



**REPORT BY THE INTERIOR REGION SUBCOMMITTEE
OF THE
JOINT COMMITTEE ON ECONOMIC RECOVERY**

childhood services (from a member of the IMA), support for local transit, the Fair, improved mining technology, Alaska bidder preference, a local job coordinator for North Slope employment, and more.

After the presentations the N.W. Territories legislators expressed an interest in joint ventures with Alaska Window and Alaskan composting toilets and planned a tour of the Alaska Window plant at Gold Hill.

Innovative suggestions that could be pursued by the legislature and/or the administration include:

1) Department of Commerce and Economic Development, in co-operation with the Alaska Manufacturers Association and the Interior Manufacturers Association, should develop a professionally done marketing directory and brochure listing Alaskan manufacturers by name and product and distribute it to purchasing agents in all state agencies, municipal governments and school districts, as well as making it available to the public.

2) establish a state clearing house for business information. This could be a refunded Alaska Administrative Journal or a similar document focussing principally on contracts, RFP's bid offers, proposed purchases and other procurement activities to be a part of the Department of Administration within which state procurement is currently centralized.

3) establish a "procurement ombudsman" and/or amend the State Procurement code to require an explanation of why an available and competitively priced local product was not used.

4) Pass the amended co-operative code HB 202 and provide technical assistance for a new type of business organization: a joint, co-operative business facility providing space, management and book-keeping services, start-up expertise, access to capital and technical expertise to member entrepreneurs and their small businesses.

The major task for the state government, as seen by these entrepreneurs in the Interior is to provide technical assistance, access to existing markets, development of new markets, research and information services, and maintenance of a level of social and governmental services needed to maintain a stable economy and a stable community.

A complaint that crops up in a variety of contexts is that both state loan examiners and private bank loan officers are oriented to real estate, retail and construction trade, and automobile loans and do not understand or support manufacturing, agriculture, scientific or technical production or other activities. This results in a scarcity of in-state venture capital and in a failure to provide continuity of support needed for well-managed, potentially profitable ventures to reach a real "take-off" point. It is

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characterized as "short-term" rather than "long-term" thinking or as a profit taking rather than an investment approach. To the extent this exists it is probably due to Alaska's boom and bust history and needs to be recognized and dealt with through better education and training of our fiscal managers. No legislative action for this session is proposed.

The intellectual capital created by the presence of the University must also be drawn upon and adequately supported. Until recently two local business firms served a prime example of what can be accomplished - and as a warning of what can happen. Alaskan geologists and mining engineers, organized as 'Research Associates' developed a nationally recognized capacity in the field of mineral exploration and development. Outside capital brought RAI into NERCO Minerals, which constructed a multi-story building in Fairbanks from which to operate. However, the desire to centralize operations in the Pacific Northwest led those same capital interests to move NERCO to the State of Washington, with the loss of some 60 - 100 jobs.

Local capital provided mostly by local physicians and technical talent provided by University related computer personnel led to the incorporation of Systronics Inc. This was a Fairbanks based computer software company which developed nationally competitive software. At its peak, Systronics employed some 40 people. Competing successfully in Outside markets brought it additional capital, but also diffused its local ownership. Control passed to a larger Outside competitor which moved key personnel Outside and shut down operations in Alaska.

These two examples show that creative, entrepreneurial, Alaskans can and do create viable high tech businesses that can compete successfully in the United States and world market. They also show that our corporation codes are probably obsolete and fail to provide adequate protection for the Alaskan entrepreneur or for the Alaskan investor. The committee, however, is not prepared to suggest any piece of legislation currently available, as a solution to this problem.

A related problem stems from the inability of the University to maintain market competitive salaries in a variety of fields, including computer sciences, math, engineering and business for the last four to five years. Alaskan scientists, engineers and technical engineers are retiring or are taking better paid positions Outside. Replacements often cannot be hired. Without these trained people the successful start-up of new high tech firms like Systronics or Research Associates before it, will probably never occur.

There are a number of other pieces of legislation that will have a strong impact on economic recovery. Workable legislation mandating or encouraging local hire is extremely important. As stated earlier in this report, the Subcommittee feels that many of the proposals of the more specialized Subcommittees can assist economic recovery. Others, however, can result in

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a misallocation of scarce capital; give an unfair economic advantage to an individual or small group; result in a misappropriation of public interest. For this reason, careful examination of all proposals is needed, before adopting or recommending them in order that the public interest be served and our responsibilities, as legislators, are properly discharged.

SUMMARY

The Interior Subcommittee on Economic Recovery supports the following legislation: HB 253: Alaska Research Policy, HB 202: Cooperative Code Revision, HB 390/391: Establishing the Alaska Science and Technology Foundation, HB 318/SB 308: Alaska Energy Efficient Home Equity, HB 430/431 Neighborhood Business Development Program, SB 166: Regulations effecting small business and small communities, HJR 66: Headquarters of Sixth Infantry, HB 523: Recycled Materials. Adequate funding must be provided for the Universities teaching and research functions. The erosion of our "intellectual capital" can abort any long term economic growth.

There are a number of other resolutions, and bills that will have a strong and viable impact on economic recovery. Legislation in the area of local hire is extremely important. As stated earlier in this report, the Subcommittee feels that many of the choices picked in the more specialized Subcommittees can aid in the area of economic recovery.

The Interior Subcommittee recommends the following administrative action: developed information and market development services for Alaskan manufacturers, technical assistance for valued added Alaska industry, pursuit of an import substitution strategy in addition to the resource export strategy, use of the current centralized procurement procedures to aggressively support the preceding policies.

Further study and analysis is needed to develop long term investment strategies and procedures in both public and private capital markets; how to obtain accessibility to venture capital; innovative new concepts in the structure and organization of economic activity (what are the most productive ways to organize an Alaskan firm in a given line of business?); how to protect the Alaskan investor and secure their participation and investment in the Alaskan economy.

March 3, 1988

TO: Rep. Max Gruenberg, House Chairman
Joint Committee on Economic Recovery

FROM: Rep. Al Adams, Chairman
Rural Subcommittee

Attached is a report by the rural subcommittee which puts forth our recommendations for new legislation, operating issues that need to be addressed and capital projects which deserve consideration by the full committee.

I appreciate your comments and assistance on these issues. If you have any questions about any of these recommendations, please contact my office.

Approved by

Al Adams

Lyn H. H.

Butte Co.

Kay Wallis

House Rural Subcommittee Report Joint Committee on Economic Recovery

The House Rural Subcommittee of the Joint Economic Recovery Committee has held both formal and informal committee meetings in our efforts to identify legislation and improvements to existing programs, both capital and operating that would aid rural Alaska in these continuing difficult economic times.

Attached to our recommendations are some recent reports which address the basic problems facing the citizens of rural Alaska. The problems facing our people are very diverse and there are no simple solutions. We believe that these recommendations will address some of the most basic problems facing our small communities across the state today. By taking care of some of these basic problems today we hope to avoid serious problems tomorrow.

