generally regarded as but a fiction expressive in legal shorthand of the importance to its people that a State have power to preserve and regulate the exploitation of an important resource." *Toomer v. Witsell*, 334 U.S. 385, 402 (1948). Also see *Douglas v. Seacoast Products*, 431 U.S. 265, 284 (1977); *Baldwin v. Montana Fish & Game Commission*, 436 U.S. 371, 385-386 (1978); *Hughes v. Oklahoma*, 441 U.S. 322, 327-335 (1979); cf. *Brown v. Anderson*, 202 F.Supp. 96 (D. Alaska 1962) (three-judge panel) (statute granting commissioner and Board of Fish and Game authority to close registration

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ever, courts will construe statutes to avoid constitutional problems if possible. Bonjour v. Bonjour, 592 P.2d 1233 (Alaska 1978). That can be done here by reading this statement of purpose as manifesting a legislative intent that the state loans authorized be used to promote the development of a strong resident commercial fishing industry which will benefit the state through expanded employment opportunities, etc. This purpose clearly is permissible: "Encouraging and assisting the wholesome development of new business and industry in Alaska and rehabilitating and expanding existing business and industry are legitimate legislative purposes." De Armond v. Alaska State Development Corp., 376 P.2d 717, 721-722 (Alaska 1962).

The third purpose identified -- to promote continued maintenance of commercial fishing gear and vessels -- similarly is permissible under the state's general police power to legis-

4/ (Continued)

areas or districts to commercial fishing by nonresidents held unconstitutional).

The United States Supreme Court also has made clear that it is impermissible for a state to regulate solely for the purpose of giving its residents an economic advantage over nonresidents. See, e.g., Foster-Fountain Packing Co. v. Haydel, 278 U.S. 1 (1928) (Louisiana statute prohibiting transport of shrimp outside Louisiana until head and shells removed struck down as economic protectionism); Toomer v. Witsell, supra (South Carolina nonresident fee of \$2,500 to take shrimp struck down where resident fee was \$25); Mullaney v. Anderson, 342 U.S. 415 (1952) (Alaska nonresident commercial fishing license fee of \$50 struck down where resident license fee was \$5).

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late for the welfare of its citizens.

The fourth legislative purpose identified is to limit eligibility for state commercial fishing loans to state residents. A legislative purpose to prefer state residents over non-residents in the allocation of state monetary benefits is permissible. "Generally, a state has much more authority to draw distinctions between residents and nonresidents than between long-term and short-term residents." Zobel II at 436, n. 10 (Justice Rabinowitz, concurring) (citations omitted).

Such distinctions usually are challenged under the privileges and immunities clause of article IV, section 2 of the United States Constitution, which provides "[t]he citizens of each state shall be entitled to all privileges and immunities of citizens in the several states," not the equal protection clause of the Fourteenth Amendment. The definitive pronouncement regarding the constitutionality of limiting the recipients of state monetary benefits to state residents seems to be that by Justice Washington, sitting as Circuit Justice, in Corfield v. Coryell, 6 F. Cas. 546, 552 (C.C.E.D. Pa. 1823) (No. 3,230): "[W]e cannot accede to the proposition that, under this provision of the Constitution, the citizens of the several States are permitted to participate in all the rights which belong exclusively to the citizens of any particular State, merely upon the ground that they are enjoyed by those citizens; much less, that in regulating

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the use of the common property of the citizens of such State, the legislature is bound to extend to the citizens of all other States the same advantages as are secured to its own citizens." The proposition that a state can limit its monetary benefits to its own residents apparently is no longer open to serious question.

The fifth possible legislative purpose -- to limit eligibility for commercial fishing loans only to long-term (i.e., five-year residents) -- is not permissible. The only ground advanced to support such a distinction between residents has been that long-term residents should be entitled to some reward for their past contributions to the state. This past contributions rationale was expressly found impermissible in Zobel v. Williams, ___ U.S. ___, 72 L.Ed.2d 672 (1982).

The final possible legislative purpose identified is to ensure that the recipients of commercial fishing loans had an opportunity to become aware of the rigors of that profession and to obtain some experience. We believe that this is permissible under the state's general police power to legislate for the welfare of its citizens.

