SCOMM

#50:40

Alaska HOUSING FINANCE CORPORATION

April 24, 1986

The Honorable John L. Sund
Alaska State Representative
House of Representatives
Post Office Box V
Juneau, AK 99811

Dear Representative Sund:

The purpose of this letter is to provide comments on CS SB 281 (FIN) am, which is now in the House Special Committee on Loans. As you know, this bill would increase the interest rate on all loans (except student loans) made by the state, or instrumentalities of the state, by one-half percent per year until the loans are at market rates or cost of funds. With respect to AHFC, it is not entirely clear how this would apply, as is explained in Attachment II.

In any case, the eventual effect of the bill would clearly be to by and large eliminate AHFC as a viable source of home financing in Alaska. Before proceeding I think it is useful to note that during its existence AHFC has helped over 65,000 families buy homes, and has provided over $5 billion worth of home financing including over $2.5 billion worth of new home construction. Further, AHFC has generally functioned as a "shock absorber", in that the Corporation has protected Alaskan homebuyers from extremely high interest rates and the resultant decrease in equity and inability to purchase homes caused by high rates.

It is important to realize that it is quite possible that the negative impacts of this bill will be felt immediately, rather than some time off in the future. The reason for this is that both insurers and investors must look at a financial transaction over a long time period, rather than just basing their decisions on current situations. Furthermore, they have to consider what happens in the "worst case", rather than assuming that favorable trends, such as low interest rates, will continue on into the future. In general, the points that are discussed below deal with the effects on the confidence of insurers and investors. Since there are no absolute relationships in measuring confidence, it is impossible to predict with certainty what the impact of SB 281 will be. However, all of the possible consequences discussed below should be viewed as strong possibilities.

The first effects considered will be on mortgage insurance. All mortgage loans made by AHFC that have a loan-to-value ratio in excess of 80% must have mortgage insurance, either private mortgage insurance (P.M.I.) or government mortgage insurance provided by the Federal Housing Administration (FHA) or the Veterans Administration (VA). I believe any negative effects are much more likely to impact the P.M.I. companies, and so will focus on them.

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Third Floor
P.O. Box 101020
Anchorage, Alaska 99510

If SB 281 is passed, AHFC will be taken out of the market. No longer could a P.M.I. company depend upon AHFC to provide a shock absorber against a rapid increase in interest rates, and the resultant decrease in the value of a home because of the higher interest rates. (A person with a median income for Anchorage, $44,000, can afford a $96,000 house at 10%, versus a $82,000 house at 12%). As a result, the P.M.I. companies may be much less willing to provide insurance on loans in Alaska, particularly those loans with high loan-to-value ratios. This is especially important here, since we have the highest proportion of low downpayment loans anywhere in the nation. The national average of loans with a loan-to-value ratio in excess of 90% is about 40%, whereas in Alaska it is over 75%. Furthermore, all of this needs to be viewed in the context of a housing market that is less than robust, to say the least. The worst thing that could happen with respect to private mortgage insurance would be the departure of the four remaining companies from the Alaskan market, or their agreeing to only insure loans with a loan-to-value ratio of 80% or less (the effect is the same). An intermediate possibility is to only insure loans with a 90% or less loan-to-value ratio. On our average loan of about $120,000, this means downpayments ranging from $6,000 (95% loan), to $12,000 (90% loan), up to $24,000 (80% loan). Clearly many potential buyers would be pushed out of the market if such higher downpayments were required.

It is far less likely that either FHA or VA would change their underwriting policies in Alaska since they, like AHFC, have a commitment to assist home financing beyond a strictly financial interest. However, all is not necessarily assured with FHA. Federal allocation authority for FHA will run out very shortly. Congress is in the process of passing a new authorization, but the President may veto it, leaving FHA with no authority to insure new loans until next October (see Attachment I). Also, the President has a proposal to restrict future FHA loans to borrowers earning no more than $40,000 per year, and in fact the Administration is trying to make this change, and others, effective immediately. The point of all this is that relying too heavily on FHA for mortgage insurance is quite risky, both because of the uncertainty of their allocation authority, and because the program may soon become too restrictive to be of use to most Alaskans.

The next effects considered deal with potential impacts on major secondary market agencies, such as the Federal National Mortgage Association (FNMA), the Government National Mortgage Association (GNMA), and the Federal Home Loan Mortgage Corporation (FHLMC). Although these agencies can perform a variety of functions, in the context of this letter it is best to consider them as guarantors of bonds issued to provide financing for home loans. When AHFC purchases a home loan from a local lender, this loan is converted to either a FNMA or a GNMA security. These securities are then pooled, and bonds are sold based upon these FNMA and GNMA securities, which assist in AHFC receiving AAA bond ratings and subsequent low interest rates.

GNMA securities are applied to loans that have government mortgage insurance, i.e., FHA and VA insured loans. GNMA is not likely to pull out of Alaska despite what happens to AHFC. However GNMA has the same allocation uncertainty that plagues FHA. Currently GNMA is out of commitment authority until October. (See Attachment I).

FNMA securities are applied to loans that either have private mortgage insurance, or a loan-to-value ratio of 80% or less. FNMA is not a government agency (though it has close ties with the federal government). As such, FNMA has much more flexibility with respect to whether or not it does business in Alaska, and also with respect to the terms under which it does business. FNMA has already required more restrictive terms on AHFC loans then it previously had. Whether or not it would become even more restrictive (e.g., no 95% loans) or cease doing business up here is unknown. FNMA personnel have been in Alaska recently voicing their concerns about the current market situation. Elimination of AHFC by passage of SB 281 can only intensify their concerns.

Although AHFC does not do business with FHLMC, other lenders in Alaska do. It is likely that its response would be similar to FNMA.

The other major group involved can be loosely classified as the investment community. This would include the rating agencies (Moodys and Standard and Poors), credit providers, and actual bond purchasers. Once again, it is difficult to predict specific reactions, since any effects will result from a change in investor's confidence regarding the financial health of AHFC and the Alaska housing market. However, it should be noted that because of a high level of investor confidence, AHFC has recently been able to provide the lowest (to our knowledge) fixed rate unsubsidized loans in the nation. For example, our last bond sale carried a very unusual provision, a 15 year letter of credit. This provision allowed us to access the much cheaper rates of the Japanese market. This provision is extremely unusual in that letters of credit are rarely written for longer than 7 or 8 years. Our ability to get such a long term agreement, for such a large amount ($100 million) was based upon the confidence that the letter of credit bank had in AHFC. Without such a high degree of confidence, AHFC, and of course, Alaskan home buyers, would have to pay higher interest rates for home financing.

Next, what about the argument that if AHFC is eliminated, the "private marketplace" will then provide all home financing, albeit at higher interest rates. First, if the private mortgage insurance companies become more restrictive or indeed, even cease doing business in Alaska, that will affect all applicable loans, not just loans sold to AHFC. And of course the possible cut-off and new restrictions on FHA mortgage insurance will also affect all lenders. Hence, the potential problems discussed above, such as the requirement of a 10% or even 20% downpayment, would affect all home loans, not just AHFC loans.

Furthermore, even in the best of circumstances other lenders will not replace specialized AHFC programs, such as the State Veterans preference program, the Home Ownership Assistance program (HOF), and the Mobile Home loan program. These latter two programs in particular provide the only feasible approach for many individuals to purchase their own home.

Finally, the question needs to be asked as to why AHFC should be eliminated. Although it is true the state has, in the past, provided considerable resources to AHFC (in excess of $1 billion), it is also true that AHFC has made good use of these resources (over $5 billion in loans). More importantly, AHFC has now reached the point that many had hoped for at the outset, in that AHFC is now self-supporting and does not intend to ever come back to the State for additional funding. Further, since AHFC has not requested any funds this year (or last year), no revenue will be gained by passage of this bill.

In fact, the only immediate effect of passage of this bill will be to further disrupt an already slow housing market. And it should be noted that anything that affects a potential purchaser's ability to buy (e.g. increased down-payment) also affects a present owners ability to sell. Hence, even present homeowners would be negatively impacted by passage of this bill.

I apologize for the length of this letter, however this is a complicated, important subject. Purchase of a home generally involves the largest investment and the largest monthly payment for most people, and any action that has a significant effect on home ownership, as this bill will, must be taken most seriously.

If you would like any additional information, please advise me.

Sincerely,

Ron Lehr

Dr. Ronald D. Lehr
Executive Director

RDL:sb

Enclosures

ATTACHMENT I

The Wall Street Journal
Tuesday, April 22, 1986

House Approves Bill to End Suspension Of Securities Guarantees by Ginnie Mae

By JOANN S. LUBLIN
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—The House passed a bill that would end the current suspension of new Government National Mortgage Association guarantees of mortgage-backed securities.

The measure, approved by voice vote, also would prevent the anticipated temporary shutdown next week of the Federal Housing Administration's popular mortgage-insurance program. The Reagan administration opposes the legislation, but the Senate is expected to endorse the House action anyway, possibly this week.

Growing numbers of home purchases and mortgage refinancings, spurred by falling interest rates, have overwhelmed the two Housing and Urban Development Department agencies with business. Two weeks ago, Ginnie Mae had to stop making new guarantees of securities backed by mortgages insured by the FHA and the Veterans Administration because it reached its $65.3 billion statutory ceiling for guarantees in fiscal 1986, which ends Sept. 30.

The FHA's mortgage-insurance program faces a similar shutdown as it approaches its $57.2 billion credit limit for the fiscal year. The House bill, drafted by Rep. Chalmers Wylie (R., Ohio), would raise the Ginnie Mae ceiling to $100 billion for fiscal 1986 and boost the FHA's credit limit to $95 billion.

About $225 billion in mortgage-backed securities outstanding have been guaranteed by Ginnie Mae. The agency helps finance virtually all home loans backed by the FHA and the VA. The cutoff of new Ginnie Mae guarantees already has driven up mortgage rates for government-insured loans. Housing industry leaders warn that by next month, the suspension could severely reduce the supply of these mortgages.

Veto Is Possible

Mr. Reagan might veto the House-approved Ginnie Mae and FHA ceilings on the ground they're too high, however. The House vote came before the administration could formally submit its own legislative proposal, but officials have suggested raising the ceilings to $87 billion for Ginnie Mae and to $81 billion for the FHA.

The administration also wants Congress to impose immediately on the FHA various restrictions that President Reagan previously had suggested for next fiscal year. These include limiting the agency to insuring mortgages for families with annual incomes of $40,000 or less. In addition, the administration would disallow FHA-insured loans for property investors and owners of vacation homes. It also would increase home buyers' mortgage-insurance premiums to 5% from 3.8% of the amount insured.

ATTACHMENT II

Implementation of SB 281 at AHFC

As noted in the letter, it is unclear as to how SB 281 would actually be implemented at AHFC, as there are a number of different ways to interpret the bill. To demonstrate this uncertainty, two possible interpretations will be provided in this attachment. In both cases the following assumptions will be used:

1. Assume the bill has been in effect for two years, hence the decrease in subsidy is 1%; and

2. Market rates/cost of funds for AHFC is 11 1/2%, 1 1/2% above AHFC's "base level" of 10%.

A. "Top Down" Approach

By present law, AHFC can subsidize up to 3%, as long as the loan rate to the borrower is not less than 10%. (Actually, the subsidy only applies to the first $90,000 of a loan, so for simplicity assume all loans are $90,000 or less). Using a "top down" interpretation, which I believe is the most common interpretation, the decrease in subsidy applies to AHFC's maximum subsidy, i.e., the 3% figure. In this case, the 1% decrease from the 3% would mean the maximum subsidy would be decreased to 2%. However, this would still permit AHFC to subsidize the 11 1/2% cost of funds down to a 10% loan rate, since this would only be a 1 1/2% subsidy.

B. "Bottom Up" Approach

Again, same assumptions, except that the 1% reduction is now applied directly to the amount that can be subsidized. In this case, rather than subsidizing 1 1/2% to get down to 10%, the "base level" of 10% would effectively be increased by the amount of the decrease in subsidy. Hence the 1 1/2% subsidy is reduced to 1/2%, such that the interest rate to the borrower would be 11%.

Other interpretations are also possible, however the above should indicate that if the bill were to be passed, some clarification would be needed.

Anchorage Daily News
April 24, 1986

Alaska bankers go south to keep capital coming north

By JIM ERICKSON
Daily News business reporter

The skittishness of Outside investors about Alaska's economic stability has local bankers worried whether money will be available to fund large private construction projects in the state.

A delegation of state bankers, businessmen and politicians visited Seattle this week to urge their counterparts to keep the faith in Alaska. A second trip to the Pacific Northwest is planned May 5.

"I had a good friend of mine at United Bank in Tacoma throw a newspaper down on a desk in front of me and say, 'What the hell is this?' " said Earl Miller, president of United Bancorporation Alaska Inc. The headline on a story from a Seattle paper read, "Is Alaska Headed For a Depression?"

"I don't disagree that the question should be asked, explored," Miller said. "But a lot of people never get past the headline."

Widely circulated newspaper stories about Alaska's economic predicament have made some important Outside investors leery about lending money for new commercial projects here, according to local bankers.

Businessmen here fear the insurance companies, mortgage companies, pension funds and correspondent banks will write the state off as a bad risk amid concerns that the oil-based economy is on the verge of a big fall.

"There's been a kind of a knee-jerk reaction by a lot of the major lenders in the secondary markets," said Scott Hawkins, economist for Alaska Pacific Bank.

Although bank officials won't talk publicly about specific projects, some bankers confide privately that they know of commercial developments that have been scrubbed recently because potential lenders had second thoughts. Others that had the green light are being reassessed in light of

See Back Page, OUTSIDE

OUTSIDE INVESTORS: Alaskans seek to dispel notions of tottering state economy

Continued from Page A-1

the oil price crash.

"There are some projects that were slam dunks, and now are not slam dunks," Hawkins said.

"It's not only insurance companies and money-center banks, but quasi-governmental lenders like Fannie Mae (Federal National Mortgage Association) and FHA (Federal Housing Administration)," Hawkins said. "They've had more people up here on fact-finding missions in the last three weeks than they have in the last three years."

FHA and Fannie Mae are the main insurers of Alaska home loans.

The new caution threatens to make worse problems in getting funding for office buildings, retail centers and other commercial projects.

Most Alaska banks historically have been relatively cash poor. The state's small population means the pool of depositor funds available for financing is shallow, so bankers must find partners among their larger brethren Outside to share financing.

The largest loan ever made by Alaska banks reportedly was a $22 million package to help former Wien Airlines owner James Flood pay off creditors in that company's bankruptcy last year. The deal required the participation of four Alaska banks — no single bank could make the loan on its own and stay within federal lending restrictions.

Yet $22 million would barely cover the cost of the Dimond Center shopping mall expansion now nearing completion.

To assure a steady source of private funding, bankers here have labored for years to erase the "igloo factor," misconceptions about the state that makes many Outside investors uncomfortable about lending money for projects in a remote part of the world.

"Even at the peak of the boom, we had a major education problem," Hawkins said. In 1983, local banks courted West Coast savings and loan associations, inviting them to the state to see first-hand the boom that was going on.

"They got off the plane and said, 'Wow, you've got concrete foundations.' "

Now, the bad news about falling oil prices, oil industry layoffs and the state's $1 billion revenue shortfall is threatening to undo all the efforts.

"It takes a long time to get an investor comfortable with Alaska," Miller said. "If we lose them entirely, we'll have to start all over to build their confidence back up again."

However, an official for one large Seattle bank said concern about falling oil prices and the effect on the Alaska economy is but one small factor in a decision to curtail lending here.

"Were not as active in Alaska as we were four years ago, but it's not because we're doing less marketing there," said David McCormick, vice president for Seattle-based PeoplesBank.

"We see things slowing down in Alaska apart from oil, plus we see our own bank's growth is slowing down," he said. The overbuilt real estate market means potential projects, especially retail centers or office buildings that do not have guaranteed tenants, are not being approved as they might have been when demand was high, he said. His bank is also changing its overall strategy to adjust to banking deregulation, he said.

Oil prices "have an influence," he said. "Some of our board members are asking if we shouldn't be taking an even more conservative stance . . . but oil price may be just one small factor in that decision."

Some trepidation on the part of lenders is justified, both Miller and Hawkins said. Alaskans are facing hard times as government tries to rein in profligate spending patterns of the past, at a time when the economy has already begun to stagnate.

But they believe Alaska is being unnecessarily "lumped into the same basket as Texas or Oklahoma," where lower oil prices are shutting down wells and throwing thousands of people out of work, Hawkins said.

Because of the markedly different structure of the oil industry here and because of large state savings accounts like the Alaska Permanent Fund, the state is in a far better position to cope.

"I don't really believe in my gut that 'depression' is an accurate analysis of what will happen in Alaska," Hawkins said.

Attempts to prevent the red-lining of the state already are under way. Groups of Alaska business leaders and politicians are joining ranks to speak to chambers of commerce, newspaper editorial boards, correspondent banks and other lenders in the Pacific Northwest.

On Monday, Gov. Bill Sheffield told a Seattle audience not to give up on the state. His comments came in a speech delivered during a day-long conference on Alaska sponsored by the Greater Seattle Chamber of Commerce.

The same day, Miller, Hawkins, Mike Burns, president of Alaska Pacific Bank, and Harold Heinze, president of ARCO Alaska Inc., met with officials of at least two Seattle banks.

Another swing through Seattle, Portland and Tacoma is planned for early May. Hawkins said Anchorage Mayor Tony Knowles, Assemblyman Dave Walsh and Ken Calhoon, vice president of the Anchorage Chamber of Commerce, may be part of the "speaking squad."

"I just think it's important that the Chamber of Commerce present a realistic picture as to the business climate in Anchorage. Even if it's not exactly optimistic, at least we can dispel some myths that retailers, banks and service industries are in severe financial distress," Calhoon said.