Short Summary of Recommendations:

New Legislation

Passage of HB 439: An Act relating to entitlements for municipalities and unincorporated communities; and providing for an effective date. This bill raises the minimum entitlement for municipalities and unincorporated communities from \$25,000 to \$50,000.

Operating Budget Priorities

Increase funding for Village Public Safety Officer Program
Increase Funding for Public Health Nursing

Capital Budget Priorities

Village Safe Water Facilities
Educational Facilities
Waste Heat and Other Appropriate Power Projects

There are certain state programs that are extremely valuable and popular in rural Alaska and we are recommending that those programs be funded. Included in this category are programs such as the Permanent Fund Dividend, Power Cost Equalization, and Revenue Sharing and Municipal Assistance.

All of the recommendations by the rural subcommittee of the Joint Committee on Economic Recovery focus on very basic needs of rural Alaskans. Following is brief explanation of our recommendations.

New Legislation:

HB 439: An Act Relating to entitlements for municipalities and unincorporated communities; and providing an effective date.

This bill would raise the minimum entitlement under the state revenue sharing program for incorporated and unincorporated communities from \$25,000 to \$50,000 per year.

Both incorporated and unincorporated communities rely on state funding to provide basic services to their people. The large reductions in municipal assistance, revenue sharing and capital construction funds the past several years have had an adverse impact on all communities in the state--but naturally those hardest hit are those with the least assets. This bill would affect approximately 83 incorporated municipalities and over 70 unincorporated communities---the cash poorest---across the state.

The minimum entitlement has not increased since its inception in 1981. Increasing the basic level of support will allow communities to continue to provide at least minimal levels of service to their residents. Increasing the minimum should not be at the expense of our other communities who are also faced with substantial needs. Therefore, we recommend that a \$3.6 million fiscal note be approved as this will essentially hold harmless all other communities in the state who are currently receiving more than the minimum entitlement.

Operating Budget:

The subcommittee reviewed many programs that are very worthwhile and have a positive impact on local communities throughout the state. We reviewed many programs where increased funding would be beneficial but we are limiting our recommendations to providing basic public services to communities where these services are not currently available.

Our highest priority for increased funding in the operating budget are 1) Increasing the number of Village Public Safety Officers. Currently 112 villages have VPSO's. State troopers in the field have recommended the addition of 20 more VPSO's, all to communities where currently there is no law enforcement personnel but significant law enforcement problems. We support this request for basic law enforcement services. The average first year cost of a VPSO, including training costs, is roughly \$45,000 per VPSO.

Our next priority for increased funding is the Public Health Nursing program. There is a severe lack of professional health care services in rural Alaska. The public health nursing program is ideally suited to address some of our major needs. We have not added any positions to the public health nursing program since 1978, although the population in rural Alaska has greatly increased since that time. Attached is a paper from the Department of Health and Social Services outlining their recommendations on increased funding.

Capital Budget

Our priorities in the area of the capital budget are funding for water, sewer, and solid waste projects, educational facilities, and waste heat and other appropriate energy projects. Attached are lists of projects for consideration under Village Safe Water, DEC's 50% construction grant program and educational facilities. The energy related project supported by the rural subcommittee are limited at this time to the requests in the Governor's proposed capital budget for FY 89. These projects are not listed in priority order, and although there is no way that all of these needs can be addressed in one year, it is our intention that we do address as many of these projects as funding allows.

Alaska State Legislature

Committees:

Chair-State Affairs
V. Chair-Judiciary
Telecommunications
Special Ethics
Legislative Council
Finance Subcommittee
for the University of Alaska
Joint Committee
on Economic Recovery

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REPRESENTATIVE FRAN ULMER

MEMORANDUM

March 17, 1988

TO: Joint Committee on Economic Recovery

FROM: Southeast Subcommittee
for Committee on Economic Recovery

SUBJECT: Southeast Priorities

The economy of Southeast Alaska is primarily based on development of Alaska's natural resources. Fish, timber, mining, and tourism have historically been the mainstay of our economy and continue to do so. There is an increasing amount of private sector development in the natural resource arena and the long term economic outlook is a positive one. Although we have experienced declines in economic activity and in population, as a result of cycles in the international pricing of our exported natural resources which periodically reduce the economic prosperity of the region, overall the outlook is good.

This region's economy is also dependent upon government spending--state, local and federal. The Coast Guard, Forest Service, Bureau of Indian Affairs and many others, provide both jobs and services for our residents. Although Juneau as the Capital City is the most dependent upon state funding for its economic stability, most other communities are also reliant upon a variety of public sector program funding, including municipal assistance, revenue sharing, school funding, troopers, public health nurses and the like.

There are many things which the State of Alaska does and can do to improve our resource development economy:

- adequate funding for resource management is a critical element of future successes in fisheries, tourism, timber and mining. Unless the agencies which have the responsibility for managing these resources and assisting their development are funded, it is impossible for the private sector to be able to do its job. We support proposals which increase the funding of natural resource agencies.

- The Alaska Seafood Marketing Institute and its efforts to promote Alaska seafood is an important element in the success of the marketing and sale of Alaska seafood. These efforts should also include value added products which have the largest return to Alaskans.
- The Alaska Division of Tourism's successful efforts to advertise Alaska are of tremendous benefit to the region. Cooperative regional entities like the Southeast Alaska Tourism Council, made up of communities and private companies in the tourism industry, have focused independent travelers' interest on Southeast. The region has already begun to feel the increase as a result of this effort. We support specific capital projects targeted to increasing tourist activities, continued funding for advertising, and assistance to regional entities like the Southeast Tourism Council.
- Transportation is a critical element of any economy; but in Southeast, where we do not have a continuous road system and where we must rely on ferries and other water-based and air based transportation, the continued growth of the economy is very dependent upon the State's willingness to provide the necessary infrastructure. The Alaska Marine Highways System plays an important role in economic development in Southeast, and we support efforts to bring the service delivery back in line with previous years.
- Export financing proposals that assist smaller entities in obtaining some export financing will help not only the fish business in Southeast, but also new business development. Improved cash flow for these small businesses can make the difference between success and failure.
- Timber harvest in Southeast is largely controlled by entities beyond the State's control. Many of the decisions which should be made here in Alaska are made in Washington, D.C., with regard to both timber management practices, overall harvest levels and the balancing of uses of land and resources. We support careful deliberation over land allocation and efforts to bring more of these decisions back home to Alaska.
- There is no doubt that mining activity is on the rise in Southeast. Many of the projects have become viable as a result of private sector activity, international pricing and other factors beyond the control of state or local government. Most of these projects are self-sufficient and are not asking for any kind of State loans or infrastructure development. They do ask for a cooperative attitude and, in some instances, for assistance in State laws and regulations to make it possible for them to do business in a cost-effective way, which we support.

