

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILE 8672

1165 SCOMM 24: HOUSE SPEC. COMMITTEE ON STATE LOANS 1983-84

ALASKA HOUSING FINANCE CORPORATION
LOAN SUMMARY - MORTGAGES PURCHASED
TAX-EXEMPT FIRST MORTGAGE PROGRAM

SMLPP EXHIBIT "C"

	FY '82	\$	FY '83	\$
Sales Price	80,632		85,238	
Appraised Value	82,403		87,085	
Note Amount	75,340		79,654	
Monthly Income	3,118		3,075	
Age of Borrower	29.4		30.3	
Size of Household	2.0		2.2	
Loan to Sales Price Ratio	93.44		93.45	
Weighted Average Int. Rate	9.95		9.88	
Monthly P & I Payment	659.08		692.82	
Dwelling Type				
SFR	224	45.34	1,881	59.21
Condo	251	50.82	1,202	37.83
DPLX	10	2.02	33	1.04
PUD	9	1.82	61	1.92
	<u>494</u>	<u>100.00</u>	<u>3,177</u>	<u>100.00</u>
How/Existing				
New	279	56.48	2,294	72.21
Existing	215	43.52	883	27.79
	<u>494</u>	<u>100.00</u>	<u>3,177</u>	<u>100.00</u>
First Time Homeowner				
Yes	456	92.31	2,814	88.57
No	38	7.69	363	11.43
	<u>494</u>	<u>100.00</u>	<u>3,177</u>	<u>100.00</u>
Insurance Type				
FHA	-	-	-	-
VA	-	-	251	7.90
CONV	498	100.00	2,926	92.10
	<u>498</u>	<u>100.00</u>	<u>3,177</u>	<u>100.00</u>
Eligible State Veteran	33	6.68	546	17.19
Non-Eligible State Veteran	461	93.32	2,631	82.81
	<u>494</u>	<u>100.00</u>	<u>3,177</u>	<u>100.00</u>
Original Balance		37,218,000.00		253,061,600.00

ADDITIONAL
EXPLANATION
FORM

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AGENCY DEPARTMENT OF REVENUE
CATEGORY ECONOMIC DEVELOPMENT
PROGRAM ALASKA HOUSING FINANCE CORPORATION
TITLE AIFC REVOLVING FUND - SMLPP ACCOUNT

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ALASKA HOUSING FINANCE CORPORATION
LOAN SUMMARY - MORTGAGES PURCHASED
VETERANS MORTGAGE PROGRAM

SMLPP EXHIBIT "D"

	FY '83	\$
Sales Price	124,846	
Appraised Value	125,123	
Note Amount	112,348	
Monthly Income	4,823	
Age of Borrower	37.8	
Size of Household	3.0	
Loan to Sales Price Ratio	89.99	
Weighted Average Int. Rate	9.06	
Monthly P & I Payment	909.44	
Dwelling Type		
SFR	393	81.20
Condo	65	13.43
Duplex	10	2.07
PUD	16	3.31
Triplex	-	-
Four-Plex	-	-
	<u>484</u>	<u>100.00</u>
New/Existing		
New	247	51.03
Existing	237	48.97
	<u>484</u>	<u>100.00</u>
First Time Homeowner		
Yes	200	41.32
No	284	58.68
	<u>484</u>	<u>100.00</u>
Insurance Type		
FIA	-	-
VA	210	43.39
COIV	274	56.61
	<u>484</u>	<u>100.00</u>
Eligible State Veteran	6	1.24
Non-Eligible State Veteran	478	98.76
	<u>484</u>	<u>100.00</u>
Original Balance		54,376,200.00

NOTE: Program Implemented
In February, 1992

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ALASKA HOUSING FINANCE CORPORATION

SHLPP EXHIBIT "E"

LOAN SUMMARY - MORTGAGES PURCHASED
PLEGGED ACCOUNT MORTGAGES

	FY '82	\$	FY '83	\$
Sales Price	111,804		106,269	
Appraised Value	114,074		109,776	
Note Amount	102,884		96,656	
Monthly Income	3,624		3,438	
Age of Borrower	33.4		31.8	
Size of Household	2.7		2.4	
Loan to Sales Price Ratio	92.02		90.95	
Weighted Average Int. Rate	11.94		11.49	
Monthly P & I Payment			969.97	
Dwelling Type				
SFR	489	80.56	165	69.33
Condo	92	15.16	57	23.95
DPLX	13	2.14	4	1.68
PUD	13	2.14	12	5.04
	<u>607</u>	<u>100.00</u>	<u>238</u>	<u>100.00</u>
How/Existing				
New	307	50.58	161	67.65
Existing	300	49.42	77	32.35
	<u>607</u>	<u>100.00</u>	<u>238</u>	<u>100.00</u>
First Time Homeowner				
Yes	170	28.01	98	41.18
No	437	71.99	140	58.82
	<u>607</u>	<u>100.00</u>	<u>238</u>	<u>100.00</u>
Insurance Type				
FIA	-	-	-	-
VA	-	-	-	-
CONV	607	100.00	238	100.00
	<u>607</u>	<u>100.00</u>	<u>238</u>	<u>100.00</u>
Eligible State Veteran	71	11.70	23	9.66
Non-Eligible State Veteran	536	88.30	215	90.34
	<u>607</u>	<u>100.00</u>	<u>238</u>	<u>100.00</u>
Original Balance	62,450,300.00		3,004,150.00	

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CATEGORY	ECONOMIC DEVELOPMENT
PROGRAM	ALASKA HOUSING FINANCE CORPORATION
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ALASKA HOUSING FINANCE CORPORATION
LOAN SUMMARY - MORTGAGES PURCHASED
FAIRBANKS MORTGAGE PROGRAM

SLPP EXHIBIT "F"

	FY '83	
Sales Price	118,607	
Appraised Value	120,699	
Note Amount	90,325	
Monthly Income	4,597	
Age of Borrower	36.2	
Size of Household	2.9	
Loan to Sales Price Ratio	82.90	
Weighted Average Int. Rate	10.11	
Monthly P & I Payment	879.18	
Dwelling Type		
SFR	286	85.12
Condo	15	4.46
DPLX	34	10.12
PUD	1	.30
	<u>336</u>	<u>100.00</u>
New/Existing		
New	186	55.36
Existing	<u>150</u>	<u>44.64</u>
	<u>336</u>	<u>100.00</u>
First Time Homeowner		
Yes	67	19.94
No	<u>269</u>	<u>80.06</u>
	<u>336</u>	<u>100.00</u>
Insurance Type		
FHA	-	-
VA	37	11.01
CONV	<u>299</u>	<u>88.99</u>
	<u>336</u>	<u>100.00</u>
Eligible State Veteran	83	24.70
Non-Eligible State Veteran	<u>253</u>	<u>75.30</u>
	<u>336</u>	<u>100.00</u>
Original Balance		33,037,300.00

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ALASKA HOUSING FINANCE CORPORATION
LOAN SUMMARY - MORTGAGES PURCHASED
MOBILE HOMES

EXHIBIT A

	FY '82	\$	FY '83	\$
Sales Price	27,966		34,235	
Appraised Value	29,160		35,096	
Note Amount	25,878		31,376	
Monthly Income	2,710		2,864	
Age of Borrower	32.9		31.9	
Size of Household	2.6		2.5	
Loan to Sales Price Ratio	92.54		91.65	
Weighted Average Int. Rate	11.34		11.39	
Monthly P & I Payment	285.20		343.12	
Dwelling Type				
Mobile Homes	1,324	100.00	1,872	100.00
Now/Existing				
Now	132	9.97	390	20.83
Existing	1,192	90.03	1,482	79.17
	1,324	100.00	1,872	100.00
First Time Homeowner				
Yes	840	63.44	1,249	66.72
No	484	36.56	623	33.28
	1,324	100.00	1,872	100.00
Insurance Type				
FHA	-	-	-	-
VA	74	5.59	267	14.26
CONV	1,250	94.41	1,605	85.74
	1,324	100.00	1,872	100.00
Eligible State Veteran	71	5.36	263	14.05
Non-Eligible State Veteran	1,253	94.64	1,609	85.95
	1,324	100.00	1,872	100.00
Original Balance		34,263,450.00		58,735,850.00

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OTHER FINANCIAL AND PROGRAM INFORMATION				INFORMATION FOR SUBSIDY CALCULATION		
	FY 83 ACTUAL	FY 84 AUTHORIZED	FY 85 REQUEST	STATUTORY LOAN RATE	varies	
				STATUTORY MAXIMUM LOAN MATURITY	none	
ESTIMATED TOTAL SUBSIDY (4)	190,566.0	185,000.0	227,000.0	APPROPRIATE U.S. TREASURY INTEREST RATE	12%	
ESTIMATED RATE OF SUBSIDY (5)	17.73%	16.05%	15.54%	ESTIMATED COST OF FUNDS FOR BOND ISSUE	See Table 1 Form 1	
AVERAGE LOAN SIZE (1)	94.4	112.9	125.0			
NUMBER OF LOANS MADE (1)	11,381	10,215	11,840			
VALUE OF LOANS MADE ANNUALLY (1)	1,074,939.4	1,153,000.0	1,400,000.0	ARE PRINCIPAL DEFERMENTS ALLOWED?	YEARS	YES NO
VALUE OF OUTSTANDING LOANS AT FY END	2,786,287.3	3,660,658.6	4,774,592.7	IF YES, NUMBER OF YEARS:	_____	☐ ☒
AVERAGE DELINQUENCY RATE (6) (2)	2.87	2.85	2.85	ARE INTEREST DEFERMENTS ALLOWED?	_____	☐ ☒
OTHER PROGRAM INDICATORS				IF YES, NUMBER OF YEARS:	_____	☐ ☒
How Residences Financed (3)	5,302	4,500	5,500	IS LOAN FORGIVENESS ALLOWED?		☐ ☒
First Time Homebuyer (3)	4,461	3,330	3,000			

L-2 LOAN PROGRAM JUSTIFICATION

SPECIAL MORTGAGE LOAN PURCHASE PROGRAM

Project Justification

Without the subsidized interest rates offered by the Corporation there is little reason to expect that the housing market and related trades and professions would be faring any better in Alaska than they have been nationally. More importantly, based upon the statistics of national residential housing sales, a significant portion of those families who have participated in the Special Mortgage Loan Purchase Program since its inception in June, 1980 would have been precluded the opportunity of home ownership during this period, or forced to purchase much less of a home, as a result of the increased mortgage payments which accompany higher interest rates. The Alaska housing market has enjoyed relatively stable increases in value during a period when many markets in other states have gone through, and in some cases are still experiencing severely depressed values. The benefit of the program, therefore, cannot merely be measured by the number of individuals actually placed in housing financed by the Corporation but could also be viewed as benefiting every homeowner in the state by insuring that an active market exists for their residence and their desire to sell to relocate within or outside the State, upgrade to a larger home as their families grow, or to access their equity in the event of a need for funds will not be frustrated.

Current homeowners also have the benefit of availability of the taxable home improvement programs. With 90 percent loan-to-value ratios and the benefit of any portion of the second mortgage which, when combined with the outstanding AHFC first mortgage (if any), at the subsidized rate the benefits of improving existing residential housing to both the borrower and community in which the home is located are substantially more attainable.