SB 281 - Interest Rate on State Loans

SECTIONAL ANALYSIS

SB 281 would affect all loan programs administered by the state or an instrumentality of the state.

Under the bill, interest rates would rise 1/2 percent per year until they equalled:

(1) the prevailing market rate or
(2) the cost of borrowing money if the loan program is financed by the sale of bonds or other indebtedness.

Effective date is October 1, 1986.

SB 281

News
4-10-86

Tightening the belt

Senators seeking ways to balance the budget have returned to the idea of raising interest rates on state loans. The Senate's latest proposal is contained in a bill passed Wednesday that gradually would raise the interest rates on state loans — except housing and student loans — until they match market rates.

It's a good idea, although only one of many steps needed to meet Alaska's tightened budget restrictions. The state's loan program is among the most liberal in the nation. And the low interest provisions have been especially generous. It's not unfair in this time of declining revenues to reduce the state subsidy by gradually raising the rates.

The state, as Sen. Rick Halford pointed out, is no longer in a position to act as financier for all Alaskans. The House should act swiftly on the Senate's proposal.

FREE

Federation's Role in our Enterprise Economy

April 13, 1985

Senator Rick Halford
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Senator Halford,

We are pleased to write this letter in support of SB 281.

We understand that the bill will raise interest rates on all State loan programs by one-half percent per year until they reach the going market rate for commercial loans.

The AWC FREE Committee's Tax and Economic Development subcommittee has completed a two year study of the State loan programs and recently published the enclosed position paper.

Passage of SB 281 would achieve three of our recommendations:

- Strive for reduction and eventual elimination of State dollar contributions to loan programs,

- Refine present programs to make them self supporting and revolving,

- Eliminate interest subsidies.

Indirectly, the bill would affect our other recommendations.

One of the positive aspects of SB 281 is the bill's equitable treatment of all State loan programs. This feature recognizes the decline in State revenues and the effect of less available funding for all loan programs. We realize that loan recipients are not equally divided among the programs and that the AHFC program services the largest share of recipients.

P.O. Box 4-2955 • Anchorage, Alaska 99509
A committee of the GFWC Anchorage Woman's Club

The AHFC program should be able to continue without subsidy. AHFC has been structured to become self supporting and has received diminishing appropriations for interest subsidies. Elimination of subsidies in a gradual manner should improve AHFC's ability to operate independently. As AHFC's interest rates approach market rates, demand will increase for other housing loan programs. Increased competition in the housing loan market should result in lower market interest rates.

The subcommittee has produced a twenty minute video entitled "Decisions for the 90's" reviewing the loan programs of Alaska and presenting the FREE Committee's recommendations. We are enclosing it for presentation as testimony at hearings concerning SB 281.

If we can be of further assistance, please contact Sarah Schierhorn (279-5305) or Pam Lambe (349-6531) co-chairmen of the committee responsible for the position paper.

Sincerely,

Pauline Martens

Pauline Martens, Chairman
AWC FREE Committee

STATE SUBSIDIES

$49,446.5: Subsidy for the following loan funds.

Student
Teacher Scholarship
Commercial Fishing
Child Care Facilty
Bulk Fuel
Power Project
Rural Electrification
Alternative Energy
Fisheries Enhancement
Historical District
Mining Loan
Residential Energy Conservation
Power Development
Agriculture
Grain Reserve
Housing Assistance

(See Attachment 1. Source: OMB)

$26 million: AHFC loans are currently at market rate. If the market rate were to rise and AHFC loan interest rates were to increase 1/2 percent, as provided in the bill, the state would save $26 million per 1/2 percent increase.

(See Attachment 1. Source: AHFC April 1985 comparison of loan program as modified by SB 281).

1983 GOVERNOR'S TASK FORCE RECOMMENDATIONS (See Attachment 2):

In a report published in January 1983, the Loans Task Force made 26 recommendations toughening up the state loan system. Of particular interest to this bill is the narrative for Recommendation # 17:

> "It was also felt that subsidies should be used rarely and mostly for social purposes rather than for economic development.
>
> "This is because subsidies may have unintended effects, may promote an economy dependent on unrealistically cheap money, and may encourage a high debt structure which would make the economy more vulnerable if the programs were cut." (emphasis added)

Other Task Force recommendations regarding subsidies:

Recommendation # 14:

> "The Task Force recommends...that it is the policy of the State not to subsidize the interest rates on loans to borrowers...unless the decision to do so is stated explicitly and is based on social and/or economic development objectives."
>
> "The Task Force felt that there was no explicit policy concerning subsidized interest rates...Subsidies developed in recent years as market rates rose above statutorily fixed loan rates...No general policy of the state is apparent."

Recommendation # 15:

> "The Task Force recommends that any explicit decision to subsidize the interest rates on loans under any program be reconsidered at least once every two years and either be rescinded or reaffirmed."

Recommendation # 16:

> "The Task Force recommends that programs which include a State subsidy, either through lower loan rates or deferred paymens, should continue to report annually an estimate of the cost of the subsidy."
>
> "The Task Force felt that it is wise to state explicitly reasons for a subsidy and estimated costs of the subsidy in order to monitor the continued appropriateness of the subsidy. Requiring that subsidies be reconsidered every two years would avoid the possibility of unintended program effects resulting from a lack of review."

Recommendation # 17 would tie interest rates on loans funded by appropriations to the U.S. Treasury yield curve.

(Source: Loans Task Force, A Report on Organizational and Policy Issues for Governor William J. Sheffield, January 1983).

A LOOK AT LOAN PROGRAMS TODAY:

1. There are 33 state loan programs. (See Attachment 3).

   21 are active (presently making or servicing loans)
   12 are inactive (no money appropriated this quarter).

2. Delinquency and Default rates. (Delinquency: loans that are more than one day past due. Default: turned over to counsel.) 1st Quarter, FY86. (See Attachment 4).

Mining Loan Fund:	57.6%	($11,303.0)
Agriculture RLF:	34.6%	(18,505.8)
Small Business RLF:	34.4%	(12,190.0)-Inactive
Bulk Fuel RLF:	31.8%	(320.0)
Scholarship RLF:	16.1%	(38,217.4)
Commercial Fishing RLF:	14.7%	(11,358.0)
Veterans RLF:	10%	(8,381.0)-Inactive

3. Money outstanding: $6,686,786,814 (See Attachment 5)

Housing:	5,502,516.9
Economic Development:	$710,378.2
Education:	$236,718.9
Muni assist/misc:	186,586.2
Energy:	50,585.5

4. Seventeen of the 21 active programs are financed by state appropriation. AHFC, AIDA, Medical Facility Authority, Municipal Bond Bank Authority are financed by bonds.

5. The largest number of all loans outstanding is for Education. The greatest dollar amount of all loans outstanding is for Housing.

   Breakdown by NUMBER:

Education:	95,359 loans approved:	59.7%
Housing:	54,590 loans approved:	34.2%
Economic Dev.	6,314 loans approved:	4.0%
Energy:	3,362 loans approved:	2.1%
Muni Assist/misc:	130 loans approved:	.1%

   Breakdown by DOLLAR AMOUNT:

Housing:	$5,502,516.9	82.3%
Economic Dev.:	$ 710,378.2	10.6%
Education:	$ 236,718.9	3.5%
Muni Assist/misc:	$ 186,586.2	2.8%
Energy:	$ 50,585.5	.8%

(See Attachment 6)

AHFC

Appropriations to date: $747,871,000 in cash (exclusive of $16,000,000 appropriated FY85 but rescinded.) (See Attachment 7)

Loans owned 1/86:

Number: 53,380
Amount: $4,488,874,381

Outstanding loan commitments 1/86:

Number: 750
Amount: $75,457,410

Loans delinquent and in foreclosure:

Mobile Homes: 11.35%
Conventional: 6.72%

Real Estate owned:

Mobile Homes: 4.50%
Conventional: .76%

(See Attachment 8)

Minimum Income Requirement for $90,000 Conventional Loan:

Monthly: $ 3,760
Yearly: $45,120

Snapshot of the most common AHFC loan (conventional 1st mortgage) 1/86. (See Attachment 9)

Sales price:	$124,969
Loan:	$109,774
Monthly income:	$ 4,628
Annual income:	$ 55,536
Monthly pymts:	$ 982.44
Interest rate 1/86:	10.23%

Requirements for a HOF (low income) buyer:

Maximum allowed value of house:

2 adults: $ 80,000
4 people: $100,000

28% of income must be available for housing.
Limit on assets: $50,000, 1st member; $5,000 next mbrs

UNDERWRITERS' FEES

Total AHFC bonds issued in 1985:	$604,935,000
Underwriters paid percentage discount on bonds:	7 percent
Earned in 1985 from AHFC bonds by underwriters:	$4,228,000

The State's bond counsel and underwriter counsel are paid a percentage of issuance.

MANAGING UNDERWRITERS:

Salomon Brothers, Inc.
Goldman, Sachs & Co.
E.F. Hutton & Co.
Kidder, Peabody & Co.
Merrill, Lynch Capital Markets

UNDERWRITER COUNSEL:

Cravath, Swaine & Moore

BOND COUNSEL:

Wohlforth & Flint

FINANCIAL ADVISOR:

Paine, Webber, Inc.

subsidycalc

FY87 SUBSIDY

OMB ESTIMATE

AGENCY/LOAN PROGRAM	FY87 LOAN VOLUME	STATUTORY INT RATE	TERM (YEARS)	YEARS OF DEFERMENT	LOAN LOSS/ FORGIVENESS	MARKET INT RATE	PRESENT VALUE	SUBSIDY	RATE OF SUBSIDY
Department of Education									
Alaska Student Loan Program	$80,550.0	5.00%	10	2.5	11.0%	10.0%	$44,857.6	$35,692.4	44.3%
Teacher Scholarship Loan Program	477.0	5.00%	10	2.5	20.0%	10.0%	238.8	238.2	49.9%
Department of Commerce & Econ Dev									
Commercial Fishing Loan Fund	17,400.0	10.50%	15	0	8.3%	10.0%	16,422.8	977.2	5.6%
Child Care Facility Loan Fund	520.0	7.00%	20	0	.0%	10.0%	417.8	102.2	19.7%
Bulk Fuel Loan Program	1,900.0	8.00%	1	0	5.0%	10.0%	1,786.0	114.0	6.0%
Power Project Loan Fund	6,000.0	8.50%	50	0	.0%	10.0%	5,141.3	858.7	14.3%
Rural Electrification Loan Fund	2,215.5	2.00%	20	4*	.0%	10.0%	1,024.1	1,191.4	53.8%
Alternative Energy Loan Fund	2,200.0	5.25%	20	0	3.0%	10.0%	1,490.1	709.9	32.3%
Fisheries Enhancement Loan Fund	4,010.2	9.50%	30	6	.0%	10.0%	2,169.8	1,840.4	45.9%
Historical District Loan Fund	150.0	7.50%	30	0	.0%	10.0%	119.5	30.5	20.3%
Mining Loan Fund	4,000.0	10.00%	15	0	35.0%	10.0%	2,600.0	1,400.0	35.0%
Residential Energy Cons Loan Fund	577.5	10.00%	10	0	6.0%	10.0%	542.9	34.7	6.0%
Power Development Loan Fund	7,000.0	8.00%	50	0	.0%	10.0%	5,666.7	1,333.3	19.0%
Department of Natural Resources									
Agriculture Loan Fund	9,000.0	8.00%	5.8	.16*	10.0%	10.0%	7,511.4	1,488.6	16.5%
Grain Reserve Loan Fund	1,056.0	8.00%	3	0	.0%	10.0%	1,023.7	32.3	3.1%
Department of Community & Reg Affairs									
Housing Assistance Loan Fund	38,000.0	9.00%	30	0	.7%	10.0%	34,597.3	3,402.7	9.0%
TOTAL	$175,056.2						$125,609.7	$49,446.5	28.2%

*Interest deferments only

FOOTNOTES:

(1) The Office of Management & Budget has developed this chart to identify the estimated subsidy entailed by the Governor's FY87 Loans Budget as required by the legislative intent in SLA 1985, Ch.98, Page 11, Lines 5-7, which reads as follows: "4. Determine the degree of subsidy in each loan program and include this as part of the FY87 loan budget."

(2) See the FY87 Budget Instructions for detailed instructions regarding the calculation of present value and subsidy.

(3) For the AHFC subsidy estimate, see the loan forms submitted by the Corporation.

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ATTACHMENT I

APRIL 85

ATTACHMENT 1

ALASKA HOUSING FINANCE CORPORATION

Summary of Exhibit A

Current Programs	Bonds Issued	Est. Mtg. Demand All Programs	Related Subsidy Transfers	Revolving Fund Liquid Assets (General Account) End of FY	Level of Subsidy
FY 86	800	785	152	172	3%
FY 87	500	792	92	104	3%
FY 88	550	824	98	28	3%
FY 89	550	870	122	27*	3%

As Modified By SB 281	Bonds Issued	Est. Mtg. Demand All Programs	Related Subsidy Transfers	Revolving Fund Liquid Assets (General Account) End of FY	Level of Subsidy
FY 86	750	726	126	205	2-1/2% eff. 10-1-85
FY 87	425	634	45	198	2% eff. 10-8-86
FY 88	400	527	14	231	1-1/2% eff. 10-1-87
FY 89	150	480	-0-	287	1% eff. 10-1-88

NOTE: Above projections anticipate receipt of $16 million FY 84 appropriation and retention of all assets of the Alaska Housing Finance Revolving Fund.

* Anticipates receipt of $100 million appropriation in FY 89.

MKC-28

ATTACHMENT 2

STATE OF ALASKA

Loans Task Force

A Report on Organizational and Policy Issues

for

Governor William J. Sheffield

January, 1983

LOANS TASK FORCE

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January 28, 1983

The Honorable William J. Sheffield
Governor
State of Alaska
Pouch A
Juneau, Alaska 99811

Dear Governor Sheffield:

It is a pleasure to submit to you the attached report of the Loans Task Force. We have evaluated the organizational and policy issues on which you asked that we focus, and have offered several recommendations.

While we hope that each of the recommendations will be helpful, we wish to emphasize the consensus of opinion regarding subsidization and privatization. We believe that subsidizaton as a general rule is not wise, but should be made only for explicitly stated social and/or economic development purposes. We also believe that the State should avoid competition with private financial institutions. We suggest that alternatives be investigated which not only will shift the burden of servicing to the private sector, but also will shift default risk.

The work of the Task Force has been individually challenging and interesting. The issues are complex and affect the economy of the State. The Task Force members wish to thank you for the opportunity to serve you and the citizens of the State, and would individually welcome the opportunity to assist you in the implementation of these recommendations.

Sincerely,

Dave Chatfield, Chair
Loans Task Force

Loans Task Force Membership

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Office of the Governor

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INTRODUCTION

GOVERNOR'S CHARGE

On January 20, 1983, Governor Sheffield accepted the recommendation of the Business Management Task Force, and created the Loans Task Force.

The Governor requested that the Loans Task Force submit recommendations on several organizational and policy issues. In particular, the Governor listed the following five questions to be dealt with by the Task Force:

I. Which loan programs should be consolidated into the Department of Commerce and Economic Development (DCED), and which programs should not?

II. What should be the organization structure dealing with loans within the DCED?

III. What should be the relationship of lending agencies to the DCED?

IV. What should be the involvement of the private sector in public lending programs?

V. What should be the State policy toward the use of subsidized loan rates?

The Loans Task Force accepted the Governor's charge, and committed itself to recommending solutions to the Governor's five questions, while not limiting itself to those questions.

Summary of Recommendations

The following statements represent summarized recommendations of the Loans Task Force as discussed in detail in the body of the report. They are offered primarily for quick review. The numbers do not correspond to the numbers of the recommendations. Appropriate recommendation numbers are cited in parentheses.

1. The administration of almost all loan progams should be placed within the Department of Commerce and Economic Development. The two major exceptions are the Scholarship Revolving Loan Fund and the Housing Assistance Loan Fund (#1, 2).

2. Accounting and collection functions of all noncorporate direct loan programs should be consolidated (#3).

3. Loan programs with the Department of Commerce and Economic Development should be placed within a Division of Investment for administrative control and coordination, and a Division of Finance and Economics should be created to be a central resource unit for planning, research, program evaluation, and bonding (#4, 5).

4. The executive directors of public corporations should report to the commissioner of the appropriate department and serve at the pleasure of the Governor. Boards of directors should be replaced by one Loans Advisory Board of Directors (#6, 7, 8).

5. The State should avoid direct lending programs and competition with private financial institutions whenever possible (#9, 10).

6. The State should sell loans in its portfolio to private institutions and should discourage a public corporation from taking an ownership position in a private enterprise (#11, 12).

7. Alternatives to current program financing should be considered which may shift some default risk to the private sector. Alternatives include guarantee funds and privately placed CD's (#13).

8. The policy of the State should be not to subsidize loan rates in loan programs except for explicit social and/or economic development objectives. Subsidies should be reconsidered every two years and their estimated cost reported annually (#14, 15, 16).

9. Statutorily fixed loan rates in direct loan programs should be abolished. Loan rates should be tied to the U. S. Treasury yield curve plus an adjustment for risk and administrative costs (#17).

10. HAD/CRA should develop a Home Ownership Assistance Program, eliminate distinctions between urban and rural areas and develop an outreach program to serve all State loan programs (#18, 19, 25).

11. All agricultural lending should be done through one program in the Department of Commerce and Economic Development. Only qualified persons should be awarded agricultural land by the Department of Natural Resources, and the agricultural loan program should be for development only (#20, 21).

12. Changes in the Scholarship Revolving Loan Fund should include an increase in the loan rate and adaption of financial need criteria (#22).

13. Procedural and operational audits on programs not regularly audited should be conducted immediately and annually hereafter (#23, 24).