We are very concerned about local development and local hire and believe that efforts should be made by the Legislature and the Administration to encourage local hire. The efforts by the University of Alaska Southeast in providing targeted training for the mining industry is a model which we believe should be used elsewhere in the State of Alaska so that those individuals who are within the community and the region can be trained appropriately for the job which they are seeking with the private development. The quick start funds that have been requested by the University of Alaska to do this kind of vocational training should be supported.

- Fish farming has been a controversial subject this year. It is the feeling of the committee that mariculture has promise in Alaska; however, given the uncertainty of the biological and economic impacts of this activity, we feel that it should be restricted to things which do not directly endanger the species of fish that have been highly productive for the state of Alaska, such as salmon. We suggest that the moratorium continue on the pen rearing of salmon. With this exception, we believe mariculture should proceed in a cautious, well-regulated manner.
- Hatchery programs have been very successful in increasing the overall harvest levels for both commercial and sport fishing in Southeast. Every \$1.00 invested in fisheries enhancement programs results in \$1.80 in resident Alaska income. Both public and private hatcheries should be encouraged and receive additional support as this will provide a significant economic return to the fishing industry throughout the state of Alaska.

The Alaska economy is made up of many parts from both the private and public sector. By stabilizing public sector funding, both operating and capital, Alaskans can look forward to a more certain and positive future. With wise natural resource management and promotion of our products, and adequate transportation and communication systems, the public and private sectors can jointly assist the economy of our region and our state.

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 forbearance 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 Mortgage 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 neighborhood 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.

STATE OF ALASKA THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

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

MEMORANDUM

February 29, 1988

SUBJECT: Authority to restructure mortgage loans
(Work order 5-2012)

TO: Representative Steve Frank
ATTN: Rick Solie

FROM: Jack Chenoweth
Legislative Counsel

You have asked for a review of the ability of the state agencies that manage residential mortgage lending programs to restructure those loans under current law.

The sources of the principal residential mortgage loan programs are:

-- loans made under one of the various housing assistance programs by the Alaska Housing Finance Corporation under authority of AS 18.56; 1/

-- loans made from the Housing Assistance Loan Fund and the Homeownership Assistance Funds by the Division of Housing Assistance of the Department of Community and Regional Affairs under the authority of AS 44.47.360 - 44.47.560. 2/

Though their total numbers are significantly below the number of loans made by each of the entities mentioned above, loans for residential purposes may also be made by

-- the Alaska Permanent Fund Corporation;

-- the commissioner of revenue, acting in the capacity of treasurer of the state's retirement systems for the pension fund surpluses of the Public Employment Retirement System and the Teachers' Retirement System.

"Restructuring of mortgage loans" is usually understood to mean at least one of the following:

-- forbearance arrangements or agreements, authorizing the borrower to reduce or suspend regular mortgage payments for a stated period; or,

- modification of the terms of a mortgage, including
 - reduction of payments of principal
 - without affecting the total debt obligation of the mortgagor on the mortgage loan; or
 - accompanied by a concomitant reduction in the total debt obligation of the mortgagor on the mortgage loan;
 - reduction of the interest payment payable on the loan; or
 - delay or postponement of the due date of the mortgage obligation.

Alaska Housing Finance Corporation mortgage loans:

The Alaska Housing Finance Corporation enjoys wide latitude as to how it may address delinquent loans and those that may become delinquent. In the enumeration of the general powers of the corporation, AS 18.56.090(11) provides that the corporation may, "for its . . . corporate purposes":

consent to the modification of the rate of interest, time of payment of any installment of principal or interest, or any other terms, of the mortgage loan, mortgage loan commitment, construction loan, temporary loan, contract or agreement of any kind to which the corporation is a party;

While this statutory language sets no limits, there are some practical constraints.

AHFC principally finances its programs through the use of bond proceeds. AS 18.56.110 generally prescribes limitations applicable to the bonds and notes of the corporation. AS 18.56.110(f)(3) authorizes the corporation to "covenant as to the use and disposition of any and all payments of principal and interest received by the corporation on mortgage loans . . . or other investments held by the corporation." Under AS 18.56.120,

The pledge of assets or revenue of the corporation to the payment of the principal or interest on any obligations of the agency is valid and binding from the time the pledge is made and the assets or revenue are

immediately subject to the lien of the pledge without physical delivery or further act.

So it is to the covenants that support the underlying bond issues rather than to provisions of state law that one must look to determine whether AHFC's various mortgage loan programs permit restructuring of outstanding loans. One must also consider the agreements between AHFC and, on the one hand, agreements entered into with the Federal National Mortgage Association (and similar entities) covering sales of mortgages and loans and, on the other hand, agreements with the corporation's own mortgage seller/servicers. Each of these groups of agreements may include provisions limiting the corporation's flexibility in responding to defaults and potential defaults by the borrowers.

These agreements notwithstanding, AHFC does authorize loan modifications under certain circumstances. The corporation's seller/servicer manual identifies those as limited to instances in which the mortgagor's income has been permanently affected by accident or illness, or in which the mortgagor's income has been reduced or eliminated altogether for a temporary period and which has not recovered sufficiently to maintain the current mortgage. The corporation will also consider a modification "if the servicer [of the mortgage] feels that changing the terms of the mortgage would not only cure [a] present delinquency but also prevent future delinquencies." AHFC must give prior approval and "will consider . . . reamortizing the debt to include the delinquent payments or extending the term of the loan by the number of past due installments." AHFC Seller/Servicer Manual sec. 9002.06.

In summary, current state law generally appears to provide sufficient latitude for the Alaska Housing Finance Corporation to modify loans and loan provisions for loans that are delinquent or may become delinquent. Legislative initiatives to amend the law to redefine or extend AHFC's authority need to be concerned with possible claims against impairment of contracts entered into by the corporation, particularly with bond underwriters, federal government agencies that purchase the mortgages, and the corporation's seller/servicers.

Department of Community and Regional Affairs mortgage loans:

Representative Steve Frank
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February 29, 1988

State law applicable to management of the department's mortgage loan programs does not specifically provide the department latitude to restructure repayment of principal and interest on its loans. The department's own regulations are also silent on the point.

The department has asserted to you that it may not reduce interest payable. Its assertion seems to be borne out by the following:

- the interest rate payable by a borrower under the rural owner-occupied housing program is, by statute (AS 44.47.410(b)), tied to the rate based on the most recent AHFC bond sale;

- the interest rate payable by a borrower under the rural non-owner-occupied housing program is set by statute (AS 44.47.520(b)) as an amount not to exceed $10\frac{1}{2}$ percent; the department advertises that the rate is $10\frac{1}{2}$ percent;

- the interest rate payable by a borrower under the homeownership assistance housing program, the interest-subsidy assistance program, directs by statute (AS 44.47.382(b)) that, for qualifying borrowers, the subsidy allowable shall be sufficient to reduce the actual interest rate paid on the mortgage to six percent.

The net effect of the three statutes cited suggests that the department is without discretion to adjust or reduce interest payable by a borrower under any of the three programs.