The Corporation previously commissioned a study entitled, "The In-State Economic Impact of the Alaska Housing Finance Corporation". The results of the study, performed by Recon Research Corporation, surprised even those most intimate with the programs of the Corporation. The study analyzed the housing and related activity for the years 1980 and 1981 under two alternative scenarios. Actual activity for 1980 was compared with that of 1981 with analysis of expected 1981 activity without subsidized financing provided by the Corporation. Since the Special Mortgage Loan Purchase Program was implemented in June of 1980, another analysis adjusted 1980 actual activity to that which would have been expected were the Program not to have been implemented. This adjusted 1980 activity was then compared to 1981 actual activity and used as a base for estimating 1981 activity absent the loan programs of the Corporation. Copies of the summaries and pertinent graphs are included as Exhibits F through K of this section. An update to the study demonstrating the calendar year 1982 impact is currently in process.

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The report attributes to the subsidized program of the Corporation for 1981, based upon an adjusted 1980 base year, 8,540 additional home sales generated, 2,910 new single-family units constructed, and 2,531 construction jobs created. The conclusions of the study can best be summarized by quoting the last paragraph of the text of the report:

These figures illustrate that while the AHFC has not made the difference between a "boom" and "bust" in the Alaskan economy, it has made the difference between "boom" and flat" economic performance. Without the stimulus Corporation programs provided during 1981, the Alaskan economy would have barely grown at all. Given the apparent influence AHFC secondary mortgage market participation has had on state growth, changes in AHFC programs should be taken with great care, since the probability is high they will ultimately result in significant changes in overall Alaskan economic activity.

The findings of the report clearly demonstrate the success of the Program in stimulating economic development, increasing the number of residents of the State who can participate in the benefits of home ownership, and increasing the stock of adequate housing. It is expected that the 1982 update to the report will lead to the same conclusions.

While the goal of assisting the maximum number of residents have the opportunity for home ownership is probably the main reason the Program exists, the effect on the overall economy of the state cannot be ignored. With the effects on the economy of the magnitude indicated in Recon Reserach's report cited in part above, the \$227 subsidy estimation for FY '85 would appear to be extremely cost effective. This is explained to a large extent by the high degree of leverage accomplished through the sale of taxable and tax-exempt bonds. On average, for each dollar in subsidy used to provide the residential financing under the Special Mortgage Loan Purchase Program, \$6.58 of mortgage funds are made available to the residents of the state.

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Since Alaska's financial institutions have traditionally been unable to accommodate the residential financing activity in the State with internal capital, or have determined as a policy matter not to commit such capital to residential mortgage lending, the impact of AHFC has been basically to substitute private and federally sponsored secondary mortgage investors. The impact study previously cited indicates that in calendar year 1981 financial institutions recognized increased direct income of \$8,724,966 and indirect income of \$22,067,897 as a result of the Corporation's program when compared to the anticipated activity using 1980 (adjusted) as a base year.

The requested FY '85 funding level of \$71 million for this program is lower than the average request since its inception in FY '81. As reflected in the "Summary of State Financial Support" (attached) previous appropriations to the Program have been as follows:

FY '81

Mortgage Loans	\$236,000.0
Cash	\$238,000.0

FY '82 (cash)	\$222,000.0
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FY '83 (cash)	\$105,000.0
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FY '84 (cash)	\$ 6,801.0
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The FY '83 request would have approximated \$227 million if not for substantial funds made available as the result of previous appropriations being available for FY '85 activity .

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ECONOMIC IMPACT OF MORTGAGE PROGRAMS

SUMMARY	EXHIBIT A
SINGLE-FAMILY HOUSING STARTS	EXHIBIT B
EXISTING HOME SALES	EXHIBIT C
MORTGAGE ORIGINATIONS	EXHIBIT D
ALTERNATIVE FORECAST (Using 1980 Adjusted Base).....	EXHIBIT E
ALTERNATIVE FORECAST (Using 1980 Unadjusted Base)....	EXHIBIT F

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PROGRAM ALASKA HOUSING FINANCE CORPORATION

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ALASKA HOUSING FINANCE CORPORATION
ECONOMIC IMPACT OF MORTGAGE PROGRAMS
CALENDAR YEAR 1981
SUMMARY

SHLPP EXHIBIT "A"

	(1)	(2)
Home Sales Generated	5,993	8,540
New Single-Family Units Generated	1,921	2,910
Construction Jobs Created	1,671	2,531
"Direct" Resident Income Generated (Mill. \$)	229.6	336.9
From Sales	58.1	82.9
From Construction	171.5	254.0
"Indirect" Resident Income Generated (Mill. \$)	114.8	168.4
From Sales	29.1	41.4
From Construction	85.7	127.0
Total Resident Income Generated (Mill. \$)	344.4	505.3
Per dollar of loan originations generated by availability of AHFC programs	65 cents	67 cents

Source: Recon Research Corporation

(1) Utilizing actual 1980 activity as a base year.

(2) Utilizing 1980 activity as a base year, adjusted for activity
attributed to implementation of the Special Mortgage Loan Pur-
chase Program in June, 1980.

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PROGRAM ALASKA HOUSING FINANCE CORPORATION

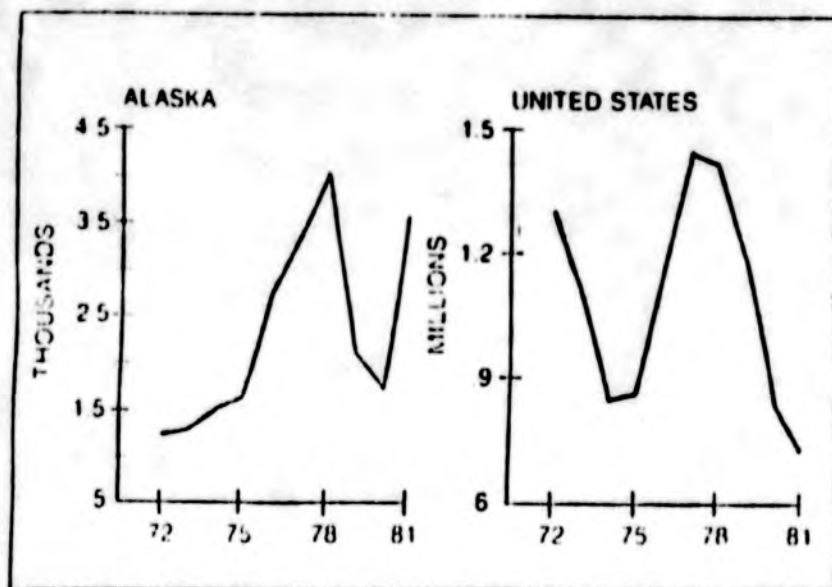
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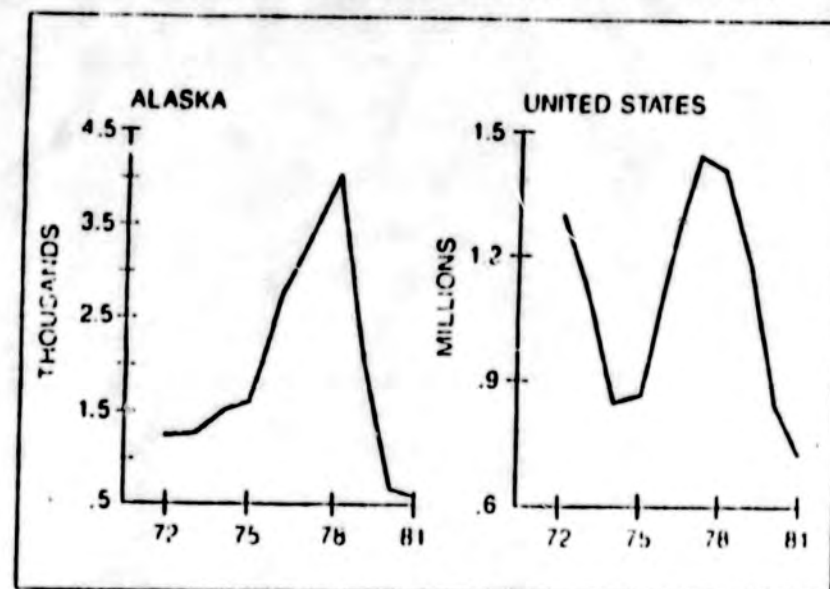
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ACTUAL SINGLE FAMILY HOUSING "STARTS"
1972 - 1981



Source: Reicon Research Corporation

ACTUAL SINGLE FAMILY HOUSING "STARTS"
(Absent AHFC "Below Market" Mortgage Rates in 1980-81)



Source: Reicon Research Corporation

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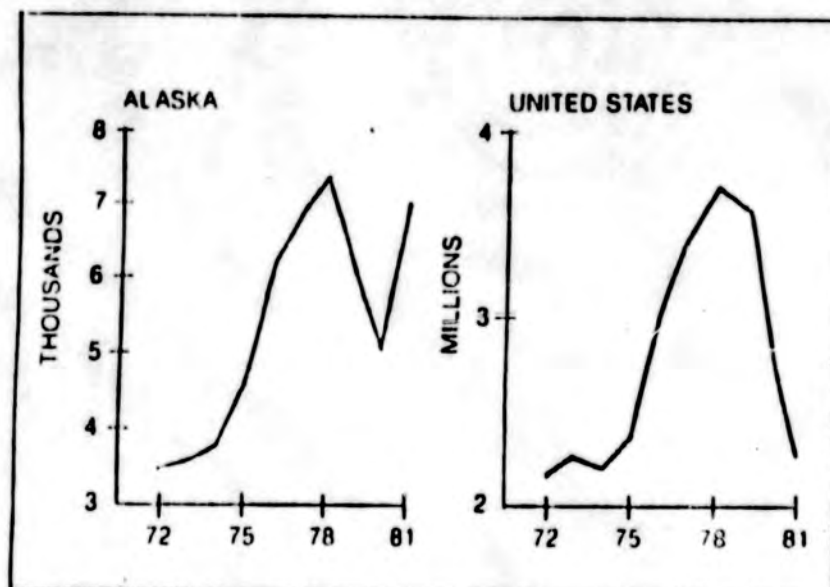
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ACTUAL EXISTING HOME SALES

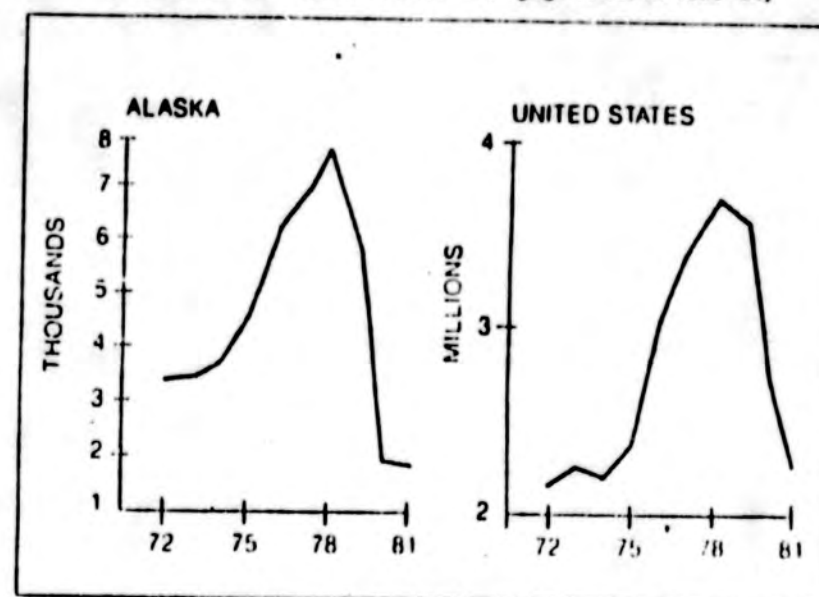
1972-1981



Source: Recon Research Corporation

EXISTING HOME SALES

(Absent AHFC "Below Market" Mortgage Rates in 1980-81)



