

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILE 8672
1347 SCOMM 50: HOUSE SPECIAL COMMITTEE ON STATE LOANS 1985-86

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to subsidize the interest rates on loans under any program be reconsidered at least once every two years and either be rescinded or reaffirmed.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 #13.

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 re-considered. 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 = 20-50 split; still have it
pop 94500 : 1st Ind. Dist comp. boundary
 w 2nd city of F67
4th = 35 mile rad. around " conforming bound. of mun. of Anch
3rd = 100 "

1984
HIS 663
22.7

Recommendation #20

The Task Force recommends that it be made clear that agricultural lending, to be consolidated in the Division of Loans, DCEI, 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 it 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 suggested that the annual audits might be conducted either by the Division of Banking & Securities, UCED, 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 Fund¹
Alaska Grain Reserve Loan Fund¹
Alaska Housing Finance Corporation (AHFC)²
Alaska Medical Facility Authority²
Alaska Municipal Bond Bank Authority²
Alaska Resources Corporation (ARC)¹
Alaska Industrial Development Authority (AIDA)²
Alaska Power Authority¹
Alternative Technology and Energy Revolving Loan Fund¹
Bulk Fuel Revolving Loan Fund¹
Child Care Facility Revolving Loan Fund¹
Commercial Fishing Revolving Loan Fund¹
Fisheries Enhancement Revolving Loan Fund¹
Historical District Revolving Loan Fund¹
Housing Assistance Loan Fund¹
Medical Malpractice Liability Revolving Loan Fund¹
Mining Loan Fund¹
Relocation Planning Loans¹
Residential Energy Conservation Fund¹
Scholarship Revolving Loan Fund¹
Teacher Scholarship Loan Fund¹

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**

¹These programs are funded through State appropriations.

²These 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.

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

Loan Program	Delinquent Loans ¹		Loans in Default ²	
	\$ Thousands	%	\$ Thousands	%
<u>Indirect Lenders:</u> 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
<u>Direct Lenders:</u> 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

¹Delinquency 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.

²Loans 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.

³Includes 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.

⁴Reflects transfer of all AHFC-owned Veteran loans effective 11/01/83.

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

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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 Outstand- ing 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.

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 5 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 3.5%)

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)

ALASKA HOUSING FINANCE CORPORATION

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)

<u>State Mortgage Insurance Fund</u>	<u>Total Appropriated</u>	<u>Appropriation Requested and Received</u>
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
	<u>\$ 3,000,000</u>

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

<u>State Fiscal Year</u>	<u>Bonds Issued</u>	<u>Bond Authorization</u>	<u>Appropriations</u>	<u>Mortgage Commitments (All Programs)</u>	<u>Operating Budget</u>	<u>Full-time Staff Positions</u>
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

	<u>Number</u>	<u>Amount</u>
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

	<u>Mobile Homes</u>	<u>First Mortgage Loans</u>	
	<u>AHFC at 1/31/86</u>	<u>AHFC at 1/31/86</u>	<u>U.S. at 9/30/85 *</u>
30 days	7.63%	3.75%	3.39%
60 days	1.69%	1.10%	1.00%
90 days or more and loans in foreclosure	<u>2.03%</u>	<u>1.86%</u>	<u>1.57%</u>
Total Delinquent and in Foreclosure	<u>11.35%</u>	<u>6.72%</u>	<u>6.56%</u>
Real Estate Owned	<u>4.50%</u>	<u>.76%</u>	<u>**</u>

Budget Information

	<u>Operating</u>	<u>Capital</u>
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.