The second element of the Erickson test is to determine whether the challenged classification -- here, the five-year durational residency requirement -- substantially furthers the legitimate purposes.

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The first purpose identified is to promote rehabilitation of Alaska's fisheries. This apparently related to the former authorization in AS 16.10.310(a)(1)(B), repealed in 1976 SLA, ch. 190, § 2, for hatchery construction. The loans now authorized for the purchase of limited entry permits and the purchase and repair of vessels and gear bear little or no relation to rehabilitation of the fisheries. In fact, the opposite seems to be the case since improved vessels and gear would increase pressure on fisheries. While limiting such loans to five-year residents might mitigate this increased pressure, we believe the connection simply is too attenuated to be characterized as substantially furthering the purpose of rehabilitating Alaska's fisheries. (To the extent there is such a connection, it clearly would not survive the balancing element of the Erickson test, discussed below).

The second permissible purpose of the legislation is to promote development of a strong resident commercial fishing industry. This permissible purpose appears inextricably linked to the fourth purpose identified: limiting the benefits of the commercial fishing loan program to state residents only. To accomplish these purposes, the legislature has limited eligibility for loans to five-year residents, AS 16.10.310(a)(1)(A) and (B), and corporations, partnerships and joint ventures wholly owned by five-year residents. AS 16.10.310(a)(1)(C). The five-year dura-

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tional residency requirement thus appears to be a mechanism to ensure that only the resident fishing industry -- i.e., bona fide state residents -- qualify for the loans.

A state may require some period of residency to ensure that individuals seeking a state benefit are bona fide residents. 5/ Sosna v. Iowa, 419 U.S. 393 (1975); Starns v. Malkerson, 326 F.Supp. 234 (D. Minn. 1970), aff'd without opinion, 401 U.S. 985 (1971); Vlandis v. Kline, 412 U.S. 441, 452-53 (1973) (dicta); Zobel II. In other words, a durational residency requirement in general bears a fair and substantial relationship to testing the bona fides of residency. The precise length of residency required seems immaterial to the "fair and substantial relationship" inquiry under Erickson; indeed, the longer the period of residency required, it would seem, the more likely it is that the applicant is a bona fide resident. 6/ The more im-

5/ Indeed, even in cases involving fundamental rights and basic necessities of life, the courts recognize that some minimum period of residency may be required to prevent fraud. The precise length of that period may be based on the particular facts presented. Compare Dunn v. Blumstein, 405 U.S. 330 (1972) (Tennessee permitted to apply no more than 30-day residency requirement for voting), with Marston v. Lewis, 410 U.S. 679 (1973) (Arizona permitted to apply 50-day residency requirement for voting).

6/ But see Thomas v. Bailey, 595 P.2d 1, 18 (1979) (Justice Rabinowitz concurring): "Whether or not the state has a justifiable concern that state land be distributed to bona fide residents of Alaska to the exclusion of non-resident applicants, requiring a minimum of three years actual domicile to establish bona fide residence status in the state simply bears no substantial relationship to the asserted purpose of the requirement." (Footnote omitted).

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portant question, discussed below, is whether the state's interest in requiring that length of residence outweighs the rights of those denied the benefit.

The third legitimate purpose identified is the "continued maintenance of commercial fishing gear and vessels throughout the state." AS 16.10.300. We believe a five-year durational residency requirement for a commercial fishing loan bears virtually no relationship to this purpose. It is a well-known fact that a substantial portion of the commercial fishing fleet in Alaska is owned and operated by nonresidents. Moreover, it is not unreasonable to speculate that an additional portion of the commercial fishing fleet in Alaska is owned by Alaska residents who have resided here for less than five years. Both of these groups would be completely excluded from the benefits of the commercial fishing loan program by virtue of the five-year durational residency requirement. As a result, the requirement does not bear a fair and substantial relationship to the "continued maintenance of commercial fishing gear and vessels throughout the state" but, instead, may make achievement of that goal less likely than it would be if the program was open to all fishermen.

