Minutes - H. Housing & Banking Sub-committee

INDEX - HOUSING AND BANKING SUBCOMMITTEE
OF THE HOUSE JOINT COMMITTEE ON ECONOMIC RECOVERY
1988 Committee Minutes

February 11, 1988:	General Housing Problems Alaska Housing Marketing Council Anchorage Neighborhood Housing
February 13, 1988:	General Housing Problems Gil Lulay, Condo Association manager Alaska Housing Marketing Council William McNall Teleconference participants
February 18, 1988:	Willow Park/Hollywood Vista Alaska State Building Authority Alaska Housing Financing Authority
February 18, 1988:	State of the Economy Gregg Erickson, OMB Dave Rose, Alaska Permanent Fund Connie Yoshimura Buzz Hoffman, Alaska Continental Bank
February 19, 1988:	AEDC - $250,000 FDIC review proposal Greg Strong, Bob Flint
February 25, 1988:	AIDEA Bert Wagnon, Executive Director Barry Hulin, 1st Federal Bank
February 25, 1988:	FDIC; general state of banking industry Willis Kirkpatrick, Banking and Securities
February 27, 1988:	Worksession re: Housing/Banking Issues
March 3, 1988:	Supreme Court Cases re: foreclosure William McNall, Attorney Professor Hayden Green, UAA
March 5, 1988:	HJR 72 - Residential Real Estate Market

March 10, 1988:	Foreclosures Joyce James, Asst. AG
March 12, 1988:	Work session on Draft Committee Report
March 16, 1988:	AHFC, Mobile Home Situation Dr. Ron Lehr, AHFC Pat Stewart, Mobile Home Park operator Ben March, Exec. Sec'y, Alaska Trailer Ct. Assn. Rick Barrier, President, Ak. Trailer Ct. Assn.
March 31, 1988:	Judicial/Non-judicial foreclosures Craig Dahl, Ak. Bankers Assn. Ed Van Patten, Ak. Federal Savings & Loan Bob Gray, Ak. Bankers Assn.
April 6, 1988:	Bridge Bank Jim Cairns, Hallwood Group Bert Wagnon, AIDEA Commissioner Tony Smith, Dept. of Commerce

Final Report of the Subcommittee on Housing and Banking

Joint Committee on Economic Recovery

May 5, 1988

Members

Rep. Kay Brown, Co-Chair
Rep. Steve Rieger, Co-Chair

Rep. Pat Pourchot
Rep. Steve Frank
Rep. Henry Springer
Rep. Fran Ulmer
Rep. Virginia Collins
Rep. Mike Davis
Rep. Mark Boyer
Rep. Randy Phillips
Rep. Mike Navarre
Rep. Dave Donley

Housing and Banking Subcommittee

Report to

Joint Committee on Economic Recovery

The Housing and Banking Subcommittee recommends that the legislature pursue the following policies and take the following actions to address the state's economic problems:

Policy: Improve distressed housing market.

Strategy: Reduce housing supply.

Develop and initiate plans to demolish institutionally-owned residential properties (REO's) which are unsafe, substandard in quality, and for which demand does not exist.

1. Direct state agencies and encourage other agencies owning REO to cooperate in demolishing unsafe and substandard housing.

Action needed by legislature: Pass subcommittee's resolution, HJR 72 am, on residential housing market.

Cost to State: Theoretically, none.

2. Authorize Alaska Housing Finance Corporation (AHFC) to use a portion of its reserves to participate in the demolition of publicly-owned substandard housing, including multi-family housing projects, where such action is supported by local communities and where such action makes long-term economic sense to AHFC.

Action needed by legislature: Pass CSHB 555 (FIN).

Cost to State: Depends on number and cost of projects.

3. Fund demolition of the state-owned Willow Park Apartments in Anchorage.

Action needed by legislature: Pass CSHB 555 (FIN) to authorize use of AHFC reserves.

Cost to State: Demolition of Willow Park is expected to cost up to $4.7 million, including asbestos abatement; the Alaska State Building Authority (ASBA) has proposed that the state and Anchorage municipal governments share these costs. The federal government has been asked to contribute approximately $9 million to purchase or subsidize alternate housing and to cover the residents' moving costs.

Direct AHFC to exercise prudent business judgment in managing its vacant REO mobile homes.

4. Direct AHFC to develop an analysis comparing the costs and benefits of alternative ways of managing REO mobile homes, including demolition, sales, and short-term storage in storage lots and mobile home parks. Authorize AHFC to write off and dispose of vacant and unsalable mobile homes, as part of a cooperative arrangement with other institutional REO owners, wherever it makes economic sense to do so. Direct AHFC to take immediate action to lower holding costs.

Action needed by Legislature: Pass subcommittee resolution, CSHCR 54 (FIN), on management of surplus mobile homes owned by AHFC.

Cost to State: The current foreclosed inventory of 1200 mobile homes could increase by an additional 800-1200 units if economic conditions persist. Because most AHFC mobile home loans do not carry mortgage insurance, foreclosed units involve substantial costs to AHFC whether sold, destroyed, or maintained. The Subcommittee's directive acknowledges the losses and costs to the state that could accrue through various actions by AHFC, but strongly encourages the development of a consistent strategy that minimizes losses or maintenance costs and acts in the long-term best interests of AHFC.

Strategy: Use surplus housing for public purposes.

5. Establish a mental health **pilot program** for the acquisition of excess residential properties to meet critical housing needs identified by the Alaska Mental Health Board.

During the interim, investigate feasibility of expansion of the program to address other public housing needs such as elderly, developmentally disabled, physically handicapped, homeless, low-income, transitional units for ex-offenders and substance abusers, emergency shelters for abused or runaway children and women's shelters.

Conduct a survey of all statewide public housing needs, and recommend financial and management options to the Sixteenth Legislature when it convenes in 1989.

Action needed by legislature: Fund mental health pilot program as part of the capital budget request of the Mental Health Board to meet the state's obligations under the Mental Health Trust Lands Settlement.

Direct House Research Agency to conduct an interim survey of public housing needs and to analyze options for expanding the program.

Cost to State: $2.35 million for pilot program.

Strategy: Increase demand for housing.

6. Support pending legislation identified by other subcommittees of the Joint Committee on Economic Recovery that will improve the economy generally and create jobs.

Strategy: Provide aid to distressed homeowners.

7. Revise law to allow restructuring of rural housing loans by the Department of Community and Regional Affairs, where appropriate.

Action needed by legislature: Pass subcommittee legislation, HB 550.

Cost to State: Theoretically, none.

8. Direct AHFC to relax current owner-occupancy ratios for condominium mortgage loans to the extent possible, and to take actions to raise owner occupancy in condominium developments.

Action needed by legislature: Pass subcommittee legislation CS HB 555(FIN).

Cost to State:

9. Direct AHFC to take whatever action is necessary to provide timely responses to the public on pending matters. Provide adequate funding to hire personnel trained and qualified in market problem areas, such as property management workouts, and borrower counseling.

Action needed by legislature: Approve Governor's amended budget to provide funding of 25 new positions for AHFC.

Cost to State: $1.788 million (Program Receipt dollars included in Governor's FY 89 budget request)

10. Authorize AHFC to utilize trades of property where feasible in order to increase liquidity in the housing market and to assist Alaskans whose circumstances now require a larger or smaller home, or a home in a different community. Direct AHFC to make establishment of such a program a priority.

Action needed by legislature: Pass CS HB 432 (JUD) and CS HB 555 (FIN).

Cost to State: The Housing and Banking Subcommittee believes that any use of state money for these purposes must be fair to Alaskans generally, and recommends that this issue be explored by standing committees in hearings on the bill.

11. Encourage investors to provide more flexibility in, and to increase the use of, modification, refinance, and forebearance plans.

Action needed by the legislature: Pass subcommittee resolution, HJR 72 am, expressing legislative support for concepts to be implemented by agencies.

Cost to State: Theoretically, none.

12. Provide trained, centralized staffing to assist borrowers in danger of default or delinquency, and offer statewide mortgage counseling.

Action needed by legislature: Fund and expand existing services operated by the Alaska Housing Market Council, including the Mortage and Information Referral Hotline.

Cost to State: FY 88 supplemental appropriation of $100,000 and FY 89 appropriation of $400,000 ($100,000 each from ASBA, AHFC, AIDEA and the Alaska Permanent Fund Corporation included in Governor's budget).

Strategy: Revise state lending programs.

13. Investigate changes to the AHFC HOF and Mobile Home Loan programs.

Action needed by legislature: Reflect on how, or whether, state loan programs have contributed to the current economic difficulties for the economy or for individual Alaskans, and make recommendations for changes.

Cost to State: None.

Strategy: Clarify rules regarding foreclosure.

14. Increase the required disclosure of remedies available to lenders upon default. Investigate the effects of the recent Supreme Court decisions on the default and foreclosure process, and consider action if appropriate.

Action needed by legislature: Pass subcommittee legislation, CSHB 549 (JUD).

Cost to State: None.

Strategy: Improve financing opportunities for neigborhood development.

15. Maximize available private funds for redevelopment of targeted business zones throughout Alaska, community revitalization, neighborhood housing services and economic development projects.

Action needed by legislature: Pass legislation, possibly a version of CSHB 430 (FIN) and CSHB431 (FIN) am funded at some appropriate level.

Cost to State: Up to $3 million.

Policy: Maximize ability of market to solve commercial real estate and loan problems, minimize state intervention.

16. Decrease limitations on AIDEA's ability to respond to current economic conditions.

Action needed by legislature: Passage of CSHB 402 (FIN).

Cost to State: None.

Official Business

Alaska State Legislature
House

P.O. BOX V
State Capitol
Juneau, Alaska 99811

February 3, 1988

Members of Housing and Banking Subcommittee of the Joint Economic Recovery Committee:

Rep. Kay Brown, Co-chair
Rep. Steve Reiger, Co-chair
Rep. Mike Davis
Rep. Fran Ulmer
Rep. Mark Boyer
Rep. Pat Pourchot
Rep. Steve Frank
Rep. Henry Springer
Rep. Dave Donley
Rep. Virginia Collins
Rep. Randy Phillips

Alaska State Legislature
House

Official Business

P.O. BOX V
State Capitol
Juneau, Alaska 99811

TO: Members of Housing and Banking Subcommittee
Joint Committee on Economic Recovery

FROM: Representative Kay Brown, Co-chair
Representative Steve Rieger, Co-chair
Housing and Banking Subcommittee

RE: Subcommittee meeting schedule

DATE: February 2, 1987

The House Economic Recovery Subcommittee on Housing and Banking has scheduled the following meeting times:

February 4, Thursday, 8:30 a.m., House Finance Committee Room
Worksession

February 11, Thursday, 8:00 a.m., House Finance Committee Room
Cynthia Parker, Anchorage Neighborhood Housing Services
Glenda Straube, Alaska Housing Market Council

February 13, Saturday, 1:30-4:00 p.m., Anchorage LIO
Teleconference with Juneau legislators
Gil Lulay, Community Associations Institute
Public Testimony

February 18, Thursday, 8:00 a.m., House Finance Committee Room
Ron Lehr, Alaska Housing Finance Committee
Barbara Morse-Quinn, Alaska State Building Authority

February 25, Thursday, 8:00 a.m., House Finance Committee Room
Bert Wagnon, AIDA
Barry Hulin, First Federal Bank

March 3, Thursday, 8:00 a.m., House Finance Committee Room
Topic to be announced.

March 10, Thursday, 8:00 a.m., House Finance Committee Room
Topic to be announced.

March 17, Thursday, 8:00 a.m., House Finance Committee Room
Topic to be announced.

March 24, Thursday, 8:00 a.m., House Finance Committee Room
Topic to be announced.

March 31, Thursday, 8:00 a.m., House Finance Committee Room
Topic to be announced.

cc: Members of the Joint Committee on Economic Recovery
Irene Cashen, Chief Clerk

Alaska State Legislature
House

Official Business

P.O. BOX V
State Capitol
Juneau, Alaska 99811

TO: Members of Housing and Banking Subcommittee
Joint Committee on Economic Recovery

FROM: Representative Kay Brown, Co-Chair
Representative Steve Rieger, Co-Chair
Housing and Banking Subcommittee

RE: Notice of Meetings Week of February 15, 1988

DATE: February 15, 1988

This is to notify you of the meetings scheduled for the Housing and Banking Subcommittee for the week of February 15, 1988:

February 18 — Thursday, 8:00 a.m. House Finance Committee Room
-Ron Lehr, Alaska Housing Finance Corporation
-Barbara Morse-Quinn, Alaska State Building Authority

We have also arranged the following meeting times to hear discussion on a proposal to appropriate $250,000 for an analysis and review of the current FDIC portfolio:

February 18 — Thursday, 1:00 p.m., Governor's Conference Room
-Gregg Erickson, Office of Management and Budget
-Dave Rose, Alaska Permanent Fund Corporation
-Commissioner Hugh Malone, Dept. of Revenue

February 19 — Friday, 1:30 p.m., House Finance Committee Room
-Bob Flint, Anchorage Economic Development Corp.
-Peter McDowell, Sealaska Corporation
-Commissioner Tony Smith, Dept. of Commerce
-Bob Gillam, Home Savings Bank

ALSO MARK YOUR CALENDARS FOR THE FOLLOWING MEETINGS:

February 20 — Saturday, 11:00 a.m., House Finance Committee Room
-Worksession on development of subcommittee recommendations on proposed $250,000 appropriation

February 22 — Monday, 8:05 a.m. to 9:00 a.m., House Finance Room
-Joint Committee on Economic Recovery
-Response to full Committee regarding subcommittee recommendations on proposal to appropriate $250,000

cc: Members of the Joint Committee on Economic Recovery
Irene Cashen, Chief Clerk

Alaska State Legislature
House

Official Business

P.O. BOX V
State Capitol
Juneau, Alaska 99811

TO: Members of Housing and Banking Subcommittee
Joint Committee on Economic Recovery

FROM: Representative Kay Brown, Co-chair
Representative Steve Rieger, Co-chair
Housing and Banking Subcommittee

RE: Notice of Subcommittee meetings

DATE: February 22, 1988

The House Economic Recovery Subcommittee on Housing and Banking has scheduled the following meeting times:

February 25, Thursday, 8:00 a.m., House Finance Committee Room
Bert Wagnon, AIDEA
Barry Hulin, First Federal Bank

February 25, Thursday, 5:00 p.m. to 6:00 p.m.,
Governor's Conference Room
Willis Kirkpatrick, Division of Banking, Securities and Corporations

February 27, Saturday, 12:00 Noon, House Finance Committee Room
Worksession

February 29, Monday, 8:30 a.m., Room to be announced
Report to full Committee on Subcommittee recommendations

March 3, Thursday, 8:00 a.m., House Finance Committee Room
William L. McNall, attorney
Professor Hayden Green, University of Alaska, School of Business, Department of Real Estate

Alaska State Legislature
House

Official Business

P.O. BOX V
State Capitol
Juneau, Alaska 99811

TO: Members of Housing and Banking Subcommittee
Joint Committee on Economic Recovery

FROM: Representative Kay Brown, co-chair
Representative Steve Rieger, co-chair
Housing and Banking Subcommittee

RE: Notice of subcommittee meetings

DATE: March 2, 1988

March 5 Saturday, 1:30 p.m. House Finance Committee Room
Worksession

March 10 Thursday, 8:00 a.m. House Finance Committee Room
Topic to be announced

March 12 Saturday, 12 Noon House Finance Committee Room
Worksession

March 16 Wednesday, 8:00 a.m. House Finance Committee Room
Ron Lehr, AHFC

March 17 Thursday, 8:00 a.m. House Finance Committee Room
Worksession

cc: Members of the Joint Committee on Economic Recovery
Irene Cashen, Chief Clerk

Alaska State Legislature

House of Representatives

Official Business

Pouch V
State Capitol
Juneau, Alaska 99811

TO: Members of Housing and Banking Subcommittee
Joint Committee on Economic Recovery

FROM: Representative Kay Brown, Co-Chair
Representative Steve Rieger, Co-Chair
Housing and Banking Subcommittee

RE: Notice of Meetings through March, 1988

DATE: March 21, 1988

This is to notify you of the meetings scheduled for the Housing and Banking Subcommittee for the remainder of March, 1988.

March 24 — Thursday, 8:00 a.m. House Finance Committee Room

-Worksession
-Discussion of pending resolutions and bills being revised by subcommittee members.

March 31 — Thursday, 8:00 a.m., House Finance Committee Room

-Worksession
-Discussion on Foreclosures

Also, for your information, we have the following meeting tentatively scheduled:

April 6 — Wednesday, 8:00 a.m. House Finance Committee Room

-Worksession - topic(s) to be announced

cc: Members of the Joint Committee on Economic Recovery
Irene Cashen, Chief Clerk

trans 11

Joint Committee on Economic Recovery
House
February 11, 1988

Present: Representative Steve Reiger (chair)
Representative Steve Frank
Representative Henry Springer
Representative Kay Brown
Representative Mike Davis
Representative Dave Donley

Side 1, tape 1 began during Rep. Donley speaking about various pieces of legislation.

Glenda Strauby: I'm the Executive Dir of the AK Housing Market Council. We're an advisory group to the governor on housing issues. Our charge at this time is to look for ways to stabilize the housing market.

She briefly ran through their annual report, which each committee member has available to look through.

They are involved in the Willow Park relocation Project, they want an example for around the state to take this opportunity to take people from the substandard market and place those people into the mainstream of the market. Some things they've looked at the hardest is the over-supply on the market. It seems critical to hold properties off the market. The state, owning alot of the properties has the opportunities to do that, which other states don't due to the anti-trust laws. There's been alot of ideas on how to do that, she supports the Bridge Bank idea (Allowing institutional property owners to trade their properties for shares in this bank-like state agency; holding the property until the market recovered, to make a profit or recover losses.)

I think that we need to allow state agencies such as AHFC to issue bonds for the purpose of financing public interest projects which are aimed at reducing their REO portfolios. AHFC can only loan to individuals now. AIDEA might be a better source for this. I support the trade up-trade down bill by Rep. Donley. We support early counseling for people getting into financial problems. The proposal Cynthia Parker may deliver to you today is excellent. The only thing I am concerned about is that the rest of the state is organized in this kind of effort. One of the things we've been talking about is the issue of abandonment. I think civil penalties are in order. Another major issue is aggressively implementing work our programs for people. Contrary to what you may have read, homeowners are not yawning at the Hope program, we are hearing from them. We need to activate the market, this is not the time to tighten the restrictions on home loans; investors and mortgage insurers need to respond for offers in a timely manner and remove alot of the stumbling blocks from qualified buyers. Condominiums are taking the hardest hits. We need to develop loan programs for these. If you

look at the list, nothing is qualified to meet the owner occupancy ratios; they are selling units where they're not requiring people to meet those ratios. Our condominium task force report came out with the recommendation that we need to include delinquent condo fees in modifications that we do. The Hope program does not now include that, and I think it should, these fees are vital to the maintenance of any home. We are at a critical stage in the housing market now. Anchorage has a 10 year surplus of housing. Some additional serious problems are: current borrowers who are almost broke and getting ready to lose it, and we need info on what to tell these people to do.

Rep. Frank: So you're saying the banks aren't listening?

Glenda: It's not all that, but it's time to turn it around and put some resources out there.

Rep. Donley: Re: condo fees/dues, the lender delays foreclosure for a long time, and they are not obligated to pay condo dues prior to the foreclosure, so the dues owned before the bank takes over are unpaid, do you have any recommendations?

Glenda: One of the things the task force recommended the banks move faster on foreclosure, because it effects everyone else. The investor has certain things they should be able to expect from a seller-servicers, they have the option to pull their contracts from the seller-servicers.

Rep. Springer voiced his concerns for the rural market, because of liberal rural housing practices.

Rep. Brown voiced concerns about marginally operated properties, and which ones will be chosen for public interest projects and what will happen to ones that aren't used.

Ms Strauby mentioned they are looking for projects to use a models in this type of utilization.

Rep. Springer wanted to get a clearer picture of who it is that's really hurting, the hardship cases. Until he gets a clearer picture of who these people are he's not willing to commit the state to any obligation, etc.

END OF SIDE 1.

Further discussion followed on who these people might be.

Cynthia Parker: I am the Exec. Dir. of Anch. Neighborhood Housing Services. The corporation was formed as assistance to cities interested in creating reinvestment opportunities and stabilize neighborhoods throughout the country. There are 200 offices like ours throughout the U.S.. We see as our current challenge one of figuring out intervention strategies that will allow us to help stabilize our neighborhoods and communities. What you have before you is one proposal we have been working with; MGIC, Fannie Mae and AK Housing on providing an additional

component, and we have agreed to do is open up the Neighborhood Housing Services on a city-wide basis in Anchorage. We will be providing a component of the HOAP (the HOPE Program). What this would provide is more indepth counseling, a larger consumer outreach, explaining the program, and setting up a foreclosure prevention counseling program. Because we have been administering a loan fund for 5 years, which has experienced a low delinquency rate. This is partially attributed to the type of evaluation we do for making loans, we look at all aspects of a person's borrowing capacity separate from just the mortgage. We typically do a second analysis for the benefit of the loan committee. Right now people are encountering high consumer debt, and sometimes the mortgage payment takes a backseat. We are helping get people back on their feet, and get them to deal with creditors themselves instead of dealing with collection agencies or just giving up. We're trying to get small debts under control so mortgage considerations are more affordable. This program can work hand in hand with the HOAP program, and we can work with the exceptions to the HOAP program. This program is one that we have looked at and tried to model from other depressed market areas. We are looking at some funds for the debt consolidation portion of the loan fund, we are willing and have discussed with our secondary market the ability to recycle the fund once it has been turned over. MGIC and MAGIC are considering providing a type of mortgage insurance on the debt consolidation loan so that the risk-
loss ratio to the state would be less.

Rep. Brown: What communities in AK would be eligible if the legislation would be proposed?

Cynthia: As I understand it there is a section in the bill that refers to a population base of 20,000. Neighborhood Investment has had experience in dealing with large and small communities throughout the country, but typically the nature of the bases are more applicable to larger populations. I wouldn't suggest the corporation be on a state-wide basis, the best thing about a corporation such as ours is that it is a local corporation and that is what's necessary to make it work is the participation and control of a local community, so my recommendation to the drafters of the bill is to set up smaller corporations similar in local communities.

Rep. Collins: Do you have any idea of the cost of demolition for the Hollywood Park apartments? Who's going to pay that?

Cynthia: I'm sure the legislature will receive a request from the Municipality for some assistance. Remarkably enough, I got the numbers last night, the price is 1
mil. 2 for asbestos abatement and demolition.

Rep. Donley: You presented a residential housing proposal today, that's separate from HB 430 and 431, which deals with revitalization of business communities, right?

Cynthia: Rep. Donley has experience with the program as we operate in the Spenard neighborhood, and we have a history in that area of developing strategies for specific neighborhoods and specific local situations.

We've been administering a business loan fund in the Spenard area, for about 8 months now. One of the things we have been doing is recruiting new businesses and trying to assist existing businesses with their expansion efforts. We have been fairly successful during this period of time. One of the considerations for the loan committee has been the creation of jobs in the economy as they consider each individual loan. ANHS began last year to launch a pilot business loan fund for the network of Neighborhood Housing Services corporations, and we proposed that with a deed capital fund from the state allocated by the legislature session before last that our secondary market match that loan fund with a 4 mil dollar commitment. That's from our social investment fund. We have a variety of public and private investment sources that contribute to the loan fund. It ranges from insurance companies (Equitable, Prudential) to the Ford Foundation, British Petroleum, Arco, all have contributed to the secondary market. One of the reasons these funds are available is these companies set aside monies for public service investment, they also receive tax benefits from their investment.

As far as the removal of 378 units from the housing market, there's a local firm (Shorrett and Riley) that produces the current housing vacancy rate, and their last July report says Anchorage is experiencing in multi-family housing a 42% vacancy rate in low range rental housing. Removing 378 of the units will have an impact on the market. We should take a look at our substandard units, and if there is an opportunity to allow for more rapid absorption into the marketplace will help the market. As far as the relocation goes, we assisted in the relocation of a trailer court in Spenard which was somewhat controversial. We were able to strike a bargain with the developer, the city contributed $100,000 in that instance for the relocation effort, the developer contributed $200,000, and we administered the relocation for them. In that instance we developed a plan, as we would do with Gov't Hill, and we had a council on the site. In some cases they had to go door to door, fill out forms to see if the were eligible for Sect. 8 or Pub. Assistance funds and basically at that time there was a limited supply of trailer court space in the Anchorage area because of coding. The situations going to be a little different because of the housing rate today, finding comparable housing units, the 2 other projects near this one are about 60-75% vacant and have a comparable rent structure, so we'll be able to do it much more rapidly. Some people are really effected by a major relocation like this, so it's good to have a relocation counselor help them out on a personal level. We don't have a private source of funds to help contribute to those people who don't fit into low-income housing guidelines, and that's a problem we haven't solved yet.

Rep. Reiger made some brief remarks about future testimony scheduling. The meeting was then adjourned.

Joint Committee on Economic Recovery
House
Housing & Banking Subcommittee

February 13, 1988

Present: Representative Steve Rieger, Co-Chair
Representative Kay Brown, Co-Chair
Representative Virginia Collins
Representative Pat Pourchot
Representative Dave Donley
Representative Heinrich Springer
Representative Fran Ulmer

Witnesses:

TAPE ONE, SIDE ONE

The meeting was called to order by Co-Chair Kay Brown.

Gil Lulay, Condo Association manager for 4 1/2 years, addresses the Committee, describing functions of Associations.

Rep. Ulmer asks how many problems are result of downturn in economy as opposed to problems in administrative policies and agencies. Lulay states there are 84,000 mortgages with 10% on condos. AHFC has foreclosure rate of one-third. Lulay states buyers need to be informed of condo association dues.

Rep. Rieger asks if part of purchase price is reserved for delinquent homeowner fees. Lulay responds there is a two month dues deposit initially; some dispense it immediately, others retain it in an operating reserve fund. There is no other requirement. Lulay points out this increases closing costs for buyers by $600.00 to $1,200.00, and the closing date can have an impact on the interest figure.

Rep. Pourchot states he is a condo association member and was assisted by the Association in the past. Pourchot asks if banks are purposely delaying foreclosures to avoid the membership dues while assuming the duties of ownership. Lulay states with regard to AHFC, they pressure service banks immediately if they suspect delay, although the longer the bank can forestall, the longer they delay responsibility of dues. Lulay points out that foreclosures take from six to nine months. Pourchot asks Lulay's position with regard to a moratorium on foreclosures. Lulay presumes the Bill in question refers to owner-occupied units, working to establish a plan to repay any delinquent installments, and asks how the assessment will be covered. Lulay believes that is a major issue as it has serious implications for the associations. Lulay urges that any moratorium provide that the owner is current with the Association. Pourchot refers to the 70% occupancy requirement and asks if this is a key problem in certification for AHFC loans. Lulay states it is a key factor, and is not in the control of the Association. Vacant units are considered non-owner occupied, and the lack of financing has a direct impact upon the value of the unit. Lack of certification forces sellers to find buyers with cash, who purchase at much reduced prices. Pourchot asks how the Legislature can assist; Lulay is uncertain because AHFC is controlled by bond conditions. This condition on investor money is a hardship on the Association and buyers.

Rep. Brown asks if consolidation of owners into viable units can be accomplished. Lulay responds it is a complex situation, but he believes there could be advantages for homeowners and investors who have foreclosed. Lulay points out an owner could "hold their unit hostage to any conversion." Lulay states the process involves a major selling job and points out it could destroy the heart of the association. Lulay states he does not have the answer, but benefits for all can be identified.

Rep. Brown asks who should take the lead in facilitating a consolidation. Lulay responds the clout is with the investor; they are the ones with ultimate control. Lulay states owners want to sell, but there are no buyers, so if they can come closer to being whole, they will listen.

Rep. Rieger clarifies that the "investor" is the secondary market, or AHFC or MGIC; that banks are servicers or go-betweens.