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		123,089		124,989	
APPRAISED VALUE	123,572		125,988		130,188	
NOTE AMOUNT	108,003		108,791		109,774	
MONTHLY INCOME	4,538		4,501		4,828	
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%		85.30%		87.84%	
WEIGHTED AVG INT. RATE	10.09%		11.18%		10.23%	
MONTHLY P&I	943.72		1,030.44		982.44	
DWELLING TYPE..SFR	8,821	74.13	5,899	77.10	2,507	82.85
CONDO	2,083	17.50	1,109	15.00	253	8.38
DUPLX	478	4.00	194	2.82	59	1.95
PUD	361	3.03	248	3.35	187	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	57.28	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	45.78	3,445	46.80	1,380	45.60
NO	6,455	54.24	3,947	53.40	1,648	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	2,958	39.99	1,215	40.15
NON-STVA	8,985	58.70	4,438	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		92,158		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		30.8		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%		10.89%		10.14%	
MONTHLY P&I	720.35		800.88		792.31	
DWELLING TYPE..SFR	2,020	81.74	627	68.87	828	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	87.98
NO	398	12.19	115	12.60	129	12.04
INSURANCE TYPE.....FHA					0	.00
VA	383	11.09	178	19.50	179	16.71
CONVA	2,909	88.91	735	80.50	892	83.29
ELIGIBILITY.....STVA	448	13.68	127	13.91	148	13.82
NON-STVA	2,824	86.31	788	86.09	923	86.18
ORIG. PRINCIPAL BALANCE	270,847,450.00		78,891,800.00		95,533,500.00	
ORIG. NUMBER OF LOANS	3,272		913		1,071	

DATE 1/31/86

ALASKA HOUSING FINANCE CORPORATION
TAXABLE FIRST MORTGAGES
LOAN SUMMARY MORTGAGES PURCHASED

	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	113,480		108,043		121,268	
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	83.80%		84.83%		83.40%	
WEIGHTED AVG INT. RATE	10.72%		11.70%		10.77%	
MONTHLY P&I	1,068.85		1,087.16		1,134.70	
DWELLING TYPE..SFR	3,368	73.03	2,893	72.83	359	84.30
CONDO	548	11.88	861	16.64	56	5.50
DUPLEX	359	7.78	165	4.15	37	3.83
PUD	183	3.97	142	3.58	59	5.79
MOHM			31	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	188	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	

DATE 1/31/86

ALASKA HOUSING FINANCE CORPORATION
STATE GUARANTEED BONDS - VETERANS MORT.
LOAN SUMMARY MORTGAGES PURCHASED

	FY 1984 %		FY 1985 %		FY 1986 THRU(1/31/86) %	
	-----		-----		-----	
SALES PRICE	128,877		130,774		134,813	
APPRAISED VALUE	132,573		133,338		140,725	
NOTE AMOUNT	118,382		115,480		120,804	
MONTHLY INCOME	5,008		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%		10.48%		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	382	9.01	193	7.70	32	3.42
DUPLX	91	2.27	22	.88	7	.75
PUD	128	3.19	92	3.67	30	8.41
MOHM	2	.05	17	.68	15	1.80
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	48.05	1,297	51.74	349	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	1,598	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	487,310,100.00		289,507,600.00		113,072,250.00	
ORIG. NUMBER OF LOANS	4,016		2,507		936	

DATE 1/31/88

ALASKA HOUSING FINANCE CORPORATION
RECEIVING HOME OWNERSHIP SUBSIDY
LOAN SUMMARY MORTGAGES PURCHASED

	FY 1984 -----	%	FY 1985 -----	%	FY 1986 THRU(1/31/88) % -----	
SALES PRICE	77,505		75,139		78,504	
APPRAISED VALUE	78,345		78,111		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		30.8	
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		364.35	
DWELLING TYPE..SFR	580	47.62	575	43.76	184	81.13
CONDO	586	48.11	502	38.20	78	25.81
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	978	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	80.14	249	82.72
ELIGIBILITY.....STVA	98	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 4/31/88

ALASKA HOUSING FINANCE CORPORATION
 PLEDGED ACCOUNT MORTGAGES
 LOAN SUMMARY MORTGAGES PURCHASED

	FY 1984	%	FY 1985	%	FY 1986 THRU(1/31/88) %	
	-----		-----		-----	
SALES PRICE	121,883		128,274		128,622	
APPRAISED VALUE	124,989		131,809		133,117	
NOTE AMOUNT	107,572		113,881		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%		89.63%		90.67%	
WEIGHTED AVG INT. RATE	10.41%		11.52%		10.53%	
MONTHLY PSI	983.00		1,128.25		1,070.14	
DWELLING TYPE..SFR	181	89.88	285	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	48.40	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		338		77	

DATE 1/31/86

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		39,782	
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		444.89		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					33.8
SIZE OF HOUSEHOLD					1.8
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 5.25
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



Official Business

Alaska State Legislature

House of Representatives

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.