Source: Recon Research Corporation

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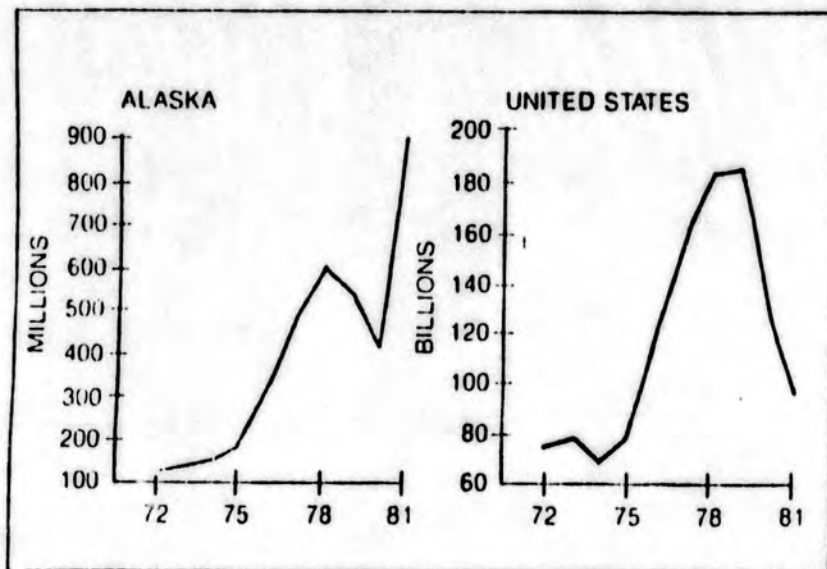
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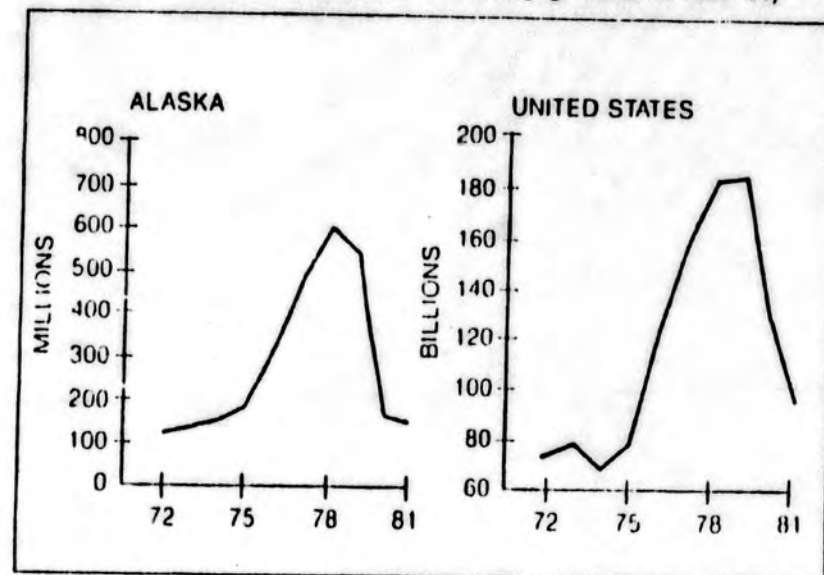
ACTUAL MORTGAGE ORIGINATIONS*
1972-1981



Source: Recon Research Corporation

* 1-4 Family Long Term Commitments

MORTGAGE ORIGINATIONS*
(Absent A.H.F.C. "Below Market" Mortgage Rates in 1980-81)



Source: Recon Research Corporation

* 1-4 Family Long Term Commitments

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ALTERNATIVE FORECAST
1980 ADJUSTED

SMLPP EXHIBIT "E"

1980-1981 Alternative Alaskan Economic Forecasts
(with and without AHFC lending programs in 1981)

	--- Level ---		--- Growth (%) ---		Actual Increase
	1980	1981	1980	1981	
Resident Income (mill.\$)					
With AHFC*	5,078	5,895	12.0	16.0	817
Without AHFC		5,390		6.1	312
Anchorage CPT (% chg.)*			10.3	8.9	
Real Resident Income (mill. \$ 1980)*					
With AHFC	5,078	5,438	1.7	7.1	360
Without AHFC		4,936		-2.8	-142
Construction Jobs					
With AHFC*	10,674	13,166	5.8	23.3	2,492
Without AHFC		10,635		0.0	-39

* AEIR Estimate

* 1980 estimates adjusted by difference between nominal growth rate and % change in CPI

Sources : Alaska Economic Information & Reporting System
Recon Research Corporation

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ALTERNATIVE FORECAST
1980 UNADJUSTED

SHLPP EXHIBIT "F"

1980-1981 Alternative Alaskan Economic Forecasts
(with and without AHFC lending programs in 1981)

	--- Level ---		--- Growth (%) ---		Actual Increase
	1980	1981	1980	1981	
Resident Income (mill.\$)					
With AHFC*	5,078	5,895	12.0	16.0	817
Without AHFC		5,554		9.3	476
Anchorage CPT (\$ chg.)*			10.3	8.9	
Real Resident Income (mill. \$ 1980)**					
With AHFC	5,078	5,438	1.7	7.1	360
Without AHFC		5,098		0.4	20
Construction Jobs					
With AHFC*	10,674	13,166	5.8	23.3	2,492
Without AHFC		11,495		8.0	821

* AEIR Estimate

** 1980 estimates adjusted by difference between nominal growth rate and % change in CPI

Sources : Alaska Economic Information & Reporting System
Recon Research Corporation

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TITLE ALASKA HOUSING FINANCE REVOLVING FUND - Mobile Home Loan Purchase Program Account		LOCATION		AGENCY PRIORITY	NAME AND PHONE OF AGENCY CONTACT	
		STATEWIDE		85-1	Mark K. Cameron 276-5599	
PROGRAM FUNDING	FY 83	FY 84	FY 85	GOVERNOR	OTHER FINANCIAL INFORMATION (INCLUDING FY 84)	TOTAL
TOTAL ANNUAL LOAN DEMAND	61,637.4	66,260.0	61,000.0		TOTAL APPROPRIATIONS (1)	12,500.0
TOTAL APPROPRIATIONS AND REQUESTS					TOTAL INTEREST RETAINED	-
1002 FEDERAL RECEIPTS					TOTAL BONDS ISSUED	-
1004 GENERAL FUNDS			34,000.0	34,000.0	BONDS AUTHORIZED BUT NOT ISSUED	-
1028 PROGRAM RECEIPTS					TOTAL PROGRAM FUNDING	12,500.0
GENERAL OBLIGATION BONDS					WHAT ARE THE TOTAL ADMINISTRATIVE COSTS FOR OPERATING THE LOAN PROGRAM FOR FY 85? Combined with Home Ownership Assistance Program	
OTHER HOF Appropriation	43,500.0	42,250.0	-0-		WHAT AMOUNT OF TOTAL ADMINISTRATIVE COSTS ARE OBTAINED FROM LOAN INTEREST, PRINCIPAL OR FEES?	
TOTAL OTHER PROGRAM FUNDING	18,137.4	24,010.0	27,000.0		ALL	
ESTIMATED CARRY FORWARD BALANCE	-0-	7,535.0	-0-			
INTEREST RETAINED			2,790.0(3)			
PRINCIPAL REPAYED (2)	18,137.4	16,475.0	24,210.0			

DESCRIBE THE PROGRAM AND EXPLAIN IMPACTS ON THE PROGRAM OF RECEIVING IN FY 85 75% OF FY 84 AUTHORIZED GENERAL FUNDS AND 50% OF FY 84 AUTHORIZED GENERAL FUNDS:

Footnotes

- (1) The Mobile Home Loan Purchase Program has been financed by a \$12.5 million direct appropriation and \$105.25 million appropriated to the Home Ownership Fund designated for investment in mobile home loans.
- (2) Represents Home Ownership Fund earnings and prepayments made available for mobile home loans.
- (3) Interest earned on loans made for 1/2 year at 10% less 1% servicing fee.

See following AE3's for description.

**L-1 LOAN
PROGRAM
DESCRIPTION**

AGENCY DEPARTMENT OF REVENUE
CATEGORY ECONOMIC DEVELOPMENT
PROGRAM ALASKA HOUSING FINANCE CORPORATION
TITLE MOBILE HOME LOAN PURCHASE PROGRAM
ACCOUNT

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MOBILE HOME LOAN PURCHASE PROGRAM

Project Description

The Corporation became the first housing finance agency to implement a mobile home program. The Program enables individuals to purchase either new or used owner-occupied mobile homes throughout the State. The mobile home may be located in an approved AHFC mobile home park, on leased land, or on the borrower's own land.

The Corporation adopted and has pending for implementation, revised Regulations for the Mobile Home Loan Purchase Program. The effect of the Regulation changes were to provide additional security to the mobile home loan portfolio in the form of primary mortgage insurance or loan credit insurance. For mobile homes which meet the requirements for primary mortgage insurance and of the Corporation mortgage pool insurance (Type I mobile home) the home is treated virtually identical to that of a conventional stick-built home with respect to such items as maximum loan limits, down payment requirements, interest rates and insurance requirements. For mobile homes which do not meet such requirements mobile home loan credit insurance is required (Type II mobile home).

The Type I mobile homes will be financed under the various bonded mortgage programs. The FY 85 Capital request is therefore exclusively for the financing of the Type II mobile homes. With the additional security of the credit insurance, the Corporation is pursuing the possibility of financing such loans through the issuance of a separate taxable bond issue. For this to be feasible, it is felt the pool of loans which will secure the bonds be originated prior to the issuance of the bonds. The Corporation intends to begin acquiring a pool of mobile home loans covered by credit insurance in an amount sufficient to pledge to a separate bond issue. Since a portion of the FY 85 appropriation may be used to subsidize a bond issue the funds are not being requested for the Home Ownership Fund as has been the practice in recent years. At June 30, 1983 the Home Ownership Fund had invested assets generating revenues in amounts sufficient to accommodate an additional 2,228 loans under the Program. This exceeds the Corporation's estimate of loan originations under the Program by almost 1,000.

As of June 30, 1983, the Corporation had a mobile home loan portfolio consisting of 3,254 loans with outstanding principal balances \$92,652,057. As of that date the Corporation had committed to purchase additional loans aggregating \$10,210,900.

AGENCY DEPARTMENT OF REVENUE

CATEGORY ECONOMIC DEVELOPMENT

PROGRAM ALASKA HOUSING FINANCE CORPORATION

TITLE MOBILE HOME LOAN PURCHASE PROGRAM
ACCOUNT

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A summary of mortgages purchased during Fiscal Years 82 and 83 is presented in Exhibit B.

There was not a specific FY 84 General Fund appropriation to the Mobile Home Loan Purchase Program. The \$42.25 million appropriated for FY '84 to the Home Ownership Fund was designated to be invested in mobile home loans. The \$34 million request for FY 85 is 80% of the FY 84 Home Ownership Fund appropriation. A reduction to \$31,687,500 (75% of FY 84) may not result in diminished services should actual demand be slightly below anticipated levels. A further reduction to \$21,125,000 would result in a potential reduction in the availability of mobile home financing by \$12,875 million. A reduction in services may be averted provided available funds are leveraged through a subsidized taxable bond financing program as discussed above.