14. Any public officials' code of ethics regarding loan programs should prohibit any attempt to influence a program administrator's decision on loan applications and/or collections (#26).

I. -Which loan programs should be consolidated into the Department of Commerce and Economic Development, and which programs should not?

(Recommendation #1-#3)

Recommendation #1

The administration of the following loan programs are recommended to remain in their current departments:

a. Scholarship Revolving Loan Fund (APEC, Department of Education)
b. Memorial Scholarship RLF (APEC, Department of Education)
c. Housing Assistance Loan Fund (HAD, Department of Community and Regional Affairs)
d. Disaster Relief Fund (Office of the Governor)
e. Outdoor Recreation Open Space (Division of Parks, Department of Natural Resources)
f. Relocation Loan Fund (all agencies; inactive)

Recommendation #2

I. The following loan programs are recommended to be transferred to the Department of Commerce and Economic Development:

a. Ag. Revolving Loan Fund (DNR)
b. Ag. Land Sales (DNR, Division of Land and Water Management)
c. Alaska Housing Finance Authority (Department of Revenue)
d. Alaska Municipal Bond Bank (Department of Revenue)
e. Fishery Prod. Rev. Loan Guar. Fd. (Department of Revenue, Division of Treasury)
f. Alaska Gas Pipeline Authority (Department of Revenue)
g. Alaska Med. Facility Auth. (Department of Revenue)

II. The following loan programs, within the DCED, are recommended to be transferred to the Division of Loans (DCED):

a. Ag. Land Clearing Loans (DCED, AAAC)
b. Medical Malpractice Liability (DCED, Division of Insurance)

Recommendation #3

A centralized accounting and collections division should be created in the Department of Commerce and Economic Development to perform the accounting and collections functions for the direct lending programs in that and other departments.

Narrative for Recommendations #1 - #3

The Task Force identified 30 loan programs in 6 departments administered by 17 divisions or agencies. Most of the programs are in the DCED already. Under the current organization there are 12 programs in 5 departments administered by 11 divisions or agencies which are not in the DCED.

It is the opinion of the Task Force that the State would benefit from a consolidation of all lending programs within the DCED unless there are compelling reasons not to consolidate a program. There are several instrumentalities and a loan guarantee program in the Department of Revenue that should be in the DCED. The largest of these instrumentalities are the Alaska Housing Finance Corporation and the Alaska Municipal Bond Bank. There is no compelling reason for these instrumentalities to be in the Department of Revenue. Their activities are linked closely to economic development, and consolidation into the DCED would bring into the same department all of the large bond issuing programs related to economic development. In the opinion of the Task Force this should allow for increased coordination between programs, and for sharing a common base of expertise for planning, research, and evaluation.

A particular need to consolidate agricultural lending programs is apparent. The Task Force noted that agricultural development planning is being conducted in the DCED while agricultural development lending is in the Department of Natural Resources (DNR). As a result, persons may acquire agricultural land in the DNR lottery and may obtain a land clearing loan from the Alaska Agricultural Action Council (AAAC), but may not obtain farm development loans from the Agricultural Revolving Loan Fund (ARLF) in the DNR. This can be solved by bringing the ARLF into the DCED in order to match planning and financing, and by ceasing the land clearing lending function of the AAAC. Thus, all of the agricultural lending would be done by the ARLF, and only persons who qualify for a development loan would qualify for a land clearing loan. The DNR would retain control of the lottery awards, but should have to coordinate with the ARLF to ensure that winners of the lottery can qualify for loans before finalizing the award. The land sales contract can be administered by the ARLF.

Of the 5 loan programs (excluding the Relocation Loan Fund) not recommended for transfer to the DCED, the largest are the Scholarship Revolving Loan Fund and the Housing Assistance Loan Fund. The Task Force found that there were solid reasons for leaving the administration for the lending functions of these programs in their respective departments. The Alaska Postsecondary Education Commission (APEC) can best coordinate the Scholarship Revolving Loan Fund with other student financial aid programs, and is also involved in determining the definition of a student and a program. The Housing Assistance Loan Fund should remain in the Department of Community and Regional Affairs due to that department's ability to act as a delivery system for the program. The Task Force recommends expanding the DCRA's role as a delivery system in recommendation #25 in the section with general recommendations.

However, while the Task Force recommends that their lending functions not be moved, it does recommend that the accounting and collections functions be consolidated into a Division of Accounting and Collections in the DCED. The Division of Loans and Veterans' Affairs in the DCED already has accounting and collections capabilities, as does the APEC in the Department of Education. Administrators of the Scholarship Revolving Loan Fund, the Housing Assistance Loan Fund, and the ARLF indicated interest in the idea of consolidating the accounting and collections functions. Along with its recommendation the Task Force cautions that this consolidation will require expert computer programmers to develop, and that the capability of the Division of Accounting and Collections must be developed prior to the transfer of responsibilities.

After the recommended reorganization, the 30 programs would be in 5 departments and 12 agencies or divisions. However, more would be concentrated in the DCED compared to the current organization with only 5 programs in 4 agencies or divisions in 4 other departments. The changes might be made more clear by reviewing Tables I through XIII which diagram the loan programs in the departments both currently and after the recommendations are implemented. Tables I through VI diagram the current organization, while Tables VII through XIII reflect the recommendations of the Task Force.

Table I

Current Organization Summary

Programs	Department	Divisions/Agencies
18	1	6
1	1	1
5	1	5
3	1	3
2	1	1
1	1	1
30	6	17

Table II

DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT (18)

Division of Loans and Veterans' Affairs (12)

Economic Development

D Commercial Fishing RLF
D Fisheries Enhancement RLF
D Mining LF
D Alt. Tech. and Energy RLF

Social

D Bulk Fuel RLF
D Child Care Facility RLF
D Historical Dist. RLF
D Res. Energy Conser. Fd.

Inactive

D Small Business RLF
D Tourism RLF
D Veterans' RLF
D Water Resources RLF

Division of Insurance (1)

Social

D Medical Malpractice Liability RLF

Instrumentalities (5)

Economic Development

Int., I Ak. Ind. Dev. Auth.

D Ak. Resources Corp.
Ak. Power Authority
D Power Project Fund
D Rural Electrification RLF
D Ak. Agricultural Action Council

D = Direct lending
I = Indirect Lending
Int. = Intermediary

Table III

MISCELLANEOUS SOCIAL PROGRAMS (2)

Office of the Governor (1)	All Agencies (1)
D Disaster Relief Fund	Relocation Planning Loans (not counted in summary)

Table IV

DEPARTMENT OF REVENUE (5)

Division of Treasury (1)

Economic Development

I Fishery Product RL Guar. Fd.

Instrumentalities (4)

Housing

I Ak. Housing Finance Authority

Economic Development

D Ak. Municipal Bond Bank Auth.

Social

Int. Ak. Med. Facility Auth.

Inactive

Ak. Gas Pipeline Financing Auth.

Table V

DEPARTMENT OF NATURAL RESOURCES (3)

Division of Agriculture (1)	Division of Parks (1)	Division of Land & Water Management (1)
Economic Development	Social	Economic Development
D Agricultural RLF	D Outdoor, Rec. Open Space and Historical Prop. Dev. Fd.	D Land Sales for Agriculture

Table VI

DEPARTMENT OF EDUCATION (2)

Instrumentality (2)

Social
Ak. Commission on Postsec. Ed.
D *Memorial Scholarship RLF
D *Scholarship RLF

Table VII

Organization Summary

After Reorganization

Programs	Department	Divisions
25	1	8
2	1	1
1	1	1
1	1	1
1	1	1
30	5	12

Table [illegible]

The Department of Commerce and Economic Development

DEPUTY COMMISSIONER FOR ECONOMIC DEVELOPMENT

- **Division of Finance and Economics**
  - Planning
  - Research
  - Evaluation
  - Bonding
- **Division of Investment**
  - **Housing**
    - AHFC
  - **Economic Development**
    - AIDA
    - ARC
    - Ak. Municipal Bond Bank
    - APA
      - *Power Project
      - *Rural Electrification
    - Ak. Gas Pipeline Auth.
    - Div. of Loans
      - *Agriculture
      - *Commercial & Industrial
  - **Social**
    - Ak. Medical Facility Auth.
    - Division of Loans
      - *Social
- **Division of Accounting and Collections**
  - Accounting
  - Collections

Table IX

DEPARTMENT OF COMMERCE AND
ECONOMIC DEVELOPMENT (25)

Housing (1)

Ak. Housing Finance Corp.

Economic Development (17)

Ak. Ind. Dev. Authority
Ak. Resources Corp.
Ak. Municipal Bond Bank
Ak. Power Authority
* Power Project Fd.
* Rural Electrification

Ak. Gas Pipeline Authority

Division of Loans

* Agriculture Loans
  - Ag. Rev. Loan Fd.
  - AAAC Land Clearing
  - DNR Ag. Land Sales

* Commercial & Industrial Loans
  - Comm. Fishing RLF
  - Fisheries Enhancement RLF
  - Mining LGF
  - Alt. Tech. & Energy RLF
  - Fish. Prod. Rev. Loan Guar. Fd.
  - Small Business RLF
  - Tourism RLF
  - Water Resources RLF

Social (7)

Ak. Med. Facility Authority

Division of Loans
* Social Loans
  - Veterans Loans
  - Res. Energy Cons. RLF
  - Child Care Fac. RLF
  - Bulk Fuel RLF
  - Historical Dist. RLF
  - Med. Malpractice Liab.

Table X

DEPARTMENT OF EDUCATION (2)

Instrumentality

Social

Ak. Commission on Postsec. Ed.
* Memorial Scholarship RLF
* Scholarship RLF

Table VI

DEPARTMENT OF NATURAL RESOURCES (1)

Division of Parks (1)

Social

Outdoor Rec. Open Space and
Historic Prop. Dev. Fd.

Table XII

MISCELLANEOUS SOCIAL PROGRAMS (2)

Office of the Governor (1)

Disaster Relief Fund

All Agencies (1)

Relocation Planning Loans
(not counted in summary)

Table XIII

DEPARTMENT OF COMMUNITY AND REGIONAL AFFAIRS (1)

Division of Housing Assistance (1)

Housing

D Housing Assistance LF
(Nonconforming & rural)

II. What should be the organization structure dealing with loans within the Department of Commerce and Economic Development?

(Recommendation #4 - #5)

Recommendation #4

The Task Force recognizes the right of each commissioner to shape his or her department as he or she thinks best. With that understanding, the Task Force recommends that, under a deputy commissioner in the DCED, there be created three divisions:

a. The Division of Finance and Economics would be a central resource unit for planning, research, program evaluation, and bonding.

b. The Division of Accounting and Collections would be a central accounting and collection facility for all direct lending programs in the DCED, and for those in other departments where appropriate.

c. The Division of Investment would be an umbrella division containing all of the loan programs in the DCED.

Recommendation #5

The Task Force recommends that the Division of Loans and Veterans' Affairs be renamed the Division of Loans, with three subdivisions:

a. Agricultural Loans

ARLF (from DNR)
AAAC Land Clearing
Ag. Land Sales (From DNR)

b. Commercial and Industrial Loans

Commercial Fishing RLF
Fisheries Enhancement RLF
Mining Loan Fund
Alt. Technology & Energy RLF
Fishery Product Rev. Loan Guar. Ed. (From Dept. of Rev.)
Small Business RLF (Inactive)
Tourism RLF (Inactive)
Water Resources RLF (Inactive)

c. Social Loans

Veterans' RLF (Inactive)
Residential Energy Conservation RLF
Child Care Facilities RLF
Bulk Fuel RLF
Historical District RLF
Medical Malpractice Liability (From Div. of Insurance)

Narrative for Recommendations #4 and #5

An organization chart reflecting the Task Force recommendations is shown on Table VIII above. The rationale for a Division of Accounting and Collections is outlined in Recommendation #3 and its narrative, and need not be repeated here.

The Division of Finance and Economics is recommended to accomplish several objectives. It would be a central resource group for the department for financial and economic analysis of its programs. It would develop a framework to provide a common direction for department programs. Working with the Division of Strategic Planning in the Office of Management and Budget it could develop action plans to achieve development objectives, and could monitor the programs' progress in meeting objectives. It could also be a source of supplemental staff support with bonding expertise for department agencies which issue bonds and for the State Bond Committee.

This division could collect and analyze industry data, and could work with development advocates within the DCED to develop action plans for the State's development. The financial expertise is a crucial part of any action plan. The program evaluation responsibility is crucial to monitor the effectiveness of a State-supported program. The Task Force recommends that program evaluation be an ongoing process rather than periodic efforts. Therefore, this Task Force is not recommending the addition or the elimination of programs. Rather, it recommends that this division perform an ongoing program of evaluation, and make suggestions for program changes.

The Task Force realizes that the Division of Investment is not an ordinary division because it is an umbrella division that includes lending groups which are themselves divisions. The Task Force believes that the person who fills the director position should be generally well-founded in banking and/or investment principles, and should be strong in management and coordination skills. This person would be an important resource for the commissioner and the deputy commissioner. Therefore, it is recommended that the DCED be flexible in determining the salary range for this position. In addition to being well-informed about the activities of each agency and program, the director should increase cooperation and coordination between programs, perhaps through regular group meetings of all directors and executive directors. This director probably should be located in Anchorage since most of the lending groups in the division are headquartered there.

The Task Force recommends the name change for the Division of Loans and Veterans' Affairs to the Division of Loans for the sake of simplicity. The Division of Loans would receive the Medical Malpractice Liability Revolving Loan Fund, the Fishery Product Revolving Loan Guarantee Fund and the agricultural lending responsibilities from other departments or divisions. However, the Task Force recommends that the agricultural subdivision of the Division of Loans continue to be located in Wasilla where it can work closely with the DNR and with its borrowers.

III. What should be the relationship of lending agencies to the Department of Commerce and Economic Development?

(Recommendation #6 - #8)

Recommendation #6

The Task Force recommends that the boards of directors of the following instrumentalities be eliminated:

a. Alaska Housing Finance Corporation
b. Alaska Industrial Development Authority
c. Alaska Municipal Bond Bank
d. Alaska Power Authority
e. Alaska Gas Pipeline Authority (inactive)
f. Alaska Medical Facility Authority
g. Alaska Resources Corporation

Recommendation #7

The Task Force recommends that the Executive Directors of the agencies listed in recommendation #6 serve at the pleasure of the Governor and report to the Commissioner of the Department of Commerce and Economic Development as illustrated in Table VIII.

Recommendation #8

The Task Force recommends that the Governor appoint one Loans Advisory Board of Directors not to exceed seven persons, serving staggered terms, drawn from the private sector for diversity and expertise.

Narrative for Recommendations #6 through #8

The State has several public corporations and authorities attached by statute to certain departments. These public corporations and authorities issue bonds and make economic development decisions without a clear line of command between them and the departments to which they are attached. This would remain true even after the agencies are consolidated into the DCED as suggested in the section dealing with program consolidation.

The Commissioner of the DCED is only one of several board members on the boards of the Alaska Housing Finance Authority, the Alaska Industrial Development Authority, the Alaska Resources Corp., and the Alaska Gas Pipeline Authority (inactive). He is not on the board of the Alaska Municipal Bond Bank Authority or the Alaska Medical Facility Authority.

Being but one of several board members blurs the line of command and accountability from the Commissioner to the head of the agency. To the extent that this may allow agencies to become independent of the departments, several problems arise. First, bonding decisions, which may affect the State's credit and access to the bond markets, may be made outside of the control of the department. Second, economic development decisions may be made outside of the executive department of State Government. Finally, it is difficult for a commissioner to hold an agency head accountable when the commissioner is an active board member, and it is difficult to define the accountability of a commissioner when he or she is but one of several board members.

In order to clarify the chain of command and to improve control and accountability, the Task Force recommends that instrumentalities within departments not have controlling boards of directors. Rather, the head of the agency should report to the commissioner in such manner as the commissioner may determine. In order to provide the executive directors and the commissioner with advice and consultation on operations and control, the Task Force recommends that the Governor appoint from the private sector one advisory board of directors for all of the loan programs within the DCED. The Task Force members generally felt that the number of directors should be limited to seven, serving staggered terms and representing a broad range of expertise in lending, investments, computer automation, management, and control. It was felt also that the board of directors should receive travel expenses plus per diem, plus an honorarium of $250 - $400 per day of service. Finally, it was suggested that the Governor might request recommendations for appointment from appropriate professional associations in the State.

IV. - What should be the involvement of the private sector in public lending programs?

(Recommendation #9 - #13)

Recommendation #9

The Task Force recommends that the State express a policy to the effect that it is the policy of the State not to compete with private financial institutions in its lending programs.

Recommendation #10

The Task Force recommends that, in accordance with the policy statement in recommendation #9, direct lending by State programs should not be encouraged, and should be utilized for social and/or economic development goals only when private sources of financing are not available under reasonably similar terms and conditions.

Narrative for Recommendations #9 and #10

The Task Force felt that State-supported loan programs should utilize the private sector for loan origination and servicing as much as possible. Also, it was felt that a direct loan program should follow a policy that it would not finance a borrower unless that borrower could not obtain reasonable private financing. However, it is recommended that this be carried out by policy directive which can be flexible rather than by statutory restrictions. Such a policy statement would require that alternatives to direct lending be considered and explicitly discarded before initiating a new direct lending program. These Task Force recommendations would support an investigation of contracting out to private firms the servicing of current loans held in the State's portfolio. However, it was felt that unless the State can contract out substantially all of the loan servicing it may not be economically feasible to contract out a portion due to high fixed costs the State would incur in servicing the remaining loans.

Recommendation #11

The Task Force recommends that private institutions be encouraged to purchase unpledged loans held in the State's direct lending portfolio under terms and conditions to be negotiated at the time between the private institution and the commissioner of the appropriate department.