The department has also represented to you that, while it may adjust payments of principal on outstanding housing program loans, its authority to adjust the payments is limited to modifying current principal payments without reducing the mortgagor's total debt obligation under the mortgage loan. In other words, the department believes that it may reduce monthly payments, but the reductions correspondingly serve to extend the repayment obligation to an additional period; the department may not cancel or forgive a portion of the borrower's indebtedness.

The source of the department's mortgage lending activity is the housing assistance loan fund. That fund is established by statute (AS 44.47.380) and was, by a 1983 amendment, made

a revolving loan fund. 3/ A revolving loan fund is commonly thought of, and in Alaska legislation has been nearly universally treated, as a fund that is continually expended and replenished, from which withdrawals are made as loans but with a corresponding obligation to repay the fund in order to keep it intact. 4/ Legislative appropriations for state revolving loan funds are typically treated as non-lapsing appropriations, and any repayments of principal on loans purchased or originated with these appropriations should be deposited into the fund and made available from the fund for subsequent expenditure.

In my judgment, the department's representation to you seems to be fully consistent with its duty to maintain the integrity of the housing assistance loan fund as a revolving fund. A reduction in principal payments accompanied by a cancellation of a portion of a borrower's indebtedness would compromise the fund balance and the ability of the agency to use the fund balance as a source of loans in subsequent years.

Investments of the Alaska Permanent Fund Corporation:

Under authority granted in AS 37.13.120(g)(16), the corporation may invest in

notes secured by mortgages granting a first lien on commercial or residential real estate improved by completed buildings [subject to specific mortgage insurance requirements];

Like the Alaska Housing Finance Corporation, the Alaska Permanent Fund Corporation enjoys broad authority to manage investments. The corporation is authorized to "enter into and enforce all contracts necessary, convenient, or desirable for purposes of the corporation." (AS 37.13.120(f)). The residential mortgages purchased by the corporation as investments become assets of the corporation subject to the corporation's general asset management policies.

Since the Permanent Fund Corporation regularly receives income from sources other than those that support the mortgage lending activities of AHFC or the Housing Assistance Division, it is not constrained by the same considerations that circumscribe loan management practices of those two entities. Within the broad authority of the statutes directing its activities, the Permanent Fund

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Corporation appears to have ample legal authority to structure or restructure loans that are potentially or actually delinquent.

Retirement Funds investments:

The commissioner of revenue may invest the surpluses of the Public Employees' Retirement System and the Teachers' Retirement System in, among other permissible investments specified by law, residential mortgages. AS 39.35.-110(a)(10) (for the Public Employees' Retirement System) and AS 14.35.180(b)(10) (for the Teachers' Retirement System) authorize the commissioner to invest in "first lien real estate mortgages guaranteed by the federal Veterans Administration." AS 39.35.110(a)(11) and (12) and AS 14.35.-180(b)(11) and (12) authorize investments involving other kinds of residential mortgages, subject to specific limitations set out in those paragraphs and in AS 39.-35.110(e) and AS 14.25.180(e), respectively.

As to each of the two retirement programs, the commissioner is authorized by law to "do all acts whether or not expressly authorized which are considered necessary or proper for the protection of the investments held in the pension fund." AS 39.35.110(d); AS 14.25.180(d).

JBC:bb
wkb3/047

FOOTNOTES

1/ The loans of the Alaska Housing Finance Corporation may be classified among the following specific loan programs:

- home ownership assistance program (a program to provide mortgage subsidies to persons of low and moderate income);

- mobile home loan purchase program (a program to provide low-cost financing for mobile homes);

- pledged account mortgage program (a program to assist persons with sufficient assets but whose income does not meet the minimum monthly income requirements generally applicable to the corporation's loan programs);

- second mortgage loan program (a program to provide low-interest loans for home improvements or rehabilitation in order to make the units more habitable, and to finance second mortgages in order to allow home purchases);

- taxable mortgage program conventional loan (the principal AHFC homeowner assistance program, applicable to owner-occupied units);

- tri-plex and four-plex mortgage loan program (a program to allow the purchase of owner-occupied tri- and four-plex units);

- veterans' mortgage program (a program to provide additional assistance to qualifying veterans through a reduced interest rate);

2/ The Department of Community and Regional Affairs' loans involve the following specific programs:

- rural owner-occupied housing (a program to provide financing to qualified borrowers for the construction, purchase, or rehabilitation of a housing unit, limited to single family units and duplexes, for use as the borrower's principal residence);

- rural non-owner-occupied housing (a program to provide financing to qualified borrowers for the construction, purchase, or rehabilitation of a multiple unit housing project, generally two to eight units, though larger under extraordinary circumstances);

Representative Steve Frank
Page 8
February 29, 1988

-- home ownership assistance housing (a program to provide assistance to persons of lower and moderate income to purchase or construct single-family, owner-occupied dwellings, through the use of subsidized interest payment support).

3/ A January 23, 1984, Opinion of the Attorney General provides guidance to the Department of Community and Regional Affairs as to the proper handling of the repayments of principal and interest earnings on loans made from the loan fund before and after the 1983 amendment establishing it as a revolving fund.

4/ "Revolving loan funds provide for the return to the fund of repayments by borrowers of the principal (and frequently the interest on that principal) which was loaned to them from the fund so that new loans can be made on a continuing basis." 1982 Opinions of the Attorney General #13, November 30, 1982, at page 12.

JBC:bb
wkb3/047

HOUSING AND BANKING SUBCOMMITTEE MATERIALS

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**** Denotes Subcommittee action**

3/29/88

Report of the
Subcommittee on Housing and Banking

Joint Committee
on Economic Recovery

March 21, 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 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: Presumably, enabling legislation.

Cost to State:

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

Action needed by legislature: Budget amendment or enabling legislation to authorize use of AHFC reserves.

Cost to State: Demolition of Willow Park is expected to cost \$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 \$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 on management of surplus mobile homes owned by AHFC (resolution is being revised by Subcommittee).

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 and stored in today's economic climate. 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. Make institutionally-owned housing available for public interest uses, such as student, elderly, low-income, developmentally disabled, mental health, and transitional housing.

Action needed by legislature: Through the budget process, identify, review, and possibly fund projects proposed by state and local government agencies, and non-profit groups.

Cost to State:

6. Authorize ASBA or other entities, in cooperation with AHFC, to exercise broader powers to help the state achieve public purposes and to implement housing projects funded by the legislature. The agencies could facilitate consolidation of condominium owners to allow for the sale of other condominium projects for other uses.

Action needed by legislature: Develop and pass enabling legislation.

Cost to State:

Strategy: Increase demand for housing.

7. Support pending legislation identified by other subcommittees that will improve the economy generally and create jobs.

Strategy: Provide aid to distressed homeowners.

8. 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.

Cost to State: Theoretically, none.

9. 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:

Cost to State:

10. 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: Amend FY 88 supplemental budget to provide early funding of 25 new positions for AHFC.

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

11. 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 legislation, possibly a version of HB 432.