AGENCY DEPARTMENT OF REVENUE

CATEGORY ECONOMIC DEVELOPMENT

PROGRAM ALASKA HOUSING FINANCE CORPORATION

TITLE MOBILE HOME LOAN PURCHASE PROGRAM
ACCOUNT

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OTHER FINANCIAL AND PROGRAM INFORMATION

INFORMATION FOR SUBSIDY CALCULATION

	FY 83 ACTUAL	FY 84 AUTHORIZED	FY 85 REQUEST	STATUTORY LOAN RATE (1)	varies
ESTIMATED TOTAL SUBSIDY	2,363.7	8,187.7	7,661.3	STATUTORY MAXIMUM LOAN MATURITY (2)	none
ESTIMATED RATE OF SUBSIDY	3.835%	12.357%	12.357%	APPROPRIATE U.S. TREASURY INTEREST RATE	12%
AVERAGE LOAN SIZE (3)	34.0	36.7	39.4	ESTIMATED COST OF FUNDS FOR BOND ISSUE	Direct Funded
NUMBER OF LOANS MADE (3)	1,809	1,699	1,574	ARE PRINCIPAL DEFERMENTS ALLOWED?	YEARS YES NO
VALUE OF LOANS MADE ANNUALLY (3)	61,637.4	66,260.0	62,000.0	IF YES, NUMBER OF YEARS:	☐ ☒
VALUE OF OUTSTANDING LOANS AT FY END	92,652.0	145,014.2	185,262.0	ARE INTEREST DEFERMENTS ALLOWED?	☐ ☒
AVERAGE DELINQUENCY RATE	3.52	3.50	3.50	IF YES, NUMBER OF YEARS:	☐ ☒
OTHER PROGRAM INDICATORS				IS LOAN FORGIVENESS ALLOWED?	☐ ☒
First Time Homebuyer (4)	1,259	1,190	1,100		

PROGRAM JUSTIFICATION:

Footnotes:

- (1) Rate established based upon current rate available under the Taxable First Mortgage Program of the Special Mortgage Loan Purchase Program. Used the following for subsidy computation: FY '83 - 11.39%, FY '84 - 10%, FY '85 - 10%
- (2) Maximum term of 20 years utilized for subsidy computation.
- (3) Represents approved commitments relating to applications received during the fiscal year.
- (4) Based upon loans purchased during the fiscal year.

See following AE(3)'s for justification

AGENCY DEPARTMENT OF REVENUE

CATEGORY ECONOMIC DEVELOPMENT

PROGRAM ALASKA HOUSING FINANCE CORPORATION

TITLE MOBILE HOME LOAN PURCHASE PROGRAM
ACCOUNT

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L-2 LOAN
PROGRAM
JUSTIFICATIONPage _____ of _____
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AGENCY PRIORITY	PROGRAM TITLE	LOCATION	FUNDING	AGENCY REQUEST	GOVERNOR
85-1	HOUSING ASSISTANCE LOAN FUND	STATEWIDE	FEDERAL FUNDS		
			GENERAL FUNDS	\$65,000	
			OTHER:		
			Program Receipts	1,950	
			TOTAL	\$66,950	
			FEDERAL FUNDS		
			GENERAL FUNDS		
			OTHER:		
			TOTAL		
			FEDERAL FUNDS		
			GENERAL FUNDS		
			OTHER:		
			TOTAL		
			FEDERAL FUNDS		
			GENERAL FUNDS		
			OTHER:		
			TOTAL		
			FEDERAL FUNDS		
			GENERAL FUNDS		
			OTHER:		
			TOTAL		
			FEDERAL FUNDS		
			GENERAL FUNDS		
			OTHER:		
			TOTAL		
			FEDERAL FUNDS		
			GENERAL FUNDS		
			OTHER:		
			TOTAL		

AGENCY DCRA

**A-3 AGENCY
LOAN
PROGRAM**

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AGENCY PRIORITY	PROGRAM TITLE	LOCATION	FUNDING	AGENCY REQUEST	GOVERNOR
85-1	HOUSING ASSISTANCE LOAN FUND	STATEWIDE Princip	FEDERAL FUNDS		
			GENERAL FUNDS	\$65,000	
			OTHER:		
			1 Retained	1,950	
			TOTAL	\$77,200	
			FEDERAL FUNDS		
			GENERAL FUNDS		
			OTHER:		
			TOTAL		
			FEDERAL FUNDS		
			GENERAL FUNDS		
			OTHER:		
			TOTAL		
			FEDERAL FUNDS		
			GENERAL FUNDS		
			OTHER:		
			TOTAL		
			FEDERAL FUNDS		
			GENERAL FUNDS		
			OTHER:		
			TOTAL		
			FEDERAL FUNDS		
			GENERAL FUNDS		
			OTHER:		
			TOTAL		

AGENCY DCRA

**A-3 AGENCY
LOAN
PROGRAM**

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TITLE		LOCATION		AGENCY PRIORITY	NAME AND PHONE OF AGENCY CONTACT	
HALF		STATEWIDE		85-1	Barbara Morse-Quinn - 272-4585	
PROGRAM FUNDING	FY 83	FY 84	FY 85	Governor	OTHER FINANCIAL INFORMATION (INCLUDING FY 84)	TOTAL
TOTAL ANNUAL LOAN DEMAND	56,200.0	66,700.0	77,200.0		TOTAL APPROPRIATIONS	140,000
TOTAL APPROPRIATIONS AND REQUESTS	45,000.0	45,000.0	65,000		TOTAL INTEREST RETAINED	-0-
1002 FEDERAL RECEIPTS	-0-	-0-	-0-		TOTAL BONDS ISSUED	-0-
1004 GENERAL FUNDS	*45,000.0	45,000.0	65,000		BONDS AUTHORIZED BUT NOT ISSUED	-0-
1028 PROGRAM RECEIPTS	-0-	-0-	-0-		TOTAL PROGRAM FUNDING	140,000
GENERAL OBLIGATION BONDS	-0-	-0-	-0-		WHAT ARE THE TOTAL ADMINISTRATIVE COSTS FOR OPERATING THE LOAN PROGRAM FOR FY 85? 2940.6 at SL 3	
OTHER						
TOTAL OTHER PROGRAM FUNDING	-0-	-0-	-0-		WHAT AMOUNT OF TOTAL ADMINISTRATIVE COSTS ARE OBTAINED FROM LOAN INTEREST, PRINCIPAL OR FEES? 1048.7 program receipts at SL 3	
ESTIMATED CARRY FORWARD BALANCE	24,500.0	12,000.0	-0-			
INTEREST RETAINED			-0-			
PRINCIPAL REPAYED	-0-	1,800.0	1,950.0			

DESCRIBE THE PROGRAM AND EXPLAIN IMPACTS ON THE PROGRAM OF RECEIVING IN FY 85 75% OF FY 84 AUTHORIZED GENERAL FUNDS AND 50% OF FY 84 AUTHORIZED GENERAL FUNDS:

The Housing Assistance Loan Fund was created to provide money to originate, purchase or participate in the purchase of loans for rural housing and nonconforming urban housing. Approximately 97% of all loans were made through a private financial institution and purchased by the Division. The remaining 3% were loans made directly to a borrower by the Division because no private financial institution was willing to service the borrower's area. The Division has total loans in excess of 1,500 loans which require computerized accounting. Payments are collected for 30 years and are received for principal, interest, taxes and insurance. Section 12, Chapter 102, SLA 1983 changed the fund to a revolving loan fund by allowing the Division to retain principal reductions which would include loan payoffs. In FY'85 less than 3% of the total funds available are resulting from principal repaid and the percentage will not increase markedly for the next 20 years when the loan amortization begins to favor larger principal reduction.

*\$500.00 deposit - Title Loss Reserve Account

L-1 LOAN PROGRAM DESCRIPTION

AGENCY DCRA
CATEGORY Economic Development
PROGRAM Development
TITLE Housing Assistance

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BUDGET REVIEW

Based on past fiscal years' activities and loans in progress, the Division projects financing in FY'85 approximately 726 new loans with \$65.0 million in new appropriation and \$1.95 million in repaid principal and payoffs. By statute a minimum of 80% of the funds will be utilized in rural Alaska with the remainder available for urban nonconforming properties. The Division is projecting 561 loans for rural housing and 165 loans for nonconforming housing in urban areas. The \$54.96 million allocated to rural Alaskan properties represents in most cases the sole source of funds. These rural funds will construct approximately 228 new dwellings, finance the sale of 237 existing structures, renovate 60 existing structures and finance 160 rental units. It should be noted that the Division has made \$56.2 million in loans in FY'83 and has projected \$58.8 for FY'84 with the potential to loan more if funds were made available. Both previous years reflect loan activities of about 28% above the general fund allocations due to carry forward funding. However, the Division is not projecting any carry forward fund for FY'85. It should be noted that in addition to benefits for individual property investors, the expenditure of these loan funds translates into direct employment opportunities for primary consumers in construction labor, materials suppliers, freight companies, and banks. Funds also indirectly impact the remaining local economy when the primary consumers expend their dollars for other living expenses in the community. Those people purchasing the structures enjoy the benefit of safe and adequate housing.

The analysis of the impact on the FY'85 program of receiving 75% of FY'84 general funds must also discuss the overall impact based on the other funds available during FY'84. The FY 84 general fund allocation of \$45 million and \$13.8 in carry forward funds and program receipts will finance 497 loans for rural housing and 151 loans for nonconforming in urban areas. At 75%, the FY'85 general fund allocation would be \$33.75 million plus \$1.95 million in other program receipts. As previously noted, the Division is not anticipating any carry forward funds from prior years. At 75%, the net dollar effect is a drop from \$58.8 million in FY'84 to \$35.7 million in FY'85 or about a 40% decrease in the total funding scope of the program. At this level it is estimated that the Division can finance approximately 387 loans of which about 299 loans would be for rural housing and 88 loans for urban nonconforming. The impact of this drop in funding, especially in relationship to new construction, would depress economic activity in mainly the regional centers.

L1	ADDITIONAL EXPLANATION FORM A3
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AGENCY	DCRA
CATEGORY	Economic Development
PROGRAM	Development
TITLE	Housing Assistance

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BUDGET REVIEW

The impact on the FY'85 program of receiving 50% of the FY'84 general funds is even more drastic. The FY'84 total allocation of \$58.8 million will finance about 648 loans. At 50% of the FY'84 general fund allocation, \$22.5 million from the general fund and \$1.95 million from program receipts would be available in FY'85. With no carry forward funds from prior years, at 50% level, the net dollar effect is a drop from \$58.8 million in FY'84 to \$24.45 million in FY'85, or a decrease of about 60% of the FY'84 total funds available. The results would be a dramatic decrease in the number of total loans made through the program from 648 in FY'84 to about 265 in FY'85. This compares to about 60 loans for FY'85 versus 151 loans in FY'84 for the urban nonconforming program. In Rural Alaska the number of loans would decrease from 497 in FY'84 to 205 loans in FY'85. This decrease would have a negative economic impact on the rural regional centers which could result in a carry over to Anchorage and Fairbanks economy since much of the supplies flow through there. It should be noted that the Division projects a demand for financing in FY'85 of \$77.2 million and at this level the Division would only meet about 30% of that demand. With very little other secondary financing available, many Alaskans could not enjoy the safety and affordability of housing now provided.

A table is attached which demonstrates the funds available, the allocation split, and loan distribution for FY 84, FY 85 proposed, FY 85 at 75% level and FY 85 at 50% level. Another table displays the funding levels versus the projected demand.