Narrative for Recommendation #11

The Task Force felt that there are many instances where an applicant is considered too risky by a private lender, due perhaps to the lack of a credit or operating history. Once the borrower can demonstrate a favorable history on the loan, a private lender may be interested in purchasing the loan to gain access to a geographic area or to gain a future good customer. It would be advantageous to the State to sell its loans to a private lender to encourage private financial services to be made available everywhere, and to obtain a source of funds for new lending.

Recommendation #12

The Task Force recommends that the State express a policy to the effect that it is the policy of the State to discourage a State-supported agency or program from taking an equity (ownership) position in a private enterprise, except as a last resort to protect the State's existing investment in that enterprise.

Narrative for Recommendation #12

Members of the Task Force agreed that it is not desirable for a government agency to own or to have ownership of a private enterprise. Agencies which have the autnority to acquire ownership interest should do so only as a last resort. Those agencies are encouraged to utilize flexible debt arrangements and royalty agreements to a large extent, and to avoid ownership.

Recommendation #13

The Task Force recommends that, where feasible, alternatives to direct lending by current programs be considered. These alternatives should attempt to shift default risk to the private sector as well as loan servicing responsibilities. Two such alternatives are discussed in the narrative.

Narrative for Recommendation #13

The Task Force felt that available evidence suggests that State direct and indirect lending have driven private financial institutions out of the Alaskan market. This is reflected generally in a decline in the loan/asset ratio and in a rise in the ratio of cash and investments to assets of private financial institutions. The Task Force also felt that simply using the private sector for origination and servicing is not preferable to developing a system which encourages the private sector to assume its traditional role of a profit-motivated risk taker. Even if the private sector originated and serviced all of the loans made by State-supported programs, it would not be raising and putting at risk its own capital.

The Task Force identified two alternatives to current programs that might be considered further. The first alternative would be to eliminate all lending programs and to replace them with loan guarantee funds similar to the Fishery Product Revolving Loan Guarantee Fund. If the State decides to subsidize the interest rate on a loan, it could do so by appropriating the difference between the interest that the borrower pays and the interest that the institution charges. The benefits of the procedure are that the private sector is raising the loan funds and lending them, and pressure on appropriations may be reduced.

If the fund guarantees less than 100% of the loan, the private sector shares the default risk with the State. While the Task Force does not recommend 100% guarantees, even if the fund were to guarantee 100% of the loan and would have to have an appropriation equal to the principal amount of the loans, the pressure on the State's budget would be eased in the long run unless all of the loans defaulted.

The Task Force identified some problems to be resolved. First, if subsidy payments are made to the private institution, it may create taxable income to the borrower. The Department of Law would have to clarify that. Second, any system that relies on the private sector to deliver the programs to the public must consider the delivery system to geographic areas not well served by private institutions. This may be solved by expanding the role of the Department of Community and Regional Affairs to be the main delivery system in rural areas as suggested in Recommendation #25. Finally, the private sector may not be able to offer long-term loans or flexible repayment schedules that are required in some circumstances.

The second alternative for consideration is that the State might devise a new system of financing loan programs. Rather than appropriating money to fund a loan as is now done in direct lending programs, it might be possible to appropriate money to fund the purchase of negotiated certificates of deposit which private institutions could utilize as a funding source for the loans. The CD's would be dedicated for certain purposes with certain restrictions. Ownership of the loans would be held by the private sector which would also service them.

If the program requires deferred loan payments (such as the Mining Loan Fund), then interest payments on the CD would also be deferred. In addition, if the State desires, the CD could be pledged to guarantee a portion of the principal amount of the loan. In that case, the private sector would share a portion of the default risk with the State. For example, if the CD is pledged to guarantee 70% of the principal amount of the loan, in case of default, the institution would repay only 30% of the original CD less any previous principal payments. Essentially, the State would have to enter into a contractual agreement with private financial institutions whereby they would agree to make certain types of loans with certain terms. The institution would agree to pay the State the loan rate less a discount to cover administrative costs and profit.

The benefits of this alternative are that private institutions retain their sharp competitive edge since they retain default risk, and that the State provides a long-term source of funds for long-term loans. Other than the delivery system problem mentioned above, the primary problem identified by the Task Force is that it is possible that private institutions would be unwilling to enter into reasonable contracts. If that were the case, the State would have to continue its direct lending programs, but would do so with the assurance that there is no viable alternative.

V. What should be the State policy toward the use of subsidized loan rates?

(Recommendation #14 - #17)

Recommendation #14

The Task Force recommends that the State express a policy to the effect that it is the policy of the State not to subsidize the interest rates on loans to borrowers through State-supported programs unless the decision to do so is stated explicitly and is based on social and/or economic development objectives.

Narrative for Recommendation #14

The Task Force felt that there was no explicit policy concerning subsidized interest rates in State loan programs. An examination of historical data suggested that most programs were created with loan rates that were at or above the U. S. Treasury yields. Subsidies developed in recent years as market rates rose above statutorily fixed loan rates. While a subsidy has been institutionalized in the programs of the Alaska Housing Finance Corporation, no general policy of the State is apparent.

Recommendation #15

The Task Force recommends that any explicit decision to subsidize the interest rates on loans under any program be reconsidered at least once every two years and either be rescinded or reaffirmed.

Recommendation #16

The Task Force recommends that programs which include a State subsidy, either through lower loan rates or deferred payments, should continue to report annually an estimate of the cost of the subsidy.

Narrative to Recommendations #15 and #16

The Task Force felt that it is wise to state explicitly reasons for a subsidy and estimated costs of the subsidy in order to monitor the continued appropriateness of the subsidy. Requiring that subsidies be reconsidered every two years would avoid the possibility of unintended program effects resulting from a lack of review.

Recommendation #17

With respect to the interest rates on loans in the programs funded only by appropriations the following recommendations are made:

a. Abolish statutorily fixed loan rates and replace them with rates that are tied to the U. S. Treasury yield curve.

b. The unsubsidized loan rate on a loan would be the prior month's six-month moving average of U. S. Treasury interest rates for the approximate maturity length of the loan, plus an additional 200 basis points for risk adjustment and for administrative costs.

c. When the unsubsidized loan rate equals 10% or less, the program loan rate shall be equal to it unless an exception is explicitly stated and the social purpose defined.

d. Loan programs which for economic reasons offer loans with deferred loan payments should accrue interest on those loans.

Narrative for Recommendation #17

The Task Force was in agreement that generally it is the availability of money which is more important than its cost. It was also felt that subsidies should be used rarely, and mostly for social purposes rather than for economic development. This is because subsidies may have unintended effects, may promote an economy dependent on unrealistically cheap money, and may encourage a high debt structure which would make the economy more vulnerable if the programs were cut.

Statutorily fixed loan rates are clear, but are cumbersome to change and can have unintended policy effects due to shifts in market rates. Tying loan rates to market rates would eliminate the need to statutorily adjust them to the market each year. A six-month moving average is recommended because it will smooth out fluctuations in market rates. Also, during periods of declining rates, borrowers will have an incentive to turn to the private sector, whereas when interest rates are rising, State programs will be more attractive. This would give State programs a counter cyclical effect which would be beneficial.

It is recommended that the unsubsidized loan rate equal the Treasury rate plus 200 basis points. This will partly adjust for risk, but not entirely. It was noted that the November bond issue of AHFC was priced about 150 basis points over the Treasury yield. The balance of 50 basis points is designed to cover program administrative costs. The Task Force felt that, since only borrowers directly benefit from a State-supported program, the borrowers should pay toward the administrative costs of the program.

Finally, the Task Force felt that there should be no subsidies when loan rates are at or below 10% unless they are for specific social purposes such as the proposed Home Ownership Assistance Program in the Housing Assistance Loan Fund mentioned in Recommendation #18.

VI. Some program-specific recommendations are made.

(Recommendation #18 - #22)

Recommendation #18

The Task Force recommends that the Housing Assistance Division, Department of Community and Regional Affairs, develop a Home Ownership Assistance Program adapted with appropriate modifications from a similar program offered by the Alaska Housing Finance Corporation.

Recommendation #19

The Task Force recommends that the distinction between urban and rural nonconforming housing loans be eliminated, and that the definition of a rural area be reconsidered for the rural owner-occupied and nonowner-occupied housing programs in the Housing Assistance Loan Fund.

Narrative for Recommendations #18 and #19

The Task Force felt that the benefits of home ownership were not being offered to low-income persons as effectively as they are through AHFC. It was felt that the primary justification for different loan rates between programs should be based on appropriate family income differences. The Task Force also felt that market demand should determine the urban/rural composition of nonconforming housing loans. Finally, the definition of a rural area in the second through fourth judicial districts should be reconsidered. The Task Force felt that an area can be clearly rural in nature and still have road or rail access to Anchorage or Fairbanks.

✓ non conf : 20-80 split; still have it

pop. 4500 : 1st Jud. Dist. or 2nd — conf. boundaries of city of

4th = 35 mile rad. around FBX

3rd : 100 " " conforming bound. of munic. of Anch

formerly was within road or rural & Anchorage limit

conforming was rural & now is urban

1984 → HB 663 sec. 7

Recommendation #20

The Task Force recommends that it be made clear that agricultural lending, to be consolidated in the Division of Loans, DCED, is for the purpose of farm development and not intended to replace private and other sources of financing for agriculture. As part of the loan application package, a plan should be developed which outlines how and when the borrower shall cease using the Division of Loans as a source of financing.

Narrative for Recommendation #20

Members of the Task Force felt that is was important to recognize the State's program as a development tool, but that it should not be a source of continuing subsidized financing. Only by developing a plan which will gradually move the borrower toward other sources of financing at market rates can the State develop a healthy, properly financed agricultural sector.

Recommendation #21

The Task Force recommends that the Department of Natural Resources, Division of Land and Water Management, work with the Department of Commerce and Economic Development to develop a system which will ensure that only persons who will qualify for farm financing will be awarded agricultural land in the land disposal program.

Narrative for Recommendation #21

The Task Force felt that it made no economic sense to award persons agricultural land and give them a loan to clear it if they were not qualified to obtain a farm development loan. One solution would be to have the finalization of the land award dependent on qualifying for a farm loan, and having all clearing and development loans made through one program.

Recommendation #22

The Task Force recommends that the Alaska Postsecondary Education Commission adopt the following changes to the Scholarship Revolving Loan Fund:

a. The loan rate should be set in accordance with Recommendation #17.

b. The APEC should develop Alaska-specific financial need criteria to determine:

   (1) how much the unsubsidized loan rate may be reduced; and,

   (2) whether interest payments during the study term may be deferred or forgiven.

c. Any qualified borrower should be able to apply for one-half of the current loan limit ($6,000 per year for undergraduate and $7,000 per year for graduate study). The APEC should develop Alaska-specific financial need criteria for use as a guideline for applicants requesting to borrow in excess of one-half of the current loan limit.

Narrative for Recommendation #22

The Task Force felt that the primary reason for the explosive growth of the Scholarship Revolving Loan Fund is that its terms are too attractive and that there are no financial need criteria used. This situation has resulted in many students borrowing from the fund, even when they have funds of their own, in order to earn arbitrage income between the loan rate and market interest rates. By setting the loan rate for this fund the same as is recommended (#17) for other funds, and then requiring Alaska-specific need criteria to be used to lower the loan rate, the State can ensure that only students who have financial need are obtaining loans.

The Task Force felt that only after such alternatives are considered in order to reduce demand pressure on the loan fund should consideration be given to alternative mechanisms for financing the fund. Such alternative mechanisms may include those discussed in the narrative for Recommendation #13 or may include bonding. However, if bonding is considered, the Task Force recommends soliciting proposals from several sources including the Student Loan National Marketing Association.

VII. Some general recommendations are made.

(Recommendation #23 - #26)

Recommendation #23

The Task Force recommends that a certified "entry" audit of all loan programs be conducted by an independent auditing firm. This audit would exclude programs which already regularly are the subject of an audit by an independent auditing firm, and have received such a certified audit within the past 12 months.

Recommendation #24

Using the "entry" audit in #23 as a starting point, the Task Force recommends that there be annual procedural and operational audits of all loan programs not already regularly audited.

Narrative for Recommendations #23 and #24

The Task Force felt that an audit of operations and procedures of loan programs should coincide with the entry of a new administration. Further, the Task Force felt that annual audits should be conducted on loan programs not already subject to an annual audit. The Task Force sugested that the annual audits might be conducted either by the Division of Banking & Securities, DCED, or by the Division of Management, Office of Management and Budget.

Recommendation #25

The Task Force recommends that the State expand its efforts to serve all parts of the state by increasing the role of the Department of Community and Regional Affairs in an outreach program of information, explanation, and education for all State-supported loan programs.

Narrative for Recommendation #25

The Task Force noted that the primary reason for having the housing loan program within DCRA was to utilize their presence in the rural areas as a delivery system. In addition, it was noted that the DCRA does do some information work for the State's commercial fishing loan program in western Alaska. It is the opinion of the Task Force that the rural presence of the DCRA should be utilized formally as a central source of information and education in an outreach program serving all State-supported loan programs.

Recommendation #26

The Task Force recommends that any policy statement on ethics regarding public officials and loan programs should include a provision to the effect that legitimate concerns of constituents and constituent inquiries are protected, but officials making such inquiries should not attempt to influence program administrators in their decisions on loan applications and/or collections.

Narrative for Recommendation #26

Members of the Task Force considered it to be an abuse of power by a public official to attempt to influence the administrator of a loan program in decisions on applications and/or collections. Inquiry is legitimate, but coercion is not. The Task Force felt that a public official's ethics statement should cover this topic.

Active and Inactive State Loan Programs

ACTIVE

Agricultural Revolving Loan Fund[1]
Alaska Grain Reserve Loan Fund[1]
Alaska Housing Finance Corporation (AHFC)[2]
Alaska Medical Facility Authority[2]
Alaska Municipal Bond Bank Authority[2]
Alaska Resources Corporation (ARC)[1]
Alaska Industrial Development Authority (AIDA)[2]
Alaska Power Authority[1]
Alternative Technology and Energy Revolving Loan Fund[1]
Bulk Fuel Revolving Loan Fund[1]
Child Care Facility Revolving Loan Fund[1]
Commercial Fishing Revolving Loan Fund[1]
Fisheries Enhancement Revolving Loan Fund[1]
Historical District Revolving Loan Fund[1]
Housing Assistance Loan Fund[1]
Medical Malpractice Liability Revolving Loan Fund[1]
Mining Loan Fund[1]
Relocation Planning Loans[1]
Residential Energy Conservation Fund[1]
Scholarship Revolving Loan Fund[1]
Teacher Scholarship Loan Fund[1]

INACTIVE

Alaska Disaster Economic Impact Fund
Alaska Gas Pipeline Financing Authority
Alaska State Housing Authority (ASHA)
Disaster Relief Fund*
Capital City Revolving Loan Fund
Housing Development Revolving Loan Fund
Outdoor, Recreational, Open Space and Historical Properties Development Fund*
Public Law 92-203 Loan Program
Small Business Revolving Loan Fund**
Tourism Revolving Loan Fund**
Veterans' Revolving Loan Fund**
Water Resources Revolving Loan Fund**

[1]These programs are funded through State appropriations.
[2]These programs are funded, at least in part, through bond sales.

*These programs are funded to make either grants or loans, and make grants rather than loans.
**These programs are inactive but still service some loans.

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ATTACHMENT 3

Summary of Delinquency and Default
State Loan Programs, 1st Quarter FY 86

Loan Program		Delinquent Loans[1] $ Thousands	Delinquent Loans[1] %	Loans in Default[2] $ Thousands	Loans in Default[2] %
Indirect Lenders:	Alaska Housing Finance Corporation (all programs)	$272,805.3	5.1	$26,933.0	.5
	Alaska Industrial Development Authority:				
	AIDA-purchased	12,522.1	4.4	1,236.6	.4
	Appropriated to AIDA	8,102.4	9.3	2,015.2	2.3
	Alaska Medical Facility Authority	0.0	0.0	0.0	0.0
	Alaska Municipal Bond Bank Authority	0.0	0.0	0.0	0.0
Direct Lenders:	Agriculture Revolving Loan Fund	6,788.7	12.7	11,717.1	21.9
	Alaska Power Authority:				
	Power Project Fund	0.0	0.0	0.0	0.0
	Rural Electrification Revolving Loan Fund	0.0	0.0	0.0	0.0
	Alaska Resources Corporation	279.2	1.7	15,864.3	95.9
	Alternative Technology & Energy Rev. Loan Fund	814.0	6.8	56.0	.5
	Bulk Fuel Revolving Loan Fund	329.0	31.8	0.0	0.0
	Child Care Facility Revolving Loan Fund	69.0	8.0	0.0	0.0
	Commercial Fishing Revolving Loan Fund	9,026.0	11.7	2,332.0	3.0
	Fisheries Enhancement Revolving Loan Fund	0.0	0.0	0.0	0.0
	Grain Reserve Loan Fund	2.8	0.5	0.0	0.0
	Historical District Revolving Loan Fund	0.0	0.0	0.0	0.0
	Housing Assistance Loan Fund[3]	4,814.2	2.8	395.8	0.2
	Medical Malpractice Liability Revolving Loan Fund	0.0	0.0	0.0	0.0
	Mining Loan Fund	4,183.0	21.3	7,120.0	36.3
	Residential Energy Conservation Fund	396.0	9.2	21.0	.5
	Scholarship Revolving Loan Fund	20,200.5	8.5	18,016.9	7.6
	Small Business Revolving Loan Fund	8,755.0	24.7	3,435.0	9.7
	Tourism Revolving Loan Fund	114.0	2.9	85.0	2.1
	Veterans' Revolving Loan Fund[4]	6,945.0	8.3	1,436.0	1.7
	Water Resources Revolving Loan Fund	0.0	0.0	0.0	0.0

[1]Delinquency includes all loans that are more than one day past due at the end of the quarter; the exceptions are the Agricultural Revolving Loan Fund, AIDA and the Scholarship Revolving Loan Fund.
[2]Loans in default are defined as delinquent loans that have been turned over to counsel for legal action, except loans made from the Scholarship Revolving Loan Fund which are considered to be in default if more than 120 days delinquent.
[3]Includes only the Nonconforming Housing Loan program and mortgages for the Rural Owner-Occupied and Rural Non-Owner-Occupied programs that were purchased since the start of FY 83; mortgages made by the two rural programs before July 1, 1982 are serviced by AHFC and are included in AHFC's delinquency and default figures.
[4]Reflects transfer of all AHFC-owned Veteran loans effective 11/01/83.