Glenda Straube, Executive Director of the Alaska Housing Market Council, in Juneau, asks about the 70% owner-occupancy requirement and states a local task force reached the conclusion that the bonding requirements actually were the reason for the 70% limit. Straube states Fannie Mae has allowed AHFC to substitute owner-occupancy regulations. Straube states bond requirements did not permit HOAP, but as

bondholders faced investment failures they were willing to allow changes. Regarding facilitators of conversions or consolidation, the task force suggested that the Market Council might be appropriate when there were multiple investors in a project.

Rep. Brown asks Mr. Lulay for specific recommendations which the Legislature should follow. Lulay refers to the modifications and amendments proposed to the Common Interest Ownership Act which have been submitted to assist association management. Lulay states anything to stabilize the economy will aid associations.

Lulay states there has been a change in AHFC's certification requirements since Fannie Mae became involved, becoming much stricter, and if AHFC makes a decision on certification, there is no appeal process. An association can request a hearing, but there is no response, and the association is decertified without appeal.

Rep. Brown opens the meeting to public testimony, asking that statements be limited to 3 minutes because of the number of requests for time.

Bill McNall, an attorney representing approximately 150 homeowner associations, and has served on national committees. McNall urges that the Legislature study the AHFC regulations or policy on owner-occupancy ratio, and find why buyers were never told that their property would not be marketable under owner-occupancy ratios -- and throw the restriction out. McNall suggests AHFC have the opportunity of buying the units back because of misrepresentation. Regarding collection of dues, McNall states there is a proposal before the Legislature to allow the association a lien right for six months assessment from the date of a default. McNall points out that banks sometimes take a year to 18 months to foreclose, although the statute requires only 111 days to foreclose. McNall states the burden created by that process is unreasonable to other homeowners, many of whom are financially struggling. McNall describes problems of credit ratings of condo owners. McNall suggests that owners be allowed to trade-out, urges that the mortgage insurance carrier be involved by including insurance "up front." McNall states that unless the Legislature "comes up with something, there will be on-going foreclosures and probably a lot of bankruptcies because those folks don't have a choice." McNall states most homeowners would do anything possible to avoid foreclosure.

Rep. Rieger asks that McNall present a written statement for the Committee.

Don Taylor, describes his problems with mobile home ownership. Taylor bought the mobile home when the real estate market was

at its highest; now his family has outgrown the mobile home and there is no prospect of selling it. Taylor states AHFC must take action to help people who want to make Alaska their permanent home, making it possible for them to trade mortgages and avoid having to leave the state.

Trina Hikes, Co-chair of Residential Interest Group for Housing Trades (Group), organized in December, contacted Rep. Donley for assistance before HB 432 was introduced. Hikes urges that the Committee invite Dr. Green to address the Committee. The Group found there are three players in the problem; the homeowner, AHFC, and the mortgage insurer. The Legislature has jurisdiction over AHFC. The Group urges that the mortgage insurer be brought in to discuss the situation with the owners and AHFC so that everyone can shoulder a portion of the burden. The Group asks that part of the negative equity be placed on each party. The Group represents single family dwelling owners as well as condo owners.

Sandra W. purchased a condo at $88,500.00; the last one sold was at $43,500.00. Sandra works at the University, is a single parent who wishes to remain in Alaska. Sandra states her payments are current now, but she does need help. She urges passage of HB 432. Sandra has sought to trade her unit for a larger unit, but has been unable to do so. AHFC sent her a three page form letter in response to her request, stating "we're not in position to trade -- it's in the hands of the mortgage insurers." Sandra states 70% of her monthly salary goes to mortgage payment, dues, and utilities, and she cannot continue to do that. She urges that homeowners be allowed to return their mortgage to AHFC in exchange for property in the AHFC inventory, or some other creative program.

Bob Rogers at Mat-Su, states he is an 18 year resident, owns a business, has little education, but has common sense. Rogers refers to HB 432. Rogers believes condominium associations have been unfairly treated because no law limits the amount of time in which the servicing bank must act. Rogers urges the Legislature to act in this regard. Rogers asks that permanent fund money be placed in Alaska banks for mortgage use in Alaska. Rogers states banks will lend on a $10,000.00 automobile, but not on a home with equity. Rogers points out that AHFC requirements for brokers are not acceptable or fair. Rogers states homeowners are not speculators, and they need relief. Rogers suggests refinancing at a lesser interest rate. Rogers states self-employed individuals are not treated fairly, either, and urges change in that respect

TAPE ONE, SIDE TWO

Mike Hinshaw addresses the Committee. He states he has a 834 square foot condo, purchased in July 1984 for $88,500.00. Currently dues are $155.00 per month. Hinshaw's family is

increasing and he needs more living space. He has gone to VA, to his bank, and to AHFC, for help, unsuccessfully. Hinshaw states integrity and honesty are important, and homeowners do not want to lose their credit rating. Hinshaw supports RIGHT and HB 432. Hinshaw asks the Legislature to invite Dr. Hayden Green to meet with them.

Robert Gray, condo owner, addresses the Committee. He states condo buyers do not understand they are buying a liability; administration. SB 338 addresses an amendment of Uniform Common Interest Ownership Act, and is supported by Gray, together with an amendment of his own that developers must provide associations in transition process the necessary building data that the average homeowner is never provided. Gray states it is imperative that the Act be amended. Gray suggests associations be audited every three years.

Rep. Donley, sponsor of HB 432, has joined the Committee.

Stan ? speaks as a citizen of Alaska, and in lieu of Professor Green of the University of Alaska Business School, who is unable to attend. Stan refers to articles by Dr. Green which describe essentials of a program which will relieve the problems being discussed. He states it is not as difficult as believed, to remedy the problem, and suggests establishing a distressed real estate holding company to unify interests of all parties in an orderly manner. Stan describes a scenario of investment in homes, and speculators, pointing out there is no advocate for the homeowner. He urges rational land use controls resulting in relief for Alaska residents.

Rep. Donley asks the staff to make a copy of the previous remarks. Donley states Labor and Commerce is working on legislation at this time.

Ray Metcalf states he sat on a committee which created AHFC. He recently developed a small project that gives a clear picture of what was created. Metcalf has delivered statistics and information to the Governor's office, and now focuses on one small area of the AHFC to show what went wrong, and how to right it. Metcalf states he developed a small mobile home area where mobile homes are on space owned by the mobile home owner. AHFC was contacted in 1981, seeking financing for the plan. In the past $350.00 a month covered mobile home payment and space rent. Then a square foot appraisal was instituted, and the "blue book" discarded, resulting in increased appraisals. Space rents then were increased. Individuals were then paying more than they were qualified for, and began to desert mobile homes. AHFC entered and paid the space rent. This keeps space rent at a peak, while apartments have decreased in rent. Metcalf states AHFC perpetrated the act, and now are obtaining judicial foreclosures against the owners. Metcalf states mortgage insurance requirements are

barriers for buyers. Metcalf offers 17 pages of written testimony.

Gordon Hazel, real estate broker and association manager, addresses the Committee. Hazel states budgets must be increased for associations, but with high vacancy rates, this is not possible, and there is a snowball effect of reduced maintenance and deterioration of the properties.

Rep. Donley states proposals in Labor and Commerce Committee provide for a moratorium, with a fair rental value set so that association dues would be paid and there would be a continuing commitment by the resident. Hazel believes that would be satisfactory. Donley states the Labor and Commerce proposal is for the court to establish a rental level that would include dues, which could be beneficial.

Lee Scott states she is concerned about use of conversion of condos to low-income residences because that would create a problem for rental units because individuals will vacate present commercial rental facilities, and would just shift the problem, creating problems for apartment owners. Scott states apartment owners are not asking for a bail-out, but just for help through a difficult period. Scott asks the Legislature to work with agencies to extend mortgage duration and decrease interest rates. Scott points out that many military personnel are leaving, creating additional vacancies.

Scott Smith states he is the owner of a sub-standard condo, with many problems in addition to those of many condo owners. Smith purchased his residence in 1982, and suffers moisture and other construction defect problems. Smith has learned that no building permit was filed; that the Attorney General's office found no contractor license or bonding for the contractor, who was a vice president of Alaska Mutual Bank. Smith asks how AHFC could allow a bank to police itself. Consumer Protection has been uncooperative. Deed in lieu of foreclosure procedures were denied by the bank, which charged $200.00 for the application. Smith states the units are uninhabitable and individuals have been forced to vacate the premises. Smith believes banks are not taking foreclosure action to avoid paying dues. Smith states residents do not wish to remain, regardless of financial relief that is offered because of the quality of the construction. Smith states he is a resident of Colonial Plaza Condominiums, a converted project.

TAPE TWO, SIDE ONE

David Rankin states he wishes to discuss legislation, is an attorney, and president of a condo association. He states the legislation proposed would assist homeowner associations to collect dues. The 70% owner-occupancy requirement of AHFC is a requirement only to the extent AHFC states it cannot be

altered. Rankin refers to legislation creating AHFC, and states there is no statute prohibiting AHFC from loaning to people who desire to rent the property. Rankin believes the legislation prohibits having owner-occupancy requirements, at 86.56.088(i). AHFC had no owner-occupancy provision prior to 1981, when they switched to Fannie Mae. From 1981 to October 1987 bonds were underwritten through Fannie Mae, and in October 1987 switched to Freddie Mac. Freddie Mac's owner-occupancy ratio is 60%, and AHFC has not lowered the ratio even though they could. Rankin states AHFC currently issues some of their own bonds, and cites examples of rental programs, and HOAP is the result of such a bond issue. Bonds are floated separately for non-conforming community associations. Rankin states the rental program has caused people to simply stop paying and be foreclosed upon.

Regarding transfer rights, Rankin states he is not certain legislation is needed, and points out that not everyone will wish to trade up; some families must of necessity trade down. Rankin describes the problems of blanket judicial foreclosures which stretches the foreclosure time for as much as a year. Rankin urges that this be eliminated.

Rep. Donley asks if Committee members have reviewed a senate proposal dealing with condominiums.

Bob Kerner addresses the Committee with regard to HB 432. Kerner refers to a letter received from Rep. Rieger which states he supports the concept of the Bill. Kerner is unaware of the full concept of the bill. Kerner did private investigation of the current market, and states AHFC's actions reduce prices to "a deal you can't refuse" which is the easiest answer. Kerner's goal is to increase his standard of living and to accommodate his family. He describes his communication with AHFC, in which the AHFC representative "laughed" when he offered to trade, giving AHFC the smaller debt, and he taking the larger one. Kerner's mortgage is $70,000.00. AHFC suggested he find a buyer who could qualify, and pay $50,000.00, and that Kerner take a second mortgage for the difference. Kerner believes trades up and down are feasible.

Rep. Rieger states he wrote in the letter that he believed it would be administratively difficult, if not impossible. Rieger states the number of players in the game make it complex. Rieger believes the concept has merit, and the Committee is taking this testimony for further information.

Kay Rollison states she owns an AHFC condo and has been talking with her servicing bank since the fall of 1986. The bank's response has been that if you keep payments current, you qualify for refinancing, which was an "illusive carrot" as they never intended to let individuals refinance. Now only if

one is in default can they refinance. Rollison asks what services are available.

Rep. Springer states lists are made of those in default, requesting assistance, who will be sent information, and other individuals on a separate list; information to be sent out within four months. Springer states banks did not agree on another program which was initiated by AHFC, and it was a bad program because only those in the business profited.

Rep. Brown states requirements include: be an AHFC loan, be owner-occupied primary residence, there be a hardship and an involuntary income decrease, have ability to repay under a modified program.

Rollison refers to condo association fees stating purchasers have a projected dues figure when they buy; and reiterates that the slowness of the banks in foreclosing creates a burden for the association. Rollison believes the goal should be to aid people and to halt the need for foreclosures. Rollison hopes individuals who intend to remain in Alaska will receive some assistance. Rollison states at current rate, it will be three to four years before the mortgage balance will be low enough to equal market value of the property. Rollison states she has a degree in economics, and the situation makes no economic sense. She suggests filing bankruptcy or moving to another state to start life over.

Jack Keene believed the meeting was for more general situations than for condos when he made plans to attend. He describes difficulties a friend encountered in attempting to work with a bank because they are not concerned, they have little to win or lose. The mortgage insurance company, located in Florida, was surprised to learn the bank was not enthusiastic to do business with her. Keene believes in commercial, condo and single family housing situations, people must work in concert rather than against each other, and perhaps the Legislature could create a facility or arbitration board with representatives from the lender, bank, insurance carrier, etc. to work out individual cases.

END OF TAPE

Joint Committee on Economic Recovery
Housing & Banking Subcommittee

February 18, 1988 8:00a.m

Present: Representative Steve Rieger
Representative Kay Brown
Representative Dave Donley
Representative Heinrich Springer
Representative Steve Frank
Representative Virginia Collins
Representative Mark Boyer
Representative Randy Phillips
Representative Pat Pourchot
Representative Fran Ulmer
Representative Max Gruenberg
Representative Mike Navarre
Representative Red Boucher

Witnesses:

Barbara Morse Quinn
Alaska State Building Authority

Dr. Ronald Lehr
Alaska Housing Financing Authority

001

Barbara Morse Quinn of Alaska State Building Authority states the Committee represents an opportunity for all of Alaska to solidify the many proposals to remedy the current economic situation. Ms. Quinn's expertise is low-income housing. Quinn states that a "flight to quality" avenue has opened, allowing people to upgrade their homes, and this should be available to all citizens, including low-income families. Quinn refers to the Willow Park project, and a document entitled "The Role of Public Housing in Market Stabilization, Anchorage, Alaska, Solutions and Proposals" which represents reiterization of an application to HUD asking for $9 million in new purchase money for Alaska, to buy as many as 80 properties in the institutionally held portfolio of AHFC. Quinn states the time to act on the proposal is now. Alaska State Building Authority, a state agency, owns the Willow Park property, subject to use for low-income housing. If the property is vacated for five years, it would become the property of the municipal government. This is not recommended because subsidy to 150 tenant families would be lost. Quinn sees the Committee as an opportunity to eliminate the oversupply of housing through one small action.

Rep. Rieger states the Willow Park data has been distributed.

Rep. Springer refers to leveling the entire project. Quinn states the federal government pays for all costs except capital dollars for asbestos abatement.

Rep. Boyer asks for general philosophy of the legislature's role with regard to housing in Alaska. Ms. Quinn responds there is a 50-50 split between government intervening or not intervening to stabilize housing. Quinn feels government need not intervene except where there is crisis, which exists only in low-income residential. Quinn states "everybody will lose money, there is no way to prevent it, but we do not have to have government intervention". Rep. Boyer is concerned that the legislature not act too late. Quinn states by summer the federal agencies will have made a decision.

Rep. Collins asks the cost of demolition of Willow Park, and for the entire project. Quinn responds demolition, without asbestos removal, is $2.2 million; with asbestos removal it is $4.8 million, and the entire project is $13.8 million.

Rep. Phillips confirms there are 150 units, of which 106 are occupied.

Rep. Springer believes the cost estimate is excessive. Quinn offers to attempt to obtain re-estimates. Quinn states the contract with the federal government is on only the Willow Park property.

Rep. Frank asks if there is a waiting list for low-income housing in Anchorage. Quinn responds there are 1,000 people on the waiting list. Frank asks what people on the waiting list are told. Quinn states they are waiting for a different type of property; Willow Park is sub-standard, and has vacant units. Individuals on the list are section 8 eligible and qualifying for better properties, and describes the section 8 process and qualifications.

Ms. Quinn, in response to questions by Rep. Phillips, states there is a limited number of housing certificates available from the federal government, and describes the process of obtaining certificates.

Rep. Frank clarifies that citizens vacating Willow Park will be moved into properties owned by the agency. These must, by regulation, be 3 bedroom and larger, and can be as large as 8-plex, not single family dwellings.

Rep. Springer asks for clarification on over-income situations. Quinn describes the process, and states some individuals remain, and pay the agency the excess.

Dr. Ron Lehr, Alaska Housing Finance Corporation, joins the Committee. Rep. Rieger states this will be a question and answer presentation.

Rep. Pourchot refers to a meeting in Anchorage on Saturday at which it was stated that the 70% ownership requirement of condo associations affects the viability of associations and the demand for condos, and a report which states there is more flexibility than 70%. Pourchot asks what has been done, and what would be the limit. Lehr describes the background, stating the 70% figure comes from the Fannie Mae and FHA requirement for insurance. The recent change referred to was using Freddie Mac, rather than Fannie Mae, which allows a 60% figure if the project is eligible. Lehr states generally AHFC can provide financing and insurance; those who suffer are the average homeowner trying to sell. Little can be done with respect to conventional market, non-VA, FHA properties. Lehr states it is difficult, if not impossible, to obtain private mortgage insurance on condos. Lehr states it is necessary to convince FHA to be flexible, and he believes they are too strict in present circumstances. Lehr does not believe out of pocket financing is recommended.

Rep. Pourchot asks if foreclosed units are counted in the formula of 70%, and if it is an option. Lehr responds it is not correct procedure. Pourchot states in the distressed, residential market, there is a very large negative equity, and asks if anything can be done. Lehr responds "probably not." Pourchot asks if these are the highest at risk of foreclosure, and Lehr responds affirmatively. Lehr believes it is required that there be restriction of supply, and identifies various present sources. Pourchot asks if focusing the supply reduction at the bottom, there would be a benefit to the remaining residential market. Lehr agrees that is a possibility. Pourchot suggests concentrating the basic supply reduction on the lower end of the housing market.

Rep. Donley refers to proposals to trade up/down with MGIC and asks for clarification. Lehr states it is a proposal for trades up, and a similar mechanism could be used for a trade down. AHFC is willing to do so, but there are difficulties, including concurrence by the insurance carrier. Rep. Donley urges being creative, and not writing off entire negative equity, especially at the lower level.

TAPE ONE, SIDE TWO

Dr. Lehr states insurance companies must be convinced, and describes concern about taking units off the market. Rep. Donley asks the timeline of putting the proposal together. Lehr responds a study is to be done by the University of Alaska on figures of supply and demand, and then the program will be designed, hopefully by spring. Lehr states working

with Fannie Mae and MGIC will be easier than working with FHA and VA.

Rep. Frank asks what plans have been made to restrict supply. Lehr states the primary plan is to move residents from one group of units into others, resulting in vacant projects; then to determine the best use of the vacant projects, such as student housing, elderly housing, re-conversion to apartments, etc. Rep. Frank refers to Rep. Ulmer's suggestion to increase the interest rate on new construction loans and Lehr states there is little new construction financing, so it is not a concern. Lehr believes the market is rational.

Rep. Frank asks if the designated broker system is working. Lehr states this is a frequent question, and gives a brief history and description. When there were few properties, it was a workable system, but with multiple properties now, the system does not work well, and banks are not geared to be property managers. Lehr believes the system is working better now because of experience gained.

Rep. Ulmer asks what Dr. Lehr would propose if he were in the Legislature. Dr. Lehr responds he does not know that legislation is needed at this time. Lehr describes the HOAP program operation without legislation. Rep. Ulmer asks for comments on the proposed bridge bank. Lehr does not believe that residential properties need to be included because commercial and residential properties are very different. Lehr states 4 or 5 institutions dominate the market, and it is their problem to address. Lehr states there is a desire to minimize losses, and the institutions must work with insurance companies.

Rep. Brown asks what plans are in place to address management of mobile homes, their storage, and possibility of a bulk sale. Lehr responds mobile homes are the worst part of the market, and AHFC currently has 1,200 units, and 800 to 1,000 are currently delinquent. Lehr describes action taken to repair units and ready them for sale and marketing plans. Lehr describes monthly expense of storing mobile homes as being approximately $200 to $250 per unit. Lehr states a storage lot for approximately 100 has been obtained and units are being moved there.

Rep. Brown asks if the policy being pursued is keeping space rents artificially high for remaining residents. Dr. Lehr responds that significant vacancies always result in lower prices. Lehr states some park owners have reduced rents not just for AHFC, but for all tenants.

Rep. Springer states the current economic situation is not unique; it has been endured elsewhere, and asks if solutions in the Lower 48 might be applicable to Alaska's situation. Dr. Lehr states he traveled to other areas at the insistence

of Fannie Mae, and he believes Alaska is doing much better than other areas, despite the fact the housing market dip is greater in Alaska. Rep. Springer confirms that state governments in other areas did not become involved. Rep. Springer discusses the ABE loan program, and expensive refinancing programs. Lehr states refinance is a new loan; Springer disagrees. Lehr describes the HOAP program as an option. Lehr acknowledges there are some individuals who cannot be assisted.

Rep. Gruenberg refers to sale of mobile homes, and asks if an increase has occured in sales in other residential properties. Lehr responds the general sales trend is upwards, reflecting that the market is improving for most properties. Rep. Gruenberg clarifies that difficulties in getting lending agencies together for discussion are not the institutions refusing to do so. Rep. Gruenberg states FDIC recently indicated there are unusual factors in Alaska, and asks if the Legislature can assist in getting more response from FDIC. Lehr states it is premature at this time. Rep. Gruenberg discusses refinancing fees, and states perhaps the Legislature can assist, suggesting recommendations from Dr. Lehr. Lehr describes the requirements of the process and states there is little interest in investing in Alaska property at this time.

Rep. Donley asks if Dr. Lehr is participating in the Housing Market Council. Lehr responds affirmatively. Donley states the Legislature is asking what it can do for the homeowner. Lehr states a healthier market helps homeowners.

TAPE TWO, SIDE ONE

Dr. Lehr states he is working with investment bankers to obtain "cheap" money to assist low-income families to buy homes, and is trying to design programs that do not cost a lot of money. Rep. Donley asks that Dr. Lehr help the Legislature identify other concepts in addition to financing to solve the housing problem, and offers to work with Dr. Lehr to that end.

Rep. Frank discusses people who desire to stay in their homes, but need some assistance. Lehr states a foreclosure costs the system about $50,000.00 so it is in their best interest to assist individuals to stay in their home.

Rep. Rieger asks if there are programs which should be abolished. Dr. Lehr responds that the mobile home financing program has been a "disaster for everybody" and the Home Ownership Fund (HOF), modeled after the HUD 235 program, has created problems for AHFC because the "ceiling became a floor." Dr. Lehr does not believe the programs should be abolished, but should be revised, perhaps having an incentive built in.

Rep. Springer states another program in that category is the Rural Non-Conformance Loan Program, with state standards which are not accepted by banks.

Rep. Rieger asks the committee to consider what recommendations should be made.

Rep. Brown refers to previous testimony on foreclosures, and asks Dr. Lehr to describe the process, especially with regard to condo homeowner dues. Dr. Lehr responds that condo associations seek fast foreclosures to avoid absorbing delinquent and/or unpaid dues. When foreclosure is accomplished, AHFC pays the association dues.

Rep. Gruenberg asks for information on the "large fund". Lehr responds the balance is $1.5 billion net worth, some of which is pledged to bond issues and securities. Rep. Gruenberg asks how much is not pledged. Lehr responds it is about $400 to $500 million, but he is uncertain, and points out that unpledged does not mean it is liquid. Mobile home loans are made from that balance. Rep. Gruenberg asks "how much actual money do you have in the bank, as opposed to accounts receivable?" Lehr states $200 to $250 million, with the presumption that AHFC is "dead as a financing entity, and is basically a checking account." Rep. Gruenberg asks, of the remaining $1.25 billion, how much is collectible. Lehr states there is a loan loss reserve, so the figure is adjusted for bad debts. Rep. Gruenberg asks the figure, unadjusted. Dr. Lehr states the loan loss reserve is between $20 to $30 million, and is not covered by mortgage insurance. Lehr states AHFC received approximately $80 million last year in insurance claims.

Rep. Rieger clarifies that HOAP is refinancing 18 year loans to 30 year loans. Lehr states the HOAP program will be 10% on the first $90,000.00 and cost of funds is about 11%. Loans are being made under HOAP.

Rep. Rieger asks the committee to consider the request of Ms. Quinn on the Willow Park project, and asks for a committee recommendation. At 1:00 p.m. the committee will consider commercial real estate market, chaired by Rep. Brown.

Rep. Collins states she is troubled that we "got into this trouble because we tried to subsidize housing ownership, and when government subsidizes anything the cost automatically goes up." Collins asks, "are we are solving the problem, or just perpetuating it." Dr. Lehr states that if government intervenes in the marketplace in a way that facilitates how things work, it can be successful. Lehr describes HOF as a failed intervention because it sometimes made homeowners out of people who should have remained renters.

There being no further questions, meeting adjourned.

Joint Committee on Economic Recovery
House
Housing & Banking Subcommittee

February 18, 1988 1:00pm

Present: Representative Kay Brown, Chair
Representative Steve Rieger
Representative Heinrich Springer
Representative Max Gruenberg
Representative Randy Phillips
Representative Virginia Collins
Representative Mike Navarre
Representative Steve Frank
Representative Mike Davis
Representative John Sund
Representative Pat Pourchot

Witnesses:

Gregg Erickson
Office of Management and Budget
P. O. Box AM
Juneau, Alaska 99811

David Rose
Alaska Permanent Fund

Connie Yoshimura
Anchorage, Alaska

Buzz Hoffman
Alaska Continental Bank

TAPE ONE, SIDE ONE

Rep. Brown calls the meeting to order, stating the purpose of the subcommittee is the underlying policy issues with respect to proposals being advanced as ways the state might assist the commercial real estate market. Brown believes a decision or recommendation would be the opportunity to appropriate money through the jobs bill. The committee is asked to look at specific requests to appropriate $250,000.00 for an appraisal of the FDIC portfolio, and the underlying issues to which such an appropriation would apply.

Gregg Erickson, Economist with Office of Management and Budget, submits written and oral comments to the Committee to give an overview of the commercial market situation.

Erickson states he will cover five questions: (1) what caused the recession, (2) when will it end, (3) what sort of recovery can we expect, (4) how will the real estate crash effect that

recovery, and (5) what are policy options for the state. Erickson summarizes answers to the questions: (1) the recession was caused by the increase in state spending in the early 1980's; it was inevitable when the state made the decision to pump so much money into the economy so quickly; (2) some economists say the recession has already ended, but everyone agrees it will end before the close of 1988; (3) recovery depends in part on decisions of the Legislature, but economists are optimistic about the recovery and believe with good reason that it will be steady; (4) the real estate crash will make recovery more robust and faster; and (5) the economy will improve on its own, the state does not need to do anything major to speed the recovery, but there things the state can do to ease the pain of the recession.

Erickson refers to a chart of the recession, with vertical accents of the percentages of the rate at which employment grew or declined, which is the pulse of regional economies. Data starts in January of 1980 and ends in January 1988. Erickson describes the boom in Alaska beginning in February 1980, driven by expectation and increased spending in July 1980, when state spending increased by 100%. The boom peaked in March 1981, when jobs were added at 12.5% annually, and thereafter declined. Beginning of the recession occurred in September 1985. Erickson states the recession was self-inflicted, and was exceptionally sharp and deep, and he believes, short. The deepest point, when jobs were lost at 1,660 per month, covered a 6 month period, the last data point being October 1987.

Erickson discusses the relationship between growth of spending and the inevitability of the recession. Erickson states the 100% increase in real per capita spending in one year made it inevitable that capital and labor would be attracted to fill the demands created by state spending, and most of it went for investment goods. Erickson describes the pyramid effect of the spending in which the investment to satisfy the initial stimulus accelerates the demand by drawing in additional investment, and the reverse situation which follows. Erickson points out that state spending did not decline until FY 86, and the construction industry recession began in late 1984.

Erickson states the oil price collapse was not the cause of the recession; it did not occur until December 1985, three months after the recession began and more than two years after the construction industry recession commenced.

Erickson states the foregoing is his view, as an economist, of the recession. He states that in balance, the real estate crash will add jobs, and compares real estate to commerce. Erickson states the decline in residence rents in Anchorage has had the equivalent economic impact of adding 1,400 state jobs. Business income from falling rents is even larger. Erickson agrees that recession has cut real incomes, which

reduces purchasing power, but firms are bidding jobs away from other areas.