L1	ADDITIONAL EXPLANATION FORM
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AGENCY	<u>DCRA</u>
CATEGORY	<u>Economic Development</u>
PROGRAM	<u>Development</u>
TITLE	<u>Housing Assistance</u>

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BUDGET REVIEW

FY YEAR	FUNDING SOURCE			ALLOCATION			LOAN DISTRIBUTION											TOTAL LOANS
	GEN FUND	OTHER (1)	TOTAL	RURAL OWNER OCCUP	NON- CONFO RMING	RURAL NON- OWNER OCCUP	RURAL OWNER OCCUPIED				NONCONFORMING				RURAL NONOWN- ER OCC LO UN AN ITS			
							EXI- ST	NEW	REN- OVA	TOTAL	EXI- ST	NEW	REN- OVA	TOTAL	LO	UN	ITS	
84	45.00	13.80	58.80	39.20	10.60	9.00	208	216	37	461	135	6	10	151	36	150	648	
85 @ re- quest level	65.00	1.95	66.95	45.95	12.00	9.00	237	228	60	525	143	7	15	165	36	160	726	
85 @ 75% LEVEL	33.75	1.95	35.70	24.50	6.40	4.80	126	122	32	280	76	4	8	88	19	85	387	
85 @ 50% LEVEL	22.50	1.95	24.45	16.78	4.38	3.29	87	83	22	192	52	3	5	60	13	58	265	

(1) Includes program receipts and any carry forward funding.

(1) Includes program receipts and any carry forward funding.

	ADDITIONAL EXPLANATION FORM

AGENCY DEPT. OF COMMUNITY & REGIONAL AFFAIRS

CATEGORY ECONOMIC DEVELOPMENT

PROGRAM DEVELOPMENT

TITLE HOUSING ASSISTANCE

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BUDGET REVIEW

FUNDING/DEMAND COMPARISION

FY	TOTAL FUNDING	PROJECTED DEMAND	+ FUNDING EXCEEDS DEMAND - DEMAND EXCEEDS FUNDING	% OF DEMAND SATISFIED
83	68,700	56,7000	+ 12,000	121%
84	58,800	66,700	- 7,900	88%
85	66,950	77,200	- 10,250	86%
85 @ 75% Level	35,700	77,200	- 41,500	46%
85 @ 50% LEVEL	24,450	77,200	- 52,750	32%

AGENCY DEPT. OF COMMUNITY & REGIONAL AFFAIRS

CATEGORY ECONOMIC DEVELOPMENT

PROGRAM DEVELOPMENT

TITLE HOUSING ASSISTANCE

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BUDGET REVIEW

OTHER FINANCIAL AND PROGRAM INFORMATION				INFORMATION FOR SUBSIDY CALCULATION			
ESTIMATED TOTAL SUBSIDY ESTIMATED RATE OF SUBSIDY AVERAGE LOAN SIZE NUMBER OF LOANS MADE VALUE OF LOANS MADE ANNUALLY VALUE OF OUTSTANDING LOANS AT FY END AVERAGE DELINQUENCY RATE OTHER PROGRAM INDICATORS	FY 83 ACTUAL	FY 84 AUTHORIZED	FY 85 REQUEST	STATUTORY LOAN RATE	See #AE3		
	12,933.0	25,372.0	39,850.0	STATUTORY MAXIMUM LOAN MATURITY	Page #5		
	21.8%	21.2%	21.9%	APPROPRIATE U.S. TREASURY INTEREST RATE	30 years		
	95.4	90.7	92.2	ESTIMATED COST OF FUNDS FOR BOND ISSUE	12%		
	604	648	726				
	56,200.0	58,800.0	66,950.0	ARE PRINCIPAL DEFERMENTS ALLOWED?	YEARS	YES	NO
	59,174.0	117,974.0	181,737.0	IF YES, NUMBER OF YEARS:	_____	☐	☒
0.8%	1.0%	1.0%	ARE INTEREST DEFERMENTS ALLOWED?	_____	☐	☒	
IF YES, NUMBER OF YEARS:	_____	☐	☒				
				IS LOAN FORGIVENESS ALLOWED?	_____	☐	☒
PROGRAM JUSTIFICATION: The Housing Assistance Loan Fund BRU is designed to ensure that the maximum number of eligible Alaskans have access to safe, affordable housing of good quality through the delivery of loan funds to the private sector - to meet this objective, the Housing Assistance Division offers to eligible Alaskans Housing Assistance Loan Programs that focus on the development of rural housing stock and the upgrade or conversion of nonconforming housing stock statewide. Borrowers are assisted with mortgage loan applications through seven offices of the Division located in Anchorage, Juneau, Bethel, Dillingham, Nome, Kotzebue and Fairbanks. Direct lending services are also available to qualified borrowers whose loan applications are unattractive to private sector lending institutions. The administration and delivery of loan funds throughout Alaska assists in meeting the Division's continuous goal of developing safe, affordable, and quality housing for all Alaskan citizens. Economic development is enhanced statewide, regionally and locally through the creation of construction employment opportunities, use of professional services, transportation of materials from supplier to development site, temporary expenditures in local areas by construction laborers and permanent additions to a community of quality housing stock.							

**L-2 LOAN
PROGRAM
JUSTIFICATION**

AGENCY DCRA
CATEGORY Economic Development
PROGRAM Development
TITLE Housing Assistance

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The improvement of primarily rural housing stock would be a major factor in stabilizing growth of both regional and remote sites through the enhanced quality of life that would result. Stabilization of otherwise transient rural populations in attractive, affordable housing will help communities encourage the future investment that is necessary to develop a healthy diversified economic base for each locale.

As the loan portfolio increases, staff travel needs grow. Current staff activities include assistance with applications, housing inspections, loan closings, and construction management assistance to grant recipients. Further travel funds requested will provide for development of education and information outreach programs within the Division. Such programs will focus on basic mortgage lending information, collection of housing need data and general referral functions by field staff.

The Division believes that the successful transition to future cash economies in rural and remote site communities of Alaska is affected by two factors: (1) loan fund delivery, and (2) an accompanying understanding by resident borrowers or fund recipients of the role such funds play in general economic development of their town, region, state and nation. The request for loan funds contained herein support the plans of this division to contribute to this growth and development in all the smaller Alaskan locations.

The Home Ownership Assistance Fund (HOAF) will consist of money appropriated to it by the legislature. Money in the fund shall be used solely to assist persons of lower and moderate income to purchase single-family homes financed under AS 44.47.460 - 44.47.560 by providing a subsidy to those persons in the amount that is necessary to reduce the annual interest rate paid on the mortgage loan to a minimum of six percent.

Approximately 19% of the Housing Assistance Loan Fund BRU request will be used to fund 159 loans under the HOAF program. The amount required in subsidy funds for FY 85 is \$471,000. Additional funds in the amount of \$145,000 will also be needed in FY 85 to subsidize 98 loans made during FY 84.

A major benefit of the HOAF subsidy is an additional 29.8% of the rural population served by the program. The only positive alternative to a HOAF subsidy would be to lower interest rates for all Housing Assistance loan programs to six percent.

L2	ADDITIONAL EXPLANATION FORM
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#3

AGENCY	DCRA
CATEGORY	Economic Development
PROGRAM	Development
TITLE	Housing Assistance

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Average Loan Size (From L-2 Loan Program Justification)

Housing Financed by the Division falls within one of the following basic categories:

- Rural Owner Occupied - Consists of single family and duplex housing units constructed or purchased in rural Alaska for owner occupancy. Maximum Loan size - \$162,450 for single families and \$207,750 for duplexes.
- Rural Non-owner Occupied - Covers two to sixteen units of housing rehabilitated, constructed, or purchased in rural Alaska for non-owner occupancy (rental). Maximum loan size for this purpose is \$1,250,000.
- Nonconforming - Utilized primarily in urban Alaska for the construction or purchase of nonconventional housing. The maximum loan size under this category is \$162,450 for single families and \$207,750 for duplexes.

Due to the wide range of loan sizes involved in the rural non-owner occupied program and the relative small loan sizes associated with the other two categories, it became important to view the Division's average loan size by loan category. FY 83 activity is not shown here as that year did not involve all loan programs administered in FY 84 and FY 85, i.e. HOAF program.

AGENCY DCRA
CATEGORY Economic Development
PROGRAM Development
TITLE Housing Assistance

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FY 84 AVERAGE LOAN SIZES BY CATEGORY (projected)

<u>Rural Owner Occupied Average Loan Size:</u>	\$ 85,000
<u>Rural Non-owner Occupied Average Loan Size:</u>	\$250,000
<u>Nonconforming Average Loan Size:</u>	\$ 70,000
FY 84 Combined Average Loan Size:	\$ 90,700

FY 85 AVERAGE LOAN SIZES BY CATEGORY (projected)

<u>Rural Owner Occupied Average Loan Size:</u>	\$ 87,500
<u>Rural Now-owner Occupied Average Loan Size:</u>	\$250,000
<u>Nonconforming Average Loan Size:</u>	\$ 72,500
FY 84 Combined Average Loan Size	\$ 92,200

L2	ADDITIONAL EXPLANATION FORM
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AGENCY	<u>DCRA</u>
CATEGORY	<u>Economic Development</u>
PROGRAM	<u>Development</u>
TITLE	<u>Housing Assistance</u>

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STATUTORY LOAN RATE

Nonconforming Housing: The interest rate on a mortgage loan originated or in part under AS 44.47.380 for nonconforming housing that is not rural housing is one-quarter percent more than the interest rate, as determined under AS 19.56.098(g)(1)-(4), on a mortgage loan purchased under 18.56.098(a) from the proceeds of the most recent applicable issue of taxable bonds before the origination for purchase of the mortgage loan originated or purchased under AS 44.47.380.

Rural Owner Occupied Housing: The interest rate on a mortgage loan originated or purchased in whole or in part under AS 44.47.380 for rural housing is one percent less than the interest rate, as determined under AS 18.56.098(g)(1)-(4), on a mortgage loan purchased under AS 18.56.098(a) from the proceeds of the most recent applicable issue of taxable bonds before the origination or purchase of the mortgage loan originated or purchased under AS 44.47.380.

Non-Owner Occupied Housing: The interest rate on a mortgage loan for non-owner occupied housing is established in AS 44.47.520(b), and is currently set at 10.5%.

AGENCY DCRA

CATEGORY Economic Development

PROGRAM Development

TITLE Housing Assistance

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INTRODUCTION OF BILLS (House)

HB 648, (cont'd)

Introduced February 13 and referred to Finance.

Teachers'
Retirement
(minimum
amount)

HOUSE BILL NO. 649, by Rep. Bettisworth. Would raise the minimum amount for eligible members of the Teachers' Retirement System to \$35 a month for each year of credited service (currently \$25), excluding adjustments. Provides Act takes effect July 1, 1984.

Introduced February 13 and referred to Health, Education & Social Services, Finance.

Appropriations
(special)
(state loan
& grant
programs)

HOUSE BILL NO. 650, by the House Special Committee on State Loans. Makes special appropriations for various state loan and grant programs in the amount of \$190,900,000:

--\$40 million to the Alaska Housing Finance Corporation for the special mortgage purchase program;

--\$22 million to the Alaska Housing Finance Corporation for the Home Ownership Assistance Program;

--\$2 million to the Division of Housing Assistance in the Dept. of Community and Regional Affairs for a grant from the Senior Citizens' Housing Development Fund for the Chugach View Senior Citizen Facility;

--\$7 million to the Division of Housing Assistance in the Dept. of Community and Regional Affairs for grants from the Senior Citizens' Housing Development Fund;

--\$45 million to the Housing Assistance Loan Fund in the Dept. of Community & Regional Affairs for non-conforming, rural and non-owner occupied housing loans, and loans that are subsidized from the Home Ownership Assistance Fund;

--\$5.9 million to the Division of Investments, Department of Commerce and Economic Development: \$2.4 million to the Alternative Technology and Energy Loan program and \$3.5 million to the Commercial Fishing Loan program;

--\$5 million to the Department of Natural Resources for loans from the Agricultural Revolving Loan Fund;

--\$60 million to the Scholarship Revolving Loan Fund;

--appropriates \$500,000 in federal program receipts for student loans and scholarships to the Scholarship Revolving Loan Fund;

--\$1 million to the Rural Electrification Revolving Loan Fund;

--\$500,000 to the Alaska Grain Reserve Loan Fund;

--\$2 million to the Department of Community & Regional Affairs for grants from the low cost and low income multiple family housing

INTRODUCTION OF BILLS (House)

HB 650, (cont'd)

development fund;

Appropriations are for the capitalization of loan and grant funds and do not lapse. Provides Act takes effect immediately.