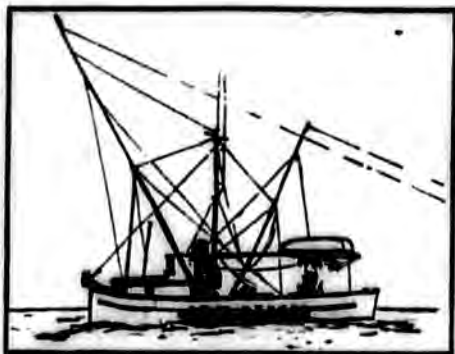
As you are aware, commercial fishing loans are a unique part of the state's loan programs. Private lending institutions are not able to make loans for the purchase of limited entry permits. Banks cannot take the permits as collateral.

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
Fouch V
Juneau, Alaska 99811

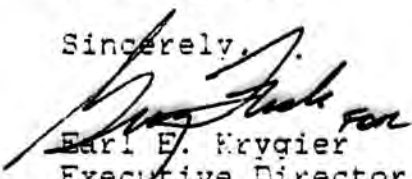
Re: Senate Bill No. 281, "An Act relating to the interest rate
on State loan programs".

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 existence 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,


Earl E. Krygier
Executive Director

EEK/md

BRISTOL BAY NATIVE ASSOCIATION

P.O. Box 189

BILLINGHAM, 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 CFAR 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

Representative Adelheid Herrmann
April 21, 1986
Page 2

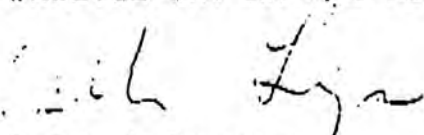
changing trends in the fisheries. The fresh frozen market makes different demands on its fishermen and their equipment needs have, and will continue, to change in order to deliver better quality fish. This is evidenced by the fact that the increase in the fresh frozen market meant that fishermen had 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 than 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

Special Committee on Fisheries

Pouch V
Juneau, Alaska 99811

Phone:
(907) 465-4924

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 Gollub *[Signature]*
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.

SB281
April 14, 1986
Page Three

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.

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:

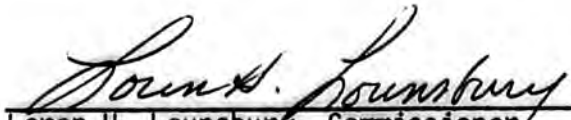
1. a base rate (the U.S. Treasury rate for the comparable maturity of the loan);
2. plus a risk adjustment (of 125 basis points);
3. plus an administrative fee (of 75 basis points); and
4. minus a subsidy (of 300 basis points).

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, 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.



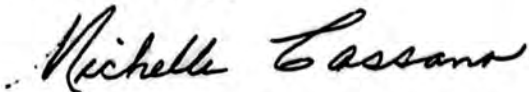
A.F.W.C. Theme
"The Alaska Federation Volunteers"
Member of the General Federation of Women's Clubs

G.F.W.C. Theme
"Community Improvement Through Volunteer Efforts"

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,

A handwritten signature in cursive script that reads "Michelle Cassano". The signature is written in dark ink and is positioned to the right of the word "Respectfully,".

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
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.

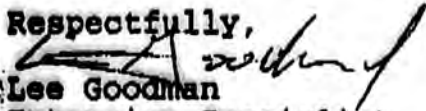
Representative Sund
April 18, 1986
Page 2

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 subsistence fishing for years, the conversion from subsistence 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 independence 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



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

ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

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 prominent 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.

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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 successful 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 availability 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

Representative Herrmann
October 14, 1985
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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 have 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 between 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

¹These 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 residents from mortgage eligibility. 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 availability 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.