Erickson states there are policy options which the State of Alaska could consider to ease the pain; those that make sense are those which do not cost much money. Erickson has no specific recommendations. Erickson states there has been justified concern that the recession has created a loss of confidence in Alaska, and declares that is difficult to measure, but there have been recent reports, including the Anchorage Population Profile, proving that is not the case. Erickson describes the out-migration from Anchorage and states it is not a broad-based exodus. The Ditman Research Report should be viewed carefully, with more attention to the numbers, which are optimistic, than the commentary, and cites examples. Erickson is optimistic, although there are two major clouds on the horizon, (1) regardless of reductions in spending in the past two years, Alaska continues to spend at a rate higher than has been described as sustainable spending, and (2) although Alaska has made an economic transformation since the 1960's, the differentials in education, health, etc. between urban and rural Alaska are increasing, with rural Alaska falling behind.

Rep. Gruenberg confirms that the chart represents growth and decline, not absolute numbers, and asks what the graph would be with absolute numbers. Erickson responds it would grow more rapidly in some areas, and more slowly in others. Gruenberg asks, when measuring percentage growth and decline, if it is using "zero as a constant or relative." Erickson states "relative to the size of the economy in the previous period." Gruenberg asks "from the point of view of making long term policy decisions for the state, what do you think our role should be in attempting to lessen the booms and busts?" Erickson responds that excessive state spending caused the current recession.

Rep. Collins asks at what level of per capita spending should the state act to prevent a recurrence. Erickson states Drs. Reaume and Goldsmith have studied this and defers to them.

Rep. Phillips asks what will happen to the state as a whole for the next 6 months, and then the next 12 months. Erickson believes the economy is probably adding jobs now, pointing out that different areas have different types of jobs and situations.

Rep. Rieger refers to "wealth effect" and real estate values, asking if a state policy is suggested for the residential market. Erickson states it exists and believes it will not be significant in Alaska. Erickson suggests reviewing a recent analysis for AHFC of the residential market done by Professor Lee Husky of University of Alaska. Rieger refers to FDIC, asking what the loans might do. Erickson responds economists

do not see the properties as being a liability to economic development.

Rep. Springer appreciates the concern of Mr. Erickson for rural Alaska, stating the economic situation in rural Alaska has suffered severely with little reason to believe there will be change in the future. Erickson states the answers to the problem are not easy to reach.

Rep. Brown states the meeting will be extended for one hour, with Dave Rose, Commissioner Malone, Connie Yoshimura and Buzz Hoffman of Alaska Continental Bank to address the committee.

TAPE ONE, SIDE TWO

David Rose states he has no prepared remarks, and will submit to questions. Rose is awaiting arrival of reports indicating the banking situation as of December 31 because he is currently working with September 30 figures. Rose states it is believed the long slide of banks has turned around in the last quarter. Alaska Permanent Fund has had as much as $182 million deposited in Alaska banks. Rose has been asked by legislators (1) should we be doing anything, and (2) is there anything we could do that really makes sense. From an economic viewpoint Rose believes the best thing to do is nothing; let the factors of supply and demand take hold. Rose compares economic issues with social and political issues. Rose believes there are social and economic responsibilities, apart from economic, and urges that the Legislature divide the problems into those categories, to be approached solely on the social and political level. Rose does not agree completely with the "wealth effect" but acknowledges it does exist. Rose describes the difficulties of businesses, stating there is real distress which must be addressed socially and politically.

Rose recommends that if the Legislature decides something must be done, not because it makes economic sense, the Committee review a report he made in January in response to Mayor Fink's inquiries about using the permanent fund. Rose states there must be diminished supply and increased demand. Subsequently Rose prepared a paper entitled "Conceptual Plan for an Alaska Stabilization Assistance Program." Rose describes proposals rejected by professionals, choosing to leave real estate loans with Alliance Bank and FDIC. Rose proposes that the State of Alaska tell owners of problem real estate, FDIC, Freddie Mac, VA, Alliance and other Alaska banks, etc., "You have a problem, and we're not going to buy that problem from you. We will allow you to pool it and take an interest in that pool, and you try to stabilize, in your own enlightened self-interest, the market so that values will come up." Rose points out that FDIC is a member bank organization, and owes a service to the banks.

Rose cited FDIC/Alliance Bank and stated the Hallwood Group must make Alliance Bank work within 18 months. He asked the Committee to consider the economic and political ramifications, and to try to move supply and demand curve in a positive direction. Rose discusses bank failures, and warns that the problem could return.

Rep. Frank asks if 18 months is long enough for the bridge bank to liquidate properties. Rose states there are two separate questions: banks must be allowed to be banks and not be property managers, and Alliance and other banks must be allowed to be bankers so that they can succeed. Rose points out it is not necessary that the banks get their money out during that period. Rep. Frank asks if banks give up flexibility by participating, and if they are better off being outside the bridge. Rose responds that will happen. Rose has received a copy of the Hallwood Group's proposal, after review of Senator Kelly's and Senator Sturgulewski's legislation, which is conceptually very close. The proposal includes the concepts advanced by Sealaska and another group concerning investment trust, providing for immediate sale to another trust with the same long term goals.

Rep. Brown asks for a copy of the proposal.

Rep. Rieger asks who would manage the bridge bank. Rose responds it would be the entities which contribute, not a state agency. The only state involvement would be appropriation of the working capital through an organization which prepares a contract and monitors the contract to ensure that stabilization is maintained. Rep. Rieger asks if it can work without the $15 million. Rose responds he does not know, pointing out there are huge carrying costs. Rep. Rieger asks how things would be different with the bridge bank. Rose states the winners are the people who hold property for the long term, and the losers are those who want the market to collapse and get in for lower amounts. Rose describes the political fault, stating a stabilization keeps the cost of living up, but in the end run it may be beneficial. Rose clarifies there are not hard advocates for the bill at this time, although it is a real concept with prospect of being executed. Rose cautions there are some weaknesses in the market which will never be overcome.

Rep. Gruenberg asks if a bridge bank has been used elsewhere. Rose responds there are none to his knowledge in any other state or country. Gruenberg recognizes benefits are available to entice the banks to participate, and asks what other methods have been used to achieve similar results in other locations. Rose states government has either stayed out entirely, or has provided cut-rate loans in distressed areas, i.e., a Pennsylvania plan. Rose states government has never been successful in dealing with such problems because it can only create jobs by hiring, or it can "get out of the way,

regulationwise." Gruenberg disagrees, pointing out that Rose suggests a method of government encouraging business to solve it's problems.

Rep. Frank asks how the value of loans will be determined. Rose states it would be the underlying collateral, or the real estate valuation. Rose refers to a similar effort in Oklahoma which fell apart because of valuation. Rose cautions that if the Hallwood proposal does not give strong consideration to by-passing the valuation problem, then it may not work.

Rep. Gruenberg refers to other testimony regarding FDIC's intent with regard to property and asks Rose what evidence he has to support his statement that FDIC is not about to dispose of their property. Rose responds he has no evidence, but knows there are two sides to FDIC, one being regulatory and the other liquidating. Rose has dealt with the regulatory body, and he believes liquidation would defeat the basic mission of FDIC.

Rep. Navarre discusses the supply curve and asks what the proposal would do on a long term basis. Rose responds that it is synchronized to work very well, but synchronization is essential.

Commissioner Malone joins the Committee. Malone cites the desire to avoid previous mistakes and urges caution in proceeding to avoid squeezing out the private sector activity. Malone urges treating the problem, not the symptoms. Malone states there is potential of properties being vacant for long periods of time, creating urban blight, and he is uncertain that mechanisms considered are the solution. Malone suggests that where state laws and regulations create barriers, perhaps they should be revised.

TAPE TWO, SIDE ONE

Commissioner Malone states total state spending is down, and the Legislature needs to consider reallocating how dollars are spent. Malone urges letting the private sector grow because that is a positive thing.

Rep. Brown refers to Dr. Lehr's comments concerning actions AHFC might take to stabilize the residential housing market, and asks Commissioner Malone's comments. Malone responds that AHFC must act to manage its properties, although he does not have concrete suggestions. Malone is uncertain about feasibility of moving individuals from one condo to another. Malone believes AHFC should be sold, "lock, stock and barrel, getting out of it whatever we can and let the buyer manage the assets." Malone believes political solutions are likely to be piecemeal and contrary to management techniques.

Rep. Rieger refers to commercial loans and transfer of ownership, and asks the administration's feelings concerning out of state ownership. Malone responds the state policy is to try to attract investors from other parts of the country to invest in Alaska.

Rep. Gruenberg discusses statements by David Rose concerning social and political ramifications and asks if Commissioner Malone agrees. Malone states the word economic means more than just financial considerations. Malone suggests doing as little as possible when it comes to managing residential and commercial real estate.

Connie Yoshimura, real estate broker in Anchorage, joins the committee.

Yoshimura states her comments are as a commercial real estate investor, primarily income producing properties, and not as an economist. Yoshimura has several concerns about the state's involvement in the commercial real estate market, the first that other states have failed to remedy recessions. Yoshimura suggests the process could be slowed down through a moratorium or changing right of redemption on judicial foreclosure law. Regarding deficiency judgment on judicial foreclosures, currently lenders repossessing property do not have to pay assessed value or fair market value for the property and if the borrower is not aware that he has a right to contest, the deficiency judgment is made. Yoshimura believes a change in law would be beneficial in that respect.

Yoshimura concurs that the property which the Legislature is considering analyzing is the "dogs of the commercial real estate market" and describes examples. Yoshimura points out that in the private sector, when one buys property, they buy the best piece they can find, but that is not what is happening in this situation. Yoshimura concurs with Mr. Erickson that when an investor goes bankrupt, no jobs are lost. Yoshimura suggests finding vehicles to stimulate the economy and create jobs, thus improving the economy.

Yoshimura continues she believes state participation in facilitating purchase of numerous pieces of property would be unfair competition, and taking property off the market prevents the private investor from functioning. Yoshimura asks how the properties would be liquidated in a fair manner to avoid having winners and losers. Regarding the Alliance Bank situation, Yoshimura states she as an investor would like similar treatment to make up negative cash flow. Yoshimura does not believe it is the state's role to ease the pain of the commercial real estate investor. Yoshimura compares real estate investment to "Nevada black-jack." Yoshimura discusses loss of tax incentives in relation to rental real estate.

Yoshimura does not consider the residential real estate market in any great difficulty, although values are low, except with regard to condos.

Rep. Rieger refers to "flight to quality" and asks Yoshimura what extent of the market is substandard. Yoshimura responds she believes it is about 20%, approximately 300 units in Anchorage, and that in the condo market it is increasing, and she favors the trade up/trade down plan.

Rep. Springer points out that in rural Alaska, the single family housing market is also in trouble, and many homes cannot be sold.

Buzz Hoffman, President of Alaska Continental Bank (ACB), joins the Committee. Hoffman states he does not propose to speak for all banks, but only for the small bankers, and more for the business than the housing aspect. ACB ranks 37th in dollar number of loans in the nation in Small Business Administration guaranteed loans. Hoffman describes the "human basis" of the current recession, citing a specific example of a widow whose estate has crumbled. Hoffman states that 5 Alaska banks have failed in 18 months; that there was no aid or assistance from the State of Alaska. Hoffman states the banks failed because their customers could no longer pay their obligations. Hoffman points out that on September 30, 1987 all state chartered banks in Alaska combined had a negative net worth of $131 million, and all national banks in Alaska had a total net worth of $330 million, and that has changed with failure of one of the banks. Hoffman declares the figures are from the Department of Commerce and Economic Development, Division of Banking and Securities, provided by the State of Alaska. Hoffman states banks alone cannot fuel an economic recovery. Hoffman states that the State of Alaska owns most of the resources, whereas in most other states the individuals own the resources, and he believes the State has been a "master at extracting money from our economy and sending it out," citing the Permanent Fund, AHFC and Alaska Industrial Development and Export Authority as some of the agencies which have large sums invested outside the State of Alaska.

TAPE TWO, SIDE TWO

Buzz Hoffman states AHFC has an equity of $1.521 billion, equal to the equity of all banks in the state combined, and has a cash and short term investment in the last audit and financial statement of $1.256 billion to help people keep their homes, and profits last year of $21 million. Hoffman finds this unconscionable, and states they could have, without legislation or bonding, presented a program to reduce interest rates instead of foreclosing on homes. Hoffman believes there has been a lack of political leadership, because there are economic resources in Alaska to help individuals in trouble.

Hoffman points out that numerous pension funds are invested in real estate mortgages in Alaska. Banks are not seeking a "bail-out" states Hoffman; that it is the people of Alaska who need a "bail-out."

Rep. Navarre asks if AHFC will appear before the Committee because he has questions concerning refinancing by AHFC. Rep. Brown states Dr. Lehr may meet with the full committee. Rep. Navarre discusses individuals who cannot afford refinancing at a lower rate because of the percentages. Mr. Hoffman responds banks can do it for $30.00, and that reappraisals, new title policies, etc. are not necessary.

Rep. Frank asks, with regard to AIDA, if the agency is responding to needs. Hoffman responds they have been very cooperative in assisting borrowers, having a moratorium on interest.

There being no further question, the meeting is adjourned.

Trans6

Joint Committee on Economic Recovery
House

February 19, 1988

Present: Representative Steve Rayger (Chair)
Representative Max Gruenberg
Representative Pat Pourchot
Representative Kay Brown
Representative Mike Navarre
Representative Mike Davis
Representative Red Boucher
Representative Steve Frank

Testifying: Bob Flint, Greg Strong (AEDC)

Flint: The Development corporation is a organization much like your state agencies, it's a public corporation of the Muni of Anchorage, and it's been formed by ordinance. It has a board consisting of the Mayor, 2 members of the assembly, and 6 private citizens. The chairman of the board is Mr. Jerry Grilly, the publisher of the Daily News, the president is Scott Hawkins, formerly an economist and formerly of Key Bank. For the purpose of this proposal, because of it's statewide impact, and because of the necessity of statewide governance of the management of these assets, the proposal would include the formation of a non-profit subsidiary, of the AEDC which would structurally include on it's controlling board members of the various communities around the state which are affected by these assets and these troubled loans as well as those who would assume any part of the risk or involvement in the management of these assets. The proposal, I have made a brief outline as the what the AEDC proposes. Basically it is a bulk purchase on $330 mil. of book value of assets of the FDIC from failed AK banks, Mostly Bank of the NOrth, 1st Interstate, some from Security Nat'l. This opportunity arises in a unique way because the FDIC, which normally disposes of it's assets in a piecemeal, bulk sale basis, has proposed that they sell all their assets to a public purpose entity. This would be the largest bulk sale the FDIC has ever done. It has been told to us it is a unique proposal. The reason this is feasible, even on a large scale, it the large discount they will sell this portfolio for. The FDIC sells this at it's current appraisal, which is substantially less than book value. The reason it is feasible to purchase it and operate it on any sort of sustained basis is because the entire portfolio consists not only of real estate, which actually currently is only about 10% or less of the $330 mil., but also because of operating loans which produce a cash flow that will determine the purchase price and the operating expenses of managing the portfolio. The reasons we would enter into this transaction and accept the offer of the FDIC is basically because it gives an opportunity to manage this rather significant segment of AK loans and banking assets with some public input and with some public purpose. Otherwise, at similar prices, at it's present value, these assets will be disposed of to people who will sell them on their own for a profit.

The purposes of a group like the AEDC are as the overall goal, that we would try to achieve some form of economic stabilization, rather than a near term profit in managing the assets. First, we would try to keep people in their homes and businesses where they have not yet been foreclosed. If liquidation goes forward, the 10% (real estate) is going to rise substantially. The key to this proposal, is that there are about $100 mil of loan files that actually produce income, and some of which are in fact very good loans. The transaction on the 2 large closed banks was that NBA, the purchasing bank would acquire 50% of the ABN loans and 25% of the 1st Interstate loans. They were given loans that were not classified and no more than 60 days overdue. They are putting back the optional 50% and the 75%, so they're taking only the minimum. The reason they are doing that, I am told, is because they have other policy reasons, including exposure in the real estate market, that dictate how many loans they can take. What is necessary in order to go forward with any purchase is to determine what that is. The appraisal of this portfolio depends on a cash flow analysis, the cash flow, which, under a conservative and reasonable basis, will be able to support the operating expenses associated with managing the loans and the property as well as paying off the financing. The one thing about this proposal, is although there may be credit enhancement in order to finance the sale, nevertheless the deal will go or not go standing by itself. The terms of the sale including the price depend on this appraisal, and that involves looking at each and every loan file, to determine what cash can be expected from it as well as the security. That effort is what the $250K is all about. This is a somewhat expanded effort of what the NBA already did, when it looked at the loans that were put to it from the FDIC from the 2 banks initially. A team of experts, loan, real estate and financial experts look at the loans, determine the cash flow. At the same time, an underwriting group has to take that information and determine what can be financed. Based upon those realities, then a price and terms are negotiated with the FDIC. As part of the initial effort in this proposal, the FDIC offered to the development corporation 20 sample files to assemble a small team to look at them to see if the assumptions we would operate on were close enough to the FDIC's own assumptions as to the value of the portfolio that it was worth going for with the full appraisal. If the assumptions were so far apart that there was no deal possible obviously there's no point in wasting anybodies time. The development corporation accepted that and we have 3 people who will start tomorrow looking at those files to come up with that assessment. The development corporation is paying for those personnel out of it's own budget. We would hope and assume since this is a present value sale and the FDIC understands that it has to be financed, that a willing seller and buyer can come to an agreement on the price and terms. However, in order to go out to finance the acquisition of this portfolio, some form of subordination or credit enhancement is going to have to take place. Even today with a great project in AK it is difficult, or impossible to get participation financing outside for AK projects. You as policy makers can be convinced that this would be a self supporting operation, but the market would not even look at it, not only because it's from AK, but from failed AK banks, no way. If the state were willing in creating a moral obligation similar or the same as what you do for other agencies, i.e., the bond bank, or AHFC. The moral obligation of the state of AK carries an A rating with

Standard and Poor's, just below is AA-. The moral obligation idea is common, both around the country and in this state. It is a device which is designed as a credit enhancement and not as a subsidy, on the proposal the operation is supposed to support itself, the moral obligation is a backstop, in case the cash flows do not come up to projections. So far, not a dollar has been called on them to meet the moral obligation pledge. There are many combinations, the FDIC indicated to us on Wednesday that we should come to them with an understanding that they are open to different kind of proposals, including creative financing and although they have sold bulk sale at cash only in the past, they are willing to consider but obviously have not obligated themselves to deal with a proposal which includes part cash, and part subordinated debt, in which case they would bear part of the risk. I count that not as any commitment of any kind, but just an encouragement that we do have a seller that is willing to deal with us on a reasonable basis. There also could be a combination of state and moral and FDIC support. The $250 mil request is to analyze the portfolio with a group of professionals. In this corporation we do have people with banking, public admin, and economics background. Myself, I've been involved in banking credit for some time as well as public finance issues. Aside from the underwriter basically what would be formed would be people who would go in and tell us all, what could be done with an acquisition of this portfolio, and do it in a very professional manner. As far as the $250. mil is concerned, it would be at risk of there was no deal done, it is a cost of the sale and would be repaid out of the proceeds of the bond issue if that took place. But the team would be able to tell you at any step of the way if it wouldn't work. Finally, It's important to note that as far as the loss that is being taken in order to do this transaction, it is being taken before the transaction is put together. The biggest loss is being taken by the FDIC. The book value of the portfolio is far from the sale price, and altho we do not know what it would be, it would not be unreasonable to say that the discount would be around $100 mil, or in that area. If that were the case, the backing for getting us down to current market is being taken by FDIC itself. Behind that, it is already been taken by the banks, their shareholders and people who operated them who simply didn't make it and lost their equity. This is on a a present value basis and it will be done so the question will be how these assets are going to be managed in the future. The difference in management between segmenting it out in chunks to private venture capital is a different management from selling it in bulk sale or in pieces. While it would be hoped that this portfolio would return some funds that would could be distributed for the public benefit, that is not the basic goal, the basic goal is to manage it so that people can stay in their businesses rather than be foreclosed upon. This is a community problem. The FDIC is offering a unique possibility they have never done before. It is a possibility in which public policy makers with state wide community interest in mind can have their input in the managing of a substantial economic segment which can effect the state as a whole. It is also exciting because FDIC is anxious to do this, it's not just a concept. The essential part of it is that somebody go in and look at that portfolio and see what it's value is. I appreciate your consideration.

Mr. Strong: There are over 3,000 loans presently involved in this portfolio. Only 600 of those loans are real estate loans, so still 75% of these loans are business loans, backed by inventory, equipment, etc. The AEDC's involvement is from the concept of jobs. We began looking at the reality that was facing us in terms of what would happen if someone would come in and aggressively liquidate, not dump, these 3000 loans on this community. Our fear is that that process would cause that ownership to pass from some individual in AK to someone outside of AK, and the people who work for that individual in AK may not have a job. So the problem becomes, are we going to do this on a non-profit basis, V.S. the more rapid liquidation cycle that would be private for profit. We believe that the former will save Alaskans and save jobs for Alaskans. If we don't take a proactive stand here we're going to create an environment that's rather unattractive, not only for those people that may be left, but for people like AEDC, being able to proactively market a large marketplace in this state. If we have an unnaturally large tax burden placed on those people that remain, we have a marketplace with dwindling home equity, we have a marketplace where we have few trained people left to draw from to do the jobs that people will put in place, and we're not going to be internationally effective. What we're proposing, quickly, is a statewide public non-profit subsidiary, made up of a Board of directors, appointed by the councils and assemblies of communities affected on a pro-rata basis where these loans originated from. Only 60% of these loans are Anchorage loans. This statewide subsidiary would try to work out these business loans over a longer period of time trying to provide the opportunity for these individuals still interested in maintaining their businesses the time necessary to get their footing back underneath them, and to keep themselves in business and their employees at work. We'd like to ask for your ½ mil. appropriation to investigate the 3,000 loans in the FDIC portfolio to see whether or not we can do a business relationship with the FDIC to maintain the economic balance that we'd like to establish sooner rather than later in AK. Thank you.

Rep. Pourchot has several questions relating to the management of the portfolio by the AEDC.

Mr. Flint: Each situation will have to be dealt with differently. For example, the person who at 1st Interstate who had a revolving line of credit who depended on that line to do his on-going business and is not in default, doesn't have a default or workout situation but he doesn't have any more source of money. However, he does have all the collateral that's been given to the successor of 1st Interstate, the FDIC, so he can't go down the street and establish a new banking relationship with his collateral already tied up for the old debt. One of the possibilities is the workout staff created for the development corporation subsidiary, could, after review agree to subordinate all it's security to a new bank who would provide on-going revolving or accounts receivable financing and have him establish a new banking relationship and perhaps eventually have it refinanced out by the new bank. The criteria involves workout situations where there is an attempt to keep the business going, and modify the existing debt. It would be run like a bank. It is an important part of the management to manage the real estate owned in such a way that it is at least at market or supports the

market and doesn't lower it. The public would be not to bust the market and not to lease it for cash flow only.

In terms of state money, beyond the moral obligation, that segment of it relates to the initial financing and how you back the credit by which to obtain the money to purchase the assets. The moral obligation is one way, other devices to be explored are with the seller itself, i.e., series A and Series B bonds. The second part, the distribution of profits; hopefully since we are purchasing it at a present value basis, heavily discounted, over time there is going to be a profit. After all, the FDIC is going to sell it to somebody who believes they can make a quick profit, we would certainly hope that managing it over time there could be a return. In this proposal, since it is non-profit, the returns would go to economic development projects or organizations that would try to create a broader economic base using those profits. That's one proposal.

It is true that the community is suffering to such a great degree that even the people who are successful are harmed. The second point, this is a reaction to a specific set of loans, presented to us by the willingness of the FDIC to work on a public interest basis. This is only a segment, some of which are already controlled by private corporations, AHFC, AIDEA, etc. This will be a closed-end organization, I hope there won't be more bank failures. We would hope that taking out this piece and managing it on a long-term basis in the public interest would 1st of all give a psychological boost, that we are going to hold something for awhile to benefit people and the rest of the market. I've been told by people that we're in the 2nd phase of this crisis in which people who most at risk have already gone and what you have now are the long term Alaskans who have been struggling and paying for these projects out of their savings, etc. and the reserves are dwindling.

Rep. Navarre raised questions about the people who are making it, and the effect on them of interception of assets in foreclosure, and helping the people in the past.

Rep. Davis questioned the moral obligation of the bond sales, it's effect of the states overall rating in the future.

Flint: My personal opinion is that there is some way to go on the downturn. As far as the state's backing goes, the state would not own the assets at all. The important point about any moral obligation bond that you consider, is that you're looking at the program, establishing the criteria as a self-supporting, revenue-producing operation, so that the moral obligation is looked at as a credit enhancement in order to sell the bonds to fund the program. If it is not self-supporting then you do not use the moral obligation device. By doing the analysis the risk would be presented to you.

Rep. Boucher: This is a new role for the AEDC? (Yes.)
What successes does AEDC have in developing the economy? Is this a bureaucracy looking for something to do? What happened to the funding put in by the city for economic development, could it not be used?

Strong: The organization is less than 90 days old. The concept behind the organization is to provide jobs and to stabilize the economy, and to make AK an attractive place to do business. It's not now. We started to look at what different things we could do to look at the issue of stabilization and jobs, and this came about within the last 45 days, we've been working in it very aggressively on it. The Muni of Anchorage did provide $300K to start up this organization, approx. another $45-50K was provided by the private sector in ANchorage. We're getting an idea off the ground with a different management, different staff, that's where getting confused here. We're saying there's a problem, we're saying a way to address the problem.

Rep. Boucher: You still haven't answered my questions, what have you done for economic development, and what has been done with this money? Are we seeking any federal relief? What about other states? Hasn't the bank moved in to the FDIC and taken the most valuable properties? I haven't seen that you would be the turniquit around this bleeding economies arm.

Flint: We do know that the alternative for these properties in the next 2-3 weeks is to begin to hire a liquidation staff, to expeditiously dispose of the property as a receiver. We would hope to substitute that process for a long term process which we believe would have a beneficial impact on the market. That's all we can say.

Strong: The alternative is to do nothing, and you'll find that many of these individuals from these loans have loans at other banks, and if one source of income is cut off because their inventory is sold, etc., I would suspect the other banks will also suffer. In that case we'll probably see other banks working with the FDIC, but we can't promise that won't happen anyway. We just want to look at the FDIC portfolio and look at a new plan.

Rep. Boucher: Could this analysis not be done within the existing banking community, do we need to create this extra infrastructure, is our private sector so helpless it cannot do this, or are they silent for some reason?

Strong: The NBA did their analysis for the closing banks they bought, they had certain limits that they could not take certain assets.

Discussion on comparisons between the bridge bank concept VS the AEDC proposal followed. The AEDC proposal provides the same service as the bridge bank, but for a finite number of loans, the 3,000 loans the FDIC holds now.

Comm. Tony Smith: Explained his role. He sees the problem as a billion dollar problem, in Sept. 87 we had $165 mil in real estate owned foreclosures, $339 mil in troubled loans, not being paid. There's roughly $300 mil in Alliance Bank, and the $250 mil the FDIC holds. Today we're discussing the bridge bank or the real estate investment trust ideas. The first thing this committee needs to understand is that we need a statute in order to have a bridge bank, an entity that can take a non-depository entity to deal with assets from financial institutions.