The final legitimate purpose identified is to ensure that recipients of commercial fishing loans are aware of the rigorous life of a commercial fisherman and acquire the necessary skills to pursue that profession. However, the five-year dura-

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tional residency classification is insufficiently tailored to reach this end. On the one hand, it excludes less-than-five-year residents who are experienced fishermen; on the other hand, the five-year durational residency requirements standing alone would permit any five-year resident to apply regardless of experience. In other words, the classification does not further the legitimate purpose. This familiarity and experience rationale for a three-year durational residency requirement for lobster and crab fishing licenses was rejected on this basis in Massey v. Apollonio, 387 F.Supp. 373 (D. Maine 1974).

Moreover, this legitimate purpose appears to be advanced far more effectively by other statutory eligibility requirements. AS 16.10.310(a)(1)(A) and AS 16.10.310(a)(1)(C) require that applicants must have had a crewmember or commercial fishing license under AS 16.05.480 or a permit under AS 16.43 for any one of the past five years and have actively participated in the fishery during that period. Alternative requirements in AS 16.10.310(a)(1)(B) are that an individual either reside in an area with no occupational opportunities other than commercial fishing or be economically dependent on commercial fishing for a livelihood if commercial fishing has been a traditional way of life for him.

The final step in the Erickson analysis is to balance the state interest furthered by the classification -- i.e., the

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durational residency requirement -- against the nature of the individual right infringed. The only permissible state interests furthered by the durational residency requirement are ensuring that only the resident fishing industry, i.e., bona fide state resident commercial fishermen, qualify for the economic benefits afforded by the state's commercial fishing loan program. The individual right infringed is that bona fide Alaska residents who do not meet the five-year requirement are absolutely precluded from participating in the program. The balance, then, is between the state's need to require five years of residency against the deprivation that less-than-five-year residents suffer.

We believe there is no question that the Alaska Supreme Court would strike the balance in favor of the less-than-five-year resident and hold the five-year durational residency requirement unconstitutional. Initially, we note that the Alaska Supreme Court historically has viewed durational residency requirements less favorably than the United States Supreme Court. Compare State v. Adams, 522 P.2d 1125 (Alaska 1974) (one-year durational residency requirement for divorce held unconstitutional under Alaska Constitution), with Sosna v. Iowa, 419 U.S. 393 (1975) (one-year durational residency requirement for divorce held constitutional under United States Constitution). Justice Rabinowitz, concurring in Thomas v. Bailey, 595 P.2d 1 (Alaska 1979), stated that residence of three years duration was not rea-

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sonably required to ensure that only bona fide state residents qualified for grants of state land. 7/ Senior Justice Dimond, joined by Justice Matthews, dissenting in Zobel II, pointed out that "it has never been questioned that durational residency requirements, when valid, must be reasonable in length."

Of course, what is reasonable to one person may not be reasonable to another. However, we believe even more deferential courts would hold that the state's interest in imposing a five-year durational residency requirement to test the bona fides of residency is outweighed by the less-than-five-year resident's right to be treated equally, and would find the requirement unreasonable. In Vlandis v. Kline, 412 U.S. 414 (1973), the United States Supreme Court struck down Connecticut's four-year durational residency requirement for reduced state university tuition. The Court held that the four-year requirement created an irrebuttable presumption of nonresidency, and that the state's refusal to provide a procedure by which individuals with less than four years residency could prove that they were bona fide residents of the state constituted a denial of due process. Although the Vlandis dissenters may be correct in their argument that this due process legal theory is not sound 8/, we believe

7/ See note 6, supra.

8/ Justice Rehnquist, joined by Chief Justice Burger and Justice Douglas, pointed out in his dissent in Vlandis that the ma-

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the effect of the decision is clear: a four-year durational residency requirement is clearly unconstitutional.

In Vlandis, the Court noted the special problems involved when a state attempts to determine the bona fide residence of a highly mobile population:

We are aware, of course, of the special problems involved in determining the bona fide residence of college students who come from out of State to attend that State's public university. . . .