Representative Herrmann
October 14, 1985
Page Thirteen

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 improvements 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

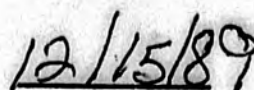


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Signature of Camera Operator


Date

SCOMM

#50:41

Senator John B. (Jack) Coghill
Alaska State Legislature

Pouch V
Juneau, Alaska 99811
(907) 455-4921

Box 55028
North Pole, Alaska 99705
(907) 488-7332



May 5, 1986

MEMORANDUM

TO: Representative John Sund
House Loans Committee

FROM: Senator Jack Coghill

RE: CSSB 405

I have introduced SB 405, a bill that will extend the Alaska Grain Reserve Program through 1987 at the request of the Department of Natural Resources. The original intent in setting up the Grain Reserve was to set up a base so that farmers would be able to participate in the Federal Grain Reserve Program. The oversight in the sunset of the original Grain Reserve made this impossible for all farmers to make the base acreage requirements and the non-standard varieties of barley grown in Alaska do not meet present Federal eligibility requirements. No monies will have to be allocated for this program since there are funds available within the program to make new loans.

The Grain Reserve allows Alaskan farmers to market grain in an orderly manner by providing loans to the farmer once the crop is harvested. The farmer can pay planting and harvesting expenses without selling all of the crops at harvest, a time when prices are generally their lowest point for the year. Another reason this is advantageous to the farmer is that with the in state market often times he cannot sell all of the crop at harvest because the market is saturated. As the crop is sold the loan is paid back along with interest computed at 8%.

The program so far has been successful and it does help farmers pay back other loans on time. The grain is graded and inspected. The amount loaned for the grain is based on the grade. For example #2 or better barley could yield a \$97.00 per ton loan amount. A lower quality barley would qualify for a lesser amount. Loans are made for a period of up to three years. If after the three year period the loan is not repaid the state will take ownership of any remaining grain.

Introduced: 2/13/86
Referred: Resources
and Finance

1 IN THE SENATE

BY FINANCE

2 CS FOR SENATE BILL 405

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to loans under the Alaska grain
7 reserve program and providing an effective date

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

9 * Section 1. AS 03.12.030(a) is amended to read:

10 (a) The department may make a loan to a state grain producer
11 secured by grain grown by that producer in 1983-1987 [1983or1984].
12 Grain that is used as collateral for a loan made under this chapter
13 must be graded number four or better, except the hulless barley may
14 be accepted as collateral under conditions determined by the
15 commissioner.

16 * Section 2. This Act takes effect immediately in accordance
17 with AS 01.-10.070(c).



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James O. Smith
Signature of Camera Operator

12/15/89
Date

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#50:42



SENATOR FRED F. ZHAROFF

ALASKA STATE LEGISLATURE

P. O. BOX 405, KODIAK, ALASKA 99815 (907) 486-5259

DURING SESSION:

P. O. BOX V, JUNEAU, ALASKA 99811 • (907) 485-3473 • 485-3474 • 485-3844 (Labor and Commerce Committee)

DISTRICT N

ALASKA PENINSULA • ALEUTIAN CHAIN • BRISTOL BAY • KODIAK ISLAND • LAKE CLARK/LAKE ILIAMNA • PRIBILOF ISLANDS • SHUMAGIN ISLANDS

MEMORANDUM

TO: Representative John Sund
Chairman - House Special Committee on Loans

FROM: Senator Fred F. Zharoff

DATE: May 9, 1986

RE: SB 453, "An Act relating to memorial scholarship revolving loans, creating the A.W. (Winn) Brindle memorial scholarship loan; and providing for an effective date."

The State of Alaska currently has four memorial scholarship loan accounts inside its Memorial Scholarship Revolving Loan Fund. The purpose of the memorial scholarships is to pay tribute to the memory of distinguished Alaskans by allowing Alaskans to pursue educations in specific professions.

SB 453 would establish a new memorial scholarship account specifically for Alaskan residents who wish to participate in a certificate or degree program in fisheries, fishery science, fishery management, seafood processing, food technology, or other closely related field (Sec. 4). The bill would help encourage Alaskans to pursue careers in the management and production of our fisheries resource.

The Brindle scholarship account would be set up differently than the other memorial scholarship accounts. Repayments of loans made from the Brindle account would be deposited into the regular student loan program (Sec. 2).