ATTACHMENT 4

HS Rsch Ag March 86

FIGURE 1

TOTALS - ALL STATE LOAN PROGRAMS

1st QUARTER FY 86

To Date Loans Outstanding		During FY 86 Total Loans Approved		During the Quarter Loans Approved		During the Quarter Loans Denied	
#	$	#	$	#	$	#	$
160,655	$6,686,786,814	20,824	$606,766,438	20,824	$606,766,438	1,069	$106,652,401

ATTACHMENT 5

Hs Rsch Ag March 86

FIGURE 3
DATA BY LOAN TYPE
1st QUARTER FY 86 AND ALL LOANS OUTSTANDING

	Economic Development	Education	Energy	Housing	Medical and Child Care	Municipal Assistance	Totals
Number Approved During the Quarter	91	16,014	87	4,615	5	12	20,824
Percent of Total Number Approved During the Quarter	.43	76.9	0.42	22.2	.00	.05	100.0
Dollar Amount Approved During the Quarter	$52,752,154	$83,049,342	$2,943,485	$467,378,829	$214,870	$ 472,758	$606,766,438
Percent of Total Dollar Amount Approved During Quarter	8.7	13.7	0.48	77.9	.03	.07	100.0
Number Approved During FY 86 to Date	91	16,014	87	4,615	5	12	20,824
Dollar Amount Approved During FY 86 to Date	$ 52,752,154	$83,049,342	$ 2,943,485	$467,378,829	$214,870	472,758	606,766,438
Number of Loans Outstanding to Date	6,314	96,359	3,362	54,490	30	100	160,655
Dollar Amount of Loans Outstanding to Date*	$710,378,269	$236,718,926	$50,585,585	$5,502,516,970	$15,717,114	$170,869,150	$6,686,786,814

NOTE: For a list of the programs that are included in each category, see page 3.

*The total dollar amount of housing loans outstanding to date does not include AIDA multi-family loans.

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ATTACHMENT 6

AHFC Whole Earth Catalog
Feb 1986

ATTACHMENT 7

INTRODUCTION

The implementation of the Special Mortgage Loan Purchase Program had a dramatic and profound effect upon the economy and housing markets of the State of Alaska. Pursuant to the 1980 Legislation, the program offers interest rates below current interest rates offered in the traditional secondary mortgage markets.

Through the varied programs offered by AHFC, a large segment of the population's housing needs are being met. Not only is AHFC providing affordable housing for the citizens of the State of Alaska, the benefits are disbursed to a much larger segment of the population. The tradesmen, suppliers, realtors, builders, appraisers, bankers and retailers benefit either directly or indirectly from AHFC's participation in the mortgage market of the State of Alaska.

Although the Corporation's activities now constitute a significant portion of the Alaskan residential mortgage market, AHFC does not lend funds directly. Rather, the Corporation is a secondary market for mortgage loans originated by private lenders. The majority of the funds used to purchase the mortgage loans are generated through the issuance of taxable and tax-exempt bonds. Additionally, the Corporation has received direct appropriation from the Legislature that has allowed AHFC to purchase mortgages that bear interest rates below the national average.

The Corporation purchased $836.2 million in loans in FY '85 and received bond authorization for up to $1.5 billion of which $605 million was utilized. The Capital Budget for FY '85 appropriated $16 million in cash to the Alaska Housing Finance Revolving Fund. This appropriation was recinded during the 1985 legislative session. The Corporation has not requested an appropriation for FY '86 but will fund the operations of its programs from amounts available in the Revolving Fund.

The Corporation enjoys substantial financial support from the State of Alaska which, to date, has appropriated $747,871,000 in cash (exclusive of $16,000,000 FY '85 appropriation subsequently recinded) and $286,000,000 in mortgage loans to the Corporation to support its various programs. AHFC has also borrowed $45,070,000 from the State for various purposes. Through December 31, 1985, the Corporation has issued $1,752,000,000 taxable bonds and notes and $3,365,505,000 tax-exempt bonds.

In 1981, legislation was enacted which significantly impacted the method of determining mortgage interest rates. The legislation eliminated the previously "fixed" interest rates of 10 percent on the first $90,000 of the mortgage loan (9 percent if the loan was made to an eligible State veteran) and replaced it with a "sliding" rate to reflect the increased cost of funds to the Corporation. The "sliding" rate is designed to keep the interest rate on the first $90,000, the amount subsidized by the State, to within 3 percent of the cost of funds to the Corporation.

Disruption and volatility in the capital markets during 1981 and 1982 caused mortgage interest rates to increase from the previously fixed rate of 10 percent to 12-3/8 percent on the first $90,000 of the loan and from 12.29 percent to 19.411 percent on the balance of the loan in excess of $90,000. In response to the increasing rates, AHFC implemented the Alaska Building Equity (ABE) Mortgages on June 1, 1982. The ABE Mortgage enhanced the Corporation's ability to access the shorter-term and less expensive capital markets.

The interest rate on an ABE mortgage remains fixed for the entire life of the mortgage, and the monthly payments are amortized on a 30-year level payment basis. However, beginning in years four through nine, the monthly payment is increased by 5 percent each year with the increased portion of the monthly payment applied directly to the outstanding principal of the mortgage loan. As a result, the loan is fully repaid within 16 to 18 years, depending on the interest rate, and the amount of total interest paid during the life of the mortgage is approximately half of that paid if the same loan was repaid over a 30-year period.

The ABE structured mortgage applies to all of the Corporation's programs, with the exception of the Mobile Home Loan Purchase Program and the Second Mortgage Loan Program.

Due to AHFC's significant role in providing affordable housing to the citizens of the State of Alaska and AHFC's commitment to keep the public and elected officials informed, we offer this guide as a reference for your use in reviewing AHFC's programs and activities.

ALASKA HOUSING FINANCE CORPORATION

SUMMARY OF STATE FINANCIAL SUPPORT

Alaska Housing Finance Revolving Fund*

FY 85	$ **

Special Mortgage Loan Purchase Program - SAM Fund*

FY 81	
Appropriation	
Mortgage Loans	236,000,000
Cash	238,000,000
FY 82	222,000,000
FY 83	105,000,000
FY 84	6,801,000

Mobile Home Loan Purchase Program

See Notes 1 and 2 for additional funds appropriated to purchase loans under this program.

FY 80		
Loans through Department of Revenue	($10,000,000 at 9.5%)	
FY 81		
Appropriation		12,500,000*

Rural Non-Owner Occupied Mortgage Purchase Program

See Note 1 for additional funds appropriated to purchase loans under this program.

FY 79		
Loans through Department of Revenue	($2,600,000 at 8.5%)	
FY 81		
Appropriation		4,500,000*

Rural Mortgage Loan Purchase Program

See Note 1 for additional funds appropriated to purchase loans under this program.

FY 79		
Appropriation - Training Costs		100,000
Hazard Insurance Fund		250,000
Title Insurance Fund		250,000
Mortgage Insurance Account		500,000
FY 80		
Bond Sale to State of Alaska	($5,600,000 at 7-1/2%)	
FY 81		
Bond Sale to State of Alaska	($4,400,000 at 7-1/2%)	
Appropriations		
Mortgage Purchases		6,500,000*
Title Insurance Fund		130,000
Mortgage Insurance Fund		325,000

**In FY 85 the legislature appropriated $16 million to the Alaska Housing Finance Revolving Fund. This appropriation was rescinded the following year.

(continued on Page 2)

SUMMARY OF STATE FINANCIAL SUPPORT
(continued)

Home Ownership Assistance Program ("HOF" Fund)*

FY 81	
Appropriation	
Mortgage Loans	$ 50,000,000
Cash	2,500,000
FY 82	43,000,000 (1)
FY 83	45,000,000 (2)
FY 84	42,250,000 (2)

State Mortgage Insurance Fund	Total Appropriated	Appropriation Requested and Received
Prior to FY 80	7,100,000	7,125,000
FY 80	6,000,000**	3,000,000
FY 81	12,500,000	6,640,000

** Total Appropriation	$ 6,000,000
Less Amount Unavailable from Veterans Revolving Loan Fund	2,000,000
Less Amount for Mobile Home Insurance Funds Only	1,000,000
	$ 3,000,000

Other State Loans

Loan for Multi-Family Project	($4,420,000 at 3.47%)
Loan for Rural Mortgages	($5,250,000 at 6.00%)
Loans to Fund Capital Reserve Requirement for Insured Mortgage Bond Program	($12,800,000) (3)

(1) Home Ownership Assistance Program appropriation to be utilized to purchase mortgages as follows:

Mobile Home Loans	$18,000,000
Rural	20,000,000
Rural Non-Owner Occupied	5,000,000

(2) To be utilized to purchase Mobile Home loans.

(3) Interest rates on loans are equal to the earnings of the investments made with the loans.

* On June 30, 1984 the SAM Fund, HOF Fund and direct appropriated mortgage loan program amounts were consolidated into the Alaska Housing Finance Revolving Fund.

ALASKA HOUSING FINANCE CORPORATION

Summary of Program Information

State Fiscal Year	Bonds Issued	Bond Authorization	Appropriations	Mortgage Commitments (All Programs)	Operating Budget	Full-Time Staff Positions
FY 81	$614,400,000	N/A	$562,955,000	$ 755,258,150	$1,800,000 (1)(3)	31
FY 82	$802,000,000	$ 802,000,000	$265,000,000	$ 765,189,300	$2,276,200 (3)	43
FY 83	$760,000,000	$ 980,000,000	$150,000,000	$1,137,970,700	$3,441,000 (3)	45
FY 84	$980,000,000*	$ 980,000,000	$ 49,051,000	$1,239,963,225	$2,713,000 (2)(3)	45
FY 85	$604,935,000*	$1,500,000,000	-0-	$ 674,750,343	$2,913,900 (2)	46

(1) AHFC was not under the Executive Budget Act for the State's fiscal year. The Corporation's fiscal year did not coincide with that of the State. The $1.8 million is an estimate based upon actual expenses for the period 7-1-80 through 6-30-81.

(2) Does not include Trustee fees previously included in operating budget. Beginning in FY 84 these fees are included in the Capital Budget.

(3) Actual annual operating expense amounts.

* Does not include $175 million and $125 million collateral notes committed sold directly to FNMA during FY 87.

ALASKA HOUSING FINANCE CORPORATION ATTACHMENT 8

Selected Information

	Number	Amount
Loans owned at 1/31/86	53,380	$ 4,488,874,381
Outstanding loan commitments at 1/31/86	750	$ 75,457,410
Bonds outstanding at 2/19/86	$4,499,145,585	

Delinquency Rates

	Mobile Homes	First Mortgage Loans	
	AHFC at 1/31/86	AHFC at 1/31/86	U.S. at 9/30/85 *
30 days	7.63%	3.75%	3.89%
60 days	1.69%	1.10%	1.00%
90 days or more and loans in foreclosure	2.03%	1.86%	1.67%
Total Delinquent and in Foreclosure	11.35%	6.72%	6.56%
Real Estate Owned	4.50%	1.76%	**

Budget Information

	Operating	Capital
Actual amounts Fiscal Year 1982	$2,276,200	$265,000,000
Actual amounts Fiscal Year 1983	3,441,000	150,000,000
Actual amounts Fiscal Year 1984	2,713,000(1)	49,051,000
Actual amounts Fiscal Year 1985	2,913,900(1)	
Approved budget Fiscal Year 1986	3,311,900(1)	

(1) Excludes trustee fees which are included in the capital budget.

* Delinquency statistics from the National Delinquency Survey published by the Mortgage Bankers Association.

** Statistics on real estate owned are not provided by the Mortgage Bankers Association.

ATTACHMENT 9

DATE 1/31/86

ALASKA HOUSING FINANCE CORPORATION
ALL FIRST MORTGAGES
LOAN SUMMARY MORTGAGES PURCHASED

		FY 1984	%	FY 1985	%	FY 1986 THRU(1/31/86)	%
SALES PRICE		120,754		123,069		124,969	
APPRAISED VALUE		123,572		125,968		130,186	
NOTE AMOUNT		106,003		106,791		109,774	
MONTHLY INCOME		4,536		4,501		4,628	
AGE OF BORROWER		34.7		35.1		35.5	
SIZE OF HOUSEHOLD		2.7		2.7		2.9	
LOAN TO SALES PRICE RATIO		87.78%		86.30%		87.84%	
WEIGHTED AVG INT. RATE		10.09%		11.16%		10.23%	
MONTHLY P&I		943.72		1,030.44		982.44	
DWELLING TYPE..	SFR	8,821	74.13	5,699	77.10	2,507	82.85
	CONDO	2,083	17.50	1,109	15.00	253	8.36
	DUPLX	476	4.00	194	2.62	59	1.95
	PUD	361	3.03	248	3.35	167	5.52
	MOHM	5	.04	78	1.06	36	1.19
	TRI-PLEX	40	.34	25	.34	2	.07
	FOUR PLEX	114	.96	39	.53	2	.07
NEW/EXISTING....	NEW	6,814	57.26	3,931	53.18	1,397	46.17
	EXISTING	5,086	42.74	3,461	46.82	1,629	53.83
1ST TIME HOMEOWNER..	YES	5,445	45.76	3,445	46.60	1,380	45.60
	NO	6,455	54.24	3,947	53.40	1,646	54.40
INSURANCE TYPE......	FHA					0	.00
	VA	2,073	17.42	1,470	19.89	624	20.62
	CONVA	9,827	82.58	5,922	80.11	2,402	79.38
ELIGIBILITY.........	STVA	4,915	41.30	2,956	39.99	1,215	40.15
	NON-STVA	6,985	58.70	4,436	60.01	1,811	59.85
ORIG. PRINCIPAL BALANCE		1,261,435,600.00		789,402,400.00		332,175,900.00	
ORIG. NUMBER OF LOANS		11,900		7,392		3,026	

DATE 1/31/86

ALASKA HOUSING FINANCE CORPORATION
TAX EXEMPT MSBTA FIRST MORTGAGES
LOAN SUMMARY MORTGAGES PURCHASED

		FY 1984	%	FY 1985	%	FY 1986 THRU(1/31/86)	%
SALES PRICE		88,458		92,156		96,835	
APPRAISED VALUE		90,846		94,517		99,540	
NOTE AMOUNT		82,777		86,190		89,200	
MONTHLY INCOME		3,055		3,270		3,527	
AGE OF BORROWER		30.4		30.6		31.0	
SIZE OF HOUSEHOLD		2.3		2.3		2.4	
LOAN TO SALES PRICE RATIO		93.58%		93.53%		92.12%	
WEIGHTED AVG INT. RATE		9.89%		10.69%		10.14%	
MONTHLY P&I		720.35		800.88		792.31	
DWELLING TYPE..	SFR	2,020	61.74	627	68.67	826	77.12
	CONDO	1,173	35.85	255	27.93	165	15.41
	DUPLX	26	.79	7	.77	15	1.40
	PUD	50	1.53	14	1.53	48	4.48
	MOHM	3	.09	10	1.10	17	1.59
	TRI-PLEX					0	.00
	FOUR PLEX					0	.00
NEW/EXISTING....	NEW	2,226	68.03	478	52.35	522	48.74
	EXISTING	1,046	31.97	435	47.65	549	51.26
1ST TIME HOMEOWNER..	YES	2,873	87.81	798	87.40	942	87.96
	NO	399	12.19	115	12.60	129	12.04
INSURANCE TYPE......	FHA					0	.00
	VA	363	11.09	178	19.50	179	16.71
	CONVA	2,909	88.91	735	80.50	892	83.29
ELIGIBILITY.........	STVA	448	13.69	127	13.91	148	13.82
	NON-STVA	2,824	86.31	786	86.09	923	86.18
ORIG. PRINCIPAL BALANCE		270,847,450.00		78,691,800.00		95,533,500.00	
ORIG. NUMBER OF LOANS		3,272		913		1,071	

DATE 1/31/86

A L A S K A   H O U S I N G   F I N A N C E   C O R P O R A T I O N

TAXABLE FIRST MORTGAGES

L O A N   S U M M A R Y   M O R T G A G E S   P U R C H A S E D

		FY 1984	%	FY 1985	%	FY 1986 THRU(1/31/86)	%
SALES PRICE		135,722		125,303		145,404	
APPRAISED VALUE		139,275		128,547		152,714	
NOTE AMOUNT		113,460		106,043		121,266	
MONTHLY INCOME		5,174		4,548		5,425	
AGE OF BORROWER		34.6		33.8		37.0	
SIZE OF HOUSEHOLD		2.7		2.6		3.0	
LOAN TO SALES PRICE RATIO		83.60%		84.63%		83.40%	
WEIGHTED AVG INT. RATE		10.72%		11.70%		10.77%	
MONTHLY P&I		1,068.85		1,067.16		1,134.70	
DWELLING TYPE..	SFR	3,368	73.03	2,893	72.83	859	84.30
	CONDO	548	11.88	661	16.64	56	5.50
	DUPLX	359	7.78	165	4.15	37	3.63
	PUD	183	3.97	142	3.58	59	5.79
	MOHM			51	1.28	4	.39
	TRI-PLEX	40	.87	21	.53	2	.20
	FOUR PLEX	114	2.47	39	.98	2	.20
NEW/EXISTING....	NEW	2,542	55.12	2,243	56.47	488	47.89
	EXISTING	2,070	44.88	1,729	43.53	531	52.11
1ST TIME HOMEOWNER..	YES	1,187	25.74	1,728	43.45	117	11.48
	NO	3,425	74.26	2,246	56.55	302	38.52
INSURANCE TYPE......	FHA					0	.00
	VA	114	2.47	170	4.28	33	3.24
	CONVA	4,498	97.53	3,802	95.72	986	96.76
ELIGIBILITY.........	STVA	451	9.78	325	8.18	131	12.86
	NON-STVA	4,161	90.22	3,647	91.82	888	87.14
ORIG. PRINCIPAL BALANCE		523,278,050.00		421,203,000.00		123,570,150.00	
ORIG. NUMBER OF LOANS		4,612		3,972		1,019	

A L A S K A H O U S I N G F I N A N C E C O R P O R A T I O N

STATE GUARANTEED BONDS - VETERANS MORT.