Introduced February 13 and referred to the House Special Committee on State Loans and Finance.

Unpaid Tax Liabilities (collection)

HOUSE BILL NO. 651, by Rep. Cowdery. Under this bill, the Department of Revenue would not be allowed to collect accrued, unpaid civil penalties for late filing or payment or interest required under state law (AS 43.05.220/AS 43.05.225) for a tax liability that accrued under the former state income tax on individuals from a taxpayer who pays the balance of the tax liability on or after July 1, 1984 and before September 29, 1984. Provides Act takes effect July 1, 1984.

Introduced February 13 and referred to Finance.

Games of Chance & Skill

HOUSE BILL NO. 652, by Rep. Shultz. See Senate Bill 404, page 166, identical.

Introduced February 13 and referred to State Affairs, Finance.

Court Facilities (authority of supreme ct.)

HOUSE BILL NO. 653, by Reps. Hayes, Barnes, Bussell, Abood, Cato, Cowdery, Flood, Furnace, Larson, Lindauer, Malone, M. W. Miller, Ringstad, Szymanski, Tischler, Uehling, Wendte and Zharoff. See Senate Bill 471, page 303, identical. Also see Senate Bill 377, page 146, similar.

Introduced February 13 and referred to Judiciary, Finance.

Alaska Foreign Offices (Korea & Japan)

HOUSE BILL NO. 654, by Reps. Hayes, Bettisworth, Cowdery and Herrmann. Would establish an Alaska foreign office in Seoul, Republic of Korea. Rewrites Executive Order 57 (submitted by Governor Sheffield, see pages 62, 233) to include the Seoul office (the Governor renamed the office and moved it from the Office of the Governor to the Office of Commerce & Economic Development in his executive order), and to reflect the change from one to two offices. Also rewrites section on personnel to require the Commissioner of Commerce & Economic Development to solicit ideas from the legislature regarding desirable staff qualifications and the legislature's recommendations of persons to staff the offices. There are other minor wording changes to the Executive Order. Provides Act takes effect July 4, 1984.

Introduced February 13 and referred to Labor & Commerce, Finance.

Longevity Bonus Program (phasing out)

HOUSE BILL NO. 655, by Reps. Hayes, Adams, Szymanski, Cato, Barnes, Malone, Bettisworth, Grussendorf, Cowdery, Furnace, Fuller, Lindauer, Duncan, Martin, Flood, M. W. Miller, Goll, Ringstad, Hurlbert, Shultz, Larson, Uehling, McBride, Ward, M. M. Miller, Abood, Bussell, Fritz, Liska, Wendte and Zharoff. See Senate Bill 474, page 305, identical.

A SPECIAL REPORT ON THE
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF AGRICULTURE
AGRICULTURAL REVOLVING LOAN FUND

For the Fiscal Year Ended June 30, 1983

Audit Control Number

10-4170-84-S

*See page 11 for
Balance Sheet
Pages 33-36 for Responses.*

Commissioner, Department of
Natural Resources

Esther Wunnicke

Deputy Commissioners, Department
of Natural Resources:

Juneau
Anchorage

Robert Arnold
James K. Barnett

Agricultural Revolving Loan Fund Board of Directors

Chairman
Member
Member
Member
Member

John P. Messenger
Robert J. Gillas
Steven K. Hamilton
Don Breedon
Dennis D. Green

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PURPOSE OF THE REPORT

In accordance with the provisions of Title 24 of the Alaska Statutes and a special request of the Legislative Budget and Audit Committee, an examination of the Department of Natural Resources, Division of Agriculture, Agricultural Revolving Loan Fund (ARLF) was conducted to:

1. Determine if the financial statements for the 1983 Fiscal Year are fairly presented.
2. Determine the compliance by the ARLF with the applicable State statutes and regulations governing fiscal activities of the Fund.

PURPOSE OF THE REPORT

In accordance with the provisions of Title 24 of the Alaska Statutes and a special request of the Legislative Budget and Audit Committee, an examination of the Department of Natural Resources, Division of Agriculture, Agricultural Revolving Loan Fund (ARLF) was conducted to:

1. Determine if the financial statements for the 1983 Fiscal Year are fairly presented.
2. Determine the compliance by the ARLF with the applicable State statutes and regulations governing fiscal activities of the Fund.

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ORGANIZATION AND FUNCTION

ARLF was established by AS 03.10.040 for the purpose of providing low interest financing to individual resident farmers, homesteaders, and partnerships or corporations composed of farmers and homesteaders. Capitalization for ARLF has been made by direct appropriations from the General Fund currently totalling \$52,500,000. Total contributions to ARLF are limited by statute to \$75,000,000.

The Commissioner of the Department of Natural Resources in conjunction with the Agricultural Revolving Loan Fund Board is responsible for the administration of the fund. No loans in excess of \$25,000 may be made by the commissioner without the approval of the majority of the Board. See Appendix A for ARLF loan types and terms.

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FINDINGS AND RECOMMENDATIONS

Recommendation No. 1

Improvement is needed in ARLF loan processing system.

In our prior audits (1978-1982), we made several recommendations which addressed the establishment of policies and procedures to improve ARLF loan processing system. The problems noted during those audits included; incomplete applications, deficiencies in the execution of legal documents, violations of statutory limits, lack of insurance, lack of Board approval, and questionable compliance with residency requirements.

Although ARLF has made improvements in its system and pending regulations should clarify loan processing requirements, we found that the problems noted in prior years still exist. A review of 20 new loan files showed:

1. Eleven of the files reviewed did not have completed applications. Pro forma financial statements and evidence of credit checks were missing.
2. The residency status of two of the borrowers was questionable. One of the borrowers residency status was questioned in our prior audit. However, the borrower was given additional loans although the file does not reflect Alaska residency.
3. Four of the files did not contain properly executed security documents.
4. Nine of the files did not contain evidence of insurance on collateral naming ARLF as loss payee. Additionally, four of the applicable files did not contain evidence of a collateral appraisal.
5. Two of the loans reviewed exceeded allowable loan limits. One loan exceeded the statutory limit by \$27,000 and the other exceeded Board approval by \$665. We also found that two loans exceeded the seven year term established by the Board on chattel loans.

In our opinion, the reoccurrence of these errors supports the need for closer supervision and review of the loan examining and loan closing functions. The importance of perfection cannot be overemphasized in light of ARLF's increasing delinquency rate. As of June 30, 1983, there were 234 loans over 30 days delinquent totalling \$15,497,595 (40%). This represents an increase of \$9,284,941 over Fiscal Year 1982 (see Appendix B for loans over 90 days delinquent).

As the delinquency rate increases the possibility of fore-

closure and/or bankruptcy becomes more evident. At that stage, ARLF recovery of the loan balance is based primarily on the adequacy of its loan processing and closing procedures. For instance, if the financing statement securing the collateral pledged by the borrower is not filed timely, ARLF may have to take second position to other creditors in a bankruptcy suit, thereby, jeopardizing its chances of full recovery. More emphasis should be placed on securing and perfecting ARLF's interest in loans during the processing and execution stage.

Recommendation No. 2

ARLF should improve its communications with the Attorney General's (AG) office.

When the collectibility of a loan is questionable due to severe delinquency, fraud, or other reasons, a copy of the loan file is forwarded to the AG's office for legal action. As of June 30, 1983, sixty-six loans totalling \$2,928,138 had been referred to the AG. In our review of these loans, we found in some cases that the borrower's files were not updated with current legal activity. In many cases, it was difficult to determine when the file was forwarded to the AG's office, and the reason for referral. Inquiries of ARLF staff disclosed that no procedures have been established to formalize AG referrals and follow-ups.

According to the AG's office, processing of files is sometimes delayed as a result of the time required to interpret the file. Information identifying the problems encountered by ARLF with the borrower and the preferred course of action is not readily available.

ARLF, in conjunction with the AG's office, should establish procedures for processing and following-up on loans needing legal action. A loan profile summary should also be developed to include the following:

1. A brief summary of the problems outlining the sequence of events and contact with the borrower.
2. Outstanding loan amounts.
3. Date of last payment.
4. Type of collateral securing the loan(s).
5. Estimate of collectibility (see Recommendation No. 3).
6. Proposed legal action.

The profile summary should be utilized by ARLF staff in file presentations for Board action, and in the transmittal of

loan files to the AG's office. In addition, the loan files should be updated periodically with a status report describing AG action to date.

Recommendation No. 3

ARLF should perform an annual collectibility analysis of its loans receivable.

ARLF's increasing delinquency rate emphasizes the need for an accurate estimation of the allowance account to ensure a fair presentation of loans receivable and loan loss expense in its financial statements.

We recommend that ARLF review all delinquent loan files annually and make an assessment of the outstanding loan amount which is unlikely to be collected. To aid ARLF in this assessment, an aging schedule of loans receivable should be prepared. Aging involves an analysis of each loan to determine the amount not yet due, moderately past due and considerably past due. Classification of the amounts by age (i.e. current, 30 days, 60 days, 90 days, 6 months, etc.) is deemed important because experience has shown that the older the account the higher the probability of uncollectibility. Thus, loans greater than one year past due should be reviewed closely. Consideration should also be given to those loans which were refinanced, reamortized, or extended during the year for inclusion in the analysis.

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THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

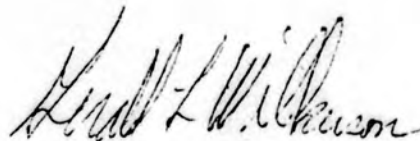
JUNEAU, ALASKA 99811

October 31, 1983

Members of the
Legislative Budget and Audit Committee:

We have examined the Balance Sheets of the Agricultural Revolving Loan Fund as of June 30, 1983 and 1982, and the related statements of Revenues, Expenses, and Changes in Retained Earnings, and Changes in Financial Position for the years then ended. Our examination was 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.

In our opinion, the financial statements referred to above present fairly the financial position of the Agricultural Revolving Loan Fund as of June 30, 1983 and 1982, and the results of operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principals applied on a consistent basis.