Willis Kirkpatrick and I have looked at that and we don't have the statute to regulate such an institution. The real estate investment trust is provided for within existing statutes and reg's. The evaluating process which Mr. Flint and Mr. Strong discussed is a real one, we're looking at over 3,000 assets, and these have been looked at by a number of financial institutions, but they're problems assets. My understanding that the documentation problems, at least the 1st Interstate portfolio are gigantic, and documentation means, can you collect the loan?, often. You have to understand that these assets have been picked over again and again by some very knowledgeable people. NBA has not only been able to pick them over, but brought them into their fold and it's anticipated that they're going to put 1,000 of them back, so the issue of evaluating these is real. I know the Reeds group is working on calculating what each loan is worth. The question of $250 thousand is probably not a bad number. AIDEA Board a few weeks ago directed the staff to put out an RFP for $55,000. to just start the process and see what we had, because of the new procurement law we ought to be able to get in a position to do that, the odds of being able to use anybody who's creditable is unlikely, we'll end up with a new bidder. It seems to me there are some benefits to using a public corporation such as the AEDC which is not subject to the procurement law which is set up for a different purpose to take a look at these assets. If you choose in your wisdom that you want to do that, I would tie as a condition to any such appropriation from the legislature that the information be available to other groups looking at the problem have access to this information. Another thing you have to understand: there may be $250 mil. worth of assets, there may be 605 parcels of real estate but not all of these have any impact on the market, so to say that all $250 mil worth of assets have an impact on the market and our financial institutions is to overstate the case. Which brings me to the difficulties and limitation of the procurement law. (Reference to article).

END OF TAPE ONE

(con't.)
Whatever institution deals with the problem is going to have to treat the particular sectors differently and I'm not sure how well we can, with the bridge bank or with any public entity deal with those differentiations. Dave Rose and others have commented on artificially stimulating the market, your questions show you're aware of that, I would on the other side of the equation, in my personal view, we created probably one of the best socialistic systems known mankind and going cold turkey may be a difficult prospect, we played around with the market, and I hope Alaskans entrepreneurs and Alaskan business people would have a future in the state, and that we wouldn't take a posture to control, if they're all people from California, so be it. I believe we need to consciously manage our assets and conduct our affairs to get us over this period with as little problems as possible. We need more flexibility with AHFC, and aid. Those are areas, as I see it of real appropriate legislative focus. AHFC needs more private sector people on the board, I'd like to see us have the ability to react in manners that other finance institutions would. From my perspective as chairman of the board, we need to do something with the conflict problem, in a

banking institution if you have a conflict you don't vote on that particular issue when it comes to the board. AHFC, anybody who works for a bank that's a servicer can't be on the board because he or she has a conflict, anybody who works in the real estate industry, the same happens. That in my view is an area for you to focus some of your attention on.

There's an area no one has focused on, is condemnation and urban renewal. We have a supply and demand problem, we have a heritage land bank, the major problems with this type of real estate are in the Railbelt. Perhaps the public sector could, through condemnation and improving the quality of neighborhoods use the Heritage Land Bank and also through Municipalities, loans from the Railbelt Energy Fund, etc. but that would seem to be a clean response to the supply and demand problem, which would have a real impact on the other side. We are working on various ideas on solutions to the problem.

Bob Gillam: I am chairman of the board and CEO of a savings bank in Anchorage. Bob gave a brief personal background. I'm here to discuss 3 issues: -credit disenfranchisement of a large section of our borrowers; -housing and the housing collapse; -concentration of wealth and the elimination of competition in our financial system. In 1987 our company increased our lending to the business sector, in fact we increased our portfolio of our own account by almost 45%. Institutions that have not done well are generally absorbed by larger institutions, recently this is not the case in AK, and the consequences are disastrous for small businesses to obtain loans. A new banker will discuss the issue of new loans with you, but the FDIC will not, one out of every 8 is today held by agency of the federal gov't, whose sole purpose is to liquidate. This legislature needs to prevent the kind of catastrophe where people are eliminated from the credit system. 3 out of 4 sales are driven by a gov't agency. People from FDIC told me that if I wanted to see what Alaska would be like in a year, come to Oklahoma, so I did. In that community condo prices have dropped as much as 95%, and the results, much like ours, came about because of uncoordinated selling by gov't agencies. If you think I'm kidding, look at the $100. down HUD homes for sale each week in the paper. This phenomenon has a spiraling effect, and it must be for the AK Legislature to stop this. The middle income home is virtually non-existent, the supply that seems to remain is in the lower end, and more delapidated. We will probably provide several millions of dollars of new construction for a demand which is beginning to reappear. The remaining small independent banks lost approx. ½ of their capital in the last year. Right now only 4 institutions hold almost 90% of all the bank assets. We see an elimination of credit opportunities for thousands of Alaskans. We have seen a downward spiral of housing prices caused by gov't selling. We have seen a concentration of wealth in a small number of institutions. Several solutions have been proposed. We suggest it is not in the best interest of the state to allow more failures, as those will be in gov't hands. We're much better off to allow our existing institutions or remaining institutions to work with our businesses than to propose some new super agency that will solve the problem after the doors are closed and after the customers have been liquidated.

Rep. Boucher asked if it might be a good idea to send a resolution to the Feds. requesting to be able to get in on any federal aid other oil based economy states might be able to qualify for, i.e. The Southwest Plan.

End of Side 1, Tape 2

Questions for Mr. Cutty, regarding the involvement of the legislature, and the procedure he used for evaluating the FDIC loan portfolio. In his view, to be successful the corporation would have to be able to buy this bunch of loans at below what the market says it's worth, and if the market says it's worth $100 mil, then you might want to buy it at $80 mil, and maybe FDIC could be convinced that it would be in the interest of the banks at large to protect them to have a governmental entity buy these assets and hold them off the market, and from our bank's standpoint, that'd sure be nice if someone would come in and buy these assets and hold them off the market. What you have to do, though is make a policy decision, will the FDIC sell below cost, second if they won't, you need to make a policy decision, are you willing to and is it in the public interest to subsidize this project? I can't imagine you could buy these assets and hold them off the market for an extended period of time and sell them and realize enough profit to pay back the accrued interest and all of your carrying costs. I think you'd have to buy them at below market or build in an additional appropriation to subsidize it. In determining the cost, one thing you might do is see, if NBA has had these under their wing for awhile, see if they'll open up and tell you what they're worth, and then find out what FDIC thinks they're worth. I can't imagine that our bank would accrue more than 1/10th of what that cost would be to come up with a bid on it. I would think that a team of 5 or so people would in a week go through most of those files and send somebody out to snap photos of the real estate that's out there, and I would guess with that, come up with a bid.

Rep. Boucher thought it might be better to go to the banks that have already picked those properties over and see from them what they're worth, instead of forming a new corporation to do this.

There are vulture funds waiting to buy from outside the state, however they're not convinced that the market has hit bottom, and there's too much risk to buy now.

Rep. Brown has a question about how the small business would be better off with an entity like the state acquiring it, (which can't act as a bank and advance working capital) rather that one of these outside groups who might be interested in seeing it go as a business.

Cutty: Speaking generally, the loans that are there are not very good loans, that's partially why they cannot get other banks to make loans to them. The values dropped, and there's less pieces of property that aren't already heavily mortgaged and that need more financing. Quite a few of the loans held by the other banks simply are non-performing and not viable, what does the next entity do with those loans?

Pete McDowell: The proposed investment opportunity began about 10 months ago, and there were discussions during a project I was working on for Sealaska Corp. last spring that evolved into a proposal to establish an AK owned and managed real estate investment trust funded by private interests. This was discussed with Comm. Smith and others ad DCED at the time, and what's occurred is that idea has come along. The response of Sealaska Corp. to dialogue with Comm. Smith last month was to say yes, the Corp. is intertested in pursuing further in examination in the feasibility of such an investment entity, and would take the lead in doing so. They then engaged me to serve as their consultant and project director to examine further the possibilities that began last spring. Discussions to date with other private institutions that have indicated possible interest in investing with Sealaska Corp. have been positive but very preliminary. At the moment discussions are only being held with Alaskan private sector interest that have the wherewithal to make a high risk but sophisticated investment decision, probably in the neighborhood of several million $$$ each, and those people have been positive and want to go further on this. There are 4 proposals in the works, the AEDC, the Sealaska initiative, the Bridge Bank proposal, and a proposal to establish a trust described by the Hallwood Corp. There is so much out there, that any one effort is probably not going to be enough. There are high risk opportunities out there, but I don't perceive there's enough private capital interested in this kind of investment available to deal with all of the assets, but beyond government intervention through the existing agencies that are already involved, I don't have any specific proposal for further intervention beyond that which is already in existence.

Rep. Gruenberg asked that Comm. Smith put in writing the suggestions he mentioned to us so we can review them.

Rep. Reiger adjourned the meeting.

Joint Committee on Economic Recovery
House
Housing & Banking Subcommittee

February 25, 1988 8:00a.m.

Present: Representative Steve Rieger, Co-Chair
Representative Kay Brown, Co-Chair
Representative Virginia Collins
Representative Pat Pourchot
Representative Heinrich Springer
Representative Mark Boyer
Representative Steve Frank
Representative Randy Phillips
Representative Dave Donley

Witnesses:

Bert Wagnon
AIDEA

Barry Hulin
First Federal Bank

TAPE ONE, SIDE ONE

The meeting was called to order by Co-Chair Steve Rieger

Bert Wagnon of Alaska Industrial Development and Export Authority (AIDEA) joins the committee to present an overview of AIDEA and comment on HB 402 regarding lending limits and eligibility of lending institutions to underwrite loans. Wagnon distributes a packet and describes charts. The first chart, AIDEA income statement, shows net earnings slowly descending in 1985, 86, and 87. Wagnon states the decline is due to falling interest rates and increases in provision for loan loss reserves, reflecting a weak economy and poor loans.

Chart Two is a graph of delinquencies within AIDEA, indicating loans delinquent 30 days or greater. There is an increase in early 1986, peaking in July of 1987, and has now gone up again. Wagnon states that in October, November and December, the increase is due to close of Alaska Bank of the North, and AFDIC has not promptly remitted payments on AIDEA's pro rata share of the loans.

Chart Three is the same delinquency chart, with Other Real Estate Owned (OREOs) superimposed, CREO's being loans that have been foreclosed and title rests with the bank or the authority. There were no OREO's prior to June 1986.

Chart Four is a geographic summary to show where AIDEA's money is placed. Anchorage has $161 million in bond proceeds, or

54% of their total; Southeast Alaska has $30 million, or 10%. Efforts are made to mirror population in loan distribution.

Chart Five is delinquent bond sale loans by area. Anchorage has $42.3 million, or 82.7%; Southeast has 1.74% of the delinquencies.

Chart Six is delinquent bond sale loans by type. Office buildings are 26% of the delinquencies; warehouses almost 19% and strip retail shopping centers, which are smaller due to $10 million limit, are almost 27%. Wagnon points out these are being hit hard by the recession.

Chart Seven is what is being done about the situation. Wagnon states two work-out reports have been distributed to the Committee; one is loans funded through bond sales and the other loans appropriated to AIDEA from the Department of Commerce or Department of Revenue.

Wagnon states 32 loans have been rewritten for $31 million, and on appropriated serve also 32 loans for almost $8 million.

The Authority's total portfolio at December 31 was slightly over $300 million on just under 1,000 loans. If current conditions continue, it is anticipated more loans will be rewritten. Wagnon describes the sequence of events in rewriting loans. Loans were originated by a bank, then a portion purchased by AIDEA; readjustment of a loan requires satisfactory arrangements between the borrower, the bank and the Authority. Banks are paid to service loans, and they must develop a plan for AIDEA consideration. Wagnon states it is difficult to sell commercial property at this time. OREO's are expensive to maintain and avoided whenever possible.

The last chart is the OREO foreclosed property; 28 properties total $12.3 million. AIDEA has approximately $100 million outstanding in loans in the Anchorage area. Wagnon describes residential loans as different in that there are numerous lenders in commercial loans as opposed to a limited number of residential lenders. Wagnon states AIDEA is financially sound with $250 million restricted/unrestricted assets, the vast majority of which is in government agencies. Wagnon describes AIDEA as conservative and cautious.

Rep. Rieger states the committee is interested in comments on HB 402, following questions.

Rep. Frank asks if AIDEA is able to reduce interest rates. Wagnon outlines procedures. Interest was originally added back into the loan, but that has ended "because it did not give the borrower any hope of realizing the transaction to completion." Rep. Frank confirms the alternative would be foreclosures, which are expensive. Rep. Frank discusses statutory requirements on Community and Regional Affairs

regarding reduced interest rates and asks if others are reducing interest rates. Wagnon responds he is not able to answer that, but believes generally restructuring is occurring throughout the area, and out of state lenders are stricter than others. Rep. Frank asks who does negotiations. Wagnon states the bank is required to present a plan to AIDEA because they are the servicer and originated the credit. In situations where banks have gone out of business, AIDEA is attempting to locate a bank to handle the accounts because AIDEA is a secondary lender. Rep. Frank asks if the banks share reduced interest rates. Wagnon states most loans are split rate; thus the note has two different interest rates. Generally, if the bank recommends AIDEA reduce the interest rate, then AIDEA requests the same from the bank.

Rep. Rieger asks if rewrites go back to the Board of Directors or if the staff has discretion to do them. Wagnon states staff has that discretion; the Board is concerned that staff is too conservative, and has mandated quarterly work reports and the workout for any unsuccessful proposal.

Rieger asks AIDEA intentions concerning repossessed real estate. Wagnon responds it is not their intent to dump on the market, with limited exceptions: a hotel in Barrow which is functionally obsolete, and a hanger at Illiamna airport which cannot be managed. Some properties have been held in excess of a year. Rep. Rieger asks what Wagnon expects for FY 89. Wagnon responds he expects FY 89 to be better than FY 88, because he believes that for quality properties, the recession is nearly over.

Rep. Brown asks how much "underwater" the portfolio is estimated to be. Wagnon states he can only guess that the overall portfolio is 110 to 115% below value.

Rep. Frank asks if that is reflected in loan loss reserves. Wagnon responds affirmatively. The Loan Loss Reserve is at $16 million. The portfolio of loans is $300 million.

Rep. Rieger asks Mr. Wagnon to speak on HB 402 to increase limits from $10 million to $25 million and delinquent loan criteria. Wagnon is familiar with the Bill and makes the following comments:

Section 1, the major item is increase of loan limit from $10 million to $25 million. The AIDEA board asked that this be inserted because large projects cannot be financed, especially tourism industry projects. The increase from $500,000.00 to $1 million is inserted because the BIA and National Marine Fisheries will guarantee loans in excess of $500,000.00 under a government guarantee program and it seems prudent with a government guarantee to take that advantage. The original $500,000.00 limit was to coincide with the SBA limit.

Section 2, there is difficulty with the SBA purchase program because when statutes were originally written the interest rate on purchase of SBA loans was set at Moody's AA Corporate Index, which was advantageous to borrowers as prime rates were 20% and the Index was below the prime rate. SBA places limits on interest rates of 2 3/4 or 2 1/4, depending on the term of the loan, over prime. Prime has fallen and the Index is sometimes above the SBA limit, putting AIDEA out of purchasing guaranteed loans. The Bill would allow flexibility in setting the interest rate on the purchase of SBA guaranteed loans, the guaranteed portion, at the lesser of the prevailing prime rate of SBA, Moody's Index, and such other index as established by regulation of the Authority. The last was inserted because they are unable to control what the federal SBA does, and SBA may change in the future. Wagnon believes it allows a safe, mature investment with protection. Wagnon believes the last section is most important because 44.88.165 currently requires that "any bank I do business with, if the loans that I have purchased from them are delinquent 2% or greater, 90 days or more, I have no choice, I stop doing business with that bank." This is very restrictive because the recession has put banks out of business.

Rep. Frank confirms that the $10 to $25 million is for new ventures and not restructuring.

Rep. Rieger asks if that is the state's moral obligation program. Wagnon states he believes there would not be moral obligation on anything in excess of $10 million, and he believes the statutes state $10 million cap. Wagnon will provide this information in writing later.

Rep. Frank refers to reports concerning AIDEA balance and estimated value. Frank confirms the AIDEA balance is their share of the loan. Wagnon states if credit was over $1 million, it would be 80%, and if it was under it would be closer to 90%. Estimated value is total value.

Rep. Springer states Southwest Alaska shows very low, 7% of the portfolio, and asks why there is not a higher percentage when that area is developing. Wagnon responds that the Aleutians are financed from Seattle and Alaska banks are unable to do business with AIDEA, so there has been no participation in that area. Wagnon states the area has only become active in the last 18 to 24 months in Dutch Harbor.

Rep. Rieger calls on Barry Hulin to describe what he sees happening, and for recommendation. Hulin believes the Committee has heard sufficient information, and reads from a book which he finds scary, but which shows that what is happening is not new. The writing is by Frederick Lewis Allen, entitled "Only Yesterday: An Informed History of the 1920's." Hulin believes that what is happening has local causes, but also important national and international causes.

Hulin states the change in the tax law in 1986 hurt Alaska real estate. Hulin states real estate in Alaska and the lower 48 is in trouble because of overbuilding, over-speculation, and faulty appraisals. Hulin states the falling oil prices also contributed to the problem.

Hulin discusses Alaska housing and the request for additional staff at AHFC, stating the workload is excessive and cites examples of enormous pressure on people. Hulin states the reaction of cutting back is probably the wrong reaction, and if an agency is to be responsive, they must have staff to handle the enormous workload. Hulin believes the effort to keep people in their homes who have jobs and make an effort to make payments is a good one which should be continued. Hulin is President of Anchorage Neighborhood Housing Services, and states there is much substandard housing in Anchorage. The problem of getting people into better housing is part of the challenge. The demand/supply imbalance will not be solved until the supply is restricted (knocking buildings down) or create jobs to create demand for housing. Hulin believes many condo projects must be converted to rental property, as was done in Seattle.

On the commercial side, Hulin describes the problem of how to take real estate off the market. Hulin states the problem is close to $2 billion and most suggestions are unsatisfactory to him because they could be bottomless pits for the State of Alaska. Hulin states a critical issue is the number of people doing "very well out of this collapse in prices and values." Hulin believes businesses are surviving only because their occupancy costs have been driven down. Creating an artificial market is not a solution.

TAPE ONE, SIDE TWO

Hulin describes appraisals, stating he received two appraisals on an 84 unit apartment building in which the bank has $3.4 million in the building, and appraisals were $1.5 million and $4.4 million. Hulin states appraisals are a real science, and there is no market. Hulin states financial institutions are not all solid and making money. Hulin believes there are $500 million in troubled assets in financial institutions. Hulin suggests there may be ways to recapitalize some of the institutions with federal regulatory agency assistance.

Rep. Frank asks if reducing interest rates across the board, or allowing state agencies, if they cannot already, to reduce interest rates is a solution. Hulin believes that is absolutely necessary and states every bank is doing that. Hulin cautions you can reduce interest rates to zero, and still not get payments to the bank because the property will not carry expenses of operation. Hulin urges not focusing on real estate as though it were in a vacuum, stating he believes the situation is as bad as the great depression, and if people

stayed in Alaska there would be a 20% unemployment rate. Hulin states that "the state was a big player on the way up, and probably has to be a big player on the way down. We have to create jobs." Hulin states banks are trying to keep the borrower in the property, but that is a Band-Aid, because without creation of jobs there is danger of a downward spiral.

Rep. Springer refers to proposals by Native corporations and asks if there is potential. Hulin states he does not know how it would be done, but believes "if Sealaska wants to play in that game, they should be encouraged to play in that game, but I would be reluctant to throw state money at that game." Hulin urges creation of jobs as a solution.

Rep. Brown discusses residential market proposals and asks if Hulin sees any viable solutions. He responds that schemes for trading up might make sense. Hulin believes people should be heard sympathetically. Hulin states dramatic things must be done by the State, citing Roosevelt's actions to relieve the depression, and examples of other states in the past recovering from recession. He again urges job creation.

Rep. Brown asks where the focus should be in job creation, and Hulin responds it is necessary to take a fundamental look at the economy, playing to strong points. Creating jobs is going to cost money, and it is appropriate to spend some savings to do that, with the key being creation of jobs which will last for a long period of time, such as ski resort and production of goods in Alaska. Hulin states it cannot be construction jobs or state payroll jobs.

Rep. Boyer expresses concern about the state creating a false market and the state "giving $170 million to the oil companies this year, under the guise of creating an atmosphere for $7 billion of work over 10 years . . ." Boyer asks if ELF and what is being done, or not done, is not a bad investment. Hulin responds he is skeptical when it comes to oil companies, believing they are master politicians because they do what is in their best interest in terms of making money. Hulin suggests if there is money to be made and they had to pay $160 million to make it, they would pay. Hulin has not seen their projections, but there is a tremendous investment in the North Slope and finds it hard to believe there would be much that would dissuade them from doing what they are on the North Slope. Hulin states the oil industry does not directly employ many people, and those who are employed are typically higher paid people so they have a significant impact.

Rep. Boyer discusses creating a job market to attract people back to Alaska, which will take more than $170 million. Hulin states it would take $2 billion to heat the economy because it is so far underwater. Hulin believes it will be many years before real estate values return, if ever. Costs of living have dramatically decreased.

Rep. Springer states he has studied job creation in 50 countries, and his assessment is that in Alaska several things are lacking in creating a labor favorable environment, including lack of competition, and Alaskans are lazy, unskilled and undisciplined with little personal inclination when compared to Korea, China or many European countries. Springer believes we are squandering resources, e.g., wood, jade, etc. Springer cites the pipeline as an example of waste with a 30% efficiency level. Springer believes educational assistance is needed and we do not subscribe to protection of trade laws. Springer points out we are now trying to address what the state can do to bridge the short term gap of 5 to 6 years. Springer supports tourism enhancement.

Hulin comments that realistically the jobs he suggests creating would be filled by people coming from outside; and hopefully they would be people involved in something other than manual construction workers. Hulin agrees with Rep. Springer on labor costs. He suggests improving vocational training. Hulin agrees this is a long term focus, but urges looking at what will spin-out in the short term. Hulin is uncertain what the component of unemployment is, in terms of skills, etc., but suggests people with skills be brought to Alaska.

Rep. Springer gives an example of lost resources as ivory carving, which is reacting to markets by giving up, and skilled artists are not producing to their full potential. Springer believes education and incentive could relieve the problem.

Rep. Rieger refers to a question asked at other meetings regarding HOF and similar programs and asks for recommendation to the legislature. Hulin responds he has a philosophical problem with creation of artificial markets and refers to the history of the programs. Hulin suggests that if interest rates are to be subsidized, it must be done with people who have an equity interest. Concerning HOF, Hulin states a false market was created because of the cap, and distortion in the market. Hulin has been vocal in a suggestion to use AHFC's mobile homes to create an artificial reef in Seattle. Hulin states there is a legitimate role in subsidizing interest rates, but there must be discipline. He believes there will be a severe limitation in interest deduction for tax purposes. Hulin predicts a more sane financial situation nationally in the future.

There being no further questions, the meeting adjourns.

Joint Committee on Economic Recovery
House - Subcommittee on Housing & Banking
February 25, 1988 5:00 p.m.

Present: Representative Kay Brown
Representative Steve Reiger
Representative Steve Frank
Representative Virginia Collins

TAPE ONE, SIDE ONE
Rep. Reiger summarized the questions which Willis Kirkpatrick will be addressing.

Kirkpatrick: One of the things we, the regulators are concerned about is when you have multi financial institution failure in a relatively small geographic area, like the Anchorage area, that you have a multitude of effects, and one of the primary effects is the reduction and availability of credit, and I don't know where the term "orphan loan" came from, but I certainly feel that fits the definition of one of our major concerns. When a financial institution, in it's normal course of lending, develops a history of certain commercial credits, and that may not be good, but over a long period of time that financial institution has worked with that credit, has provided a source of operating funds, a source of inventory, worked with that credit during hard and good times, and when we get into a situation where the financial institution is closed, the day after these types of credits are subject to losing all credit relationships. It's a situation where we would refer to it as acceptable credit without a lending source. One of the things we work hard to do is what we call open bank assistance, in other words, don't let the institution fail. You have to destroy the shareholders, but an open bank assistance allows the creditors and depositors some continuation. The FDIC does not want to be in a lending business; these types of creditors you have to work with continually, many of them are on a monthly basis, you have to negotiate with those borrowers as to what their monthly problems are, and so the FDIC will probably try to find a home for them where they can, whoever that might be, I don't know. They've claimed to people in my presence, that the FDIC is not desiring to close these people out, but there was some reference that they're not going to advance funds for inventory or operating needs. I would say that by FDIC liquidators comments that there would probably be approximately $44 million of those types of loans, of a total of $80 million of commercial loans, when the banks (First Interstate and Ak Nat'l Bank of the North) were operating. On the purchase and assumption agreement with National Bank of AK, in the case of Bank of the North, the assuming bank put back a certain percentage of the loans, so the difference of the $44 mil. from the $80 mil. is probably those putbacks, and that figure has not really solidified yet. There is probably a large number of these loans that could survive with additional financing, but they're still at a tremendous risk. (Discussion of handouts.)

Rep. Reiger: Is there something we can do to try and get these loans a home, or something else you see we could do?

Kirkpatrick: The last 2 years I've thought of that alot, and I've had borrowers who have been orphaned talk to me, and I've had some concern in this area. The department used to have a small business loan program (and I'm not endorsing this), where somebody, hopefully in the private sector, would have to make a major [illegible]. Ohio had a program that was called Link Deposit program. They used it because they had a downturn in manufacturing, they had a program and held seminars. They would put link deposits into a financial institution if that institution could demonstrate that it was going to do certain things with those deposits, and for that there would be a preferred rate. One of those things they had to do is demonstrate that they were going to maintain or increase the level of employees, or that they were going to buy equipment that would enable them to survive so their employees could survive. Now I don't know how that can be worked into our situation, but regardless somebody is going to have to take a look at each one of those loans, to determine if it is salvageable, whether or not the state could take a risk in advancing funds or working with that borrower. I really don't know of any problems that can address our problems. The financial institutions problems are basically the problems of the borrowers. If you can create jobs and a sound business environment then those financial institutions in that environment or course will benefit. I've worried for the last 2 years, but I don't know what the answer is.

I've been criticized that because I regulate securities that I'm hampering the ability of promoters to raise capitol for venture and new businesses. So, I find myself in a situation where, we as investment capital is concerned, we will work with anybody who wants to raise money for a viable project, or we will work with someone on a non-viable project if they tell investors the chances of succeeding. I don't see a situation where the surviving financial institutions are going to turn down viable projects. I think that the financial institutions are looking for a source of income, and one source is a good commercial loan with the viability of success.

In response to the state propping up the economy, I just don't have the staff or the ability to measure that. I'm not an economist, so I don't know of the effects of buying up an available supply of problem assets would have. I would like to see something done in the private sector. The other states bank failures are Oklahoma, 6%, Texas, 4%, but Alaska's is at 30%.

On rumors that additional banks are going to go under, we have problem banks, on the numbers that I've heard, I don't have that many of them. They have to publish their financial statement, so if you see problems in earnings that's evidence. There are 2 financial institutions with low capital, but I can't publicly address the extent of those problems. When you have continued erosion of capital, the capital account then has to be addressed, and there's no place in AK. to address this, and I think we're running of anyplace to address this. If we continue to have foreclosures and the results, it extends the period of time that you

don't have earnings. Some indication I'm getting in financial plans is that for 1988 there could be some earnings.

Right now the FDIC is caretaker. Before they set up an operating entity, they would like for somebody to step forward and relieve them of what they have. One of their first meetings was with Comm. Smith, and they said they would give him until 1-30-88 a right to come in and address all of the assets they had. That date went by quickly, they said that 12-26-87, but they're still in that mode. What they were willing to do was if that entity would take a substantial amount of their loans, then they could offer it for discount, they wouldn't have to set up what's called a "bad bank". They said they'd give a deeper discount, which would even provide for a profit at the end figure, however you wanted to structure it. What I see and have heard, is probably they've gone as long as they can go, that some entity has to be formed and put into process at this time. They don't want to have a presence in AK, they see it as expensive, they see it as a situation, where investors are going to have to come from outside AK, for the most part. They have said they are not going to dump, but I don't know what the definition of dump is. The division of supervision is the division I work with, the division of liquidation is entirely different. Let me clarify that I really don't have a plan, in addressing assets that are out there in liquidation, if anyone was to address those assets it would be my preference it would be in the private sector. As far as, are there investors out there, yes, there are investors out there, and I'm aware of several that would like to have certain parts of assets, and I do know of other investors outside of the state that would also like to bid on those specific parts of those assets in liquidation. I know of 3 organizations (all in the private sector) that are trying to put something together to address those. So, there is some activity going on there. They can get the job done and move faster than governmental.