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.

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

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

Cost to State: Theoretically, none.

13. 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 Mortgage 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.

14. 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.

15. 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.

Cost to State: None.

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 parts or all of HB 402 and SB 392.

Cost to State: None.

(Note: This report represents the status of the Subcommittee's work as of March 21. Additional issues and legislation are under review and may be added later to the report.)

Housing and Banking Subcommittee
Supplemental Report to
Joint Committee on Economic Recovery

March 25, 1988

The Housing and Banking Subcommittee met on March 24 and adopted the following additional recommendations to address the state's economic problems:

Strategy: Use surplus housing for public purpose.

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.

The attached memo provides background on this proposal.

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

Determine an entity to conduct the interim survey of public housing needs and to analyze options for expanding the program.

Cost to state: Up to \$5 million for pilot program, as recommended in the Mental Health Board report (3/14/88).

The cost of an interim survey of housing needs has not yet been determined.

Strategy: Reduce excess supply of residential and commercial buildings.

Allow local governments to give limited property tax exemptions as an incentive for the demolition of obsolete residential and commercial buildings.

Action needed by legislature: Pass legislation, possibly a version of HB 429.

Cost to state: Cost is optional to local governments.

Strategy: Improve financing opportunities for neighborhood development.

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 HB 430 and 431, funded at some appropriate level.

Cost to state: Up to \$3 million.

Other

At the request of the House Chairman of the Joint Committee on Economic Recovery, the Subcommittee reviewed SCR 32 and CSSB 333 (L&C) and conceptually endorsed these proposals.

Attachment



Official Business

Alaska State Legislature

House

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

MEMORANDUM

TO: Rep. Max Gruenberg, Chair, House Joint Committee on Economic Recovery

FROM: Reps. Kay Brown and Steve Rieger, Co-Chairs, Housing and Banking Subcommittee

RE: Use of surplus housing for public purposes: A Mental Health Housing Pilot Program

DATE: March 24, 1988

EXECUTIVE SUMMARY

This report details a statewide pilot program for the acquisition of excess or foreclosed residential properties to meet the critical housing needs of disadvantaged or displaced Alaskans. While there is a wide variety of service providers -- including federal, state and local agencies and a broad spectrum of non-profit entities -- there is a very limited supply of housing units to meet the needs identified by those service providers.

The Housing and Banking Subcommittee recommends that the Legislature implement the pilot program outlined below, conduct a survey during the interim of needs statewide, and expand the program to meet additional care and service needs in the next fiscal year.

PUBLIC PURPOSES

Acquisition of surplus housing for public purposes could accomplish three goals: 1) remove a portion of the excess housing from a distressed real estate market; 2) reduce the inventory of foreclosed property that state entities must maintain in marketable condition (it can cost up to \$7,000/year/unit for condominiums); and 3) meet the needs of Alaskans in special circumstances who need permanent or temporary housing.

REAL ESTATE MARKETS

At the end of 1984, the Alaska Housing Finance Corporation held 129 foreclosed pieces of property. At the end of 1987, the corporation held 3,701 pieces of foreclosed property. In Anchorage alone there are 14,000 vacant housing units including mobile homes, zero lot lines, condos, tri and four plexes, apartments and single family residences.

Realtors do not expect a quick recovery from the real estate crash which has seen the number of mortgages written per year drop from a high of 16,500 in 1983 to 3,000 in 1987. Anchorage realtors (surveyed by the Real Estate Services Corp.) see further price erosion this year, ranging from 5.6 percent for single family dwellings to 13.3 percent for condos. The glut in condos, realtors predict, will not ease until 1993.

While the housing market has not yet bottomed out, according to responsible realtors and economists, the unmet housing needs of disadvantaged or displaced Alaskans are growing. Acquiring vacant residential property to meet public needs, while the housing inventory is excessively high and costs are depressed, is cost effective for health and social service care providers. At the same time, acquisition of this excess property for well-defined public purposes will reduce the stock of excess properties and provide an incremental boost to the real estate industry and owners of price-depressed residential properties.

Condos and four plexes may best fit the housing needs of the disadvantaged or displaced. This dovetails with current market conditions because these units comprise the most distressed portion of the real estate market. Even though condos comprise just 15 percent of AHFC's \$4 billion loan portfolio, they account for one-third of that corporation's foreclosed properties.

PUBLIC HOUSING NEEDS

Identified housing needs include units for the elderly, developmentally disabled, physically handicapped, mentally ill, homeless, low income, transitional units for ex-offenders and substance abusers, emergency shelters for abused or runaway children and women's shelters. These needs are statewide.

As an illustration of the variety of needs and the diversity of service providers, a recent survey in Anchorage revealed more than a dozen providers of housing services. They include but are not limited to:

- Abused Women's Aid in Crisis (sheltering 1,025 in '86-'87);
- Access Alaska (eight handicapped in four ASBA apartments);
- Alaska Youth and Parent Foundation (eight-bed shelter serving 161 in '86-'87);
- Alaskan Self Help (a homeless nonprofit organization);
- Anchorage Community Mental Health Services (20-bed facility serving 202 in transitional status in '86-'87);
- Anchorage Rescue Mission (47 beds);

Association for Stranded Rural Alaskans (no shelters but 412 referrals in '86-'87);
Bean's Cafe (two sleepoff rooms and cafe serves 200/meal);
Brother Francis Shelter (sleeps 60,000/year or 1,290 clients);
Clare House (Catholic Social Services shelter for women and their children, 38 beds serving 695 in '86-'87);
Covenant House (converting downtown YMCA as shelter for runaway and homeless youth);
Eagle Crest ("dry" hotel for 83 serving over 1,000 in '86-'87);
Hope Cottages (23 group homes, and an apartment complex serving 174 clients); and
McKinnell Emergency Shelter (Salvation Army shelter sleeps 45 serving 905 in '86-'87).

The survey revealed the housing needs for the mentally ill population in Anchorage are the most dramatic. Deinstitutionalized mentally ill require 220 beds in Anchorage and there are now 12 available; 18 beds are needed for crisis respite care and eight are available; about 350 permanent beds are needed for semi-independent living and only 130 will be available by this spring. Total additional units needed for the mentally ill population in Anchorage are 438.

While the needs in Anchorage are dramatic, the same types of housing needs remain unfulfilled in most Alaska communities, though on a lesser scale. The Residential Services Task Force Report for the Alaska's Governor's Council for the Handicapped and Gifted, for example, has found that there are 89 developmentally disabled Alaskans institutionalized who could live in less restrictive community settings and an additional 133, statewide, waiting for residential and vocational services.

PILOT PROGRAM

A comprehensive program to acquire housing for all of these needs, and others not yet identified, could take several months to develop and a large infusion of state money. However, a legislative strategy that establishes a well-focused pilot program this year can lay the foundation for future acquisitions of excess residential property to meet public needs.