L O A N S U M M A R Y M O R T G A G E S P U R C H A S E D

		FY 1984	%	FY 1985	%	FY 1986 THRU(1/31/86)	%
SALES PRICE		129,877		130,774		134,913	
APPRAISED VALUE		132,573		133,336		140,725	
NOTE AMOUNT		116,362		115,480		120,804	
MONTHLY INCOME		5,009		4,874		5,021	
AGE OF BORROWER		38.4		38.7		39.1	
SIZE OF HOUSEHOLD		3.1		3.1		3.3	
LOAN TO SALES PRICE RATIO		89.59%		88.31%		89.54%	
WEIGHTED AVG INT. RATE		9.51%		10.49%		9.71%	
MONTHLY P&I		982.01		1,055.88		1,034.25	
DWELLING TYPE..	SFR	3,433	85.48	2,179	86.92	822	87.82
	CONDO	362	9.01	193	7.70	32	3.42
	DUPLX	91	2.27	22	.88	7	.75
	PUD	128	3.19	92	3.67	60	6.41
	MOHM	2	.05	17	.68	15	1.60
	TRI-PLEX			4	.16	0	.00
	FOUR PLEX					0	.00
NEW/EXISTING....	NEW	2,046	50.95	1,210	48.26	387	41.35
	EXISTING	1,970	49.05	1,297	51.74	549	58.65
1ST TIME HOMEOWNER..	YES	1,385	34.49	921	36.74	321	34.29
	NO	2,631	65.51	1,586	63.26	615	65.71
INSURANCE TYPE......	FHA					0	.00
	VA	1,596	39.74	1,122	44.75	412	44.02
	CONVA	2,420	60.26	1,385	55.25	524	55.98
ELIGIBILITY.........	STVA	4,016	100.00	2,507	100.00	936	100.00
	NON-STVA					0	.00
ORIG. PRINCIPAL BALANCE		467,310,100.00		289,507,600.00		113,072,250.00	
ORIG. NUMBER OF LOANS		4,016		2,507		936	

DATE 1/31/86

A L A S K A   H O U S I N G   F I N A N C E   C O R P O R A T I O N

RECEIVING HOME OWNERSHIP SUBSIDY

L O A N   S U M M A R Y   M O R T G A G E S   P U R C H A S E D

		FY 1984	%	FY 1985	%	FY 1986 THRU(1/31/86)	%
SALES PRICE		77,505		75,139		78,504	
APPRAISED VALUE		78,345		76,111		79,424	
NOTE AMOUNT		73,177		72,359		74,947	
MONTHLY INCOME		2,116		2,279		2,300	
AGE OF BORROWER		30.0		30.3		30.6	
SIZE OF HOUSEHOLD		2.2		2.2		2.5	
LOAN TO SALES PRICE RATIO		94.42%		96.30%		95.47%	
WEIGHTED AVG INT. RATE		9.93%		11.08%		10.05%	
MONTHLY P&I		639.55		701.25		664.35	
DWELLING TYPE..	SFR	580	47.62	575	43.76	184	61.13
	CONDO	586	48.11	502	38.20	78	25.91
	DUPLX					0	.00
	PUD	7	.58	17	1.29	13	4.32
	MOHM	45	3.69	220	16.74	26	8.64
	TRI-PLEX					0	.00
	FOUR PLEX					0	.00
NEW/EXISTING....	NEW	832	68.31	704	53.58	140	46.51
	EXISTING	386	31.69	610	46.42	161	53.49
1ST TIME HOMEOWNER..	YES	976	80.13	1,085	82.57	248	82.39
	NO	242	19.87	229	17.43	53	17.61
INSURANCE TYPE......	FHA					0	.00
	VA	20	1.64	261	19.86	52	17.28
	CONVA	1,198	98.36	1,053	90.14	249	82.72
ELIGIBILITY.........	STVA	96	7.88	215	16.36	36	11.96
	NON-STVA	1,122	92.12	1,099	83.64	265	88.04
ORIG. PRINCIPAL BALANCE		89,130,193.00		95,079,887.00		22,559,136.00	
ORIG. NUMBER OF LOANS		1,218		1,314		301	

DATE 1/31/86

ALASKA HOUSING FINANCE CORPORATION
PLEDGED ACCOUNT MORTGAGES
LOAN SUMMARY MORTGAGES PURCHASED

		FY 1984	%	FY 1985	%	FY 1986 THRU(1/31/86)	%
SALES PRICE		121,883		128,274		128,622	
APPRAISED VALUE		124,989		131,809		133,117	
NOTE AMOUNT		107,572		113,891		116,616	
MONTHLY INCOME		3,489		3,881		3,857	
AGE OF BORROWER		34.0		34.4		34.4	
SIZE OF HOUSEHOLD		2.5		2.6		3.0	
LOAN TO SALES PRICE RATIO		88.27%		88.83%		90.67%	
WEIGHTED AVG INT. RATE		10.41%		11.52%		10.53%	
MONTHLY P&I		983.00		1,128.25		1,070.14	
DWELLING TYPE..	SFR	181	69.88	265	78.87	61	79.22
	CONDO	52	20.08	40	11.90	11	14.29
	DUPLX	13	5.02	16	4.76	0	.00
	PUD	13	5.02	15	4.46	5	6.49
	MOHM					0	.00
	TRI-PLEX					0	.00
	FOUR PLEX					0	.00
NEW/EXISTING....	NEW	147	56.76	170	50.60	36	46.75
	EXISTING	112	43.24	166	49.40	41	53.25
1ST TIME HOMEOWNER..	YES	103	39.77	120	35.71	25	32.47
	NO	156	60.23	216	64.29	52	67.53
INSURANCE TYPE......	FHA					0	.00
	VA			1	.30	0	.00
	CONVA	259	100.00	335	99.70	77	100.00
ELIGIBILITY.........	STVA	64	24.71	95	28.27	15	19.48
	NON-STVA	195	75.29	241	71.73	62	80.52
ORIG. PRINCIPAL BALANCE		27,861,250.00		38,200,050.00		8,979,400.00	
ORIG. NUMBER OF LOANS		259		336		77	

ALASKA HOUSING FINANCE CORPORATION
MOBILE HOMES
LOAN SUMMARY MORTGAGES PURCHASED

	FY 1984	%	FY 1985	%	FY 1986 THRU(1/31/86)	%
SALES PRICE	38,433		40,854		41,550	
APPRAISED VALUE	40,425		42,891		44,289	
NOTE AMOUNT	36,861		41,755		39,762	
MONTHLY INCOME	2,895		2,887		3,173	
AGE OF BORROWER	32.1		31.8		32.5	
SIZE OF HOUSEHOLD	2.5		2.4		2.4	
LOAN TO SALES PRICE RATIO	95.91%		102.21%		95.70%	
WEIGHTED AVG INT. RATE	10.22%		10.90%		9.94%	
MONTHLY P&I	372.50		444.69		398.05	
DWELLING TYPE...SFR					0	.00
CONDO					0	.00
DUPLX					0	.00
PUD					0	.00
MOHM	1,619	100.00	696	100.00	217	100.00
TRI-PLEX					0	.00
FOUR PLEX					0	.00
NEW/EXISTING....NEW	312	19.27	91	13.07	15	6.91
EXISTING	1,307	80.73	605	86.93	202	93.09
1ST TIME HOMEOWNER..YES	1,142	70.54	527	75.72	158	72.81
NO	477	29.46	169	24.28	59	27.19
INSURANCE TYPE......FHA					0	.00
VA	10	.62	78	11.21	19	8.76
CONVA	1,609	99.38	618	88.79	198	91.24
ELIGIBILITY.........STVA	333	20.57	143	20.55	41	18.89
NON-STVA	1,286	79.43	553	79.45	176	81.11
ORIG. PRINCIPAL BALANCE	59,677,888.00		29,061,787.00		8,628,439.00	
ORIG. NUMBER OF LOANS	1,619		696		217	

DATE 1/31/86

ALASKA HOUSING FINANCE CORPORATION
NON CONFORMING LOANS
LOAN SUMMARY MORTGAGES PURCHASED

	FY 1984	%	FY 1985	%	FY 1986 THRU(1/31/86)	%
SALES PRICE					72,975	
APPRAISED VALUE					74,650	
NOTE AMOUNT					66,697	
MONTHLY INCOME					3,145	
AGE OF BORROWER					33.6	
SIZE OF HOUSEHOLD					1.6	
LOAN TO SALES PRICE RATIO					91.40%	
WEIGHT AVG INT. RATE					10.17%	
MONTHLY P&I					593.87	
DEWLLING TYPE..SFR					13	81.25
CONDO					0	.00
DUPLX					3	18.75
PUD					0	.00
MOHM					0	.00
TRI-PLEX					0	.00
FOUR-PLEX					0	.00
NEW/EXISTING...NEW					1	6.25
EXISTING					15	93.75
1ST TIME HOMEOWNER..YES					13	81.25
NO					3	18.75
INSURANCE TYPE......FHA					0	.00
VA					0	.00
CONVA					16	100.00
ELIGIBILITY.........STVA					3	18.75
NON-STVA					13	81.25
ORIG. PRINCIPAL BALANCE					1,067,150.00	
ORIG. NUMBER OF LOANS					16	

Alaska State Legislature

House of Representatives

Official Business

Pouch V
State Capitol
Juneau, Alaska 99811

MEMORANDUM

TO: REPRESENTATIVE JOHN SUND
Chairman, House Special Committee on Loans
FROM: Representative Jack Fuller
DATE: April 18, 1986
SUBJECT: CSSB 281(Fin) am

I would like to see the state's commercial fishing loans, AS 16.10.300 - 700, exempted from the provisions of CSSB 281(Fin) am. This bill would raise the interest on state loan programs by one half percent per year until they are competitive with loans available from private lending institutions.

As you are aware, commercial fishing loans are a unique part of the state's loan programs. Private lending institutions are not able to make loans for the purchase of limited entry permits. Banks cannot take the permits as collateral.

I have worked for many years on the part (B) loans. First enacted as the Fishermen's Mortgages and Note Fund, this program was designed to assist primarily rural fishermen who were just getting into commercial fisheries. It has enabled many new entrants to participate in the developing herring and small boat halibut fisheries in Western Alaska. The program originally began as state loan guarantees to private banks, but that was found to be unworkable as banks simply were not interested in making relatively small loans to applicants with poor credit ratings. It has since been incorporated under the state loan program. If included in CSSB 281(Fin) am, I am fearful that these types of loans would soon disappear.

Commercial fishing loans serve a very valuable role in keeping Alaska residents in the fisheries. Indeed, the loans are one of the very few ways that Alaskans can "have a leg up" on outsiders. Continuation of the state fisheries loan programs is extremely important to Alaskans all over the state.

I support the April 14 memorandum to you from the House Special Committee on Fisheries, and hope you will carefully consider this exemption.

cc: Bush Caucus members

Alaska Trollers Association

REPRESENTING ALASKA POWER TROLLERS

130 Seward St., No. 213
Juneau, Alaska 99801
(907) 586-9400

4/21/86

Representative John Sund, Chairman
House Special Committee on Loans
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Re: Senate Bill No. 281, "An Act relating to the interest rate on State loan programs".

Dear Representative Sund:

The Alaska Trollers Association is very concerned about the potential negative consequences to the above-cited Bill should it pass as written. I have had the opportunity to see Representative Goll's memorandum to you on the subject dated April 14, 1985, and concur entirely in his analysis and recommendations.

The Alaska power troll fleet has one of the highest residency rates of any of Alaska's limited entry fisheries. Power trolling is a mainstay industry throughout rural Southeast Alaska. The existance of the State loan program has been an important factor in maintaining this high resident participation level in our fishery - a fact we are proud of. Let's face it, many rural residents simply don't have ready access to other financing sources. The "edge" that the State program gives to Alaskans helps keep jobs and earnings here. This vital program should not be curtailed! In this time of diminishing economic activity, we should do all we can to encourage Alaskan small businesses. The fishing loan programs do exactly that. If anything, these programs need improvement and expansion.

Sincerely,

for

Earl E. Krygier
Executive Director

EEK/md

BRISTOL BAY NATIVE ASSOCIATION

P.O. BOX 189

DILLINGHAM, ALASKA 99576

(907) 842-5257

April 21,1986

Representative Adelheid Herrmann
Alaska State Legislature
Pouch V (MS 3100)
Juneau, Alaska 99811

Dear Representative Herrmann,

The Bristol Bay Native Association is extremely concerned about the proposed Senate Bill 281. The Bill would raise interest rates on State loans by one-half percent annually, until the rates were identical to private banking rates. This policy would be detrimental to Bristol Bay fishermen and, in the long run, to the State of Alaska.

The State of Alaska loan programs have provided residents of rural Alaska, and Bristol Bay in particular, the opportunity to enter into or increase participation in the fishing industry. Commercial fishing loans made to residents by the State for boats and permits have enabled our people to stay competitive and increase production. The success of resident fishermen is important to the local economies. Increased individual earnings positively impact the villages and regional centers through increased sales and employment. There are almost 250 Bristol Bay Commercial fishing loans with the State of Alaska. Those loans represent many individuals that would not have been able to receive a loan for a boat or permit if it were not for the State program. Many village residents do not qualify for bank or CFAB loans because they do not have the proper collateral. Rural residents have only recently transitioned from a full time subsistence lifestyle to a cash economy and do not own the homes, airplanes, land, etc. that are often used as collateral by applicants from Alaskan cities or outside of the State. There are few, if any, winter jobs for these residents and many have had only their permits to use as collateral. The use of a low interest loan is imperative to rural residents as a mechanism to build their income and earning power to a point where their earnings and credit history would enable them to apply for private banking loans if they were needed.

The increase in interest rates and the possibility of the loan programs being eliminated altogether would be disastrous to the Bay area. Instead of increasing employment, economic self sufficiency and local business development, this change in the loan programs would lead to an increase in the number of permits leaving the Bay and the State. A local person's inability to obtain a loan and pay relatively low interest on that loan would endanger their success in the industry. The fact that fish will not be canned in Bristol Bay in 1986 indicates the changing trends in the fisheries. The fresh frozen market makes different demands on its fishermen and their equipment needs have, and will continue, to change in order to deliver better quality fish. This is evidenced by the fact that the increase in the fresh frozen market meant that fishermen had to replace wood boats with fiberglass vessels in the early 80's when buyers determined that paint chips from wood boats were detrimental to fish destined to be sold whole. If local fishermen are going to remain current in this industry, and the profits from this great renewable resource are to stay in Alaska, rather then be spent in Washington or Oregon, then we need to continue this program and maintain it in such a way that Alaskans are encouraged to develop their business. The Commercial Fishing Loan Program keeps people working in Bristol Bay. Certainly a loan which is paid back is more beneficial to the State than the subsidies which are paid out (and never re-couped) to individuals who are unemployed and in poverty.

The Bristol Bay Native Association urges you and your colleagues to carefully consider Senate Bill 281 and the long term negative affect it may have on the Bristol Bay economy. If nothing else, perhaps the Fishing Loan programs could be exempted until further research is done. The Association understands the importance of cutting State expenditures. We are concerned, however, that the decisions made this year (especially those that deal with private sector economic development) do not end up making us more, not less, dependent on our State resources.

Thank you for your consideration.

Sincerely,

BRISTOL BAY NATIVE ASSOCIATION

Deborah Tennyson,
Executive Director

cc: Senator Fred Zharoff
House Special Committee on Loans

Official Business

Alaska State Legislature

House of Representatives

Pouch V
Juneau, Alaska 99811

Phone:
(907) 465-4924

Special Committee on Fisheries

M E M O R A N D U M

April 14, 1986

TO: Representative John Sund
Chairman
House Special Committee on Loans

FROM: Representative Peter Goll
Chairman
House Special Committee on Fisheries

SUBJECT: CSSB 281(Fin) am

As I understand the intent behind SB 281, it is intended to get the state out of the loan business by gradually raising the interest on the loan programs until they are competitive with loans available from private lending institutions. The theory is that Alaskans will turn to the private sector once the rates are identical.

While this goal is laudable in today's changing revenue picture, I believe that there are over-riding public policy reasons for exempting the state's commercial fishing loans from this legislation.

The goal of the Commercial Fishing Loan Act [AS 16.10.300-370] is to help foster the development of resident-dominated commercial fisheries.

The Commercial Fisheries Entry Commission (CFEC) reports that non-residents gained 105 permits by the 1985 from the number of permits originally issued. Non-residents were initially issued 2,431 permits or 19.2 percent of the total; by the end of last year the number had climbed to 2,536 or 20.3 percent of the total.

Testimony by state experts before the House Special Committee on Fisheries indicates the state loan program played a major factor in helping hold the line on resident participation in Alaska's salmon fisheries. The loan program provides the only legal method for the state to discriminate between Alaskans and non-residents in the commercial fisheries.