Rep. Brown asked if these assets are sold to a trust at a deep discount, isn't that going to have the same effect as the piece-meal selling?

The perception of assets held by FDIC has a different perception that if it was held in different hands. These comments seem to say that an asset held by FDIC is an asset that may have a lesser value because it's in liquidation than if there was a negotiated value for keeping something out of liquidation. As a state regulator, if the people who determine values in the market, uses that as their market value to transfer from FDIC to whatever this entity is, than, yes, that's going to effect the market. But the chairman felt that the transfer from liquidation to a negotiated value that would not be on the market would be carried at a different value as far as the market was concerned.

Rep. Brown adjourned the meeting.

tra

Joint Committee on Economic Recovery
House -Subcommittee on Housing & Banking
February 27, 1988

Present: Representative Frank
Representative Pourchot
Representative Brown (Co-Chair)
Representative Reiger (Co-Chair)
Representative Furnace
Representative Davis
Representative Ulmer
Representative Springer

The subject today is a work session to see if any recommendations can be submitted by this subcommittee to the full committee on Monday based on anything we've heard this last week or in previous weeks that the committee can reach a consensus on. I have 2 things: 1.) Draft Resolution: To be introduced through the J.E.R.C. Committee asking the various mortgage insurers to cooperate with the AHFC on the proposals that we're working on in the state regarding trade up/trade down, restructure, refinancing, etc. 2). A proposal regarding the presentations we've received on Willow Park and Hollywood Vista, in which they're asking for the state to share in the cost of the asbestos removal and demolition which would lead to the relocation of tenants in those 2 projects. The bulk of the cost being picked up by HUD.

I would like first to go to the draft resolution. We are hoping to try to get comments from AHFC on whether this is what will help them, and whether it will make a difference if the Legislature will pass something along these lines. Are there any other subjects anyone would like to bring up before we go to the Hollywood Vista question?

Rep. Brown: I had a question about line 10, pg. 1, the way that sentence reads....should that be an 8-10 bil. loss, or what, it doesn't make sense to me in that context?

Rep. Reiger: That number was given to us in testimony. That was from a paper presented by Greg Erikson, which was presented as being a loss of 8-10 bil. dollars in assets. Rep. Frank?

Rep. Frank: Kay, was there a question on grammar? It might be more correct if we put the word loss in there again, after 8-10 bil.

Rep. Frank: I did want to focus on the numbers tho, they're larger than any I've ever seen, where did those come from?

Rep. Pourchot: The Anchorage property tax base assessments, I think that's where alot of that figure comes from, we've gone from 15.5 - 8.

Rep. Frank: It says the loss in Anchorage private real property values has already been 5 bil.

I'd like to welcome Rep. Furnace. We can check that number before it's introduced to the full committee. Again it's not my request of the committee that they agree on the final wording of this, or even agree to send it out today, but rather to have it for your review. Any other questions? Note presence of Rep. Ulmer.

Rep Frank: This does bring back to mind the ability and the constraints of these various creditors, their willingness and their ability to restructure loans, and I'm wondering, we didn't ask AHFC if they needed statutory authority to reduce interest rates, we didn't get into that. I've talked about looking into the HAD loans, where we're a primary lender, not a secondary lender, and whether or not we should make a recommendation in that area, but I'd like to have us focus on that issue again. My understanding is that AHFC, when they are an uninsured primary lender, that it's up to AHFC to do their own workout, and whether or not they have statutory authority to reduce interest rates, if that's in the best interest of the Corp., I don't know, but I'd like to find out. I'm doing some research on that now, but it's not complete yet.

Rep. Pourchot: Thank you Mr. Chairman. Even in a resolution, we do have an opportunity to tell, particularly our own agencies some particular things we may want them to do. What we've done here is basically told them to cooperate and look creatively. That may serve some purpose, altho I guess I was convinced that AHFC is looking creatively, at least that's what they have told us in testimony. I wonder if the committee would like to entertain additional language that we might be able to tell our own agencies in a resolution. For i.e., we heard alot of testimony about AHFC's ability to physically hold off things on the market, or not, in terms of the sale of their foreclosed properties. The investors will continue to look at AFHC and AIDEA and their portfolio, yet the investor may or may not know what they may do with it, even if we dealt with our FDIC and MGIC and others in control of property. So, one thing to consider in a resolution is to flat out tell our agencies that not only is it ok to hold on to their properties, but we view that as a positive approach towards a potential dumping problem that we see. Another problem we heard in testimony was a hint that AIDEA has not been aggressively involved in workouts as much as they might be. So another possibility on a recommendation that would be certainly pointed and strong would be to tell AIDEA what we would have them do in approaching workout situations. Another direct resolution might be instructing AIDEA and AHFC in how to handle their reserves in utilizing these creative and innovative and cooperative approaches. When we tell them it's ok or it's not ok, to use your reserves, that's a real policy choice. Those would be 3 things that come to my mind. Also insert the words AIDEA, and include the Gov. to direct our message to, as well as Bert Wagnon and AHFC.

Rep. Brown: In response to Rep. Franks question earlier, looking at the homeowners assistance program which they entered in to on their

own without any authorization, that is one of the features of it, that if the people meet the criteria, they may be able to lower the interest rates, lower your monthly payment, restructure your whole loan, so it seems like at least they had it in this instance.

Rep. Frank: That leaves us with AIDEA being able to do it, AHFC being able to do it, but had HAD not been able to do it, that seems inconsistent. I'm getting the feeling that AIDEA has made a very dramatic change in their posture with regard to workouts, so it sounds like they're starting to turn themselves around.

Rep. Reiger: On the AIDEA issue, I have no objection to having them included in the resolution crafting what we want to tell them, I wonder if it shouldn't be in a separate resolution, because in drafting this one we tried to focus on residential, since the primary focus of it was to send a message to the mortgage insurers.

Rep. Frank: I don't see anything wrong with rolling a few of these issues together into one resolution, I see it as a real estate problem. Just for the sake of convenience.

Rep. Reiger: This week we plan to get legal opinion on the scope of authority on AHFC and AIDEA.

Rep. Frank: I've requested one, but haven't gotten it yet.

Rep. Reiger: We have notified AHFC to expect to be called back before the committee in about 1½ weeks.

Rep. Frank: In response to Pourchot's ideas, I agree we should address those issues.

Rep. Ulmer: On the 1st whereas, we should redraft that, I'm not sure it's accurate. In conversations with business leaders a few weeks ago, there many who have rounded the curve and are doing quite well. I'm also not sure that the crisis is what's led to the bankruptcies, they're in part a reaction to state gov't policies, lending practices, overbuilding, etc. There are complex things that have led to this.

Rep. Brown: We could rewrite that to say, Whereas some of the areas of the state are experiencing severe economic crisis as evidenced by bankruptcies, etc. ....does that address...

Rep. Reiger: Why don't the members submit their changes and we'll try to have a resolution for next weeks work session that we can reach a consensus on and send to the full committee.

Next, let's bring back to proposal on the Willow Park and Hollywood Vista Apts.. Any summary statements on this proposal?

Barbara Morse Quinn: I met with Don Young, who directed me to prepare a letter from the Jt. Congressional Delegation to Sec. Pierce, and that has been done. I also met with ? Shamiro, who holds approval for

funding. My request to the state has been for 2.6 mil. for asbestos abatement and 2.2 mil; for the actual demolition.

Rep. Springer: Are there technical reasons for the differences in ratio ?

Barbara: We are doing a line by line cost comparison on the 2 & we are calling on another report to verify the first one. The report prepared by HUD dealt with the asbestos abatement issue surfacially. It indicated enough of a presence of ozone asbestos, but not in the ground, it's possible there's a larger quantity of asbestos at Willow Park than there is at Hollywood Vista, even tho it's a larger project. Secondly, the airborne fiber content is determined to have been within allowable levels, however in the demolition, asbestos containing materials would become airborne and it may in fact cost more.

Rep. Pourchot: Barbara, line by line, what does that mean?

Barbara: Going through their report and having a comparison between their analysis and what it entails and ours and what ours entails, and comparing. We hired people to check the duplication, and to check the work of each cost estimation.

Rep. Pourchot: It seems demolishing Willow Park is going to help, but could you tell me how that works exactly, in terms of the economics of the situation, what is the practical effect of demolishing Hollywood Vista?

Barbara: I haven't done much with Hollywood Vista because it's not my property, but the obvious effect is that there is an impetus for the upgrade of Gov't Hill, from an economic standard; it has great economic potential for Anchorage.

Rep. Ulmer: In looking at the justification, I have no problem with the state of AK paying for the relocation of the tenants, but I have no idea why the state should be paying to demolish these buildings?

Barbara: Fed. Gov't will pay to relocate the tenants, but not the demolition, the physical problem of the building, there's no other source for funds.

Rep. Ulmer: My point is that it is a municipal responsibility, the benefit which is associated with tearing down the buildings are to the municipality and they should be paying for that.

Barbara: Let me clarify the ownership of the 2 properties: Hollywood Vista is a FHA foreclosure that was privately owned and never subsidized by the state or local gov't. HUD received it, offered it to us, we turned it down, they offered it to the Gov., he did the same, the Municipality agreed to purchase it for $1. in exchange for title to the valuable land, and for finding the funds to demolish. Willow Park: Owned by the ASBA, which is a state entity.

Rep. Brown: We're hoping to get 9 mil. from Feds, 2.6 from the state, and 2.2 for demolition and site restoration from the muni., none of this money was in the jobs bill, so we are investigating other sources of funds for how we might fund the states portion of that, we do hope the muni will help us.

Rep. Davis: I'm glad Rep. Ulmer brought this point up, perhaps if this is such valuable property (Hollywood Vista) perhaps the state could be reimbursed when they sell that property.

Rep. Frank: Barbara, it seems like you talked about getting 80 new certificates, are you going to buy 80 new units?

Barbara: The proposal is to acquire 80 units, and with that would come the opportunity to subsidize 80 families for 30 years. (inaudible)

Rep. Frank; Of the 106 that are occupied in Willow Park, they would move to a combination of the 80 that you would buy, and the additional would go into the private market and through the certificate system, and then those 51 in Hollywood Vista would those also be eligible from the certificate program?

Barbara: I believe only 22 are eligible. In addition to our own request for Willow Park, HUD will give us however many are eligible from Hollywood Vista. The people who are not eligible there are given a relocation allowance, and all liklihood they will find similar housing (market pricing).

Rep. Frank: So Hollywood Vista is private, not subsidized, and is foreclosed on by the gov't financing entity, and has been private.

Paul Baer: Background of how the muni got Hollywood Vista:
Foreclosed on in Nov. 87, At the sale, Knowles advised potential buyers that there were substantial building deficiencies (asbestos, etc.) Fink had meeting with HUD, an agreement was struck between muni and HUD, saying we would pay $1. for it and handle the demolition costs within 2 yrs. There are 51 tenants, 31 have Sec. 8 eligibility, the others were offered by an adjacent complex to move free, same rent, etc. Others did the same. The Gov't Hill CC supports the demolition, and there's 15 acres of land there. (Barbara has covered Willow Park.) The city had a budget shortfall, we allowed ourselves 2 years to get this taken care of, but we feel it's a benefit to the muni and the state. We have been looking for other sources of funding. Heather Flynn, who represents the district has suggested many ideas, I've met with the Finance officer of the city and Larry Crawford, and it will take time to implement these ideas. Worst case scenario: City would have to board up Hollywood Vista, until we got the funds, but we are reluctant to do that, because of the potential liability involved. We are going to handle this as carefully as possible in terms of the tenants, and will be calling on Anch. Neighborhood Housing to help.

Rep. Davis: It says here that sale is contingent upon the muni razing the building within the 2 years, what is the value of that 15 acres?

Paul: A million 523. One consideration was the city considered this obsolete housing.

Rep. Pourchot: I'm interested in your thoughts on the longer range usage of those parcels from a tax base standpoint.

Baer: As far as the Hollywood Vista complex, it's zoned R4 (high density residential). this is my view, as far as Willow Park, it might be good to look at that as a governmental complex, the city is leasing the land now, it would be an excellent site in an area of town for a governmental complex, muni complex, etc. The Hollywood Vista sight I would see as a residential sight in the future, if the Navy were to come in perhaps the city could use that. There's a idea also of expanding the cemetery.

Rep. Pourchot: Governmental property is again apart from the tax base, but there may be benefits if it's in lieu property acquisition, would this be in lieu of purchasing other centrally located gov't. properties for a governmental complex.

Baer: We've done a brief analysis of the downtown area, one of the parameters would be the muni. gov't. would remain in the downtown area, that's a given.

Rep. Brown: Both of these projects are in my district, Willow Park is right across the street from the park strip on 9th Ave, and is centrally located and would have great value in the near term, because it's in an area that's more likely to be in demand. H.V., on the other hand, is across the bridge, across Ship Creek, next to the military base, and has some of the worst living conditions in Anchorage, and the value of the land is much lower. Discussing this with Heather Flynn she saw many options open to the muni since the Willow Park land would revert to the Muni, where the Muni could get bonding or other financing to tear this down because they were going to get some useful land out of it in a prime location, whereas that option was not open in the other location. A concern of the people in these areas is that these structures not remain boarded up and vacant, because of the effect it would have on the overall deterioration of the neighborhood, there's already lots of vacant properties in this area.

Rep. Springer: Has the military any interest of this property?

Baer: Not to my knowledge. HUD would know.

Rep. Frank: Did they meet a code that made them technically uninhabitable?

Baer: No, not uninhabitable at that time, they just didn't meet certain codes, that was why Knowles was at the sale. Once the Fed.

Gov't obtained title to them, they supercede the local and state gov't., but they didn't have title to them until 87.

Rep. Frank: So the city dissuaded any private investor from buying the property and rehabilitating it, keeping it on the market, or any option the private sector would have taken. If nobody bid on it, it would have been HUD's responsibility to take care of it. But now, the Muni. is coming to the state, asking for SSS$ to help them finance acquisition of the thing. It seems to me the whole thing is driven by a Muni. decision, to take significant action, and I'm looking at just who's responsibility it is. I'd like to know the status of the grant received from C&RA to build low income housing where there already was some housing, it was torn down, and nothing was ever built there, and the Muni failed to return the $$$ they received from the grant, I'd like to know the status of that.

Baer: I don't know the status of that, we can check into that.

Rep. Frank: My understanding is that the Dept. of Law is fighting with the Muni. over the return of over 1 mil. $$$ I'm reluctant to support more appropriation when this is the case.

Rep. Ulmer: It's hard to be sympathetic towards municipal projects, when my district has it's own needs that the state cannot finance.

Barbara: In regards to the mayor's intervention at the foreclosure sale, HUD could not take the property back to make a decision about it until the foreclosure sale took place. At that time there were some interested parties, however they were not informed of the cost of rehab or demolition. The reason people were not evicted by the Muni. was because the violations etc., would not occur until the time that rehab were to take place , they were grandfather codes, so it wasn't a present threat to life and safety, so if anyone would sink a dime into the place, it would mean that all of those codes would be brought up to present speed, and that cost would be very high. Knowles concern would be that at that time, once they found out the costs of rehab, they might come back to the city for help. 0

Rep. Reiger; It sounds like it would be a good idea to bring up each of these issues separately. First Willow Park.

Rep. Ulmer: Has the ASHA money to demolish existing ASHA properties been used, where is it?

Barbara: It was transferred back to the state to repay notes.

Discussion followed.

Rep. Frank: Are the federal monies contingent on demolishing Willow Park?

Barbara: We could apply for this money. We applied for it last year, but didn't get it because we had no matching funds. I've been told that we won't have a chance at getting the federal monies if we

don't get the state and muni money secured. The senate side asked me if I would accept the money on a contingency basis if the fed money didn't come through.

More discussion on language followed.

Rep. Brown asked that the committee adopt the suggested language by Rep. Ulmer:

The committee recognizes the value of the WIllow Park demolition project and recognizes a responsibility for asbestos abatement of this state owned facility. The committee supports efforts to obtain state, federal and local funds to complete this relocation and demolition project. The committee also recommends that additional analysis be done to find the appropriate sources of funding. This is subject to a project agreement, and the state and local share of this cost would be 55%.

Barbara commented that she needs to be in Washington on March 23 and needs to take something that says the amount of state and local dollars committed.

Rep. Pourchot: It sounds like the city doesn't know where they will get their share (the 2.2 mil), but look to the state for it.

Any percentage breakdown would be ok as long as 100% of the cost was allocated.

The earlier wording was shown no objection, if the clause about the 55% is removed. This wording is just for Willow Park. More discussion will follow on Hollywood Vista.

Meeting adjourned.

Joint Committee on Economic Recovery
House
Housing & Banking Subcommittee

March 3, 1988

Present: Representative Kay Brown, Co-Chair
Representative Steve Rieger, Co-Chair
Representative Heinrich Springer
Representative Randy Phillips
Representative Steve Frank
Representative Mike Davis
Representative Pat Pourchot

Witnesses:

Bill McNall
Attorney, Bankruptcy Counselor

Professor Hayden Green
University of Alaska School of Business
Department of Real Estate

TAPE ONE, SIDE ONE

Meeting is called to order by Representative Kay Brown, Co-Chair.

Bill McNall states the Committee should have a paper he submitted, and today he will address foreclosures and the impact on the market. McNall refers to Alaska Supreme Court decisions in Conrad v. Counsellors Investment Co., No. 3275, Feb. 26, 1988, and Moening v. Alaska Mutual Bank, No. 3274, Feb. 26, 1988, which changed the potential of any homeowner trying to resolve issues on default because banks can now avoid foreclosure on the balance of the promissory note and deed of trust, and then can attempt to collect their judgment by garnishment of wages, savings accounts, etc. and after that proceed with foreclosure. McNall states that bank attorneys are now advising clients to cease and desist in foreclosures, and simply bring actions on notes. McNall states this will be more expeditious for lenders. McNall states his office has now changed their procedure from a defense mode to bankruptcy counselling.

McNall states an immediate concern is the AHFC owner-occupancy ratio. McNall states condo buyers were not informed at the time of purchase that their home was marketable only when less than 30% of the units were now owner-occupied. As a result, occupants are now unable to obtain secondary financing from

any source, including AHFC, Fannie Mae, and FHA because the owner-occupancy ratio is over the limit. However, MGIC and AHFC are selling the units in the same projects which they have foreclosed. Thus, homeowners cannot sell, but AHFC can, and people are giving up. McNall states abandonment compounds the problem for homeowner associations and other residents. During the foreclosure procedure, the associations are unable to collect dues, placing the burden on other owners, and collection of moneys due is to expensive to pursue. McNall points out that many condo projects are lower-income projects and residents cannot afford to carry the burden of their former neighbors.

McNall states that statutes allow foreclosure in 90 to 120 days from declaration of default, usually two months from the first payment being met. Thus, foreclosure can occur within 5 to 6 months. With condos the defaults are delayed until as much as a year, and after foreclosure lenders to not advise the association of the process, because they are then responsible for the dues. SB 348 addresses some of these problems. McNall urges the Committee to give assistance to homeowner associations. McNall states he recently met with AHFC and MGIC representatives concerning unpaid condo assessments and were told nothing would be done. As a result, if a residence is refinanced and the mortgage payment is reduced, and association assessments are not paid, the individual will be sued, wages garnished, and the reduced payments will not be made; thus the process will be for naught. McNall urges that association dues be included in the restructuring of the loans.

McNall discusses foreclosures stating the Supreme Court decisions have not changed the law drastically. McNall refers to 9.45.170-.220. When those statutes were drafted, foreclosures were not how business was done. Now, it is found that legislation unintentionally gave the banks substantial power. McNall urges revision of foreclosure states, and presents a proposed draft amendment asking that the following be considered: (1) mortgage insurance should be put in place immediately upon default, allowing a voluntary conveyance; (2) allow foreclosure, with a fair market value for the property -- not distressed market value, but fair market value of current replacement cost, covering association dues; (3) make certain people do not lose their rights via right to sue directly on the note, and (4) remedies, judicial v. non-judicial foreclosures, be final and when the process is commenced, it be irrevocable. McNall states borrowers have communicated with the bank regarding their hardship, the bank elected to proceed with non-judicial procedure and the individual left the state, then is served with a lawsuit seeking a deficiency judgment because the bank changed the procedure.

McNall addresses real estate changes, and expresses his appreciation of the efforts the Committee has advanced in that area. Real estate exchanges are a method for people who have money to be relieved of a burdensome home and obtain a new home. McNall suggests 110% financing, with the additional 10% used to subsidize reduction in the prior home mortgage, along with the mortgage insurance. McNall discusses market recovery, and suggests that individuals benefitting by swaps have a 30% interest in a non-recourse note to be paid when the property is sold at a profit because of market increase (as opposed to property improvements), be shared equally with AHFC. McNall points out the downside: if swaps are not allowed, there will be defaults. Mortgage insurers are aware of this fact.

McNall states he has sent Senator Faiks the most recent information received from the Division of Insurance, a report entitled "Crucial Link in the Housing Chain Crack" and a California newspaper report indicating that TMIC (mortgage insurance carrier in Alaska) is being liquidated by the State of California Division of Insurance. Verex is a similar firm, sued by Oklahoma Housing Finance Agency for bad faith refusal to honor insurance commitments. McNall states many Alaskans have been advised there is now no insurance to cover losses. Foremost Guarantee will not honor its mortgage guarantee commitments because of fraud in the inducement. These companies represent in excess of 3,000 loans in Alaska without mortgage insurance to back them -- insurance paid for by homeowners and upon which they and AHFC have depended.

Rep. Frank asks, regarding mortgage foreclosure law, how McNall's suggestions would differ from a non-recourse mortgage. McNall responds he is not certain a non-recourse mortgage can be done under a Supreme Court decision without waiver of express rights in the Deed of Trust, although it could be contemplated. McNall believes lenders should be entitled to do a summary foreclosure proceeding, or a judicial foreclosure proceeding, but there should be a requirement to act one way or the other. Rep. Frank asks the circumstances in which a lending institution would ignore the security and sue. McNall responds if, for example, an individual has $60,000.00 in a Merrill Lynch account, and owes $60,000.00 on a condo which is now worth $30,000.00, and they must maintain the unit upon foreclosure, the bank would sue on the note, obtain a judgment, take the Merrill Lynch account and let the individual keep the condo. McNall states the individual defaulted because of an economic situation, a good faith reason.

Rep. Frank asks if this would increase the likelihood of people abandoning homes if there is no financial penalty for their act. McNall points out buyers bought and paid for

mandatory mortgage to protect them in event of a foreclosure. Frank believes that was to protect the lending institution, not the borrower. McNall states Alaska case law provides whoever pays the premium, and the named insured, are entitled to insurance protection. McNall points out the benefits to the lender to sue rather than foreclose. Frank expresses concern about sweeping ramifications of McNall's proposal.

Rep. Brown asks if retirement accounts are protected. McNall states they are protected in bankruptcy courts, until retirement.

Rep. Rieger discusses the trade-up/trade-down plan and 110% financing on the new property, and clarifies by example: X has an $80,000.00 note on property now worth $50,000.00, and wants to buy property worth $100,000.00. X has $30,000.00 negative equity. The institution will give 110% financing. X takes a $110,000.00 on the $100,000.00 property, and the excess $10,000.00 pays down the $80,000.00 note. McNall leads Rieger through the $80,000.00 transaction. Mortgage insurance was bought and paid for 25% of the $80,000.00, or $20,000.00 in coverage. There is pool insurance for 15%, or $12,000.00. Rieger is uncertain of the pool insurance. The mortgage is thus reduced to $50,000.00. The note on the new home is $110,000.00, and $10,000.00 is to reduce the balance of the mortgage down to $50,000.00. Rieger asks if one can abandon property and collect on the mortgage insurance. McNall refers to a handout, page 2, paragraph 10, Procedure on Default, which states "for the insured at any time . . . shall not preclude the insured's recovery for loss under this policy." McNall believes AHFC has the ability to accept voluntary conveyance and obtain the coverage bought and paid for as required. McNall believes once an individual defaults, the mortgage insurance carrier is required to pay. McNall proposes an incentive via reduction in the amount the carrier would be required to pay.

Rep. Rieger refers to voluntary conveyance and asks if the mortgage insurance company has recourse, assuming AHFC is the insured, to go after AHFC for accepting the voluntary conveyance. McNall refers to page 3, stating there is no right of subrogation against the borrower. McNall points out his clients are distressed and they do not want to be in their position, and want to do what is honorable. Rieger asks if, under the proposal, there is no cash downpayment. McNall suggests there be a requirement for some downpayment.

Rep. Brown refers to McNall's support of HB 433 and asks if the Supreme Court decisions change his view. McNall believes the decisions will require the Legislature to go back to the drawing board on foreclosure procedures, as the moratorium will not be of assistance. Brown clarifies that HB 433 does

not reach the problem, and states she has not received McNall's proposal or the Supreme Court decisions.

Rep. Frank asks if McNall's proposal would affect contracts. McNall responds there is difficulty with changing the rules after the fact. He states homebuyers were told that if there was a default the mortgage insurance would pay off the mortgage.

Rep. Springer asks about outside firms being mortgage insurers. McNall responds it is possible there might be reinsurance in place, but since it affects more than 3,000 Alaskans, he is very concerned.

TAPE ONE, SIDE TWO

Rep. Frank asks if research has been done on other states' foreclosure laws. McNall states that in 1933, Sering National Bank v. Grise the courts of Wisconsin ruled that the deficiency judgment must be based on a realistic value. McNall refers to Oskosh and National Bank of Washington v. Equity Investors for review. Alaska did not have the opportunity to pass legislation during the depression, and is seeing the issue for the first time.

Rep. Frank asks if the cases defined fair market value as replacement costs. McNall responds Oskosh describes it on page 5 as not market value as the term is generally understood or that value which the property may have in the future under normal favorable economic conditions or if remodeled or put to other more extensive use. McNall states appraisers are now doing appraisals, based on economic obsolescence, the difference of what the property is worth and what it is worth in this market. McNall believes it is close to replacement value and refers to drop in land values and labor costs.

Dr. Hayden Green joins the Committee. Green states he has daily received questions regarding real estate and the market. Green comments that the Supreme Court rulings are of concern to him because it changes the rules "late in the game." Green recites the history of foreclosures in Alaska, stating it was an unwritten rule that in default the bank would do a non-judicial foreclosure. In most instances the bank allowed deed in lieu of foreclosure. Green states people who have been hurt are the ones who wanted to do the morally right thing, hanging in to the last, and the new ruling will hurt them even more. Green urges the Legislature to address this because it was never anticipated that banks would pursue the remedies which they are at this time.

With regard to the trade-up program, Dr. Green states he feels responsible for some of the proposals presented to the

Committee because he suggested them. Green anticipates that mortgage insurance companies will lose large sums of money, and he believes those sums if properly handled could go to a social good. Green has recommended that Alaska work with the mortgage insurance companies with positive suggestions, targeting certain condo projects to be used for student and low-income housing, as well as demolition on certain projects. Green suggests that because this would involve multiple parties, it will be necessary to consolidate ownership in a holding company, in exchange for stock. Green suggests inducement to hold-out owners via trade-out or trade-across proceedings in which they would receive a special economic benefit. Green proposes that when families are moved into the vacant properties, and low quality projects are demolished, the land be given back to the mortgage insurer for future recovery of losses.

Regarding trade-up proposals, Green states he differs somewhat with Mr. McNall because the people McNall represents are not defaulting, although they are discouraged. Green does not believe the lending associations and insurers would indiscriminately start trading because of (1) substantial administrative costs and (2) the upper limits would fill, with the lenders and insurers left with low-end property.