Gerald L. Wilkerson, CPA
Legislative Auditor
Division of Legislative Audit

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STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF AGRICULTURE
AGRICULTURAL REVOLVING LOAN FUND
COMPARATIVE BALANCE SHEET
June 30, 1983 and 1982

	<u>1983</u>	<u>1982</u>
<u>Assets</u>		
<u>Current Assets</u>		
Cash in Transit	\$ 429,053	\$ 260,474
Cash in Treasury	16,892,310	11,645,781
Accrued Interest Receivable	2,179,223	1,209,522
Appropriation Receivable	<u>-0-</u>	<u>10,000,000</u>
<u>Total Current Assets</u>	<u>19,500,586</u>	<u>23,115,777</u>
<u>Loans Receivable</u>		
Agricultural Loans Receivable	38,285,019	33,119,263
Irrigation Loans Receivable	<u>324,376</u>	<u>344,946</u>
Subtotal	38,609,395	33,464,209
Less: Loans Sold to State Treasurer	(1,067,664)	(1,203,415)
Allowance for Uncollectible Loans	<u>(2,120,465)</u>	<u>(1,318,675)</u>
Net ARLF Loans Receivable	35,421,266	30,942,119
Loans in Progress	406,677	521,210
Reposessed Property	68,607	44,225
Kodiak Slaughterhouse Loan	133,293	134,451
Alaska Farmers' Cooperative Loan	<u>1,350,000</u>	<u>1,000,000</u>
<u>Total Loans Receivable (Long-Term)</u>	<u>37,379,843</u>	<u>32,642,005</u>
<u>Office Furniture and Equipment</u>		
At Cost	21,429	9,635
Less: Accumulated Depreciation	<u>(3,239)</u>	<u>(2,467)</u>
<u>Total Office Furniture and Equipment</u>	<u>18,190</u>	<u>7,168</u>
<u>Total Assets</u>	<u>\$56,898,619</u>	<u>\$55,764,950</u>
<u>Liabilities and Fund Balance</u>		
<u>Current Liabilities</u>		
Accounts Payable	\$ 40,490	\$ 65,611
Interest Payable	<u>9,566</u>	<u>6,597</u>
<u>Total Current Liabilities</u>	<u>50,056</u>	<u>72,208</u>
<u>Other Liabilities</u>		
Due to the General Fund	<u>1,483,293</u>	<u>1,134,451</u>
<u>Fund Balance</u>		
Contributions from General Fund	52,500,000	52,500,000
Retained Earnings	<u>2,865,270</u>	<u>2,058,291</u>
<u>Total Fund Balance</u>	<u>55,365,270</u>	<u>54,558,291</u>
<u>Total Liabilities and Fund Balance</u>	<u>\$56,898,619</u>	<u>\$55,764,950</u>

The Notes to the Financial Statements are an integral part of this Statement.

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STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF AGRICULTURE
AGRICULTURAL REVOLVING LOAN FUND
COMPARATIVE STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS
For the Fiscal Years Ended June 30, 1983 and 1982

	<u>1983</u>	<u>1982</u>
<u>Revenues</u>		
<u>Interest Income</u>		
Agricultural Loans	\$2,028,964	\$1,602,725
Irrigation Loans	12,685	15,809
Kodiak Slaughterhouse Loan	<u>5,342</u>	<u>5,378</u>
<u>Total Interest Income</u>	2,046,991	1,623,912
<u>Other Income</u>	<u>18,369</u>	<u>24,809</u>
<u>Total Revenues</u>	<u>2,065,360</u>	<u>1,648,721</u>
<u>Expenses</u>		
<u>Administrative Expenses</u>		
Loan Losses	803,342	549,054
Personal Services	353,101	277,204
Travel and Per Diem	44,652	30,277
Contractual Services	46,519	35,632
Commodities	9,995	4,324
Depreciation	<u>772</u>	<u>489</u>
<u>Total Expenses</u>	<u>1,258,381</u>	<u>896,980</u>
<u>Net Income</u>	806,979	751,741
<u>Retained Earnings, July 1</u>	<u>2,058,291</u>	<u>1,306,550</u>
<u>Retained Earnings, June 30</u>	<u>\$2,865,270</u>	<u>\$2,085,291</u>

The Notes to the Financial Statements are an integral part of this Statement.

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STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF AGRICULTURE
AGRICULTURAL REVOLVING LOAN FUND
COMPARATIVE STATEMENT OF CHANGES IN FINANCIAL POSITION
For the Fiscal Years Ended June 30, 1983 and 1982

	<u>1983</u>	<u>1982</u>
<u>Sources of Working Capital</u>		
<u>Operations</u>		
Net Income	\$ 806,979	\$ 751,741
Items not Requiring Working Capital		
Depreciation Expense	772	489
Loan Loss Expense	803,342	549,054
<u>Working Capital from Operations</u>	<u>1,611,093</u>	<u>1,301,284</u>
<u>Sale of Repossessed Property</u>	<u>23,618</u>	<u>-0-</u>
<u>Contributions from General Fund</u>	<u>-0-</u>	<u>24,000,000</u>
<u>Total Sources of Working Capital</u>	<u>1,634,711</u>	<u>25,301,284</u>
<u>Uses of Working Capital</u>		
Increase in Repossessed Property	48,000	-0-
Net Increase in Loans Receivable	5,495,580	10,959,384
Decrease in Loans Sold to State Treasurer	135,751	93,005
Loans in Progress	(114,533)	(3,306,352)
Increase in Equipment	11,794	2,862
Increase in Due to the General Fund	(348,842)	-0-
<u>Total Uses of Working Capital</u>	<u>5,227,750</u>	<u>7,748,899</u>
<u>Net Increase (Decrease) in Working Capital</u>	<u>\$ (3,593,039)</u>	<u>\$17,552,385</u>
 <u>Elements of Net Increase (Decrease)</u> <u> In Working Capital</u>		
<u>Increase (Decrease) in Current Assets</u>		
Cash in Transit	\$ 168,579	\$ 222,324
Cash in Treasury	5,246,529	6,848,068
Accrued Interest Receivable	969,701	539,096
Appropriation Receivable	(10,000,000)	10,000,000
<u>Total Increase (Decrease) in Current Assets</u>	<u>(3,615,191)</u>	<u>17,609,488</u>
<u>(Increase) Decrease in Current Liabilities</u>		
Accounts Payable	25,121	(56,202)
Accrued Interest Payable	(2,969)	(901)
<u>Total (Increase) Decrease in Current Liabilities</u>	<u>22,152</u>	<u>(57,103)</u>
<u>Net Increase (Decrease) in Working Capital</u>	<u>\$ (3,593,039)</u>	<u>\$17,552,385</u>

The Notes to the Financial Statements are an integral part of this Statement.

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STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF AGRICULTURE
AGRICULTURAL REVOLVING LOAN FUND
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 1983 and 1982

Note 1 - Summary of Significant Accounting Policies of the
Agricultural Revolving Loan Fund

Alaska Statute 37.05.150 requires accounting policies to be in accordance with generally accepted principles of governmental accounting. The following is a summary of significant policies applicable to the Agricultural Revolving Loan Fund (ARLF), an Enterprise Fund.

A. Basis of Accounting

The ARLF annual financial statements are prepared on an accrual basis of accounting. Accrual accounting provides that:

1. Revenues are reported when earned.
2. Expenses are reported based upon a direct association with specific revenues or when the obligation to pay is incurred.
3. Furniture and equipment is stated at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets.

B. Interest of Loans

The accrual of interest income on loans is discontinued when, in management's opinion, there is doubt as to the collectibility of such income.

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THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

JUNEAU, ALASKA 99811

October 31, 1983

Members of the
Legislative Budget and Audit Committee:

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information in Appendixes A and B is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the examination of the basic financial statements; and, in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Gerald L. Wilkerson, CPA
Legislative Auditor
Division of Legislative Audit

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APPENDIXES

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APPENDIX A

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF AGRICULTURE
AGRICULTURAL REVOLVING LOAN FUND
TYPE OF LOANS AND TERMS
For the Fiscal Year Ended June 30, 1983

Loan Types and Terms

As specified by AS 03.10.030, the following six types of loans are made:

<u>Type</u>	<u>Current Limit</u>	<u>Rate</u>	<u>Interest Terms</u>	<u>Purpose</u>
Short-term	\$200,000	Not addressed	1 year	Operation of farm
Chattel		(Note 1)	30 years	Animals, equipment
Farm Develop- ment	Total outstanding balance may not exceed \$1,000,000 when added to other loans		30 years	Land, improvements, buildings
Irrigation			30 years	Irrigation equip- ment
Farm Product Processing	\$250,000	Not less than 8%	30 years	Processing of agri- cultural products
Land Clearing	\$250,000	Not less than 8%	20 years	Clear land for planting

Note 1: Chapter 113, SLA 1982, effective June 25, 1982, amended the statutory interest rate to not less than eight percent or more than commercial rate, unless the commercial rate is eight percent or less. The Commissioner may establish interest rates for loans within these statutory guidelines.

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APPENDIX B

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF AGRICULTURE
AGRICULTURAL REVOLVING LOAN FUND
SCHEDULE OF DELINQUENT LOANS
AS OF JUNE 30, 1983

<u>Borrower</u>	<u>Loan Number</u>	<u>Delinquent Balance</u>		
		<u>Over 90 days</u>	<u>6 months To 1 year</u>	<u>Over 1 year</u>
Alamasu	S-1161	\$99,381	\$	\$
	C-875		71,000	
	C-965		2,500	
	F-439		29,000	
	F-458		50,000	
	F-481		100,000	
Alaska Crop	C-750	12,669		
Alaska Fur	S-1151		50,000	
	C-930		90,000	
	F-487		60,000	
Bannon A.	S-1008			80,000
	S-1041			7,000
	S-1051			100,000
	S-1104		13,000	
	C-753			300,000
	F-392			508,012
Bannon J.	S-1058			50,000
	S-1120		55,000	
	S-1148		19,000	
	C-836			300,000
Beaver	S-1068	6,000		
	C-849			84,603
	C-850			21,800
Boyd	S-1113		50,000	
	F-409			44,343
Brasier	F-442		120,901	
Brehmer	C-928		299,934	
	F-475		131,358	

APPENDIX B

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF AGRICULTURE
AGRICULTURAL REVOLVING LOAN FUND
SCHEDULE OF DELINQUENT LOANS
AS OF JUNE 30, 1983

<u>Borrower</u>	<u>Loan Number</u>	<u>Delinquent Balance</u>		
		<u>Over 90 days</u>	<u>6 months To 1 year</u>	<u>Over 1 year</u>
Carney	F-210	\$	\$ 62,880	\$
	F-281		65,389	
	IR-33		10,915	
Carpenter	S-1012			6,849
Crook	C-943	6,000		
Crowson	S-1127		19,000	
	S-1146		60,650	
	C-860			110,380
	C-867		54,000	
	F-543		83,250	
Daugherty	C-805		19,851	
	F-495			19,664
Delta	S-1101		32,811	
	C-864		16,000	
	C-918		107,460	
DePriest	F-511	43,414		
Ditchen, C.	F-443			500,000
	IR-67			90,000
Ditchen J.	F-444		260,169	
Emery	C-911		36,750	
Engellant	S-1166	75,634		
	C-949	32,000		
Fett	S-1007			114,907
	C-744	34,871		

APPENDIX B

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF AGRICULTURE
AGRICULTURAL REVOLVING LOAN FUND
SCHEDULE OF DELINQUENT LOANS
AS OF JUNE 30, 1983

<u>Borrower</u>	<u>Loan Number</u>	<u>Delinquent Balance</u>		
		<u>Over 90 days</u>	<u>6 months To 1 year</u>	<u>Over 1 year</u>
Golden Valley	S-1103	\$	\$ 59,055	\$
	C-909		160,000	
	F-438		236,230	
Gordon	S-1157		1,177	
	C-878			3,200
Heather Farms	S-1126		101,000	
	C-917		72,773	
	F-460		119,000	
Heaton	C-1001	168,630		
	F-550	599,994		
Hinns	S-1071			39,000
	S-1136		16,604	
Hohn	S-957			2,700
Ingalls	C-820			40,723
Jacobson	C-951	21,680		
Jenn	C-654	34,441		
	C-767	114,859		
	C-859	38,427		
	C-1002	62,232		
	F-361	166,282		
	F-366	169,184		
Jurgens	F-416			16,062
Karr	S-1037			66,522
	C-743		115,320	
	C-822			37,500

APPENDIX B

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF AGRICULTURE
AGRICULTURAL REVOLVING LOAN FUND
SCHEDULE OF DELINQUENT LOANS
AS OF JUNE 30, 1983