. . . The State can establish such reasonable criteria for in-state status as to make virtually certain that students who are not, in fact, bona fide residents of the State, but who have come there solely for educational purposes, cannot take advantage of the in-state rates.

412 U.S. at 452-454. The Court then noted relevant criteria established by the Connecticut Attorney General: year-round residence, voter registration, place of filing tax returns, property ownership, driver's license, car registration, marital status, vacation employment, etc.

This leaves a question as to what length of durational residency may be required. Under Sosna and Zobel II, one year appears to be constitutionally permissible when fundamental

8/ (Continued)

majority's theory that an irrebuttable presumption violates due process relied on principles of substantive due process -- i.e., "that due process authorizes courts to hold laws unconstitutional when they believe the legislature has acted unwisely." Ferguson v. Skrupa, 372 U.S. 726, 730 (1963). This theory is not generally favored. See 412 U.S. at 467-468 and cases cited.

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rights and basic necessities of life are not involved. Under Vlandis, it seems clear that four years may not be required. Justice Rabinowitz, concurring in Thomas v. Bailey, supra, disapproved three years durational residency. Also see Massey v. Apollonio, supra (three-year durational residency requirement for lobster and crab fishing license unconstitutional under federal rational basis test).

We are vigorously defending the two-year durational residency requirement in AS 14.43.125(b) for eligibility to apply for scholarship loans under AS 14.43.090--14.43.160. Andress v. Baxter et al., No. A82-307 Civil (D. Alaska, filed August 3, 1982). Our defense is based on the fact that the residency of college students is difficult to determine, since their physical abode once they have entered college almost universally is on or adjacent to the campus they are attending. When this is coupled with the extremely liberal benefits provided qualifying student applicants, we believe a period of residency longer than one year is defensible.

Similar considerations apply to commercial fishermen. Fishermen comprise a highly mobile population. Alaska's fisheries attract residents of many states who, of necessity, must spend a considerable amount of time in Alaska. While here, it is quite easy to obtain many of the normal indicia of Alaska residence: housing, mailing address, voter registration, driv-

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er's license, etc. Following repeal of the personal income tax, there are few negative consequences attached to declaring Alaska residency.

Finally, the commercial fishing loan program is extremely attractive to prospective fishermen. The interest rate on loans under the program may not exceed 10½ percent. AS 16.10.320(a)(2). More importantly, a loan to a qualifying Alaska resident under AS 16.10.333 is the only legal way to finance the purchase of a limited entry permit using the permit itself as collateral for the loan. 9/ AS 16.43.150(g). With the price of limited entry permits ranging as high as \$250,000 and up, the desirability of using the permit itself as collateral is obvious.

These considerations may make it permissible for the state to require more than a one-year durational residency requirement. We will have more guidance on this question following a decision in Andress. However, we believe that the five-year durational residency requirements in AS 16.10.310(a)(1) clearly are unconstitutional and cannot be defended in the absence of

9/ AS 44.81.220(a)(20) authorizes the Alaska Commercial Fishing and Agriculture Bank ("CFAB") to make loans to five-year residents with at least one year of experience in commercial fishing. However, we understand that CFAB is not making such loans at this time. The five-year eligibility requirement in AS 44.81.220(a)(20) suffers the same constitutional defect as the requirement in AS 16.10.320(a)(1). We are sending CFAB a copy of this opinion, suggesting that legislative consideration of AS 16.10.320(a)(1) also encompass the eligibility requirement in AS 44.81.210(a)(20).

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some compelling reason. 10/

III. EFFECT OF OPINION

As set out above, it is our conclusion that the five-year durational residency requirements in AS 16.10.310(a)(1) clearly are unconstitutional. The remaining question is what effect our opinion should have on your administration of the program.

We recently undertook a thorough review of this question. Following that review, we concluded that three courses of action are possible. First, if we believe there is a significant probability that the statute would be found constitutional if challenged in court, the agency charged with administering the statute should continue implementing it. Under these circumstances, we believe the legislative will, as expressed in the statute, should be followed by the executive branch unless and until the statute is ruled unconstitutional by the courts.