Green believes the proposal for a holding company to transfer real estate interest makes sense, but would be a property management nightmare to implement. Green suggests private enterprise might be interested in the process. Green states much wealth transfer is taking place in Alaska, but it is not a fresh infusion of capital and the net economic benefit will not be great. Green predicts a "tremendous transfer of wealth" in the next couple of years, and he believes the proposals before the Legislature are an additional transfer of wealth -- that people are asking the Legislature who to transfer the wealth to, and the Legislature must deal with this issue. Green believes the best thing that can be done is transfer some of the losses to create some social good.

Concerning FDIC holdings, Green states they are marginal properties which have already been picked over by the banks, and reminds the Legislature that FDIC's role in society is a holding company. Green states FDIC's record is not as good as has been testified to the Committee, and the market value they use is the distressed market value.

Rep. Rieger asks, with regard to trades, if Green or McNall has met with AHFC concerning how to negotiate with mortgage insurers. Green responds he has not talked to AHFC because they do not asks for opinions, but he has met with MGIC and they have indicated an interest in finding solutions, but solutions must be meaningful to them also. Rieger confirms

that there must be financial "sweetener" to encourage them. McNall comments he is uncertain that there is a choice; it is all or nothing. McNall points out that AHFC has a right to exchanges and take a voluntary conveyance, and there may be benefit to the mortgage insurers. Green states trade programs must be specific to those going into default, and disagrees with McNall that everyone has the right. McNall points out that there have been changes; that if one shows need for assistance then HOAP II is suggested.

Rep. Rieger questions negative equity and asks if one can carry it with them to get in a new home. Green suggests this be thought through and indicates it might be better to default. Green points out there is negative equity in all homes now and the bank has already written the value down. Green urges there be a renewal program in conjunction with trading to make economic sense. Rieger asks Green if the carrot/stick approach is what is needed. Green responds negotiation is necessary and believes some organizations would invite legislation.

Rep. Frank refers to the trade-up program and asks if trades would be to AHFC owned property, or privately held property. Green responds it would probably have to be in AHFC inventory. Frank questions McNall whether the individual trading up would assume fair market value or replacement cost. McNall responds they are the same thing, and proposes the distressed market value. The property taken in and that left must be assessed in the same manner. McNall describes potential tax problems under the Internal Revenue Code, and how the taxpayer receives a forgiveness of debt. McNall states tax attorneys he is working with are unable to answer the problem. Frank responds that may outweigh his preference for current market value. McNall states experts do not have an answer.

Dr. Green reminds the Committee that the market is in sections; that there is a fair market for homes in excess of $200,000.00; there is beginning of stabilization in middle level homes, and the low end is in question.

Rep. Springer favors an approach where everyone "takes a bit of a hit" because everyone had a certain amount of fault.

TAPE TWO, SIDE ONE

Rep. Brown asks if it would be accurate to assume that non-property owners would benefit. Green confirms there will be a transfer of wealth, and encourages the concept of private sector participation. He states anything that can be done to address supply and demand will help the situation.

McNall points out that discussions with real estate brokers about the Supreme Court decisions indicate concern about long term implications. Green states redirection of foreclosures disturbs him most of all. He describes procedures in other states, stating deficiency judgments are not a new concept. Green describes Alaska's problem as arising because there has been a change in the rules since people bought their property.

Rep. Frank confirms people would not have bought if they had believed the market would go down, and does not believe people realize when they sign the note that they are responsible for an obligation. Green states it is a situation of legal understanding vs. practices of the past. McNall states there is a difference; the right to sue on the note in context of a judicial foreclosure has always been there, but now the right to sue on the note is independent of the obligation of foreclosure, allowing recovery of all assets other than the property. McNall argues that risks now are totally different. Dr. Green agrees. Frank asks the circumstances under which a rational lender would pursue judicial foreclosure. Green states suing on the note is less expensive and gives the opportunity to recover assets other than the property, and then they will foreclose. McNall states bank attorneys are urging clients to stop the foreclosure process entirely and do only suits on the notes because it is less expensive. Dr. Green describes procedures; stating banks can obtain judgment immediately upon default, take any asset you might have for the full value of the note, take the car, garnish wages, and if they do not receive full value, then foreclose on the property. Rep. Frank asks Dr. Green about the effect on availability of credit and cost of credit, and availability of mortgage insurance if there is a hold-harmless from risk of the borrower. McNall responds "we've been doing it. If default occurs, the bank can do judicial or non-judicial, and if they do either they have to bring in the mortgage insurer, if it is in fact there, and they are entitled to deficiency judgment if they want to proceed judicially." McNall asks for recognition of fair market value, not distressed market value. Dr. Green responds he agrees with McNall on this point because we are talking about not allowing lenders to find loopholes in the legal system to give them new power which no one ever envisioned they would have. Green does not believe that will change the ability to obtain credit. McNall points out the deed of trust used by banks claimed non-recourse, so forms used by lenders "apparently don't mean what they thought they meant" according to the Supreme Court. McNall states he does not believe banks thought they had the power the Supreme Court says they have.

Rep. Brown asks Dr. Green for clarification on holding companies/bridge banks and asks if private industry can do that, or if state participation is required. Dr. Green

responds he believes the State will have to provide money to set it up and relieve the banks. Green believes property would be put in by lenders in exchange for costs. Green does not see the State funding the full operation and urges consultation with a bond attorney concerning repurchase of bonds, and other issues. Green does not recommend investment of large amounts of capital because it is a non-productive investment, although it will help people.

The meeting then left the teleconference network, and schedule of future meetings was discussed. Rep. Frank distributes a legal opinion on what agencies can or cannot do regarding changing interest rates.

Meeting is adjourned.

RE: HJR 72

Joint Committee on Economic Recovery
House - Subcommittee on Housing/Banking
March 5, 1988

Present: Representative Steve Reiger (Co-Chair)
Representative Randy Phillips
Representative Mike Daivs
Representative Steve Frank
On teleconference: Representative Henry Springer
Representative Kay Brown
Representative Pat Pourchot

On the agenda: Revised resolution relating to the residential real estate market to be forwarded to full JERC committee. Rep. Frank asked if it was the Legislature's responsibility to keep people in their homes. Rep Reiger responded yes, it's a valid public purpose in his opinion. Discussion followed on this issue. (Pg. 1, line 14)

Rep. Pourchot explained this clause is a message to the state agencies to not dump their properties, urging them to show forebearance in that area.

Rep. Davis; Isn't the further resolve before that one aimed at trying to create economic stabilization, I would like to see all the parties work together to make sure that there is some kind of stabilization taking place.

Rep. Brown: If the result that only public agencies held properties off the market and others proceeded to liquidate their investments as rapidly as possible, where that leads us I'm not sure.

Rep. Frank: I'd like to see the departments or agencies do is what is in their long term best interest, and the language should be structured as such. For example: Further resolved, the legislature fully supports efforts on the part of the AHFC, the DCED, the Dept. of Revenue and APFC to hold foreclosed properties off the market in instances when due to the influence that those agencies actions have on the market would not be in the long term best interest of those agencies", something like that. If they can sell them off in a situation where short term they'll make more money now than later, do it. But if dumping is going to have a net economic impact, then they should hold off. The gist of my idea is long term best interest.

Rep. Davis: I think these concerns are taken care of in the previous whereas.

Rep. Reiger: There is not alot of policy direction from the administration, altho this is a resolution; right now to a large extent,

there is a vacuum as to what policy should be, and this can set direction where there is none now.

Rep. Reiger moved to delete the Further Resolved, lines 13 thru 18, page 3. Rep. Pourchot objected.

No objection on any other part of the resolution were made.

Rep Frank has completed a proposal, Rep. Reiger withdrew his motion. On line 17, after the word instances, read: Where, due to the influence that these agencies actions have on the market, holding properties off the market would be in the long term best interest of the agency. (Delete the remainder, and add this.)

Rep. Frank: We're not saying keep these off the market because we want to keep them propped up forever, we're saying keep them off the market if you think it's the right idea from your long term perspective.

Rep. Frank moved the amendment. Rep. Davis objected, stating the whole resolve clause deals in an area we don't have a handle on what we're doing here; the point is covered in other portions of the resolve. Rep. Frank said this is what this new resolve is trying to accomplish. Rep Davis removed his objection.

Rep. Brown asked if there was any reason AIDEA was not mentioned. Rep. Reiger said the reason is AIDEA only is involved in 5-plexes and above, and at the last check we made, they only have 1 foreclosed property. Dept. of Commerce is mentioned because they do have the power to make residential loans, but AIDEA no longer does make residential loans, and the title refers to residential.

Rep. Springer moved to adding C&RA, as they deal with rural properties, no objection. No other objections showed, Rep. Reiger moved the entire resolution be moved to the entire committee this coming week as a recommendation of the subcommittee.

Rep. Frank: I think we should add, "In the best long term interest of the agencies as a whole", rather than individually beneficial.

Rep. Brown and Frank suggested deleting "agency" from the clause and substituting "agencies and the state."

Rep. Reiger suggested saying "will hold foreclosed properties off the market where such action makes long term economic sense." No objection to that wording. The entire resolve clause will read:

> Further resolved that the Legislature fully supports efforts on the part of the AHFC, DCED, DC&RA, Dept. of Revenue and APFC to hold foreclosed-upon residential properties off the market in instances where such action makes long term economic sense.

Additional rewording includes, "stabilize and improve." Hearing no objection, that revised wording is in as it's reported out.

Rep. Reiger: Next on the agenda, a draft on the arbitration process to help in the restructuring of loans, for your consideration.

Rep. Brown: On page 1 line 29, and page 2 line 27 I have a question, if we can do this it's a good idea, I'm trying to make sure we can do this.

Rep Reiger didn't have an answer to this question, but thinks that it should be researched.

Rep. Phillips: What's the public purpose behind this and is it really going to help bottom line people?

Rep. Brown stated the philosophy is to help individuals who are in economic distress to explore their options and salvage their situation if possible.

Rep. Frank would like to see more evidence that the AHFC isn't acting to be as flexible as they should be; the Director of AHFC testified before us that they are doing everything then can to keep people in their homes, to not foreclose, etc.. He's concerned that getting a mediator involved may not serve a useful purpose. Rep. Springer echoed the same sentiment. All we would be doing would be throwing in another independent opinion. Also, when you have an arbitrator in the employ of an agency, neutrality would be doubted.

Rep. Reiger: We could consider this to the point of taking testimony on this, and we can kick this idea around this week.

Rep. Reiger: Going on to the next subject, before you are the draft and the resolution, this coming week we'll get to you drafts concerning AHFC's mobile home loan program, the homeownership program, and some kinds of drafts on the moratorium on foreclosure bill, which is moving, and whether this committee wants to take any action on that or any amendments to it. Rep. Brown and I have discussed whether there should be anything we should do to follow up on the testimony we took last Thursday regarding some of the procedures in foreclosure.

Rep. Frank thinks we should address that, we have a good committee to deal with that issue.

Rep. Reiger explained that if the full committee adopts a resolution, it would be introduced as a resolution; it would be introduced by the J.C.E.R., or through the House Rules Committee and referred to the standing committees as would any other bill. Tom Begich clarified the process. Rep. Phillips suggested they get the Attorney General's office to testify on the legality of the issue.

Rep. Pourchot: I share the confusion after reading the article in the paper, I think it would be helpful to get a representative from the banks to testify too, because, at least in the news article it was very unclear as to which shoe to drop next, so to speak.

Rep. Frank: In my experience as a banker it was my impression that we could sue on the note if we wanted to if we wanted to ignore the

collateral, usually the collateral is the easiest thing to go after, so maybe it's just a change in economic conditions that would shift bank practices, but personally I would not expect after the court decision for banks to operate all that much differently, generally people don't have much else.

Bill Lasher and others from Anchorage gave individual testimony although this was a worksession only, not for testimony. Some written statements were provided.

If it's the concurrence of the co-chair, we'll try to get the AG's office to testify next week.

Rep. Reiger adjourned the meeting.

Joint Committee on Economic Recovery
House - Subcommittee on Housing/Banking
March 10, 1988

Present: Representative Kay Brown (chair)
Representative Steve Reiger
Representative Virginia Collins
Representative Randy Phillips
Representative Mike Davis
Representative Henry Springer
Representative Max Gruenberg
Representative Steve Frank
Representative Pat Pourchot
Representative Fran Ulmer

Agenda: 1. Dept. of Law Asst. A.G. Joyce James: Foreclosure
2. Draft bill up for consideration.
3. Packet material for subcommittees report.

Joyce James: Creditor has 3 options available to them when borrower defaults: 1. Non judicial foreclosure: act on deed of trust without involving court. 2. Judicial Foreclosure: Go to court, get court to order foreclosure sale. 3. Sue on the note, ignore deed of trust. With the 2 new Supreme Ct. cases: There's not been a big exception on these cases, people are concerned that borrowers didn't understand the law when they signed up for their obligation, it looks like the risk is trying to be shifted from the borrower back to the lending institution.

Rep. Reiger: Can't the guy who's responsible for the deficiency judgement get more of a fair market value?

Joyce; There's nothing in the law that allows the borrower to go through a real estate agent, the law has developed around the concept that a well conducted foreclosure sale will bring a fair value for the property at a forced sale. By definition, a forced sale value is different from a fair market value, because fair market value assumes a buyer and a seller not under duress or compulsion. If the property was purchased at an unreasonably low price, the borrower could try to upset the sale on that basis.

Differences between judicial and non judicial foreclosures explained further, as it relates to the bill on discussion.

Anti-deficiency statutes: Some states have modified common law by statute.

Rep. Frank: Is it correct that on a non-judicial you cannot pursue a deficiency judgement?

Joyce: Yes, on a non judicial ~~judgement~~ foreclosure there's no court action involved, and the statutes provide that after you sell the property, that no further action may be taken for collection.

Rep. Gruenberg further explained different types of foreclosures.

Rep. Frank; Your bill would extend the right of redemption three years, what's the logic on that?

Rep. Gruenberg: In this time of economic crisis, it may take 3 years to pull out, and we're dealing with a persons primary home, and the policy of the bill is to try to protect a persons primary residences. It would make it less attractive to foreclose on somebody's home. This is only for personal residences.

Rep. Springer commented on the differences he's experienced in purchasing real estate over the years.

In reference to mortgage insurance, a pool has been set up to cover this, but when the pool is exhausted, there's no more money, so it's limited. Rep. Springer asked for clarification as to why people pay mortgage insurance if it isn't to cover the payments or balance. The insurance is to pay off the lender, and that doesn't necessarily follow that the borrower is off the hook. The importance of letting people know about foreclosure procedures before buying is again stressed.

Joyce: My decisions as to what remedy to take in a foreclosure, is what will recover my money the best. People are going to determine how they can get their money back with the least expense.

Rep. Brown: Pg 4, Sec. 9: Added a section that would make the borrower more aware of what they're going into.

Joyce: It's not cumbersome in that it requires the deed of trust to contain another provision, again, the problems with the guarantor, in a nonjudicial, that's ok, in a practical vein, I'm not sure how much that would do, is this going to be one of those provisions where no one's going to read it?

Rep. Gruenberg: If we're talking about the right of notice, what about a requirement that says in light of the Moening decision, since people may have had their expectations changed, all lenders must let borrowers know that in the event of a default they can proceed against the note independently of the security, simply requiring a notice be sent out to all borrowers.

Joyce said it doesn't appear to be too cumbersome, but is concerned as to how it will be understood.

Rep. Reiger: It appears where this section 9 would apply to the non lawyer is on the note, not the deed of trust. It bothers me that there's no language in there that says this note is also secured by my bank

account, my IRA, etc...it seems you could be alot more clear in specifying what the security behind that note is.

Joyce: You're saying what if there was a requirement that the note include language that the borrower is also personally liable? Again, it seems ok, but does the borrower read and understand it?

Rep. Reiger said it will help, looking for the words "personally guaranteed".

Discussion followed on specific language that could be used.

Rep. Reiger is bothered by the reversal of sequence, that they can go against a note before the non judicial foreclosure on the Deed of Trust

Rep. Frank: We're talking about these in the abstract, I'd like to know what kind of borrowers we're talking about, examples where they're suing against the note, now working with the borrower, I can't believe the logical lender is going to sue against the borrower, etc.

Rep. Brown says part of the problem is because of this new option that's it's going to be easier for the lenders in this market to recover part of what they're owed if they strip the person of all personal assets.

Rep. Frank is concerned that they're making a bigger problem out of this than is necessary because of lack of testimony on this issue. He also is concerned about what this will do to the availability of credit, as well as the issue of mortgage insurance, and the borrowers liability.

Committees attention turned to document everyone has in their packet. Need to prepare a summary report with suggestions for solutions. On some of these issues, we're not at a consensus yet, but we should be able to go through some of these issues, and decide which ones we can agree on, throw out, have more discussion on,etc.

Rep. Frank prepared a draft proposal to amend the HAD program, entitled an act authorizing C&RA to refinance mortgage loans. We need to take this into debate. RE: Mobile homes situation, there is in your packet a draft resolution that Rep. Reiger put together, Rep. Springer has provided us with a packet of info on the mobile home situation.

Rep. Pourchot would like to determine the subcommittees role on tightening up current demand, and if it will help. Rep. Springer recommended they give AHFC a policy statement and leave it at that.

Brief discussion followed on various issues. Meeting adjourned.

Joint Committee on Economic Recovery
House
Housing and Banking Subcommittee

March 12, 1988

Present: Representative Steve Rieger
Representative Kay Brown
Representative Heinrich Springer
Representative Fran Ulmer
Representative Pat Pourchot
Representative Max Gruenberg
Representative Virginia Collins

TAPE ONE, SIDE ONE

Rep. Rieger calls the meeting to order and states the Committee will review the policy report and discuss draft bills which have been presented concerning loans, HOF loans and mobile homes, to review comments of Tony Smith, Commissioner of Economic Development and a memo from Ron Lehr of AHFC.

Rep. Rieger states the committee will walk through the draft report and make comments on policy by policy issues, starting with Number 1, Improve Distressed Housing Market. Rep. Pourchot clarifies there is a distinction between residential housing and commercial real estate, and points out the draft does not specifically refer to commercial property. Rep. Brown states page 5 addresses a policy with respect to commercial real estate, and points out this committee has considered mainly residential issues, while the senate has concentrated on commercial issues. Rep. Brown states there are some overlaps and "grey" areas. Rep. Rieger suggests "residential real estate" instead of "housing."

Rep. Collins expresses concern over the portion titled "Action Needed by the Legislature" to "direct AHFC and encourage other agencies . . . ." Brown believes that "direct" is not strong enough and urges specific instruction. No recommendation for change is made at this time.

Rep. Ulmer has joined the committee.

Rep. Brown states the first draft had numerous blanks, which have since been filled in. Rep. Pourchot refers to item Number 3, regarding mobile homes, and states he is undecided regarding "vacant and unsaleable." Pourchot asks when a mobile home is unsaleable and appropriate to be written off. Rep. Springer states four categories are involved; (1) some

people remain in trailer parks and are paying but they are so few the owner of the park cannot continue in business, (2) many residents have left mobile homes and are not making payments to AHFC, which owns the units, and they cannot be moved; (3) moveable units which could be stored to avoid glut on the market, and (4) those which because of size and price could be absorbed by the market. Springer states there are approximately 1200 units involved. Springer agrees with the statement that units are essentially unsaleable. Rep. Brown refers to a sheet dated 10/27 re storage criteria for mobile homes. Brown understands it is the criteria AHFC considered when determining what would be done with units. Brown believes if nothing is done, and vacant units remain in parks at a rate of $311.00 per unit per month, costs will be in excess of $4.4 million. AHFC has indicated cost of storage lots at the sales unit are $123.00 per month. Brown is uncertain of cost of demolition, and the write-off value.

Rep. Rieger refers to discussion on the resolution with a tie back to make economic sense, which explains the intent of the statement. Rieger believes that AHFC is working on a cooperative arrangement with MGIC and others because it makes economic sense to take the write-off. Rieger believes this statement sanctions the AHFC action. Rieger believes all of the units will be a write-off to some extent.

Rep. Ulmer attempts to sort out economic problems from political problems. Ulmer discusses disposition of unsaleable units, taking them from privately owned spaces which are receiving rental income, giving them cash flow for improvements and their investment in the parks. Ulmer points out the property might then be used for a legitimate purpose -- or will the legislature be asked to pay them for renewal of the land.

Rep. Springer concurs with Rep. Ulmer and states Condo Associations are in the same situation as mobile home park owners. Springer believes there are two considerations; one is units which can not be moved, and demolition might be the prudent thing to do; and, those which can be moved. Springer states cost can be reduced by moving many of the units.

Rep. Collins has no objection in attempting to keep a mobile home owner in a mobile home, but will strongly oppose assisting park owners to continue at state expense. Collins believes they are no different than any other commercial entity.

Rep. Brown suggests two options on the policy statement, (1) add language such as "support efforts by AHFC to lower holding costs for vacant and potentially saleable mobile homes by storing them, and to write off and dispose of vacant, unsaleable mobile homes . . . " or (2) refine the language and rewrite Number 3, or (3) support efforts of AHFC to use

prudent business judgment in management of the mobile homes. Brown also calls attention to the last items in the packet, HCR draft relating to disposition of mobile homes and substandard, low-income housing. Brown suggests in the resolve, on page 2, line 12, regarding write-off and disposition of unsaleable mobile homes, that similar language be included.

Rep. Ulmer believes the proposed language is a conceptual amendment and an important clarification. Brown continues "and to lower holding costs for vacant and potentially saleable mobile homes by storing them."

Rep. Collins refers to the holding costs and urges that they be reduced by 50 to 60 per cent, and give them a mandate to do this. For homes not possible to do so, then to demolish them, reducing holding fees. Rep. Pourchot points out that reducing holding fees may or may not mean placement in storage. Pourchot would not link reducing costs just to storage.

Rep. Gruenberg asks if the mobile homes are in good enough condition to make it worthwhile for AHFC to contact other state agencies in other states to determine if they could be transported elsewhere where low-cost housing is needed. Rep. Springer states he believes AHFC has considered this. Rep. Gruenberg suggests this be investigated because some developing countries might have use for the units.

Rep. Collins refers to an article in an Anchorage paper about people in rural areas renting empty vans or trucks because housing was not available, and suggests some of the units be sent to those areas. Rep. Rieger believes Bethel and Dutch Harbor were mentioned.

Rep. Rieger states he is leaning as policy to go to "use prudent business judgment." Rieger believes direction should be limited to suggested examples.

Rep. Brown expresses hesitation over general direction because the problem has existed for two years and nothing has happened, that some direction is required to reach satisfactory results. Brown urges the committee work some of the concepts into the draft resolution.

Rep. Pourchot suggests use of "reducing carrying costs through following sound business practices" with differentiation between saleable and unsaleable units.

Rep. Rieger asks if this should be set out in the mobile home and substandard low-income home resolution. Staff is directed to draft appropriate language. Rep. Rieger concurs with Rep. Springer that there is a surplus in Oklahoma.

Rep. Ulmer states she is still troubled by combining Willow Park and Hollywood Vista to other units. Ulmer refers to a resolution which described the projects, and believes this document "blurs the dividing line" and prefers removal of Hollywood Vista. Rep. Brown states she attempted to differentiate them, and discusses the memo from Ron Lehr dated March 8 to the Directors. Lehr proposes "I think the Board should consider a program whereby $20 million of AHFC resources are used as a stabilization and upgrade fund . . . and grants should be matching grants." (copy should be attached). Brown suggests authorizing AHFC to operate with a specific amount of its reserves in projects of this type, and have them develop the specific plans and criteria with assurance there would be a match by the local entity.

Rep. Ulmer agrees with authorizing AHFC as suggested by Rep. Brown, with review by the Legislature. Rep. Springer concurs.

TAPE ONE, SIDE TWO

Rep. Brown would like to have Willow Park accomplished, and states there is expectation and momentum at this time. Brown discusses possible methods of accomplishing this. Rep. Ulmer

suggests asking Ron Lehr if the Legislature authorized $20 million of AHFC resources, how long it would take to develop the criteria and put the plan in process.

Rep. Rieger clarifies that the Committee would allow AHFC to financially participate in the demolition project. Action needed is amendment, and direct AHFC to develop guidelines. Rep. Brown refers to correspondence and states in the past the Legislature has not appropriated from AHFC reserves and asks if there are legal questions. Brown asks if an authorizing statement in HB 432 is appropriate. Rep. Rieger responds he would look at it as "allow", not "direct." Rieger believes it is important to be cautious about taking AHFC reserves because of the precedence it sets.

Rep. Brown proposes language be drafted that incorporates the concept of authorizing -- it ties in with item 4 at page 2 and item 5 -- ideas coming from Commissioner Smith and others to meet social needs. Brown asks how people will react to the statement in Number 5.

Rep. Pourchot refers to page 2 and states he does not see benefit in Number 4, regardless of funding source. Pourchot suggests inclusion of Mental Health which is separate from low-income, elderly, etc. because there may be other funding sources. Pourchot describes examples of benefits.

Rep. Rieger states that the committee at this point leans toward allowing AHFC to financially participate.

Rep. Rieger moves to points 4 and 5. Rep. Ulmer asks, referring to Number 4, who will investigate the feasibility, and if an additional position will be created at AHFC to work with agencies and non-profits. Ulmer suggests clarification is needed.

Rep. Brown asks if it is beyond feasibility to determine within the next few weeks anything that can be enacted this year. Brown cites the change in the mission of AHFC by this document. Brown explains the statement as her intent that the Legislature would investigate the feasibility of carrying out the concept which has broad public support. Another idea presented was considering a combination of ASBA and AHFC. Brown suggests combining Numbers 4 and 5 into a single statement.

Rep. Rieger states he has reservation about that direction and cites the Heritage Fund at Alberta as an example of problems from mixed messages and mandates to a single agency. Rieger expresses extreme reservation.

Rep. Pourchot states in most cases the implementing first step is the Legislature giving money to who it wants to accomplish goals. At the next stage AHFC is directed to work with the people. Pourchot describes utilizing AHFC to hold properties to act in their best interest to remove properties from their inventory. Pourchot states AHFC has considered social equity problems, but it has not stopped them from working with ASBA to convert properties.

Rep. Collins concurs with Pourchot and describes needs of the disabled and others, and cautions there is need for external rather than internal procedures.

Rep. Rieger believes ASBA is an excellent vehicle and can accomplish a great many goals. Pourchot suggests this could be a direction to the Legislature to look at public housing needs.

Rep. Brown asks if the Committee would revise the language to incorporate this discussion and have it as a discussion item for a meeting with the AHFC board. Brown would like to have a written document for that meeting. No objection.

Rep. Rieger refers to Number 6. There is no discussion.

Rep. Rieger asks for comments on Number 7, and the legal opinion which has been distributed. Rep. Rieger refers to section 2 and asks if the Committee is comfortable giving that much authority because technically it exists elsewhere. Rieger states there is intent in number 3 of the findings, which reduces exposure.

Rep. Rieger asks for comments on Number 8. Rep. Pourchot refers to testimony regarding the owner-occupancy ratio and asks what truly is within AHFC's discretion. Rep. Rieger states he believes the secondary lenders use 70% owner-occupancy, except that Freddie Mac uses 60% for the guarantee. Open questions are is there a way AHFC can call their property owner-occupied. Also, is there a negotiated relaxation of that figure, and is it within AHFC's resources to do a special bond issue as in HOAP to get around this. Rieger believes all are encompassed in the last four words, "to the extent possible." Pourchot concurs. Pourchot refers to condo owners' testimony about AHFC marketing their property and not counting themselves as a non-owner occupant -- thus it is unfair to other owners, but if it can result in a sale to an owner-occupant, it improves the situation. Pourchot suggests asking AHFC how they market property, in terms of financing.

Rep. Rieger asks for comments on Number 9. Rep. Brown states "25" is used is that AHFC reduced their contractual and increased personal services, for the same dollar amount of $1.788 million, but would get 25 positions with that amount. Rep. Rieger clarifies that $1.788 million is non-general fund, and suggests adding that it be "non-general fund." Rep. Brown does not agree with calling the funds "non-general funds." Rep. Pourchot points out they are "roll-over monies within the AHFC fund that annually revolve." Rieger points out that the budget each year contains a paragraph stating that all AHFC program receipts are reappropriated to AHFC for operation of the program, and this would have no effect on other general funds available for other uses.