<u>Borrower</u>	<u>Loan Number</u>	<u>Delinquent Balance</u>		
		<u>Over 90 days</u>	<u>6 months To 1 year</u>	<u>Over 1 year</u>
Keaster	C-765	\$	\$ 52,822	\$
	C-874		21,000	
Kilmurray	S-1006			49,028
	S-1042			20,000
	S-1044			50,000
	C-748			36,000
	C-809			36,938
Kodiak Cattle	S-1156	40,000		
	C-721	220,000		
Lasley	S-1119		162,000	
	S-1133		29,000	
	C-862			36,000
	C-922		8,000	
	F-462		95,000	
Lewis	F-483		220,000	
Lizardi	C-893		10,000	
	F-404		4,491	
Longnecker	C-833		22,361	
	F-407		60,088	
McKee	S-1154	30,000		
	F-504	146,956		
Magee	S-895			16,500
Mead	S-963			5,000
Merry	S-1105		20,000	
	C-854		47,883	
Mitchell	C-863		293,113	

APPENDIX B

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF AGRICULTURE
AGRICULTURAL REVOLVING LOAN FUND
SCHEDULE OF DELINQUENT LOANS
AS OF JUNE 30, 1983

<u>Borrower</u>	<u>Loan Number</u>	<u>Delinquent Balance</u>		
		<u>Over 90 days</u>	<u>6 months To 1 year</u>	<u>Over 1 year</u>
Muth & Sons	F-252	\$	\$	\$ 67,127
	F-318			113,935
O'Donnell	C-988	8,966		
Olson A.	S-1137		3,500	
Olson M.	S-1032			33,175
	S-1043			5,000
	C-669		5,595	
	C-756			257,784
	F-293	2,325		
	F-377			9,484
	F-398			53,000
Peninsula Greenhouse Inc.	C-948	301,132		
	F-317		181,845	
	F-362			290,059
Porter	F-485		19,034	
Richards	S-1018			15,000
Risse	S-1155	33,297		
Robertson B.	S-1128		26,000	
	C-742			46,649
Sandvik	F-346	21,366		
Saylor	S-1139		80,000	
	C-915		76,037	
	F-470		98,685	
Scweigert	C-817		21,271	
	C-993		20,142	

APPENDIX B

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF AGRICULTURE
AGRICULTURAL REVOLVING LOAN FUND
SCHEDULE OF DELINQUENT LOANS
AS OF JUNE 30, 1983

<u>Borrower</u>	<u>Loan Number</u>	<u>Delinquent Balance</u>		
		<u>Over 90 days</u>	<u>6 months To 1 year</u>	<u>Over 1 year</u>
Shoen	S-1099	\$	\$ 9,582	\$
Sparks	C-755			4,742
Stratman	S-1075			5,179
Taggo	S-1117		43,915	
Thomas A.	C-636			6,000
Wessel Weiland Farm	S-1056 S-1083			3,000 10,000
Willard	S-997 C-606 C-710 F-360			10,000 32,233 25,701 11,507
<u>Attorney General Referrals:</u>				
Gilliland	F-373 F-731			8,600 43,804
Hartman	F-376			130,324
Joyce	S-1049 C-719			15,000 7,000
Kachelmier	C-668			47,278
Miller T.	S-910 S-941 S-1026 C-648 F-232 F-341			23,386 1,530 52,249 100,000 137,464 10,000

APPENDIX B

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF AGRICULTURE
AGRICULTURAL REVOLVING LOAN FUND
SCHEDULE OF DELINQUENT LOANS
AS OF JUNE 30, 1983

<u>Borrower</u>	<u>Loan Number</u>	<u>Delinquent Balance</u>		
		<u>Over 90 days</u>	<u>6 months To 1 year</u>	<u>Over 1 year</u>
<u>Attorney General Referrals (continued)</u>				
Nash	S-932	\$	\$	\$15,318
Pedrick	S-859			8,711
	S-867			15,000
Schenk	S-1019			16,296
	S-1118		50,000	
	S-1120		6,500	
	C-766			21,700
	C-793			12,000
	C-811			2,000
	C-837			27,000
	C-843			93,400
	C-885		55,500	
	C-966		6,500	
	F-401			98,500
	F-445		55,000	
Smith	S-918			11,600
	S-928			8,500
	C-661			19,500
	C-682			6,000
Burkett	C-773			5,723
Bearson	S-1219	6,000		
Far North Apiaries	C-684			25,212
OHM	C-512			22,115
	F-220			37,000
	F-228			16,000
	F-244			40,000
	F-266			32,103
	IR-23			79,989

APPENDIX B

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF AGRICULTURE
AGRICULTURAL REVOLVING LOAN FUND
SCHEDULE OF DELINQUENT LOANS
AS OF JUNE 30, 1983

<u>Borrower</u>	<u>Loan Number</u>	<u>Delinquent Balance</u>		
		<u>Over 90 days</u>	<u>6 months To 1 year</u>	<u>Over 1 year</u>
<u>Attorney General Referrals (continued)</u>				
Schmidt	C-921	\$	\$	\$ 107,500
Spears	S-987			130,316
	S-1076			100,000
	C-663			21,836
	C-717			80,000
	C-803			150,000
	C-823			6,000
	C-899		18,000	
	F-355			30,987
	F-358			35,000
	F-376			27,000
	F-378			22,500
	F-405			33,000
<u>Total</u>		<u>\$2,495,740</u>	<u>\$4,674,861</u>	<u>\$3,126,300</u>

SUMMARY OF DELINQUENT LOANS

<u>Age of Delinquency</u>	<u>Number of Loans</u>	<u>Amount</u>
Over 30 days (not listed above)	42	\$ 5,200,694
Over 90 days	27	2,495,740
6 months to 1 year	69	4,674,861
Over 1 year	96	3,126,300
<u>Total</u>	<u>234</u>	<u>\$15,497,595</u>

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

POUCH M
JUNEAU, ALASKA 99811
PHONE: 907-485-2400

February 3, 1984

Mr. Gerald Wilkerson, CPA
Legislative Auditor
Pouch W
Juneau, AK 99811

Re: Preliminary Audit Report
Agricultural Revolving Loan Fund

Dear Mr. Wilkerson:

I was pleased to see that the Division of Legislative Audit determined that substantial improvements have been made in the ARLF over the last year. I realize that it is imperative that we strengthen procedures as the loan fund increases in capitalization and complexity, and you can be assured that I will personally track the implementation of your recommendations and other changes my staff has recommended.

We have reviewed your findings and offer the following specific comments:

Recommendation No. 1: Improvement is needed in ARLF loan processing system.

1. Eleven of the files reviewed did not have completed applications. Pro forma financial statements and evidence of credit checks were missing.

Of the eleven files in question, we concur that six of the applications should have been more complete. Tighter review procedures and submission deadlines initiated over the last half of the audit period should virtually eliminate this problem in the future.

Five applications are considered complete by ARLF. During the period being audited, the application form was revised. A short form version was approved by the ARLF Board and Director as an acceptable application for borrowers having filed a complete application and financial statement within the previous year. The ARLF manual will be brought up to date to reflect this new procedure over the next 45 days. This should eliminate the problem identified by the auditor.

Our review of these files showed no financial statements missing, but there was one instance which was not written on the application form, but rather was submitted on a separate paper.

February 3, 1984

Credit checks have not been routinely done on existing borrowers in good standing. During the period being audited, credit checks were intermittently ordered on new borrowers if they were not known in the farming community. It is now routine ARLF practice to order credit checks on all new borrowers. Existing borrowers will continue to be checked only if existing loans are delinquent.

2. The residency status of two of the borrowers was questionable. One of the borrower's residency status was questioned in our prior audit. However, the borrower was given additional loans although the file does not reflect Alaska residency.

We concur that two borrowers had questionable residency status at the time of application. One borrower was identified in your last audit as having questionable residency. However, at the time of this application, he was clearly a resident as defined in AS 03.10.020(1). The second borrower did have an Alaska address, but no further documentation.

The ARLF has subsequently obtained the Attorney General's recommendations for proof of residency requirements, established standards for use in determination of residency, and has corrected this problem.

3. Four of the files did not contain properly executed security documents.

We concur that three of the four files had improperly executed security documents. Two of these were subsequently corrected. A procedure was established to file a preliminary security document with UCC showing no serial numbers and then to subsequently refile when actual serial numbers are received. All UCC filings have been now corrected. The fourth file appears to have had security documents properly filed. All security documents are now properly executed. Establishment of a central closing procedure was implemented in the middle of the audit period and should minimize recurrence of this problem.

4. Nine of the files did not contain evidence of insurance on collateral naming ARLF as loss payee. Additionally, four of the applicable files did not contain evidence of a collateral appraisal.

The 1982 audit indicated that ARLF should require proof of insurance on loan collateral, naming ARLF as loss payee. We replied that we prefer to continue to allow the Board the latitude to make its own determination. We still maintain that view. The Board has the authority to require additional coverage such as life insurance when it deems it necessary. However, we believe the decision as to whether insurance should be required on certain types of equipment or buildings should be a prerogative of the Board based upon its knowledge of the loan,

February 3, 1984

location, etc. The ARLF did indicate in the last audit response that criteria would be developed for the insurance decision and that the Board would make a finding in each case. This has not been done consistently. The ARLF board will develop criteria and written policy by April 1, 1984.

Collateral appraisals are generally performed by the loan examiner and are not always considered necessary by the ARLF when other information on estimated value is available. Collateral being appraised, type of appraisal and loan to value ratios are now included on the Board report form.

5. Two of the loans reviewed exceeded allowable loan limits. One loan exceeded the statutory limit by \$27,000 and the other exceeded Board approval by \$665. We also found that two loans exceeded the seven year term established by the Board on chattel loans.

The loan which appeared to exceed the statutory limit by \$27,000 was not an operating loan. The minutes and Board Report both indicate that it was approved as a chattel loan, but it was ordered and closed by the examiner as an operating loan. The file has now been corrected. It does not, in fact, exceed the statutory limit for its proper category.

The two chattel loans made for longer than seven years did not, in fact, violate statutory authority or board policy in effect at the time. However, they were written by staff in excess of the term authorized by the Board for those specific loans. The new central closing system was established to minimize these errors.

Recommendation No. 2: ARLF should improve its communications with the Attorney General's Office.

Prior to the audit, the Board had formulated and implemented procedures similar to those recommended by the auditor. The ARLF Board now instructs the staff to summarize loan status and actions when referrals are made to the Attorney General's Office. We believe these new procedures will resolve the problems identified by the auditor.

Recommendation No. 3: ARLF should perform an annual collectibility analysis of its loans receivable.

In the past, the collectability analysis of loans was performed as part of the audit. In the future, the ARLF will perform the analysis annually prior to the audit.

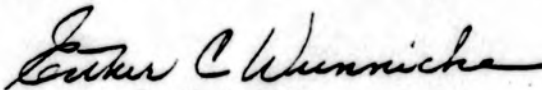
February 3, 1984

Although the recurrence of errors in loan examining and closing procedures is a major concern to me, I am pleased to note that none of these errors occurred after the new central loan closing procedures were fully implemented in the middle of the audit period.

I further realize that because the ARLF Policies and Procedures Manual had not been updated, pending adoption of the new regulations, it was difficult for the auditor to determine acceptable procedures in some cases, i.e. use of the short form. As stated, the manual will be updated in the next 45 days.

We concur with your expressed desire to see continued close supervision of the loan examining and closing functions, and we are now considering further actions to improve this process.

Sincerely,



Esther C. Wunnicke
Commissioner

cc: Bill Heim, Director
Division of Agriculture

Dean Brown, Deputy Director
Division of Agriculture

James K. Barnett
Deputy Commissioner

Robert D. Arnold
Deputy Commissioner