The defined needs of the chronically mentally ill can provide the basis for a pilot program. The Alaska Mental Health Board has identified specific housing needs in communities ranging from Aniak to Anchorage to Angoon. These identified mental health housing needs range from facilities for crisis care to respite care to day treatment and to group homes for adults and children.

A pilot program targeting some of the statewide mentally ill housing needs would involve three entities -- the Alaska State Building Authority (ASBA), the Alaska Mental Health Board and the Department of Health and Social Services.

The ASBA is a public agency that maintains and manages public housing. The authority has experience in joint efforts with two community mental health centers in the management of Section 8 subsidy programs for severely mentally ill Alaskans. The agency has expertise in property management.

The functions of the Mental Health Board include needs assessment, budget review and mental health program oversight. The board has both state and private representatives and was created by the legislature in response to the Mental Health Trust Lands Settlement.

MANAGEMENT STRUCTURE

Responsibilities of the Mental Health Board, in conjunction with the Department of Health and Social Services, would include:

- 1) a needs assessment of the projects outlined by community mental health care providers;
- 2) prioritization of those needs;
- 3) an outline of property requirements (number of units and beds, staff support needs, parking, fire control, access, local concerns and others);
- 4) appointment of designees to work with ASBA while "shopping for housing";
- 5) after ASBA has purchased and renovated the property, accept the property and hold in trust for the purpose of serving needs of Alaska's mentally ill population; and
- 6) contract with community or nonprofit entities for the program/facility management and maintenance.

Responsibilities of ASBA:

- 1) accept the appropriated funds for the purchase of excess housing;
- 2) accept the prioritized shopping list from the Mental Health Board;
- 3) in conjunction with the board's designated representatives, review available properties (foreclosed and other);
- 4) negotiate the purchase of approved housing;
- 5) purchase appropriate property under the provisions of AS 18.55.310;
- 6) establish renovation and rehabilitation costs;
- 6) oversee the renovation and rehabilitation;
- 7) transfer the property to an appropriate state, local or nonprofit entity under the provisions of AS 18.55.320(b).

ACTION NEEDED BY LEGISLATURE

Initial discussion of this pilot program with ASBA officials has not yet indicated a need for any statutory changes. Intent language may be needed. This pilot program structure helps meet the legislative commitment to the mentally ill that was incurred with the trust land settlement.

The Housing and Banking Subcommittee recommends that a survey of all statewide public housing needs be conducted during the interim and that recommendations for expanding the pilot program to address additional public housing shortages be presented to the Sixteenth Legislature when it convenes in 1989.

COST TO STATE

The Mental Health Board has identified FY 89 capital costs of \$5 million for the acquisition and renovation of housing units for the mentally ill. A pilot program based on prioritized needs could cost less than that amount.

For each housing element added in the pilot program, there will be continuing operational and maintenance costs as well as expanded program costs. These on-going maintenance and operating expenses and increased program expenses may not begin accruing until late in FY 89 or in FY 90.



Official Business

Alaska State Legislature

House

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Pouch V
State Capitol
Juneau, Alaska 99811

MEMORANDUM

TO: REPRESENTATIVE BEN GRUSSENDORF, SPEAKER OF THE HOUSE

SENATOR ARLISS STURGULEWSKI, SENATE CO-CHAIR
SENATOR LLOYD JONES, SENATE CO-CHAIR
JOINT COMMITTEE ON ECONOMIC RECOVERY

FROM: REPRESENTATIVE KAY BROWN, ^{Tim}HOUSE CHAIR PRO TEM,
JOINT COMMITTEE ON ECONOMIC RECOVERY

DATE: MARCH 2⁵ 1988

RE: ACTIONS OF THE HOUSE MEMBERS OF THE JOINT COMMITTEE ON
ECONOMIC RECOVERY

The House members of the Joint Committee on Economic Recovery have met and considered the following Senate legislation and offer the following recommendations:

- 1.) SCR 32 "Urging the state's financial institutions to adopt more flexible lending and collection policies."

The members of the House Committee conceptually endorse this resolution and recommend consideration by the standing committees.

- 2.) CS SB 333 "An Act relating to wage, salary, and benefit claims having priority in certain bank liquidations and to certain bank reports required by the Department of Commerce and Economic Development; and providing for an effective date."

The members of the House Committee conceptually endorse this legislation and recommend consideration by the standing committees.

- 3.) SB 471 "An Act establishing a program in the Alaska Industrial Development and Export Authority to guarantee business loans and to refinance debt; and providing for an effective date."

The members of the House Committee recognize there is

interest in this issue and urge the standing committees to consider the concepts in this legislation.

- 4.) CS SB 392 (RULES) "An Act relating to the Alaska Industrial Development and Export Authority; and providing for an effective date."

The members of the House Committee conceptually endorse this legislation and recommend that both Houses consider the additional language included in HB 402, the House companion legislation.

The House Committee also reviewed legislation recommended by its subcommittees and recommends the following for introduction by the House Rules Committee, on behalf of the House Committee members:

- 1.) "An Act relating to notice requirements on the use of a deed of trust; and providing for an effective date."
- 2.) "An Act authorizing the Department of Community and Regional Affairs to modify the terms of its mortgage loans; and providing for an effective date."
- 3.) A resolution "Relating to the management of mobile homes owned by the Alaska Housing Finance Corporation."
- 4.) A resolution "Urging extension of the Federal Home Loan Bank Board's 'Southwest Plan' to Alaska."

This legislation will be submitted to the Senate members of the Joint Committee on Economic Recovery for their consideration.

The Housing and Banking Subcommittee's March 25 supplemental report was also adopted by the House members and will be submitted to all members of the House, and the Senate committee members.

MEMORANDUM

State of Alaska

TO: See Distribution

DATE: March 7, 1988

FILE NO:

TELEPHONE NO:

THRU:

SUBJECT: Comments on Various
Economic Recovery
Proposals

FROM:


J. Anthony Smith
Commissioner
Department of Commerce and
Economic Development

Due to the number of issues being discussed relative to legislative suggestions for possible actions to address our economic troubles, we are providing the following comments on a number of various issues/bills.

1. SB 392 & HB 402 -- AIDEA -- These bills address the issue of bank participation with AIDEA and the current statutory withholding of such participation because of the "2% rule." The Governor's bill, HB 402, also addresses a number of other issues which the Board of AIDEA has identified as limitations on AIDEA's ability to be responsive to the current economic conditions. The Department of Commerce and Economic Development supports both of these bills, and strongly supports passage of the entire package of proposals contained in HB 402.
2. SB 471 -- AIDEA Loan Guarantees and Refinancing -- Both of these issues have been the subject of considerable discussion among the board members of AIDEA. There is not at this time a consensus of opinion on the board on the relative merits or structure of either proposal. All members of the board are most concerned about preserving AIDEA's current bonding ability and ratings. Hence, close scrutiny must be utilized when incorporating any new financial service into AIDEA's powers.