Rep. Rieger asks for comments on Number 10. Rep. Ulmer asks why $15 million is used. Rieger responds that Labor and Commerce version suggests $15 million. Rep. Ulmer suggests asking Ron Lehr about this. Rep. Brown states the bill is in the Judiciary on Monday. Rep. Pourchot asks if this means that we are looking only at financial feasibility or are concerned with equity questions. Rep. Pourchot states feasible means if a person is willing to add $20,000.00 onto a new loan, and can make the payments, then it is feasible, but does not mean it is fair to another individual who is not so able. Rep. Brown suggests changing "and" to "or". Brown states trade proposals can be presented to AHFC for consideration, but there is no structure. Rep. Rieger states he has serious reservations that the envisioned use of $15 million and whether it will meet a basic fairness test and cites examples. Rieger would like a statement of reservation concerning a test of fairness. Rep. Ulmer suggests statement be made in the policy statement, making it clear that the Committee is concerned about basic fairness. Rep. Collins suggests changing "and" to "or" and "and, if AHFC reserves are used, that the transaction meet a basic fairness test." Rep. Rieger believes it should be necessary. Rep. Pourchot points

out that trades will be accomplished with all parties are in agreement. Rep. Rieger believes it is necessary to direct AHFC to take steps to make this type of program a priority. Rep. Pourchot suggests language, which will be considered.

Rep. Rieger asks for comments on Number 12. Rep. Brown asks if there is cost to the state in forbearance, refinance matters. Rep. Rieger responds in theory it costs the state less. Rep. Pourchot points out wording in the forbearance resolution, "long term economic sense."

Rep. Pourchot states he has had questions regarding the 28 positions at AHFC because of statements that AHFC is not professionally equipped to address the problems, that it is not the number of people, but the quality of their abilities. Pourchot asks if there is a link between Number 9 and Number 12, because 12 targets Alaska Housing Marketing Council. Rep. Brown would not object to adding language to Number 9 because AHMC serves a worthwhile purpose.

TAPE TWO, SIDE ONE

Rep. Pourchot asks if there is a problem with the level of management expertise or professional staffing of AHFC. Rep. Rieger suggests adding on Number 9 that staff be adequately trained in problem areas, such as property management. Pourchot agrees. Question is raised regarding definition of property management, and Rep. Rieger cites examples involving response to the public. potential buyers, borrowers, park owners, and others who work with AHFC. Rep. Pourchot states he has no problem with Number 12, and clarifies that the request is for $100,000.00 for this fiscal year because Permanent Fund declined to accept the offer to contribute that sum this year. There is an '88 request for supplemental appropriation of $100,000.00, and the 400 is included in each agency, including the Permanent Fund for 89.

Rep. Rieger asks for comments on Number 13. Rep. Pourchot points out that there are two areas being considered, problems now and future problems, and some of the recommendations will not relieve the existing problems. Pourchot asks if the Committee is going to guide the future to avoid problems of the past, or focus on present problems. Pourchot points out that the HOF program has substantial support because it is a "help the poor" program -- social policy decisions are being made. Pourchot asks why "we are picking on the poor people programs." Rep. Pourchot suggests making assumptions from statistics without targeting HOF.

Rep. Brown notes that Numbers 13 and 14 are conceptually different, 14 going along with flexibility, and suggests moving 14 into "Aid to Distressed Homeowners." Brown refers to comments by Commissioner Smith, and suggests Number 13 be rewritten to recommend specific items. Rieger does not agree

and believes AHFC has flexibility to restructure when property is distressed, and to dispose of property. Rieger disagrees with telling AHFC to increase subsidies to improve the market. Rieger does agree that when disposing of repossessed property it is best to close at high principle and low interest.

Rep. Brown indicates another meeting is scheduled for the room in a few minutes, suggests taking no action on Numbers 13 and 14 when more members are present. Rep. Rieger suggests reviewing proposed recommendations for change.

With regard to commercial real estate, the committee will state that minimizing state intervention is recommended. Pourchot asks for more data on bridge bank and suggests further consideration of that and similar proposals because new information has been received.

Rep. Brown refers to Commissioner Smith's memo, page 2, number 4, re HB 429 and suggests consideration later, and also HB 430 and 431 should also be considered at the next meeting.

Rep. Pourchot states Hollywood Vista consideration was not concluded, and suggests taking Rep. Ulmer's first suggestion to clarify the difference between Willow Park and Hollywood Vista. Rep. Brown suggests "demolition of state owned Willow Park and then add at the end, "the subcommittee has recommended, or adopted a resolution recommending state action or funding or acknowledging state responsibility . . . " Rep. Pourchot suggests then referring to Number 2, "at the end discuss other things, such as municipally owned Hollywood Vista and others should be reviewed." Brown clarifies that Pourchot desires to leave the report as a direction or recommendation to fund Willow Park and allow further examination of the concept of allowing use of reserves for other kinds of removal of properties, suggesting Hollywood Vista as a possibility."

Rep. Brown states the proposition of allowing AHFC to use its reserves to do that, and get a general authorization through the legislature, may be a way to accomplish it, and consideration later this week will clarify this. Pourchot states he does not necessarily want to say that for Willow Park. Brown states the problem is where the municipality's share will come from, because they don't have the money. Rieger points out that statewide policy is being drafted by the committee.

The meeting is adjourned.

Joint Committee on Economic Recovery
House
Housing and Banking Subcommittee

March 16, 1988

Present Representative Kay Brown, Co-Chair
Representative Steve Rieger, Co-Chair
Representative Randy Phillips
Representative Heinrich Springer
Representative Mark Boyer
Representative Pat Pourchot
Representative Steve Frank
Representative Red Boucher
Representative Virignia Collins
Representative Fran Ulmer

Witnesses

Dr. Ron Lehr
AHFC
Anchorage, Alaska

Pat Steward
Anchorage, Alaska

Ben Marsh, Executive Secretary
Alaska Trailer Court Association
Anchorage, Alaska

Rick Barrier, President
Alaska Trailer Court Association
Anchorage, Alaska

TAPE ONE, SIDE ONE

Rep. Brown calls the meeting to order and states the Committee will hear from Dr. Ron Lehr of AHFC, and discuss the draft report of the Committee, and take public testimony for 30 minutes.

Dr. Lehr joins the Committee. Lehr has no prepared remarks, and will answer questions of the Committee. Brown asks Lehr to comment on the draft report which the Committee provided, taking points one-by-one. Lehr states he has not had the opportunity to discuss the report with the Board as he had hoped to do. Regarding "develop initiative plans to demolish institutionally owned properties which are unsafe, substandard

in quality and for which demand does not exist" Lehr states unsafe and substandard for which demand does not exist should have a time frame, and points out that statutes require "safe and sanitary" housing. Lehr believes some condos should be held off the market for a period of time.

Brown asks about analysis of management of AHFC REO's to determine which units are unsafe, etc. Lehr suggests breaking into segments (1) mobile homes, (2) condos, and (3) everything else. On everything else, only normal marketing procedures are recommended. On mobile homes, many suggestions have been made to the Board for consideration during the next two to three weeks. Those recommendations were to (1) try various sales techniques to sell in place, (2) to set threshold value that any mobile home below that value be automatically used for parts, and (3) to do bulk sales outside the area, or a combination, to reduce carrying costs. Quick action must be taken to cut the inventory to one-half. Regarding condos, Lehr states information required with regard to supply and demand is not complete. Lehr discusses the possibility of removing 1,000 condos from the market and stockpiling them -- the effect being to stabilize prices.

Rep. Rieger asks, with regard to condos, about the extent to which MGIC would cooperate in removing surplus condos from the market. Lehr states MGIC will be meeting with AHFC about March 29, and will present a plan for trades, exchanges, etc. Lehr believes they are much more amenable than in the past. Fannie Mae has made no commitment. Lehr believes plans should be made with MGIC, then with Fannie Mae. Lehr will be in Washington, D.C. next week to meet with FHA to discuss plans. Lehr states Fannie Mae generally rejects suggestions at first, then "come around".

Rep. Brown asks, with respect to the suggestion that AHFC use part of its reserve to participate in demolition of multi-family housing projects where supported by local communities, if it is necessary to have legislation. Lehr states his Board has asked that an Attorney General opinion be obtained. Lehr does not believe it is possible. Brown refers to a memo of March 8 by Lehr to the Board that suggests $20 million be used for stabilization and upgrade, with matching requirements, limited to state agencies and local governments, and asks why $20 million was established. Lehr responds it has to do with financing ability, to avoid a negative net income, and last year there was a net income of $21 million. Lehr believes that would have an impact on the market. With regard to the number of units involved, it is not possible to respond until there is feedback from the Board. Brown confirms it would apply to single family dwellings, such as mobile homes, as well as to multi-family units. Lehr believes it should be any "substandard" home, not limited to

multi-family homes, and points out that AHFC has a 4-plex limit.

Rep. Rieger asks what capabilities AHFC has of a stand-alone bond issue to get around owner-occupancy requirement of condos. Lehr responds it could be done if not a bid-bond issue and would require a huge amount of collaterization, with insurance, and states it would be very expensive. Lehr has considered this, and states there are other options to consider first, such as moving residents from one project to another. Lehr would like to have FHA more involved in providing insurance. Lehr states AHFC has a wide range of programs, some of which work very well, and the problem with specialized bond issues do not guarantee buyers that they can get financing in the future. A specialized bond issue may be necessary in the future.

Rep. Brown notes that Representatives Boyer, Pourchot, Frank and Boucher have joined the Committee.

Rep. Rieger refers to testimony about the HOF program and asks for comments on proposed changes to the program, either increasing the downpayment or changing the interest rate requirements, etc. Lehr has not discussed this with the Board recently, and believes the primary problem with the program was the purchase limit of $80,000 or $90,000 depending on how many family members worked, and the 28% of income figure. Lehr states there was no incentive to buy a less expensive home, and the ceiling became the floor for developers, artificially inflating the price of properties. Lehr believes the change to be made is giving incentive to buy a less expensive home. Rieger asks how this can be done. Lehr responds there must be a sliding scale. Rieger states testimony has been taken concerning the down payment, and buying private mortgage insurance (PMI). Lehr states currently a 10% downpayment is required for PMI, and there is a direct relationship between down payment and delinquencies and foreclosures.

Rep. Brown asks if authorization or statutory change is needed to facilitate consolidation proposals with respect to condos. Lehr is seeking an Attorney General opinion in that regard. Brown refers to a statute and broader powers for a subsidiary corporation described in a memo from Commissioner Smith on March 7, page 4 in particular. Lehr discusses the proposal to move residents from one project to another, and asks what would happen to the project eventually -- would it be joint ownership with Fannie Mae and others -- and states a subsidiary corporation to manage such things might be appropriate.

Rep. Frank expresses similar concern regarding conversion and subsequent management, and available HUD subsidies. Rep. Brown states the Mental Health Board has requested state funds to purchase residential housing. Brown believes this would be a major policy departure if the state were to provide additional low income housing.

Rep. Pourchot asks Lehr's reaction to suggested requests by an agency such as mental health for large residences for group homes if they had cash in hand. Lehr states this has happened and it would depend on insurance involved, because the insurer would set the price limit. Pourchot asks what percentage of owner-occupied type dwellings which have been foreclosed have that insurance backing -- Lehr responds approximately 90%, although some condo loans do not have that requirement. Lehr confirms that pool insurance would require approval of the selling price by AHFC. Lehr states 5 mobile homes were sold to one group, but recalls no specific such sale in the past for residential property. Lehr states that regarding a "nice, single family house", there is no flexibility from the insurance company because those home sell; often the institutional buyers are interested in 4-plexes, and "good deals can be cut" on them, or a group of condos. AHFC would work with the group or institution because those properties do not sell well. Lehr stated there is some concern about reducing market value of other units, but it is not as great with an institutional buyer.

Rep. Pourchot states he has concerns about mortgage insurance and asks Lehr for clarification. Lehr gives an example: a house goes up for foreclosure, the first insurance is the primary PMI, which has the option of paying off the loan and taking the home for disposal, or paying their claim -- now they just write a check to AHFC for their claim of a percentage -- and the house goes to AHFC. If Fannie Mae insurance is involved, Fannie Mae takes the residence via deed. MGIC has the same option, and in some instances they take the property, but generally lets AHFC take the home and they pay their claim. They must approve sales, terms, and conditions, etc. because they write the check. MGIC and Fannie Mae are pool, or secondary insurers. The first line or primary can be MGIC or Republic, or others. That takes it down to generally about 70% of the original sales price. Lehr describes computation of loan balance, foreclosure costs, etc. Pourchot confirms that is followed by pool insurance. Primary carriers have the option of paying off the loan and taking the property, and the others can do the same. Pourchot asks how low the pool insurance goes -- Lehr responds "until the pool runs out. The pool insurance is like a big checking account." Because of pool insurance, AHFC has not experienced a loss. Pourchot asks how much is left in the "checking account." Lehr responds each separate bond issue has a different

account. A $100 million bond issue had a 20% pool policy, or $20 million pool insurance, and until that $20 million is gone, everything is covered. Pourchot asks if the 20% would take one down to the 50% level of sales. Lehr responds affirmatively and cites examples, stating he does not believe AHFC will ever run through a pool policy.

Pourchot asks who controls most of the property, the pool insurer or AHFC. Lehr states that with Fannie Mae, it is entirely Fannie Mae. On MGIC it is a combination because AHFC and MGIC must work together.

Rep. Brown states Representatives Collins and Ulmer have joined the committee.

Rep. Pourchot refers to bridge banks and cartels to keep property off the market, and asks who actually controls residential foreclosed properties vs. commercial properties vs. commercial loans. Lehr responds AHFC is the largest lender, and has the most foreclosed properties, approximately 60% or 2/3 of the market. Within that, Lehr states, most of AHFC properties, if the loan has been made since 1981, there are few foreclosures because there is either MGIC or Fannie Mae insurance. Lehr describes recent Fannie Mae insurance with recourse provisions, a guarantee to the bond holder but AHFC suffers the loss. On MGIC, control is joint with AHFC. Lehr estimates 10% of the stickbuilts are controlled by AHFC. AHFC is the sole controller on mobile homes, perhaps 30% have insurance. Lehr states AHFC probably loses an average of $30,000 on a mobile home and they cover $20,000 of the loss. Lehr refers to a cartel and believes it is possible in the residential market because there are so few players. Pourchot asks for numbers in terms of foreclosed properties; MGIC controlled, AHFC turn-backs to Fannie Mae, mobile homes over which AHFC has exclusive control, or shared control, etc., and commercial and residential. Pourchot asks the effect of "dumping" commercial property on the residential market, assuming there is not a "dumping" of residential properties. Lehr states the only effect is if dumping commercial properties caused people to lose their jobs, then residential would be affected.

TAPE ONE, SIDE TWO

Lehr states institutions own so many properties, it is a situation of rearranging them, taking some of the supply off the market. Pourchot asks what AHFC is doing relative to other major players on selling or not selling properties. Lehr believes there should be a coordinated effort and he has made preliminary, tentative recommendations to Fannie Mae and MGIC and would like to include FHA and VA because it makes sense with regard to the condo market. Lehr states there has

been no action, just discussion. Lehr states withholding property from the market works only if you can control a large part of the market. Lehr describes multiple listing service booklets and states in the lower end AHFC, MGIC and Fannie Mae are the major owners, however in the higher prices it is all private owners. Without PMI participation, the average owner in the lower end does not have a market. Pre-sales are described. Lehr states the private individual has been shoved out of the sale market in the lower end because they cannot compete with the institutions. Lehr would like to see the private market place function in the lower end.

Rep. Rieger states there has been criticism that institutional owners can sell condos, but private individuals cannot because of the owner-occupancy restriction, and asks how AHFC sells condos. Lehr states they sell infrequently; most with a special financing program with MGIC whereby they buy the interest rate down to 9 or 9.5%. Lehr points out that in most instances the loan balance is such that the individual could not afford to sell if financing were available.

Rep. Rieger asks if primary insurance automatically pays, regardless of the selling price. Lehr responds affirmatively, that it is possible to make a profit, and states in a normal market place, that would happen. Rep. Rieger asks what recourse the insurers have against the borrower who defaults and is foreclosed. Lehr states in judicial foreclosure, the insurer receives more benefit than AHFC. Lehr states he believes the insurer can take action against the borrower. Lehr recites the history of mortgages when individuals were required to have a substantial downpayment, and there was no mortgage insurance; lower downpayments brought about mortgage insurance in lieu of a downpayment. Lehr does not know the legal rights of parties.

Rep. Rieger asks, regarding the $20 million fund for matching grants, how long it would take to set up after approval. Lehr responds approximately a couple of months.

Rep. Rieger asks the status of out of state sales of mobile homes. Lehr states a suggestion to the Board was to do a bulk sale of 50 to 100 units outside the area of Anchorage, Fairbanks or Juneau. Offers have been received from out of state for 1,000 mobile homes, but bids are so low they are not acceptable.

Rep. Springer refers to testimony on mortgage insurance which was quite different than what Lehr describes, and asks if the PMIs are cooperating with AHFC, along with the pool insurance. Lehr responds it is generally true; that of approximately $100 million in losses, $81 million were covered by insurance, and the $20 million loss was on mobile homes. Lehr states

insurance companies are now trying to find new ways to deny claims. Lehr states there are now three condo projects in Anchorage on which MGIC will not pay pool claims because the properties are not "market ready or have marketable title." Policies cover a deterioration in price due to the market, but not if the property is defective. Restoration costs AHFC money, and that is occurring more frequently recently. Lehr states prime property does not come back to AHFC. Lehr points out that often homeowners associations do not have money to make repairs of structural problems. Springer states from a public policy standpoint he believes there are problems in the State's exposure in programs such as Community and Regional Affairs which carry no mortgage insurance. Springer does not believe a subsidiary corporation of AHFC is necessary, but more an umbrella organization to view the state's total interest in the financing of housing. Lehr states in terms of percentage loss, other programs will have more severe problems than AHFC because of insurance.

Rep. Phillips asks, regarding properties in AHFC inventory handled by private companies for maintenance, brokerage, etc., about dissatisfaction and complaints being received. Lehr states it is known as the designated broker system, which was initiated because the original process did not work well. There is a limited number of brokers because they are essentially property management people, and there must be control over people who spend hundreds of thousands of dollars. Lehr describes the bid process and requirements to ascertain capability, and acknowledges there have been many complaints, some of which are justified. Lehr is preparing to make recommendations of changes, such as limited terms of contracts, and a need for a formal procedures manual. Rep. Phillips expresses concern over charges of market manipulation, and access to information, especially for single family dwellings. Lehr states he has not heard a complaint on market manipulation. Lehr is considering a recommendation for real estate commission complaints. Phillips points out that information on properties is available to only the contract broker, which is manipulation of the market, and contributes to the fallen values of some properties. Rep. Phillips states he does not believe this is a free enterprise system, but is a controlling system, and sees need for revision. Phillips states this is a serious problem among his constituents in Eagle River area.

Rep. Frank states he has received similar complaints from non-designated brokers; that properties are being sold at too low prices and not getting on the books or listings in the open market. Rep. Frank asks for information on a task force which has been mentioned, consisting of a designated broker and a non-designated broker, and others. Lehr is not aware of this task force, but states it makes sense. Frank asks if

there is a better method of accomplishing the goals. Lehr has discussed the issues and heard suggestions from brokers and states some solutions create other problems. Lehr suggests adding more designated brokers; Frank believes that might solve part of the problem. Lehr acknowledges that does not solve the points raised by Rep. Phillips, which are of concern to Lehr. Lehr points out that much effort has been expended by the designated brokers, and the system is working better with time.

Rep. Frank discusses repair work being done to restore properties. Lehr states there have been serious problems, and the system has not worked as intended. Frank urges that extra effort be made to protect all bidders.

Rep. Frank discusses Lehr's statement about $70 million in non-conforming loans, urban area loans. Lehr states there may have been some other loans included. Frank refers to a situation involving a rural, non-conforming, 4-plex, owner occupied property with no cash flow, but because of statute there are constraints. Frank asks if there is flexibility to reduce interest rates for temporary periods, and asks for recommendations. Lehr states restrictions would apply to all loans, and states there is forbearance and arrangements can be worked out. Lehr estimates there could be more flexibility in interest rates because there is a large loss to everyone involved when properties are lost.

Rep. Frank presents a rough draft of proposed legislation and asks recommendations from Dr. Lehr for guidelines and proposed regulations to lay out circumstances under which it would be in AHFC's best interest to reduce interest rates.

Rep. Brown asks if AHFC is reducing interest rates in the HOAP program. Lehr responds they are to the extent allowed, 10%. Brown also asks for recommendations.

Rep. Springer asks about the trailer park situation and refers to correspondence he has received, and the summary by Lehr to the Board recently concerning losing $1.5 to $2 million for trailer rent for trailers that are stored in the courts. Lehr states there is a summary of the response, which was minimal, in the packet which has been distributed to the Committee. Lehr describes efforts to obtain reduced rents from park owners and states the owners were generally reluctant to do so. At that point the sales/storage lot was obtained, and when units were moved to the lot, park owners made an effort to communicate, although there was little in the way of reductions. Lehr states the issue is tabled until the next meeting of the Board, following recommendations and opinions from the Attorney General.

Rep. Brown asks if the Board took action on March 15 regarding Willow Park of Hollywood Vista. Lehr responds he was instructed to get a legal opinion from the Attorney General. Brown asks the reserve which AHFC presently holds. Lehr responds the net worth is $1.5 billion, but much is not liquid. Lehr states if AHFC were shut down today, in the next year $200 to $250 million would be obtained. Brown asks how much erosion there has been in the net worth of the corporation over the last year to 18 months as a result of the plunge in property values. Lehr states there has always been a positive net income. There has been an increase in the loan loss reserve of approximately $30 million, a result of mobile home losses. Lehr states that is an increase in reserve or write-off. Brown asks what the effect would be of designating a portion of reserves, perhaps $20 million, for work in demolition projects and substandard, unsafe properties. Lehr states that could be done, and his only concern is how it would be viewed by the rest of the financial community.

Rep. Brown raises the issue of minimal thermal standards for new construction, and states there is concern of how they will be enforced. Brown refers to a letter of February 16 from Betty Cook, mortgage operations director of AHFC, stating that enforcement of the standards would be better served if incorporated in statewide building codes. Lehr states he has not worked on this, although he knows that regulations will be enforced as best they can be. Brown asks if the increment proposed will give resources to meet this requirement. Lehr states they would not; AHFC is not set up to do enforcement of building regulations and standards.

TAPE TWO, SIDE ONE

Rep. Brown asks for a written response from Lehr in regard to the issue.

Rep. Pourchot asks what Lehr estimates the next year will be for AHFC with regard to demand and outstanding bond capabilities. Lehr responds it has been slow, there are problems with lenders selling loans; Lehr believes money will be obtained and available, but he is concerned about mortgage insurance availability on conventional loans because there is only one company, Commonwealth, doing the majority of the business at this time. Pourchot asks about loan program changes on the demand/supply situation, such as changing HOF. Lehr states relaxing standards would create more business.

Rep. Collins discusses trade up/trade down, and asks for comments. Lehr states it is viable if insurance companies can be persuaded and gives examples.

Pat Steward joins the Committee. Steward is an Anchorage resident. He states that last fall AHFC held a bid action for lease of land to store mobile homes, and he was the successful bidder. Steward states not all trailers should be moved -- some are not liveable or up to code, and should be destroyed, and others with lean-tos and additions are too expensive to move. There are many mobile homes in parks which he believes it would be beneficial to move because of cost savings of $188.00 per month, per unit. Steward estimates that moving 75% of the units to a storage area would result in $1.5 million per year in savings. Steward states the area is fenced and there are security guards on the property, reducing vandalism, it is well lit, and allows display of numerous units at one time in one area.

Ben Marsh addresses the Committee, stating he is the Executive Secretary of the Alaska Trailer Court Association. Marsh states the Association speaks in defense of claims that they are "bad guys" as they are involuntary partners with AHFC in the current economic recession. Marsh points out that Rep. Springer asked about the letter from Dr. Lehr to the Association, and states he has a copy of his reply, dated February 10. Marsh also has a reply from a court owner, Bob Penny, and states several others answered independently. Marsh challenged the conclusions of Dr. Lehr's letter, as did Bob Penny and states the points made represented a basis for negotiation on what might be a reasonable and fair price as compared to storage and sales lots. Marsh states he received no response from AHFC, and he believes there is no willingness on the part of AHFC to discuss what is a fair and equitable comparison. Marsh believes Lehr's proposals spell disaster to most mobile home courts. Marsh states mobile home courts in Anchorage represent $75 million in taxable property. The association believes there is basis for negotiation on the question of storage rates and of bulk sales, if not for the purpose of moving units from the court. Marsh suggests that AHFC could rent units in the courts. Marsh states there are mobile homes built prior to 1972 which are of low value, unsaleable, because they do not meet codes adopted in 1972. Marsh recommends that those units in particular be demolished or sold for parts, accomplishing a reduction in the supply of mobile homes on the market. Marsh suggests the following recommendations regarding proposed legislation: changing the title to read "relating to the disposition of vacant, unsaleable and substandard housing" removing the words "mobile homes and low income".

The second recommendation would be to remove the 5th and 6th "Whereas" clauses relating specifically to mobile homes because the resolution should be broader, dealing with all substandard, unsaleable homes. If the last "whereas" remains, it should be more specific, reading "mobile homes manufactured

before 1972 and not meeting Alaska codes." It is also suggested that "and appraised at less than $5,000.00" be added after the word "codes." In the next "whereas", insert the words "not in compliance with appropriate building codes" after "attempts to sell substandard properties". On the "Further resolved" paragraph, change to read "Further resolved that the Alaska state Legislature support the efforts of the AHFC corporation to write off and dispose of vacant and unsaleable housing units (rather than mobile homes) in their REO portfolio." Marsh states that changes the thrust of the resolution so that it does not single out the mobile home industry, but covers the question of vacant, unsaleable and substandard units. Marsh offers copies of previously mentioned correspondence.

Rep. Collins clarifies that park owners are interested in buying some of the foreclosed units, units located in their own court, to leave them at the location, with the only acceptable condition being that they be rented for a period of time relating to the market conditions. Marsh states it has been proposed to AHFC and Dr. Lehr has scheduled a meeting for more specific plans from the membership of AHFC. Dr. Lehr's report to AHFC Board was obtained on Monday, and the meeting was set for Tuesday, so they had little time to prepare. Rep. Collins expressed hope that something can be worked out, and asks what percentage of mobile home inventory they would be able to purchase. Marsh is uncertain at this point how many units in each court are in the REO. Collins suggests something be worked out if possible. Marsh states a desire to protect the portfolio, and the economic viability of the mobile home courts at the same time.

Rick Barrier, partner of Malespina Properties, owners of two trailer courts in Anchorage, appears as president of the Alaska Trailer Court Association, makes comments to the Committee. First, Barrier points out the mobile home industry is a viable housing source in Alaska, and there is no more over-supply of mobile than in 1980 because there are few parks. Prices were inflated when AHFC offered 20 year financing, and now the loans are "under water" so they cannot be sold. Barrier states the private mobile home industry is alive and well. Regarding AHFC, Barrier states he must respond to issues which have been raised. Barrier states they have made offers and proposals to AHFC in the last two years to preserve the industry so that there would be mobile homes available for citizens to live in, and the parks would have a business. However, they have not been able to get negotiations, agreements or serious discussions because mobile homes have not been the major concern of AHFC, which has bigger issues to worry about. Barrier states the issues have not been dealt with, and now the problem is unresolved. The Association wants to see repossessions stopped, and they have

suggestions as to how it can be done, if AHFC will meet with them. The Association believes it can save the state substantial sums monthly.