With the exception of the financially troubled Commercial Fishing and Agriculture Bank (CFAB), no private lending institutions are allowed to make loans for the purchase of limited entry permits. Alaskans have gained a significant advantage over non-resident fishermen through their ability to secure lower interest loans, using the permit itself as collateral.

Since the fishing industry provides the largest source of non-government related employment in Alaska, I believe continuation of the loan program is vital to the state's economic base. This is particularly the case since CFAB's loan terms are significantly stricter than those available from the state or private lending institutions.

A "typical" permit loan by CFAB carries a 14.75 percent interest rate on a five-seven year note covering 70 percent of the permit value. A "typical" state permit loan has a 10.5 percent interest rate on a 10-year note covering 90 percent of the permit value.

Of the 3,877 limited entry permits sold through the end of 1985, transfer surveys by CFEC show 895 of these or 23 percent of total sales were financed under the state loan program, while only 37 or 1 percent were financed by CFAB. The transfer surveys also indicate that rural residents have an even heavier dependence upon the state loan program, since 32.9 percent of permit sales by rural residents (nearly all of which went to other Alaskans) were financed under the state loan program, while 1.4 percent were financed by CFAB.

Studies have revealed some very troubling trends in the transfer of limited entry permits from rural areas which are heavily dependent upon fishing. CFEC figures show that rural Alaskans hold 644 fewer permits than originally issued by the end of 1985, for an "outmigration" rate of 11.5 percent. A 1984 CFEC study revealed that permit ownership by Alaska Natives had declined by 13.8 percent since limited entry was first imposed.

These figures raise concerns about the ability of future generations of rural Alaskans to participate in the only significant source of cash income in their areas of residence.

Under AS 16.10.310 (a) (1) (B), Alaskans who live in areas dependent upon commercial fishing and who do not qualify for loans under other public or private programs are eligible to receive a state loan for purchases of vessels, gear and limited entry permits. This program is designed to ensure that Alaskans who live in fishing-dependent areas and lack adequate financial resources have the ability to enter the commercial fisheries. Loss of the "section B" loans could greatly exacerbate the permit outmigration trends in rural Alaska.

Experience with the "section B" loans show very little interest from private banks. The program was first established as loan guarantees by the state to private banks, but it was incorporated under the state loan program after it was determined that private banks simply were not interested in loaning to applicants who lack strong credit ratings.

After extensive hearings on the issue of permit outmigration from rural Alaska, the House Special Committee of Fisheries concluded in 1985 that the "section B" loans probably provided the best method of addressing the situation.

In summary, the Commercial Fishing Loan Act provides the only realistic source of financing available to Alaskans to purchase limited entry permits, and the state loan program is critical to the economic future of rural Alaska communities. On behalf of Alaska's commercial fishing community, I urge you to exclude the AS 16.10.300-370 from CSSB 281(fin) am.

Department of Commerce & Economic Development / POSITION PAPER

CSSB 281 (FIN): "An Act relating to the interest rate on state loan programs."

Department position: support with amendments.

This bill would amend AS 37.05.035 to increase the interest rate for state loan programs (with the exception of student loans) by one-half percent each year until the interest rate is equal to the prevailing market rate or the cost of funds for each type of loan.

The department would like to offer an alternative approach to this bill. These comments are directed solely to the loan programs which this department administers and are funded by General Fund appropriations rather than bond sales. It is suggested that the market-tied formula approach to interest rates proposed in House Bill 109 be utilized for this bill. With this approach, the statutorily fixed interest rate could be eliminated and replaced with a formula that would move with the market over time. The formula is as follows:

1. a base rate (the U.S. Treasury rate for the comparable maturity of the loan);

2. plus a risk adjustment (of 125 basis points);

3. plus an administrative fee (of 75 basis points); and

4. minus a subsidy (of 300 basis points).

The net effect of this would be a loan rate of 1.0%, or 100 basis points below the Treasury rate. Then, the subsidy may be reduced by 50 basis points per year for six years until it is reduced to zero as suggested in Senate Bill 281.

The department believes that this suggestion would reduce the potential criticisms of Senate Bill 281. First, the administrative cost of Senate Bill 281 would be substantial since every loan program would have several different interest rates for each type of loan (for example: boat, gear and permit loans could all be different). Second, there is no "prevailing market rate" for some loans (such as Section B commercial fishing loans and loans with permits as collateral). Third, it would be difficult to determine prevailing market rates since a financial institution's rate depends on borrower's specific criteria, and they would be reluctant to share this with us due to the question of competitive confidentiality. Finally, Senate Bill 281 only provides for the loan rate to rise and does not address the situation which could arise when the market rate falls below the loan rate.

The suggested approach would solve all of these criticisms for the following reasons:

1. The base (or Treasury) rate is easily obtainable at little cost.

2. The rate moves up and down with the market (base) and the formula maintains the relationship between the loan rate and the market. Note that the rate is fixed for the term of the loan, but the program's rate changes over time with the market.

3. Gradually, the identified subsidy would be eliminated and the loan rate would move with the market at 200 basis points above the Treasury rate.

4. For some programs, interest rates would rise slightly over current loan rates and be a net revenue raiser.

5. Over a period of a few years, the borrowers would begin to pay for all of the administrative costs of our lending and accounting divisions which is appropriate since they benefit from the loans.

6. The suggested formula would set a loan rate in each program approximately the same in its relation to the market as when the program was created. The one exception, the Child Care loans, could be adjusted by setting its initial subsidy at 400 basis points rather than 300.

7. Because the loan rate would be maintained at a constant relationship to the market, unintended subsidies and penalties could not occur due to market fluctuations. This would make loan demand more steady and predictable.

Loren H. Lounsbury

Loren H. Lounsbury, Commissioner
Department of Commerce & Economic
Development

Date: 4/15/86

GFWC
ALASKA FEDERATION OF WOMEN'S CLUBS

Box 90763
Anchorage, Alaska 99509

MEMORANDUM

April 17, 1986

TO: The members of the House Special Committee on Loans and House Finance Committee

FROM: GFWC Alaska Federation of Women's Clubs

RE: SB 281, an act relating to the interest rates on state loan programs; and providing for an effective date

The Alaska Federation of Women s Clubs, at their State Convention, passed a special resolution supporting SB 281 which will raise interest rates on State loan programs to market rates or the cost of funds.

The AFWC is a federation of Women's Clubs throughout Alaska, representing several hundred members. The Free Committee, which is a subcommittee of the Anchorage Woman's Club and a national GFWC program, recently completed a study on Alaska State Loan Programs. The Alaska Federation of Women's Clubs endorses their recommendations:

1. Strive for a reduction and eventual elimination of State dollar contributions to loan programs.

   a. reword the State spending limit.
   b. refine present programs to make them self-supporting and revolving.
   c. eliminate interest subsidies.
   d. institute strict collection procedures.

2. Implement adequate statutory review of programs.

   a. use review to evaluate programs.
   b. base continued support of programs on evaluation.

3. Recognize that the market will limit bonded indebtedness of debt issuing entities of the State.

Passage of SB 281 would achieve these recommendations. One of the positive aspects of SB 281 is the bill's equitable treatment of all State loan programs. This feature recognizes the decline in State revenues and the effect of less available funding for all loan programs.

We urge you to pass this bill.

Respectfully,

Michelle Cassano

Michelle Cassano, President
Alaska Federation of Women's Clubs

ALASKA MORTGAGE BANKERS ASSOCIATION
P.O. BOX 4-2691 / ANCHORAGE, ALASKA 99503

April 16, 1986

Honorable John Sund, Chairman
Committee on State Loans
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Representative Sund:

The Alaska Mortgage Bankers Association has reviewed SB 281. We are concerned specifically about the effect passage of the bill would have on the Alaska Housing Finance Corporation.

AHFC has fulfilled several purposes, including stabilization of the housing market during times of rapid interest rate changes.

The Corporation is in a position to continue operating indefinitely without additional appropriation of state funds. Although interest rates are lower now than they have been since 1979, we should not assume the rates will remain low. AHFC's programs and procedures are in place and working; retaining the Corporation's ability to step in when needed is extremely important.

We urge exemption of AHFC from this Act.

Sincerely,

Lucille Stietz

Lucille Stietz
Vice President

ry

Bering Sea
Fishermen's Association
632 Christensen Drive
Anchorage, Alaska 99501
(907) 279-6519

Representative John Sund, Chairman
House Committee on Loans
Alaska State Legislature
Pouch V.
Juneau, Alaska 99811

April 18,1986

Dear Representative Sund:

A memorandum from Representative Goll to you was recently brought to my attention. The memorandum concerned CSSB 281 (Fin) am. I would like to comment on Representative Goll's remarks and to add some information on the importance of the fishing loan program.

Bering Sea Fisherman's Association offers the fishermen of western Alaska assistance and advocacy in the development and perpetuation of their fisheries. Our concern is with the small, primarily Alaska-Native operated fisheries.

For the past year, I have been researching the various programs - public and private - that are available for financing vessel, gear and permit purchases for these small fisheries. I have found that the State Fisherman's Loan Program is the only assistance that is practically available to most of these fishermen. As Representative Goll points out, section (B) of the loan program is available to fishermen who would not otherwise qualify for loans. Virtually all the fishermen of rural western Alaska fall within this category.

From recent conversations with personnel at the Division of Investments and from looking at loan statistics and legislative intent for the program it has become apparent that section (B) of this program is an extremely valuable - but under utilized - opportunity. Apparently various other organizations have drawn the same conclusions. As a result there has been a tremendous outreach effort to publicize the program and offer assistance to applicants. Bering Sea Fisherman's Association, Nunam Kitlutsisti in Bethel, the Governor's office in Kotzebue and the Division of Investments itself have all taken part in this effort. The response is indicative of the crucial need for the program. During the past month I alone have received no fewer than twenty requests for loan applications from the AYK area.

I can not emphasize enough the importance of the fisheries in the AYK area, and the potential value of the loan program. As you probably know, areas of coastal western Alaska have no local economy other than their fisheries, so the economic survival of much of the area depends on these fisheries. Although residents of the area have been subsistance fishing for years, the conversion from subsistance to commercial use requires investments that are beyond the resources of the individual fishermen. Also, as Representative Goll pointed out, there is a trend of limited entry permits moving from resident and local ownership to non-local and non resident. Young people who would like to stay in the region and fish salmon cannot hope to buy a permit without financial assistance.

Section (B) of the State Fisherman's Loan Program, more than any other State program, has the potential of contributing to the self-reliant economic stability of rural western Alaska. Through recent outreach efforts the program shows promise of realizing this potential. By reducing the need for various social programs, the dollar invested in the fisherman's loan is more than returned to the State in savings.

In conclusion, while there is a need for cutbacks in State programs, the fisherman's loan exemplifies the foresighted employment-producing sort of program on which the State should concentrate. For the fishermen of western Alaska, it is the only alternative to watching the fisheries that could bring them some degree of economic independance be developed and exploited by outside fishermen. Eliminating the program would result in a lost opportunity to provide a solid economic foundation in rural western Alaska.

Respectfully,

Lee Goodman
Extension Specialist

ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

October 14, 1985

MEMORANDUM

TO: Representative Adelheid Herrmann

ATTN: Eric Myers

FROM: Jay Livey JL
Legislative Analyst

RE: Impact of Higher Interest Rates on State Loan Programs
Research Request 86-021

Your office asked that we answer the following questions concerning HB 378, a bill that would gradually increase interest rates on State loan programs until they matched the market rate. Specifically, we were asked:

- What is the current difference between interest rates for State-sponsored loans and comparable loans obtained through alternative financing?

- Are there any State-sponsored loan programs that would be unattractive investments for alternate lenders assuming reasonable loan terms and conditions?

- What would be the impact on borrowers of higher interest rates and changes in loan conditions and terms, assuming that State-sponsored programs were either replaced by alternative lenders or the State programs assumed market lending practices?

Summary

Because interest rates for almost all State-sponsored loan programs are subsidized to some degree, HB 378 would affect virtually all of the State loan programs. Increasing the interest rate on State-sponsored loan programs to the prevailing market rate could eventually lead to a phaseout of most State loan programs. Economic theory suggests that the prevailing interest rate would be reached when a borrower was indifferent as to borrowing from the State program or an alternative lender.

Alternatives to the State-sponsored programs exist for urban housing loans, fishing loans, agriculture loans and student loans. However, alternative programs generally feature loan terms and conditions that are less favorable than those offered by current State programs. In the private sector, borrowers would generally face higher debt service payments, stricter collateral requirements, and, for programs which base loan amounts on the ratio of payments to income, less capital availability. Clearly, these differences would eliminate some borrowers that could have obtained a loan from a comparable State program.

Two State loan funds, the Mining Loan Fund and the Housing Assistance Loan Fund, do not have readily identifiable substitutes. Generally, commercial banks consider mining too risky for conventional loans. Rural housing loans are difficult to secure because many houses do not conform to traditional structural requirements and banks do not have the facilities in rural areas to service loans.

Most State loan programs are designed to accomplish specific social or economic policy objectives. The forgiveness feature of State student loans provides an incentive for graduates to return to the State while fishing and agricultural loans are structured to encourage individuals to enter those industries. Alternative lenders do not necessarily share these policy goals. Commercial lenders make loans to established farmers and fishermen primarily to make a profit; they do not generally make loans to beginning farmers and fishermen or to implement policy. Consequently, if State loan programs are phased out, State policy makers must recognize that the public policy objectives related to those loan programs will also be affected.

Introduction

House Bill 378 proposes to increase interest rates on loan programs sponsored by the State (or instrumentalities of the State) by one-half percent annually until they reach either the prevailing market rate for each type of loan or the true cost of funds if the loans are financed through bond sales. However, the bill does not define the term "prevailing market rate."

Economic theory suggests that the prevailing interest rate would be reached when a borrower was indifferent as to borrowing from the State program or an alternative lender. Because the market interest rate is determined by the combination of all the terms and conditions that affect a loan--down payment, collateral, payment schedule, loan term, etc.--it is very difficult to determine at what point interest rates for Alaska-sponsored loan programs would cause borrowers to be indifferent as to the source of loan.

For example, the State student loan programs offers loan forgiveness based on the number of years the borrower works in Alaska after graduation. Nationally offered student loan programs do not have this feature. The market rate for each individual would depend on the likelihood of returning to Alaska after graduation. As the interest rate on State loans reaches rates available under other programs, students that are uncertain about returning to Alaska will shift to alternative sources of funds. Students who plan to return to the State would be willing to pay higher interest rates for a State loan because the forgiveness provision offsets the higher stated interest rate. The only way to determine at what point the Alaska student loan program reached the market rate would be to raise the interest rate to the point that borrowers would be indifferent as to whether they borrowed from the State or from alternate lending sources. At this point of indifference, the State student loan program--or any State-sponsored loan program--would have no policy impact.

It is possible, however, for the State to continue to offer loans at a market rate that is below the commercial rate for a comparable loan. For example, the Alaska Housing Finance Corporation can sell tax-exempt bonds and establish interest rates below the rates established by lending agencies whose cost of funds is greater. However, because tax-exempt bond sales are limited in both quantity and purpose by the federal government, this method of raising loan capital would not provide an alternative to establishing the prevailing market rate at the corresponding commercial rate.

In the rest of this memorandum, we will examine the impact of HB 378 on specific State lending programs, concentrating on the differences between existing State loan programs and alternatives that may exist. The impact of higher interest rates as well as eventual phaseout of the State-sponsored programs will be examined.

Student Loans

Currently, Alaska residents can borrow up to $6,000 for undergraduate and $7,000 for graduate education at 5 percent interest. In addition, the State will forgive 10 percent of this loan (up to 50 percent of the principal amount) for every year that the borrower works in Alaska after graduation. Because of this forgiveness feature, the effective interest rate for Alaska student loans can be significantly lower than the nominal rate of 5 percent.

The most prominant alternative to the State student loan program is the federally sponsored Guaranteed Student Loan Program (GSL). These loans are made through private lending institutions but are sponsored by the U.S. Department of Education. This program allows an individual to borrow up to $2,500 for undergraduate and $5,000 for graduate expenses in any one academic year. The current interest rate is 8 percent and there are no forgiveness provisions. In addition, the GSL program is needs based. The borrower's income is factored into a formula that is used to calculate the amount of loan for which the student is eligible.

The GSL program is not nearly as attractive as the State student loan program. Interest rates are higher, the student can borrow less and there is no forgiveness. For example, a student borrowing $5,000 for 10 years would have a GSL monthly payment of about $60 while the State program payment would be approximately $53, assuming that no forgiveness credit is awarded. Over the life of the loan, this difference totals $840. Forgiveness credits can reduce the average monthly payment on the Alaska loan to $26.50.

Generally, in Alaska, the GSL loan program is used by students who cannot meet the residency requirements for State loans or else by students who borrow from both the federal and State programs. If the State program were phased out, the combination of higher rates, reduced loan amounts and no forgiveness would certainly discourage some Alaska students from applying for loans and attending school.

The income restrictions of the GSL would also eliminate some potential borrowers, although the degree of this problem was disputed. Representatives of the Alaska Commission on Postsecondary Education (ACPSE) suggested that as many as 65 percent of those applicants currently receiving State loans would be ineligible to receive Guaranteed Student Loans. However, loan officers that work with the GSL program did not see income ineligibility as such a serious problem. They note that the income guidelines could eliminate some borrowers the first year because their previous year's income would be factored in to the expected contribution from the student and ultimately subtracted from the loan award. Because of variations in school costs, it is difficult to specify an income level beyond which a student would be ineligible, but financial aid representatives at the University of Alaska, Juneau, suggested that a single individual earning between $30,000 and $35,000 the previous year would not be eligible for a GSL loan.