The Department of Commerce and Economic Development is conceptually supportive of both proposals. With respect to the guarantee program, we believe it is most appropriate to fund the reserve for such a program by new appropriation to AIDEA. For consideration, we suggest that a portion of the current unappropriated portfolio of DCED's Division of Investments be appropriated to fund a reserve for the insurance program. The funded reserve will be the only asset offered to insure against losses, e.g., neither AIDEA nor the state

pledge any additional assets or responsibility. There will be losses in the program irrespective of the quality of the underwriting standards, but these losses will appear at least a year or two in the future. We also recommend that there be a 1-to-4 ratio of reserves to program commitment at the start with the Board of AIDEA having the flexibility to adjust reserves to reflect actual experience. This means that there needs to be an appropriation of loans which will generate \$25 million if we are to do \$100 million in guarantees for the program to have the impact desired. We recommend a \$100 million program at the start.

3. HB 422 -- Payment for Purchases by Various Public Entities -- DCED supports this expansion of current law.
4. HB 429 -- Optional Exemption from Property Taxes on Vacated Land -- The Department is supportive of this concept and would suggest elimination of the limitation of its applications by removing the 30-year-old requirement on improvements currently included in the bill. So long as this proposal does not directly affect the revenues of the state, and is optimal for local governments, it should be considered.
5. HB 430 - 431 -- Neighborhood Business Development Programs and Appropriation -- The Department is conceptually supportive of these bills. We understand the difficulties associated with balancing the state's budget and do not represent that this is an essential \$3 million item. Hence, a threshold question is identifying a source of funding.

In addition to HB 429, 430, and 431, it is our perception that an appropriate public sector response to the supply/demand problem is public acquisition of developments for purposes of parks, neighborhood upgrade and to eliminate obsolete or nonconforming properties. Thus, special appropriations to entities such as the Heritage Land Bank and local governments would allow local governments and the state to take advantage of present price levels to improve the quality of life while beneficially impacting the supply/demand problem.

6. HB 432 -- AHFC Trades -- We are conceptually supportive of this bill; although by this time the Labor and Commerce Committee is fully cognizant of the limitations on AHFC's ability to unilaterally achieve the ends sought in this bill. The approach currently undertaken by the Labor and Commerce Committee seems to reasonably address this issue.

There are other changes in AHFC which would allow the agency to manage its revenues to be part of the solution rather than part of the problem. For example, AS 18.56.098 needs to be altered so that the interest rate formula is more flexible. Some recommended changes are:

Financial Provisions Changes - Currently, many AHFC financial provisions are "hard-wired." For instance, the interest rate formula as specified in AS 18.56.098 permits no flexibility in interest rate calculation, even though at times adding some flexibility could significantly help the market at little or no additional cost to AHFC.

One way to add some flexibility would be to develop a mechanism whereby the maximum amount of assistance that AHFC can provide for any individual loan is set, but the specific way in which it was applied would be flexible. Another possible change would be to permit more flexibility in the amount of assistance if the whole market was in bad shape. For instance, if the delinquency rate in a particular market exceeded, say, 10%. Additional assistance would have to be targeted at certain groups to achieve specified outcomes, or very quickly AHFC could use up its available resources.

For instance, assume AHFC wanted to target the condo market, either for trade ups to mid-high range condos, or to encourage the purchase of some of the many low end condos. Many of the current condo loans were based on a loan amount of \$75-80,000, with an interest rate of 10-12%. Consider the following figures:

<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Payment</u>
\$ 80,000	10%	\$702
125,000	6%	749
50,000	6%	300

In one case, a borrower can buy much more "house" for approximately the same payment, whereas in the other case, a borrower could buy a \$50,000 condo (which was likely originally an \$80,000 condo) for a payment of less than half of the original. Properly targeted this could help stabilize price and reduce the inventory of foreclosed properties. It is our belief that the "equity underwater" problem could be stabilized in targeted projects by offering financing opportunities for full prices sales.

Other changes would deal with AHFC's role in disposing of its real estate portfolio. For instance, if current plans are successful, AHFC could well own entire condo projects. These projects could eventually be sold as condos, but they might also be sold as apartment buildings. If AHFC were able to manage the building (via a contract) and perhaps provide financing to the ultimate buyer, the total loss might be much less. Possibly other types of nonowner-occupied financings to help in disposal of foreclosed properties should be added.

More flexibility would be most helpful in workout situations. HOAP will be sufficient for a great number of troubled borrowers, others will need far more assistance. AHFC, in conjunction with the applicable insurance companies, should be able to provide assistance to these borrowers in a variety of ways -- much lower interest rate, deferral of principal payments, etc. To hold down the ultimate cost of the program and to provide more assistance than is needed, AHFC should be able to design various approaches to recapturing some of this assistance if the property ever appreciates in value beyond its original loan amount.

We have discussed with various individuals the thought of establishing a subsidiary corporation of AHFC which would be granted broader powers to address critical issues in Alaska's current housing market. Such a subsidiary may be charged with acquisitions and/or eminent domain powers to achieve public purposes. Further, it could facilitate the consolidation of condominium owners to allow for the conversion of other condominium projects to other uses, including apartment complexes and public sector housing. We believe all such ideas should be explored in detail and are appropriate items to try to adopt this legislative session.

Lastly, AHFC should be given broader investment powers so that it could participate in acquisitions such as Hollywood Vista and Willow Park when it makes economic sense for the agency.

7. HB 433 -- Moratoriums on Judicial and Nonjudicial Foreclosures -- This is intended as a parochial attempt to preserve for Alaskans a greater opportunity to preserve their residence at the expense of lenders, a good portion of whom are nonresident. Similiar legislation was adopted in two mid-western states as responses to the farm crisis. Their experience should be studied in detail before passage of this legislation.

While the approach has appeal on its surface, it appears to also generate considerable technical questions, especially with respect to bonded indebtedness of various Alaska debt issuers. Further, as probably the largest financier of Alaska real estate, various state entities, including the retirement funds, may be injured by this approach. We are also concerned about the potential ramifications if "outside" lenders respond to passage of this legislation by further restricting access of Alaskans to secondary money markets.

We are also confused by the language which suggests that a non-judicial foreclosure entitles the mortgagor to a right of redemption. This appears to be antithetical to the main purpose of nonjudicial foreclosures.

March 7, 1988

8. SCR xx -- Loan Approval Withheld for New Construction -- The Department has been asked to comment on a draft of this resolution. We do not agree with this approach. We do agree that financing agencies must be sensitive to the oversupply of several categories of real estate and should coordinate their financing policies to assure that they do not inadvertently exacerbate a serious problem. We also believe that the inventory of some classes of property may require additional construction to meet a growing demand in the near term. It would be much more appropriate, from our perspective, to allow market forces and coordinated state policy development, such as through the Alaska Housing Marketing Council, to address the concerns expressed in this draft resolution. For example, there are market segments which would be severely paralyzed by a generalized moratorium. It is more appropriate to add private sector representatives to the Housing Market Council.