SB 453 is tied closely to House Bill 58, "An Act relating to the fisheries business tax...." The main funding mechanism for the Brindle scholarship is in the Senate Finance CS for HB 58, which would allow fisheries businesses to obtain limited tax credits for donations to the Brindle scholarship account.

If HB 453 were to pass without HB 58, the Brindle account still would be established and would be open to anyone who wished to make donations to it.



This year's Annual Report is dedicated to A. W. "Winn" Brindle, who passed away July 4, 1977, at Red Salmon Packing Company in Naknek. This dedication reflects our sincerest gratitude for the valuable contributions Winn made to Alaska's fishing industry and for his wise counsel and keen interest in the affairs of the bank.

Winn served the bank as a director for over 40 years. He first became a director of the Miners and Merchants Bank of Ketchikan in 1934. When that bank and five others consolidated as the National Bank of Alaska in 1960, he was elected to the original Board of Directors, a position held until his death.

Winn came to Alaska as a young child in the early 1900's and was educated in the Ketchikan school system, and attended the University of Washington. Although Winn was noted primarily for his contributions to and accomplishments in the fishing industry, he had a diversity of other business interests. Together with other business associates he developed the Northland Transportation Company, a marine transportation company, which served the major ports of Southeastern Alaska and which was eventually purchased by the Alaska Steamship Company. In the 1930's he was involved with a tugboat and mining venture on Prince of Wales Island. In 1934 he was named director of the Miners and Merchants Bank of Ketchikan. Shortly thereafter he became a major stockholder and became active in the operation of the Tongass Trading Company of Ketchikan.

Winn first became actively involved in the fishing industry when as a young man, with his brother Harold, he purchased a seine boat. In 1928 he and Harold bought the Wards Cove Cannery. From that beginning he expanded to cannery operations throughout Alaska. In 1977 Winn and his associated companies had fishing operations in Ketchikan, Excursion Inlet, Port Bailey, Alitak, Naknek, Chignik, Hoonah, Kenai, Kodiak, Ekuk, Egegik, Koggiung, Libbyville, Craig, Moser Bay, Petersburg, George Inlet, Port Otto, and Ouzinkie, comprising the largest salmon processing organization in Alaska.

In 1969 the Alaska State Chamber of Commerce named him the "Outstanding Alaskan." In further recognition of his diversity of interests the Holy Catholic Church of Ketchikan named one of their school buildings Brindle Hall.

During World War II, Winn was awarded the Legion of Merit while serving in the Aleutian campaign and attained the rank of Major in the U. S. Army.

His wisdom and experience contributed much to the development of all of his associates. The success of Alaska's fishing industry to which he dedicated his career, are monuments to his strength of character, his dedication and personal integrity. The country that he served, the fishing industry that he loved, and his associated companies share a distinguished heritage. He will be sorely missed.

STATE OF ALASKA 1986 LEGISLATIVE SESSION

FISCAL NOTE

Revision Date : _____

REQUEST

Bill/Resolution No. : SB 453
 Title : RE: A.W. "Winn" Brindle
 Memorial Scholarships
 Sponsor : Zharoff
 Requestor : Senate HESS
 Date of Request : March 3, 1986

FISCAL DETAIL

Agency Affected : Education
 BRU : Postsecondary Education
 Components : Memorial Scholarship
 Loans

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	N.A.	-0-	-0-	-0-	-0-	-0-

CAPITAL						
---------	--	--	--	--	--	--

REVENUE						
---------	--	--	--	--	--	--

FUNDING : (Thousands of Dollars)

GENERAL FUND	N.A.	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						
TOTAL	N.A.	-0-	-0-	-0-	-0-	-0-

POSITIONS :

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

No fiscal impact within the time of this note, since all funds are contributions, and repayments begin after schooling.