Another potential impact resulting from radical change in or elimination of the Alaska student loan program is a reduction in enrollments at the University of Alaska. Because such a high percentage of students attending the various branches of the University receive student loans, it was suggested that enrollment of full-time students could be reduced by twenty to thirty percent. One contributing factor to this projection is the small amount that can be borrowed under the GSL program. Currently, only $2,500 per academic year can be borrowed. In some cases, it is likely that students would have to work part-time rather than going to school full-time.

Currently, only a few financial institutions in the State offer loans through the federal program. However, if the GSL program became more popular, other financial institutions would probably offer the loans. One bank representative did say, however, that his bank would not be enthusiastic about offering the loans because of the paperwork involved and the high delinquency rates of student borrowers.

Agriculture Loans

The Agriculture Revolving Loan Fund (ARLF) currently makes loans to farmers at 8 percent interest. Peter Probasco, loan officer for the ARLF, estimates that the State holds about 90 percent of all the loans outstanding to farmers in Alaska. Depending on the type of loan, ARLF can make loans of up to 30 years in duration.

One loan alternative to the ARLF is the Alaska Commercial Fishing and Agricultural Bank (CFAB). CFAB, which lends money that it borrows from the Spokane Bank for Cooperatives, has a current interest rate of 13.75 percent plus a 10 percent stock charge which increases the effective interest rate to 15.5 percent. The maximum term for CFAB loans is 15 years.

A second alternative to the ARLF is loans from private commercial banks. Interest rates on these loans will vary depending on the prime rate; rates are currently between 11 and 13 percent.

The Farmers Home Administration (FmHA) is a federal agency that finances agriculture in Alaska as well as the rest of the United States. The FmHA offers loans for land purchase and operations, but the loans offered in Alaska mirror the types of loans offered nationwide so no special programs are available (such as clearing loans) for Alaska. Interest rates are currently between 10 and 11 percent and loan terms are 40 years for land purchase loans and 7 years for operating loans. Maximum loan amounts are between $200,000 and $300,000, depending on the type of the loan.

According to Ron Abbot of the FmHA office in Palmer, the loans he has to offer are not a good substitute for the ARLF for several reasons. First of all, FmHA is limited in the amount of dairy loans that it can offer to beginning farmers. Because government programs subsidize the price of dairy products, there is no incentive for the government to encourage the entry into the industry of more producers.

Secondly, many Alaska farmers have loans from the ARLF that currently exceed the FmHA loan limits. Additional loans could not be made unless loan amounts were reduced or unless additional collateral were available to cover new loans.

A third problem arises because some farmers in Alaska retain their land through agriculture rights rather than fee simple title. Mr. Abbot notes that the FmHA does not believe that agriculture rights land offers the same security for loans as does fee simple land. Therefore, loans made on land that is not fee simple would require more collateral for the same amount of loan.

Finally, there is some doubt concerning the future availability of funds for FmHA loans. Because of the current farm credit problems in the United States, some federal policy makers are questioning the current financial aid structure for farmers. Mr. Abbot feels that the farm debt crisis coupled with budget deficits may result in a substantially less active federal role in farm financing in the future.

An additional alternative to the ARLF is the Federal Land Bank (FLB) which is a part of the Cooperative Farm Credit System. The FLB makes 30-year loans for land purchase and 3-year loans for operating expenses. Interest rates depend on the price of bonds that are sold by the system; with current rates of 12.25 percent.

According to representatives of the FLB, loans are analyzed similarly to criteria used by commercial banks. The borrower must demonstrate financial stability over time which may eliminate some farmers that are just entering the industry. In fact, representatives of the FLB stated frankly that some borrowers from the state would not meet their loan criteria. However, the FLB does not differentiate between land retained through agricultural rights and land owned through fee simple title.

In comparing the loan programs available to Alaska farmers, clearly the ARLF offers loans at more attractive terms. Interest rates are lower and the term of the loan can be longer, which helps to reduce the size of the payments. A five-year, $50,000 operating loan at the ARLF interest rate of 8 percent would have monthly payments of $1,013 assuming that the interest and principal payments were amortized over the length of the loan. A similar loan at 12.5 percent interest would result in amortized payments of $1,125 per month. Assuming a 30-year, $500,000 development loan, the amortized monthly payments total $3,668 at the current ARLF interest rate of 8 percent and $5,239 at the commercial rate of 12.25 percent. If the loan length is reduced to 15 years at 12.25 percent, the amortized monthly payments are $6,081.

Beyond the financial differences among agricultural loan programs, representatives of commercial lenders as well as the ARLF pointed out fundamental differences between the lending philosophy of the State and the other lenders. Banks are generally more conservative in making loans than is the State. In fact, the purpose of many of the State loan programs was to provide loans to borrowers that could not secure other funds. This conservatism of other lenders means that farm loans from them will generally require more collateral and a stronger indication of an ability to repay than will State loans. In many cases, this means that borrowers of these funds will have to demonstrate a continued ability to be financially sucessful as well as having collateral that is not pledged to previous loans.

This lending policy would likely eliminate some borrowers that desire to enter the farming industry as well as others that are just developing their operations. Several representatives of commercial lenders noted that commercial banks would not replace the ARLF in financing the development of an agriculture industry in Alaska unless that objective corresponded to the banks investment guidelines. Considering the high delinquency and default rates currently present among agriculture loans, the loan representatives did not think this very likely in the near future.

According to Peter Probasco of the ARLF, the immediate effect of an increase in interest rates would be to put additional pressure on the cash flow of farm borrowers at a time when many State farm loans are already delinquent or in default. Although it difficult to predict the number of farmers that would be forced out of business by such an action, certainly debt service payments on future loans would be more burdensome. If the State continued increasing interest rates and eventually phased out the ARLF, the growth of the agriculture industry in the State would probably be slowed. Other lenders would limit the availabilty of capital for developing farms.

Fishing Loans

The State of Alaska currently sponsors two loan programs related to the fishing industry: the Commercial Fishing Loan Program and the Fisheries Enhancement Loan Program. Commercial Fishing loans are made to individuals for the purchase of limited entry permits and the purchase or repair of vessels and gear and to partnerships and corporations for the purchase of vessels and gear. The State interest rate cannot exceed 10.50 percent and the maximum loan term is 15 years.

Alternatives to the State's loan program include the Commercial Fishing and Agricultural Bank and private lenders. CFAB makes fishing loans for gear, boats and limited entry permits, but at interest rates that are 2.5 to 3 percent higher than the State rates. In addition, CFAB requires three years tax returns to be submitted with the loan application to verify that the borrower has been a successful fisherman in the past. This policy would preclude many loans to starting fisherman who are attempting to enter the industry, including borrowers that are currently targeted under AS 16.10.310(B) of the current State program. Representatives of CFAB also expressed a general unwillingness to make many small loans to the rural areas of the state. These loans are difficult to service and are considered riskier because of the remote location of the pledged assets if the loan was to go into default.

Representatives of commercial banks expressed the same general loan policy as CFAB. These lenders are also reluctant to make loans to fishermen that have not exhibited previous financial stability, making it difficult for beginning fishermen to find capital to enter the industry. Also, commercial lenders generally require a lower loan to asset ratio than does the State. This means that less money can be borrowed on similar collateral from private lenders than from the State program.

A major difference in lending policy exists between CFAB and other commercial lenders. Like the State loan program, CFAB can accept limited entry permits as collateral on loans. Other commercial lenders are prohibited by law from doing this. This means that fishermen requesting loans from lenders other than CFAB must pledge more collateral to secure the loan. However, even if permits could be accepted as collateral, representatives of commercial banks expressed reluctance at doing this. The value of limited entry permits may fluctuate depending upon changes in the limited entry law. This makes the asset less secure than other tangible assets.

An increase in interest rates by the Commercial Fishing Loan Program from the current 10.50 percent rate to the commercial rate of 13 percent would increase monthly amortized debt service payments by about $80 on a 15-year, $50,000 loan. Over the life of the loan, the debt service increase would total about $22,000. One commercial fisherman noted that the increase in interest rates would certainly not be welcome but would not be critical as long as the required down payments, payback schedules and loan term were tailored to the needs of the fishermen.

However, the elimination of the State-sponsored loan program would have greater impact on the fishing industry. First, alternate loan programs would not replace the State's loans to beginning fishermen and fishermen in rural areas of the state. Secondly, the loans that would be made would likely require more collateral. Third, commercial lenders cannot accept limited entry permits as security for their purchase. This would reduce access to capital for those fishermen that do not nave alternative collateral to pledge on the loan. It has been suggested that this could encourage the purchase of permits by non-Alaska buyers who have access to other sources of capital.

The State also lends money through the Fisheries Enhancement Revolving Loan Fund for the development of salmon hatcheries by nonprofit regional associations. The fund lends money for periods of up to 30 years at an interest rate that is not to exceed 9.5 percent. Loans are repaid by selling fish from the hatchery and by assessments on commercial fishermen that benefit from the enhanced resource. Interest on the loan principal does not accrue during the initial period of the loan, which is defined as a period of time betweeen 6 and 10 years from the date that the loan is made.

Based on our interviews with commercial lenders, it is not certain that any alternatives would exist if the Fisheries Enhancement program were eliminated. Several lenders mentioned that they were not prohibited from making these loans, but noted that the financial viability of hatcheries recently begun under the State loan program is still unknown. Additionally, collateral poses a problem because in some cases the hatcheries are located in remote areas of the state. Also, hatchery cash flow, upon which the ability to make debt service payments is based, is dependent on the uncertainty of the biological process of fish returning as well as the price of those fish. Finally, loans to hatcheries would have to be structured so that repayment matched the development of the resource.

Mining Loans

The State of Alaska's Mining Loan Fund (MLF) makes loans of up to $5,000,000 at 10 percent interest for mining activities in the state. The loan terms can be up to 15 years with payback on the principal deferred until one year after production begins or within five years of the date the loan is made, whichever is sooner.

One alternative to the MLF is commercial banks. However, commercial bank representatives noted several problems in loaning for mining operations. First, commodity price fluctuations make the mining industry unpredictable, increasing the riskiness of loans. To offset this risk, lenders may require loan security that is unrelated to the actual mining operation. A related problem is the remote location of some mining operations. These locations make it difficult for lenders to repossess collateral that is pledged against the loan. For this reason, banks tend to favor pledged assets such as movable equipment that can be sold if the borrower defaults.

Another alternative to the MLF is privately raised venture capital. Under this system, borrowers contact investors or syndicates of investors to secure long-term capital. However, several miners expressed doubt that this method of raising capital would increase significantly in the future. They noted that many outside investors are reluctant to lend in Alaska because of the uncertainty over mining regulations, particularly those relating to the environment.

Most individuals with whom we talked concerning the mining loan program suggested that mining loans from other sources would be difficult to secure if the State program were eliminated. This is especially true for the small to medium-sized operations that have limited collateral with which to secure the loan. Even if loans were available, some miners questioned the ability of lenders to structure loans to match mining operations. For example, the MLF defers payments on principal until production from the operation begins or for five years, whichever is less. Loans from commercial lenders that did not recognize the delayed cash flow aspect of mining would increase the financial risk associated with the mining operation.

Housing Loans

The major housing lender in Alaska is the Alaska Housing Finance Corporation (AHFC). AHFC provides a variety of housing loans including single family and duplex mortgages, subsidized loans for low-income buyers, loans for mobile homes and loans for multifamily structures. Loan funds are raised through bond sales and legislative appropriations. AHFC interest rates are tied to the cost of funds to the corporation, but rates are subsidized with the size of the subsidy dependent on the borrower's income. Interest rates are blended depending on the size of the loan. Currently, the rate on the first $90,000 is 10 percent for nonveterans and 9 percent for veterans while the cost of funds to AHFC was 11 percent of tax-exempt bonds and 12 percent for taxable bonds.

The major alternative to AHFC is the Federal National Mortgage Association (Fannie Mae) which currently offers 30-year mortgage loans at 12.25 percent. Depending on the debt to income ratio, these loans, like those of AHFC, can be made with a 5 percent down payment. One attractive feature of Fannie Mae is that the loan is assumable. This makes resale easier if interest rates rise in the future. Currently, AHFC loans are not assumable but the corporation is contemplating a change in policy to add this feature to future loans.

According to Ron Lehr, Director of the AHFC, eliminating the interest rate subsidy would have three major effects. First, low and moderate income borrowers that receive interest rate subsidies under the HOF program would probably be ineligible at the higher rates. A low-income home buyer that currently is eligible for a 30-year, 6 percent, $90,000 mortgage loan would have amortized monthly payments of $539.[1] The amortized monthly payments on this same loan at 12.25 percent interest would be $943.

Secondly, veterans rates would increase to the tax-exempt cost of funds. Based on current rates, this increase would be from 9 percent to 11 percent. The resulting increase in amortized monthly payments on a $90,000, 30-year loan would be about $130.

Third, the interest rates for all other AHFC home buyers would increase from 10 percent to 12.25 percent (based on current rates). Amortized monthly payments on a $90,000 loan would increase $150 as a result of the increased interest rate. Increased debt service payments would also reduce the amount that home buyers could borrow as loan limits are based on income to debt service ratios. AHFC officials estimate that these increased rates and the subsequent decrease in borrowing limits could reduce the price of a house in Alaska by an average of $20,000.

Mr. Lehr also noted that increasing AHFC interest rates to the market rate (the cost of funds) would ultimately cause the phaseout of the corporation. If rates are established at the cost of funds, borrowers could obtain the same interest rates from Fannie Mae loans but for terms of 30 years rather than AHFC's 15 years. There would be no incentive for individuals to borrow from AHFC. If this occurred, there would probably be no source of funds for mobile home loans as other lenders are reluctant to make these loans.

Another State-sponsored housing loan program, the Housing Assistance Loan Fund (HALF), was established to make housing loans available in rural areas of the state. Loans are made for both single-family homes and duplexes and can be either owner and nonowner occupied. The interest rate charged depends on the type of loan. Nonconforming housing loans charge an interest rate that is one-fourth of one percent higher than the latest AHFC sale of taxable bonds. The Rural-Owner Occupied program charges interest that is one percent less than the latest sale of AHFC taxable bonds. Loans made under the rural nonowner occupied

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[1]These examples are designed to compare changes in debt service cost to similarly structured loans that result from increased interest rates. To do this, we have assumed that interest and principal payments are amortized over the length of the loan. AHFC loans calculate total debt service cost as if the loan were for thirty years, but compress the payment schedule to 16-19 years depending on the type of loan. It should also be noted that because the AHFC interest rate subsidies only apply to the first $90,000 borrowed, the monthly payment differential will not increase as loans exceed $90,000.

housing program are charged 10.5 percent interest. In addition, the HALF offers subsidized loans at 6 percent interest to low and moderate-income individuals for the purchase of single family homes.

Increasing interest rates to market levels would have the largest impact on individuals eligible to participate in the loan subsidy program and in the rural nonowner-occupied housing programs. For owner-occupied homes, the jump from the subsidized 6 percent rate to market rates of 12 percent would surely eliminate many rural resident from mortgage eligibilty. Resulting increases in debt service payments would be similar to those encountered under the AHFC subsidy program. Like the AHFC program, the increase in debt service would reduce the amount of money that could be borrowed as loan limits are determined by income to debt service payment ratios. Although exact estimates are not available, Hank Hodge, loan officer with the HALF, notes that a significant number of rural residents that would qualify for 6 percent loans would be excluded by 12 percent interest rates.

Interest rate increases under the nonowner occupied housing loan program would be in the range of 1.5 to 2 percent based on AHFC recent bond sales. Because this program is designed for investors rather than individual purchasers, interest rate increases of this size would probably not have a serious effect on lending activities, Mr. Hodge estimated that about 6 percent of HALF borrowers utilize this program. The other HALF programs currently charge interest rates that are linked closely to the AHFC market rate and would only be marginally affected by charging the market rate.

Elimination of the HALF program would have a serious impact in many rural areas of the state. In the past, private mortgage lenders have been unwilling to make loans in some rural areas of the state. This is for two reasons. First, commercial lenders maintain that these loans are difficult to service. Several lenders expressed interest in making loans in the larger rural communities in which branches of their bank are located, but not in other rural communities. Secondly, many homes in the rural areas of the state are nonconforming due to the lack of conventional sewer and water systems. Consequently, Fannie Mae loans would probably not be universally available in these areas. However, AHFC could make these loans if it chose to do so.

If the availibility of loans to rural areas were restricted, the immediate impact would be an increase in the price of rural homes financed with assumable HALF loans. Because other loans would be difficult to obtain and, if available, charge higher interest rates, the demand for homes with assumable loans would bid up their price.

Over time, this initial price effect would diminish somewhat, but the lack of subsidized interest rates would still put housing prices out of the reach of some rural residents.

In addition to mortgage loan programs, the State of Alaska also sponsors several home improvement loan programs related to energy conservation. The Alternative Technology and Energy Revolving Loan Fund makes loans of up to $30,000 for the installation of energy saving devices such as centralized multi-fuel heating systems. Interest rates are 5 percent on the first $15,000 and 15 percent on the balance of the loan. The Residential Energy Conservation fund lends up to $5,000 at 5 percent interest for energy conservation imnprovements in homes.

Commercial lenders make home improvement loans that could be used for the type of projects eligible through these two State programs but at interest rates that are currently about 12 percent. One bank representative also noted that the collateral required by private lenders would probably be stricter than currently required by the State. He also mentioned that his bank would be reluctant to make a home improvement loan that was a second loan behind a large mortgage loan held by another lender.

Higher interest rates and stricter collateral requirements would surely reduce the number of energy-related home improvement loans in Alaska. Increasing the interest rate from 5 to 12 percent would discourage some projects as the increased debt service payments would offset some of the savings from the improvement.

I hope you find this information useful. If you have any questions, or would like additional information, please contact us.

JL