Second, if a good faith argument can be made that the statute is constitutional but we believe it probably would be held unconstitutional if challenged in court, we will so state and, if appropriate (i.e. subject to practical considerations

10/ The three-year durational residency requirement for running for state legislature was upheld in *Gilbert v. State*, 526 P.2d 1131 (Alaska 1974) on the ground that the state had a compelling interest in ensuring the candidate is exposed to his prospective constituents and legislators are familiar with the diverse character of the state. No such compelling state interests are present here.

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of office priorities and resource availability), seek leave to file an action under article III, section 16 of the Alaska Constitution 11/ to obtain a judicial determination of the statute's constitutionality.

However, where no good faith argument can be made that the statute is constitutional, we believe it is the obligation of the attorney general to say so and, as the legal advisor to the governor and other state officers, AS 44.23.020(a), to direct that the program be shut down.

Very rarely will it be impossible to make a good faith argument that a statute is constitutional. However, we believe the five-year durational residency requirement in AS 16.10-.310(a)(1) is one of those rare exceptions. We reach this conclusion on the basis of the thorough case law review undertaken above. Durational residency requirements longer than one year

11/ That provision provides in part that the governor "may, by appropriate court action or proceeding brought in the name of the State, enforce compliance with any constitutional or legislative mandate, or restrain violation of any constitutional or legislative power, duty, or right by any officer, department, or agency of the State or any of its political subdivisions." The intent of the section was to give the governor all the power necessary to prevent subordinate officials from acting in an unconstitutional manner or contrary to statute. 3 Alaska Const. Conv. Min. 1986, 2022. In such an action, of course, the central inquiry is the legality of the questioned activity (here, applying the five-year durational residency requirement). Under this provision, the effect of a referendum repeal of the Elected Public Officers Retirement System (EPORS) was tested in State ex rel. Hammond v. Allen, 625 P.2d 844 (Alaska 1981).

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have been upheld as constitutional only under exceptional circumstances. The United States Supreme Court struck down a four-year durational residency requirement for highly mobile college students in Vlandis v. Kline, supra. A three-year durational residency requirement for fishing licenses was struck down on equal protection grounds in Massey v. Apollonio, supra. Justice Rabinowitz of the Alaska Supreme Court had no difficulty in finding a three-year durational residency requirement for a grant of state land unconstitutional in Thomas v. Bailey, supra (concurring opinion).

A good faith argument can be made that a durational residency requirement less than four years but more than one year is constitutional for the grant of state monetary benefits for a highly mobile group such as college students or commercial fishermen. However, this does not mean that you can continue to implement the program but with a shorter durational residency requirement than the five years specified in AS 16.10.310(a)(1). If that change is to be made, it must be made by the legislature. The attorney general, like the courts, has no authority to rewrite the law. The Alaska Constitution, article II, section 14, clearly vests the power to pass legislation in the legislature, not the executive branch.

Moreover, we do not believe you can continue to implement the program with only a minimal residency requirement (i.e.,

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30 days), as opposed to the five-year durational residency requirement as enacted by the legislature. That would require a finding that the five-year requirement is severable from the rest of the statute. Under Lynden Transport, Inc. v. State, 532 P.2d 700 (Alaska 1975), a two-step test for severability is required. First it must appear that legal effect can be given to the remainder of the statute after the offensive provision is stricken. Here, the statute clearly can be given legal effect if the five-year durational residency requirement is removed.

Second, it must appear that the legislature intended the provision to stand if the offensive provision was struck. We believe the answer to this inquiry is not clear. We recognize that AS 01.10.030 provides in part that laws are to be construed as containing the following language: "If any provision of this Act, or the application thereof to any person or circumstance is held invalid, the remainder of this Act and the application to other persons or circumstances shall not be affected thereby." However, the Alaska Supreme Court stated in Lynden Transport that AS 01.10.030 creates only a weak presumption in favor of severability. Given the highly mobile nature of fishermen, the ease with which traditional indicia of residency can be obtained, the lack of adverse consequences to establishing such minimum indicia, and the extreme attractiveness of the program, we cannot say that the legislature would have passed this statute without