Prepared by : Kerry D. Romesburg, Executive Director Phone : 465-2854
 Division : Alaska Commission on Postsecondary Education Date : March 3, 1986

Approved by Commissioner : _____ Date : _____
 Agency : _____

Distribution (by Agency preparing fiscal note):

Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget
 Impacted Agency(ies)

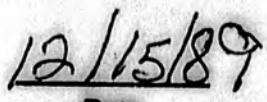


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STATE OF ALASKA THE LEGISLATURE

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907 465-3800

LEGISLATIVE AFFAIRS AGENCY

M E M O R A N D U M

May 6, 1986

SUBJECT: HCS CSSB 468 (Loans)
(Creating the Railbelt Energy Council)

TO: Representative John Sund
Chairman, House Special Committee on State
Loans

FROM: Teresa B. Cramer *ABC*
Legislative Counsel

You have asked whether the Railbelt energy council created by HCS CSSB 468 (Loans) would violate the separation of powers doctrine of the state constitution because its membership includes members of the legislative and executive branches of state government. Because the council's powers are limited to recommending and reporting, in my opinion there is no constitutional problem.

The Alaska Supreme Court has held that the state constitution recognizes the separation of powers doctrine. Bradner v. Hammond 553, P.2d 1, 5 (1976). Accordingly, the legislature is prohibited from intervening in an executive function. Conversely, the executive branch may not exercise legislative functions. The issue is whether the Railbelt energy council is empowered to exercise legislative or executive functions. Since the council is not assigned power to administer the laws or to enact laws, it is neither executing nor legislating.

The legislature has established other groups that included members of the executive and legislative branches as well as public members to consider matters and make recommendations, though typically these groups have been established by resolution rather than by a bill. The Alaska Railroad Transfer Advisory Commission, consisting of members from the executive branch, legislative branch and public members, was created by ch. 128, SLA 1982 to advise the legislature and the governor about issues concerning the transfer of the Alaska Railroad to non-federal ownership.

If I may be of further assistance, please advise.

TC:mkr
m5/075

WORK DRAFT

WORK DRAFT

WORK DRAFT

Cramer ✓
5/7/86

Original sponsor: Resources Committee

1 IN THE SENATE

BY THE HOUSE SPECIAL
COMMITTEE ON STATE LOANS

2 HOUSE CS FOR CS FOR SENATE BILL NO. 468 (Loans)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act creating the Railbelt energy council; and
7 providing for an effective date."

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

9 * Section 1. FINDINGS. The legislature finds that

10 (1) state energy policy should change from a policy of the
11 state assuming responsibility for providing electric power to a policy of
12 the state assisting the private sector and public utilities to provide
13 adequate electric power at reasonable cost;

14 (2) state funds available for energy development should be used
15 to assist in financing projects that utilities cannot finance themselves;

16 (3) utilities should be encouraged to assume the responsibility
17 of regional power generation and transmission rather than relying on the
18 state;

19 (4) energy planning and financing must be efficient and cost-
20 effective;

21 (5) the Railbelt energy fund should be used if necessary to
22 develop power projects that will meet market investment criteria;

23 (6) the Railbelt area generally consists of the region of the
24 state extending from Fairbanks to Homer and served by the Golden Valley
25 Electric Association, the Fairbanks Municipal Utilities System, the
26 Matanuska Electric Association, the Chugach Electric Association, Anchorage
27 Municipal Light and Power, the Seward Electric System, and the Homer Elec-
28 tric Association utilities.

29 * Sec. 2. COUNCIL CREATED. (a) The Railbelt energy council is

1 established to

2 (1) recommend the best options for planning, financing, co
3 structing, and managing electric power facilities in the Railbelt area;

4 (2) examine all alternatives and recommend the best method f
5 meeting projected Railbelt electrical energy demand;

6 (3) recommend alternative financing plans for assisting t
7 private sector and public utilities to meet the future energy needs of t
8 Railbelt area;

9 (4) determine whether a regional generation and transmissi
10 utility organization can operate to the best interests of utility co
11 sumers;

12 (5) cooperate with the Alaska Power Authority to examine t
13 feasibility and desirability of energy projects.

14 (b) Membership on the council consists of two members appointed
15 the governor; two senators appointed by the president of the senate; t
16 members of the house of representatives appointed by the speaker of t
17 house; and one representative from each of the seven Railbelt utilities.

18 (c) By February 15, 1987, the council shall report its recommen
19 tions to the legislature.

20 * Sec. 3. This Act is repealed June 30, 1987.

21 * Sec. 4. This Act takes effect immediately in accordance with AS 0
22 10.070(c).

23
24 give specific recommendations to the leg
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29