Rep. Brown asks if the Association responded to the offer by AHFC to make recommendations. Barrier states there was no response to the January 15 letter because Ben Marsh responded on February 10, and they await response from Dr. Lehr to an offer to get together. Barrier states the group would like to see AHFC take steps to improve their situation, and the future of the park industry. Barrier states there are 3,000 mobile home loans which may be in trouble if steps are not taken to protect them. Barrier urges AHFC to work with the park owners to avoid future problems. Barrier responded to an August letter from AHFC requesting reductions and presented ideas, but has never received a response to that and several other letters written to AHFC and their management firm. Barrier states a desire to preserve the industry.

Rep. Brown adjourns the meeting for a floor session.

Joint Committee on Economic Recovery
House Subcommittee on Housing + Banking
March 31, 1988

Present: Representative Steve Reiger (co-chair)
Representative Mark Boyer
Representative Virginia Collins
Representative Henry Springer
Representative Kay Brown (co-chair)
Representative Randy Phillips

Rep. Reiger: There is a bill draft based on the suggestions of Ron Lehr, AHFC, that there should be a $ amount set aside for some of the sub-standard housing projects.

Rep. Brown: This bill follows the general policy concept the committee has already approved. At last discussion, there was some question as to whether specific authority was needed. One project we specifically have in mind is the Willow Park apartments. After looking at this draft, Mr. Lehr suggested that non-profit corporations not be included, because it would take too much red tape in making the grants. I would urge the committee to endorse this draft. I move we recommend introduction to the full committee.

Brief discussion followed.

Rep. Brown moved they insert "consistent with the best interest of the corporation" at the beginning of line 12. Rep. Phillips objected to utilizing their time getting bogged down in details. Rep. Springer disagreed, stating pertinent points have been made and that the time pressure should not be overstated. No objection to the amendment, and no objection to moving the bill to the full House side of the committee.

Bob Gray (2nd Vice Pres., AK Bankers Assn., Pres., NBA)
Ed Van Patten (AK Fed. Savings and Loan)
Craig ~~Daw~~ Carl (Pres., AK Bankers Assn.)

Bob Gray: I'm testifying on proposed changes in judicial and non-judicial foreclosures, the right of a secured lender to sue on a note as affirmed by a recent AK Supreme Court decision. Let me define the situation: All of the proposed changes to the law concern a debtor who is delinquent under a note secured by a deed of trust. The controversy arises out of the lenders right to sue on a note, then to foreclose under the deed of trust. Let's analyze the possible conditions of the debtor. The 1st possibility is that the debtor has no significant assets in which the debtor has equity. In this case, the lender would not sue under the note, because it would be futile, but unnecessarily increase the expenses of the creditor. The 2nd possibility is that the debtor does have other assets that can be liquidated to help satisfy the lenders loan; the debtor is willing to work with the lender to help

satisfy that debt. I can assure you the lender would much rather work with the debtor in these circumstances. It's cheaper, it reduces or eliminates legal expenses, it's quicker and much more pleasant. Under this circumstance, the lender would not sue under the note, because a debtor is voluntarily aiding in the collection of the debt. The 3rd possibility is the debtor has other assets in which the debtor has equity and refuses to use theses assets to satisfy the debt. Under this circumstance, the lender may elect to sue on the note, under rights supplied by the AK Supreme Court. In essence, the lender would be forcing the liquidation of assets to aid in the payment of a lawfully contracted debt. The debtor promised to pay the loan, shouldn't the debtor use the resources available to satisfy that promise? The simple fact is that the debtor promised to pay and should do so if it is within the debtors power to do so. It should be noted that a debtor has recourse through a whole body of law through the bankruptcy court. There are certain other considerations of which you should be appraised. If the rules of lending are changed, lenders will adapt to the changing conditions. You should be aware of this and anticipate the changes your actions may cause. Some of the smaller banks in our association are concerned that changes involving rights under a deed of trust would hinder their ability to sell loan in the outside market. Tim Bairn's banks specifically asked me to state that the proposed changes would make their mortgages unattractive to outside lenders. They state they vitally need these markets. Another consideration is how any proposed changes would effect the ultimate recovery of funds by a lender on a non-performing real estate loan. The simple fact is that property sells at a higher value by a trustee than it does by a court under a judicial foreclosure. This situation is caused by the fact that the one year right of redemption diminishes the value of property to a perspective buyer. Legislation to limit recovery of funds in excess of the value of the property through judicial foreclosures will reduce recoveries to the lender from what it would have been by suing on the note. Lenders will react to legislation that increases their risk to real estate lending. My last consideration: the state has the ability to alter or interfere with the working of the credit market in AK. Record of the interaction of the state and federal gov't in the credit markets of AK is plain for everyone to see. That record is the wreckage of economy you see around you. We do not need to change the rules. Lenders should be allowed to force payment of valid debts from those individuals and companies with the ability but not the desire to pay. Do not damage our ability to attract outside capital to any greater extent than it has already been damaged.

Ed Van Patten : I've been in contact with Freddie Mac, who is a major secondary market source for many financial institutions in AK, and also is the secondary market source for AK housing. I asked him about the moratorium on foreclosures, and the proposed changes on the foreclosure process. They indicated in their experiences they have faced 2 instances in the past where states have proposed doing the former, one Pennsylvania, one Illinois, and both states chose not to implement the moratoriums. When asked if AK were to do so, if they were faced with something like this they would change their pricing policy. They would stay in the state, and still offer purchase loans, but they would change

their pricing, perhaps the down payment from 10% to 25-30% down, the interest rate would go up, debt to income ratios would increase, etc. I don't think that's what we want.

Mr. Daw: I'd like to add to what Mr. Gray said. The focus for you tends to be to look at the AK housing transaction. From our standpoint, any further additions or technicalities restricts the traditional rights and remedies of everyone else in the country. That hampers our ability to look at any type of real estate transaction where we might need an outside lender to participate with us. If we're adding alot of different obstacles and rules they do not have to deal with in other markets, there is no incentive for banks to look at our transactions which hampers our ability to lend, etc. Mr. Gray's comments about the basic ethics in borrowing and lending is basic to the transaction.

Rep. Brown: In regard to your last point, would that apply to our suggested legislation, HB 439. Would that create a problem in terms of standard documentation? 549

Mr. Daw: Yes. Freddie Mac does have some states that have additional statements added to lending documentation, and in each instance they ask that statement not be made in one of the standard documents, but made as an addendum in a separate document. The reason for that is they also then are sellers of loans in the secondary market, and the people buying their product rely on standard documentation, and if it's altered they are less sellable to the 3rd parties involved. They suggested they might have some wording that might be of help to you, if you want their phone number.

Rep. Brown had a brief additional question, (partially inaudible).

Mr. Van Patten: One additional suggestion on that. Maybe you should focus that additional disclosure aspect through the consumer type transactions. I think one concern is another opportunity for misunderstanding an additional document. The language used for that rider will be subject to each transaction's interpretation...inaudible....If there's some concern that the innocent consumer didn't understand the transaction, ...

Mr. Daw: Another concern with this kind of statement is how far do we go? We've had a number of borrowers say "We expected the private mortgage insurance would cover this kind of loss", do we put that in this kind of statement? Are we opening ourselves to something later down the road? This disclaimer could ultimately take up 25-30 pages, ultimately.

Rep. Reiger: What's different in rights for lenders vs borrowers because of the Supreme Court rulings?

Mr. Daw: From our experience, the Supreme Court clarified what we always thought what we had. We won't do anything differently now. We have sued on the note before. We've only done it a few times; one time it did lead to foreclosure action we went on a non-judicial. In most instance a suit against the note has been sufficient to satisfy the judgement.

Mr. Gray: You need to realize the group of borrowers we're talking about is very small, we're talking about the people with the ability to pay who refuse to pay. The vast majority of people who have problems on their loans are either unable to pay or are scraping through somehow and are working with the lenders. On your question on the profits, on a sale, where you actually have the sale of the property and you have a bidder and they bid more then the lender has into the deal, my understanding is that the excess goes to the borrower, if it's done at the time of the sale. Now if the title transfers to the lender, because there were no other bidders, and then at some future date the lender sells it, they would keep the profits under those situations.

Leslie Ellis (Pres., Frontier AK State Credit Union): most of the comments I intended to make have been said. We also like to go on record against this bill, for the same reason s that have been mentioned. The basic problem we have right now is borrowers that will not pay, for whatever reason. We have no other means of recovering those funds, and eventually we will go out of business. (Voice is going on and off.) People who are unhappy with the value of their condo or home, and now they don't want the property,a nd they refuse to stay. We are also concerned that we will not be able to sell our mortgage loans, and it will affect the pricing of our other loans, forcing higher costs for loans, and higher down payments. We'd like you to consider the effect of people who can make payments who are hanging on to their properties, because they know the institution has some recourse to keep them from walking away.

Rep. Reiger: What bill are you referring to?

Ms. Ellis: The proposed Senate bill which will eliminate judicial foreclosures.

Rep. Brown: What's your view of HB 549?

Ms. Ellis: We have discussed it. We feel we adequately disclose what could happen to the borrower in the threat of default, however, we feel this is the lesser of the evils if a speciality closure has to be made, we will agree with it, as long as it meets the requirements of the other investors, as was previously mentioned.

Rep. Collins: I know there's alot of pressure on all of us to try to provide some assistance to homeowners experiencing significant problems as a result of what has happened to our economy and housing market. These 2 bills represent an attempt to respond to that. I have a problem with the because I think that neither one of these bill will help the people presently in the problems to begin with, it would help people beyond the date of the actual passage of the legislation. So, if we're attempting to help the people who are currently experiencing problems, this is not going to do it. I think the present problems we're experiencing is an unusual one, and I'm really concerned, and uncomfortable about passing legislation to respond to an unusual situation that might not occur again. The last concern is, on the one hand we're asking lenders to be considerate, to work with borrowers, and on the other hand we're tying their hands. We can't have it all ways; on one hand if we

want to encourage the lending industry to work with homeowners and borrowers, that we can't limit their options to recover. The best way I think we could help the situation is to not make any radical changes. I feel very strongly in terms of the responsibility of the borrower to know what they're getting themselves into. To have an attorney review that with you only costs $25-50. I feel that both of these 2 pieces would be more detrimental than anything else. I don't have too big a problem with HB549, but I don't think it's really necessary. This is a fiscal note to the private industry. We're giving them a responsibility that really belongs to the borrower. I have a real problem with the Senate bill, and if the committee intends to introduce the companion piece, I would have to impose that, that's the act relating to judicial and non-judicial foreclosures.

Rep. Reiger: Regarding the Senate bill, that has just been introduced as a draft to that committee. I don't even think that committee has reported a recommendation on it. There's no companion piece on the House side. We have had testimony that people didn't realize the full extent of what they we're getting into. Part of it was because we had a history of where real estate always went up, and not down, so it wasn't common knowledge of what the implications were of signing a note, because no one ever lost anything but their property if they defaulted. It's in that spirit that maybe this would be a useful thing to inject a note of caution on the part of the borrower.

Bill McNall: Since the Supreme Court decision came down, I'll give you an idea of the type of advice I'm having to give clients right now. Both for commercial and homeowner. First, nobody was ever informed by any bank that they would be potentially personally liable on their note. That's what I'm telling clients now. So that if they have to go bankrupt, if they are sued they can protect what little bit they have left. I disagree with the idea that banks will somehow be responsible. If you give them this power that's going to be used at the lowest level in the bank.....That's what we're seeing, we're seeing people of having babies intentionally to avoid paying the banks. The responsible people in the bank really sometimes do not control the people my clients have to work with. It is subject for abuse. In the context of trying to straighten this out, we have to take away from the banks the new-found abilities the Supreme Court has said they always had. I've talked to bank attorneys, and they said they view this as a window of opportunity, for the banks to go back and go after borrowers that are defaulting under law. There's really no restriction, and the reason for that is, if they get a judgement against the borrower, they have the judgement for the entire amount of the debt; that judgement's good for 10 years, and they don't have to do anything with it right now, because then they can foreclose non-judicially on the property and they have a judgement for the entire amount of money plus they have the property back. That judgement can lay in the weeds for up to 10 years before they again trace the debtor down, after he's established his life over again and has some assets again, and at that point they have some money to go after. They have the best of all possible worlds. I would urge this committee to take a long hard look at taking that right away from the banks; allowing the banks to keep the deficiency judgement, I think they have to keep that for the secondary market purposes, they certainly

should be able to sue if there's surely a deficiency judgement to be gone after, except I have seen numerous instances that we have defended where they were suing people that were literally bankrupt. Or, suing on property where the value was in excess of the loan. When we asked them why they did that, they weren't clear; they couldn't get a deficiency judgement, but they sued them anyway. We see these kinds of cases to be concerned about that, and that's why I'm here today. Alot of times banks make very good decisions, but you also know we have banks scrambling to make it, not invery sound conditions, and they're making bad decisions. I wish they could have leadership of the older experienced banks, but it's not going to be that way. So, we have consumers, at this point, at the mercy where banks can make whatever decisions they want, and sometimes they're going to sue on the note, whether it's apprcpriate or not, and my client will go bankrupt. My clients sometimes have $5,000. left. The bank said, yes it's true your daughter's going to college and that your wife needs an operation, but why don't you give us that $5,000.? My client couldn't believe he was asked to do that. What about his obligation to his wife and child? We have subsequently filed that bankruptcy, by the way. I urge you to take a long hard look at the chicken-little approach you're getting this morning. The sky is not going to fall. And if the banks really mean it would take 30 pages for them to fully disclose the risk the borrowers are at, then we are in more trouble than any of us realize. I'll tell you right now that not one of my clients, commercial or residential, ever thought they would be personally liable on the note independently of the property. Everybody I have talked to, nobody ever thought the bank would be free to ignore the assets (?). That's the crux of the problem, and the banks are now going to take advantage of that.

Rep. Reiger thanked those that gave testimony, and adjourned the meeting.

trans 15

Joint Committee on Economic Recovery
House
Housing and Banking Subcommittee
April 6, 1988

Present: Representative Kay Brown (Co-chair)
Representative Steve Frank
Representative Steve Reiger (Co-chair)
Representative Randy Phillips
Representative Mike Navarre
Senator Joe Josephson

Mr. Jim Cairns (Hallwood Group, also Chairman of Alliance Bank Corp.) The Alliance Bank is a combination of the old AK Mutual Bank and United Bank of AK and UBA Southeast. Today, it has about $80 mil. of real estate it owns as a result of foreclosures, that is the written down value. In addition to that it has $250 mil. worth of loans that are still outstanding and other various stages of non-performing. Against that $250 mil., Alliance Bank has posted $130 mil. in reserves, so it has more than 50% of it's troubled loans are fully reserved for, which puts it in a unique position to liquidate the property quickly if that's the right thing to do, which we think it is not. Our concern is we think the Alaska economy is just now bottoming out or will soon do so. We've noticed in the past 2-3 years, especially residential property values have declined in the area of 40-60%. In working with our customers and others, that people cannot sell their properties. We're concerned that as the economy starts to bottom out and turn, that with this tremendous overhang of property, that all of these people will be seeking the same buyers, and this will have a negative impact. We've seen this happen already. We're also concerned about several of our customers in many areas. We are now paying over 3,000 utility bills for customers each month. We think it's not only important to deal with the liquidation of this property, but also that the economy is stabilized so people can get on with the business of rebuilding their livlihoods, etc. Out of all that comes the Hallwood AK. Real Estate Stabilization Trust. I have copies here for anyone. As a result of the current recession of the AK economy, AK lending institutions like ourselves and certain state agencies are burdened with alot of bad real estate. If any of these institutions were to dump, there would be a collapse of the fragile price structure, and that would continue the recession. The objective of this trust is to prevent that further decline of real estate values by allowing the trustee of a trust to manage the liquidation of the trust assets which would be all these properties, to prevent oversupply of property on the marketplace. We're trying to just hold off this property off the market. We are asking all to become subscribers to the trust and what we're saying is, you put your property into the trust, we'll put our's in, and others will do the same, and they'll take back their undivided interest in this pool of real estate being contributed and from there on share on a pool basis. We anticipate transferred assets would consist of single family homes, condos, apartment

buildings, a few office buildings and commercial structures, and also that it would receive partially or non-performing loans. We see the commercial properties added to generate some cash flow. As these properties are transferred into the trust, that they be valued at their fair market value today. Any loss sustained up till now would be borne by the institution transferring the funds. Further, we would use a common technique of valuing these properties as they come in. No asset would be sold for the less the agreed amount. Reports from the trust would be made available. A board of directors would consist of those who had contributed properties to the trust. In ensure the trust has sufficient working capital, we're requesting the state through one or more of it's agencies to participate the sum of $15 mil. for which the state will receive their proportionate share. We anticipate the $15 mil. will be sufficient to ensure the continuity of th trust and the payment of all marketing, administrative costs, etc. for at least a year. At the end of the year, we think the trust will require further funding from the state, we'll report then and see. A package will include all the pertinent information for each property. I propose Hallwood be the managers of this trust, for the benefit of the contributors. It is a publicly listed company on the N.Y. and London stock exchanges specializing in the financial services industry. It is owned by 35,000 shareholders. It has considerable experience in the liquidation and management of distressed real estate. Hallwood intends to offer the AK real estate to foreign investors. Buyers will be offered management services as well. Offering some commercial properties also allows for some cash flow, as some of them are still rented. It will just make a more attractive package.
Hallwood does not expect to receive any fees managing this trust. At the end of 18 months, Hallwood has the right to put this bank back to the FDIC if things don't work out for it. Hallwood really doesn't want to do that, we have made an extensive investment in AK. We have begun liquidating assets to repay the loan to get this going. We're doing everything we can, we want to stay in Alaska. If it fails, Hallwood would stay on and run the trust, it would expect to be paid normal commercial rates at that time, but it would leave it as an option if the Board would want us to remain in that role. We think that if we are successful, it would be an important step to economic recovery here. One last concern is that AK has suffered a great deal. How much can the state stand in terms of an erosion of it's banking system? It's serious question to ponder. AK is not like the lower 48, it's a large state and it's expensive to get started here. We don't think it's wise for the state to have a further erosion of it's banking system. To the extent our proposal will stabilize things, help consumers, and help preserve the banking system, we think the proposal satisfies many objectives that should be considered.

Rep. Phillips: Can you elaborate on your comments on the economy?

Mr. Cairns: My assessment would be that we're right around the bottom, very close to being stabilized, it's really tough to tell. The Anchorage area sent out their tax assessments, so there's alot of depression right now. It's definitely not the free-fall now that there was. As far as jobs, I don't know.

Rep. Navarre: If we set up a mechanism for AIDEA or AHFC to commit to this, would that mean the Hallwood group would not put the bank back in 18 months, or would that be another factor in that consideration?

Mr. Cairns: That would be another factor in the consideration. If we are at the bottom, and we could stop the erosion, the decisions we had made to make the initial investment would be valid decisions. I don't think st this stage before we have some of those answers, we can or should make that decision until we get to that time.

Rep. Frank: Where are the other holders in reference to putting this thing together?

Mr. Cairns: They're not jumping at the bit, there's alot of concern and questions there. Alot of different proposals have surfaced. We have a continuing dialog going, I don't think they're going to make any decision until you make your decisions here.

Various questions were asked referring to remarks already made.

Bert Wagman: From review of the legislation it appears AIDEA's role in such an entity would be straightforward. It would be a custodian of funds, and making sure the trust was implemented as directed by the legislature, and once that was accomplished then to release the funds to the trust. $15 mil. is the pricetag, and I'd like to ask, where is the money going to come from? The second question I'm going to ask is what are you really going to get for your money? I'm confused, what Mr. Cairns proposes to do is currently already being done, instead of being done in one big organization, it's being done in lots of organizations, i.e,, NBA, AIDEA, AHFC are all already doing it. I assume the motivation is a "fear of Dumping". I believe the proposal is an organized method where everybody takes their dirty laundry and puts it in a big washtub and it's methodically dumped. From AIDEA's perspective, every loan I have has a bank involved with it, and that bank is responsible for handling that liquidation. I think the banks do a good job on my liquidations, we're holding right now. The big fear of dumping seems obscene to think FDIC is going to go in and destroy the marketplace. My biggest concern is what you're going to get for your $15 mil?

Rep. Brown: Are we referring to the proposal in SB 408? I see someone nodding yes. There is an appropriation bill that accompanies this, doesn't that take it out of the Railbelt Energy money? I see someone nodding yes.

Mr. Wagman: From a selfish point of view, in my role, AIDEA won't need any more operational funds, our existing budget would cover our ability to help implement it. The way the bills are structured, AIDEA would make sure the agreements all reflected the legislation that had passed, and the funds would be released to the trust, and that would be all the authority's role, other than if we elected to put our properties in, and that would depend upon what my particular banks would want to do. I don't know how many banks would want to participate in this, in all honesty, the major people that would contribute to the trust would be the Alliance and FDIC.

Rep. Brown: Do you see an advantage in the management of your properties if they were put into the trust?

Mr. Wagman: I've already got it for free without the $15 mil. UBA and AK Mutual together were my 2 largest originators, those same people Hallwood proposes to use are currently servicing those loans. From my selfish perspective, One, I've already got the expertise on those loans, and Two, the other banks are doing an adequate job of handling those loans, I feel. When a bank does make a decision that is not in our best interest, we can veto that decision. We don't have any complaints of the banks servicing us.

Rep. Reiger: We had an earlier meeting where we talked to you about HB 402 (underwrite up to 25 mil.). We still have not reported that bill out, is anything changed on that? Is AIDEA still in favor of all 3 portions on that?

Mr. Wagman: I'll set the 3 priorities now: Most importantly we need relief from the 2% rule. The banks that can participate are very limited. The next priority is to get some relief on that SBA purchase, interest reate section, it's handcuffed our hands. The third would be the 25 mil.

Rep. Reiger: The only reservations I have is whether the increase to $25 mil. raised the moral obligation of the state and I think you've written a letter that it does not. On the SBA, the wording is a little loose, and I have no problem rewriting that to give you the flexibility to comply with new SBA policies. I encourage this committee to favorable recommend it.

Comm. Tony Smith: As chairman of AIDEA, I second Mr. Wagman's comments, concerning that piece of legislation. I've been in a number of discussions about the Bridge Bank concept. We do need the authority in Title 6 to do that. We're currently going through the statutes on that. There is in the administrative code a provision for regulation of a real estate investment trust. There is no statutory or administrative regulatory authority for what is essentially a non-depository institution, that's taking assets and giving some sort of certificates of participations. Willis Kirkpatrick and I feel that with the A.G. the cleanest way to do it is to provide in Title 6 for the Div. of Banking and Securities to regulate a non-depository institution, rather than get into the question of how you apply present security laws and protections to this particular vehicle. It's our belief the cleanest way is to just go in and change Title 6. In my discussions, I pointed out to them that we're alot more comfortable with 15 mil from the state as a investment. If you get the cash flow from those FDIC loans as part of this whole package, because that will change dramatically the need to come back next year. That discussion is ongoing between Hallwood and FDIC. As part of the whole discussion, it's a fairly straight forward matter to statutorily provide for the regulation of some kind of entity that might come together. AHFC now has 4,000 properties. AIDEA now has 1,200 properties. Roughly 170 residential properties in the FDIC portfolio, 1,800 other would be FHA, VA and others out there. That's a changing number. One of the things this committee needs to understand that it's

costing us $8,000./yr. per unit to carry. The Hallwood trust is premised on about a 4% cost to carry, the industry average is 7-8%, on a yearly basis. There are substantial costs, and I believe that what Hallwood is proposing is to maximize the efficiency in the carrying of this property, as I see it. MGIC is at a point at if we don't do something, they're going to go to auctions, because it's costing them $8,000./yr. for the properties they're carrying, and they're a substantial percentage of the 4,000. Right now AHFC is adequately covered by pool insurance, which is paying these costs. What is starting to loom on the horizon is the insurers saying they won't pay that and sell the units. We're getting to the point where outside entities are getting tired of being good guys, and just want to recoop their losses. So I view the Bridge Bank concept as a vehicle to bring some order to the management of this property. It's my hope that the FDIC and Hallwood will reach an agreement, so that rather than FDIC setting up a duplicate system to manage what it's taken back, that that cash will be available for the carrying entity. It seems to me that if the state were to make an investment, that it may be an effective way to deal with the management of these properties and also to do some securitization, which Hallwood feels it can do.

Rep. Brown: With respect to the $15 mil., have you explored any alternate sources for this money?

Mr. Smith: There have been discussions with various groups. I think the numbers won't be solidified until the numbers are completed. I think the FDIC cash flow, assuming they are part of a Bridge Bank, would make a major impact on any requirement for additional funds in later years. It's entirely possible AHFC might want to do the same thing Alliance wants to do if the Trust is established, but what we're looking at now with the $15 mil., if you're going to ask the FDIC to put their cash flow (80-100 Mil. of loans) down, they will want something in return. The first 15 mil. from the state is going to be needed to make the thing work. If Hallwood can get FDIC in, this thing could work. The results of that determination will be a financial determination.

Rep. Brown said she doesn't see the legislature coming up with this $15 mil. at this point.

Rep. Reiger asked a question about the Homestead exemption bill, as to Comm. Smith's position on this bill. Mr. Smith said it would be strictly up to the legislature. He would be glad to respond further in writing.

Rep. Reiger: Would you be expecting to having the property for rent during the time it's being held?

Mr. Smith: Yes. But again, what you're able to rent properties for to some degree has some impact on what the properties can sell for, so there's a problem to tune that as best you can. What you're trying to do with the commercial properties with the trust is to try to generate some revenue and make it as attractive as you can for potential purchasers. My impression is that the higher priced homes are trading as they

normally would. They're down a bit more then 10%. The medium priced tier of homes is mixed. The lower priced homes is the hardest hit. As far as commercial property is concerned, there's very little sale, but some rental activity. SOme of the people who bought, and owe more than the property is worth are using the properties but having a hard time making payments, and we are helping those people out, cutting interest rates to nothing, sometimes.

Rep. Brown: How critical is the cash contribution from the state?

Mr. Cairn: Essential. I don't think the Bridge Bank will ever happen without it. The cost of a small private placement is modest, and we think we could get rid of maybe $1 mil. worth of properties by a private placement, but you can't only do one of those a year, and that isn't going to address the problem. The objective of the whole thing is we want to sell this property ultimately to attract people to the state and keep them here. We don't think you can sell it to the existing Alaska population, initially. It is going to take some time. To attract people from outside takes the effort and expense. That's why the trust works.

Rep. Brown: If you have private owners that have these properties, why is it the responsibility of the general public of AK to help pay their carrying costs, what's the broad public benefit that should warrant that expenditure of public money?

Mr. Cairn: That's a good question. I tried to point out earlier that we can dump the property now. We think we have the reserves, that we've written the property down enough that we can go out and dump it. If the trust is not authorized, we're going to have to look very heavily at that, because the question in our mind, is to decide if we can keep it or get rid of it. To the extent that we can reduce that overhang of real estate in our own bank, it'll make that decision much easier to keep it, depending if the numbers work out. So, we could find ourselves, where the FDIC isn't going to be the villain, we are. We might have to dump in order to stay, which is a terrible position to be in. If we dump, then the values of other people's properties will be hurt. What a position that puts the state in, that puts us in, really. We are dependent upon and trying to support the local economy, but we could be forced to damage the economy. We think there's a state public good in having an orderly liquidation, so that you don't have to face that eventuality. Point 2, if we did dump, we believe there are other financial institutions which would come under more financial pressure than they are already under. We're not sure how much more would have to be put up in reserves before they too would have to be failed. If they were failed, as the last 2 banks were failed, then the state would lose 1-2 more banks. If that happens, your banking structure is reduced to something very thin. If Alliance fails, or one or 2 more banks fail as a result of dumping, what have you got left? Is that sufficient for you to rebuild your economy, does that bring you the kind of banking system you want in the state? I think there's some public good in indirectly trying to preserve the banking system you have today. The public good is being served by trying to keep public from suffering further

unrealistic losses and at the same time to try to preserve a banking system to build the state back.

Meeting adjourned.