We feel any response of this nature should be in the manner in which municipalities issue building permits and carry out inspections. As Chairman of AHFC, it seems indisputable that many of AHFC's problem projects were not inspected.

Other

Bridge Bank and Hallwood Trust - we conceptually support these, as well as other initiatives to have assets held by the FDIC or banks managed to minimize the adverse impact on the economy. There needs to be consideration given to both the management difficulties and the carrying costs which will be incurred. In addition, we need to recognize that any state guarantee or stand-by letter of credit could most likely be used.

There are three possible options at this time. Any one, or a combination of these, may work. They are the Anchorage Economic Development Corp., the Sealaska REIT group, and the Hallwood Trust. Should the state choose to participate in one of these structures, it should be prepared to contribute cash as well as properties. Cash flows to fund such an entity will not likely, in the short run, be sufficient to meet expenses. Hence, initial capitalization will be important to help assure success -- understanding that success includes the avoidance of increases of property liquidations.

Distribution

Garrey Peska, Chief of Staff, Office of the Governor
Bob Evans, Legislative Liaison, Office of the Governor
The Honorable Jan Faiks
The Honorable Max Gruenberg
The Honorable David Donley
Gregg Erickson, Office of Management & Budget,

JAS/sh5144M
3488c

Alaska

HOUSING



FINANCE CORPORATION

MEMO

TO: AHFC Board of Directors

FROM: Ronald D. Lehr *RL*
Executive Director

DATE: March 8, 1988

RE: Attached Memo from Representative Brown
to Commissioner Malone

Commissioner Malone has requested that I comment on the attached memo from Representative Brown regarding funds for demolition costs for Willow Park and Hollywood Vista. As Representative Brown notes in her cover letter, a total of \$4.75 million additional is needed, and she believes these funds should come from AHFC reserves.

It seems there are two separate issues raised by this letter. First, is the demolition of these projects an issue that should involve AHFC (and its resources)? Second, assuming AHFC will be financially involved in assisting this demolition, what is the most appropriate form of involvement?

The first question is largely a policy decision. However, it is perhaps appropriate to note that even though both these projects are multifamily rental projects, and hence not normally the province of AHFC, any action that involves 500 units of housing is likely to have some effect on the housing market in general.

The second question raises certain sensitive issues regarding legislative appropriation of AHFC resources. As has been discussed, there is a great deal of concern in the financial community regarding just how secure AHFC's assets are. Any use of AHFC resources for other than standard programs is bound to raise the question again, and we should be prepared to deal with it.

With regard to the specific subject of \$4.75 million for the two projects, clearly AHFC has adequate resources to actually provide funding. Furthermore, an appropriation to fund these projects would appear to be simple. However, it would certainly raise the questions cited above, as well as legal questions about the legislature's ability to appropriate AHFC funds. Furthermore, it would seem to

Memo to AHFC Board of Directors
Re: Willow Park/Hollywood Vista
March 8, 1988
Page 2

encourage additional appropriations of AHFC resources for other real-estate related projects.

I believe that the Board should at least consider another approach. Willow Park and Hollywood Vista are merely representatives of a much bigger problem, that being a large excess supply of housing, particularly in the lower end of the quality range. It may be appropriate to devote a significant amount of AHFC resources toward dealing with this overall problem, rather than simply funding requests for these two projects.

Specifically, I think the Board should consider a program whereby, say, \$20 million of AHFC resources are to be used as a "stabilization and upgrade fund." This fund could be used for grants to other state agencies or local governments. The purpose of the fund would be to upgrade the overall supply and availability of adequate housing. In operation the fund would be used for two purposes. First, it could make grants to destroy substandard housing. Second, it could be used as grants to allow applicable governmental bodies to purchase AHFC-owned property that would be used for qualified purposes. Examples of qualified purposes could be low income housing, student housing, senior citizen housing, etc. This would include, for instance, the sale of mobile homes to rural areas to make more housing available. I believe that all grants should be matching grants, since there is a natural screening process done when an applicant needs to put some of their own resources into a project. Furthermore, I believe it would be best to limit the eligible recipients to state and local governments. This will limit the number of applications which AHFC will have to contend with and avoid AHFC having to establish a significant grants bureaucracy.

The costs of this program are clearly greater than simply an appropriation of \$4.75 million. However, I believe the concept does have certain advantages that may justify the additional costs. First, it is a more broad based approach, so should provide more overall help. Second, I believe that such an approach could be more easily explained to the financial community. It should not be surprising to the financial community that AHFC would be engaging in programs that not only help individual housing needs, but also help contribute to improving the overall situation in the housing market in a planned and coordinated fashion.

su

Attachment

Kay Brown

**Alaska State Legislature
House of Representatives**

RECEIVED
ALASKA DEPARTMENT OF REVENUE

FEB 25 1988

OFFICE OF THE COMMISSIONER

*Rev
FVI*

TO: Commissioner Hugh Malone
Department of Revenue

FROM: Representative Kay Brown *Kay*

RE: Willow Park and Hollywood Vista Apartments

DATE: February 25, 1988

As we discussed yesterday, please find attached background information on the Willow Park and Hollywood Vista demolition costs. A total state appropriation of \$4.75 million is needed, and I believe it would be appropriate to fund this work from AHFC reserves.

If you need further information or have questions on this material, please contact me or Katy McHugh of my office.

P. O. Box 20-2651
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During Session:
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WILLOW PARK AND HOLLYWOOD VISTA SITE DEMOLITION AND RESIDENT RELOCATION PLANS

WILLOW PARK

The \$13.8 million proposal is a comprehensive plan to remove Willow Park, a 35-year old, 150-unit low rent multifamily housing project, from the Anchorage rental inventory. The funding for this project would be obtained from three sources: federal, state and municipal government.

\$2.6 million state funds (asbestos abatement)
\$2.2 million municipal funds (demolition and site restoration costs)
\$9 million federal funds (relocation and administration costs)

= \$13.8 million

Municipal officials have indicated that the municipality will make a commitment on its \$2.2 million share in the next few days. The Alaska State Building Authority cannot obtain the \$9 million of federal funds until both the state and municipality have committed to funding their portions of the project.

HOLLYWOOD VISTA APARTMENTS

The Hollywood Vista Apartment Complex consists of 347 units of which 51 are currently occupied. The municipality of Anchorage purchased the project from the United States Department of Housing and Urban Development for the sum of \$1.00 in February 1988. This sale is contingent on the Municipality's agreement to raze the complex within two years of title acquisition. The Municipality has proposed demolition of this property due to its substandard condition and the current abundance of multi-family rental units available in Anchorage.

The proposed costs of the demolition and relocation are approximately \$2.15 million.

\$650,000 (asbestos abatement)
\$1.5 million (demolition, site restoration and relocation)

= \$2.15 million

The Alaska State Building Authority has agreed to issue vouchers or certificates (through HUD) for Hollywood Vista residents that qualify for public housing assistance. (30 to 40 tenants out of the 61 remaining.)

A total appropriation of \$4,750,000 in state funds is sought for the purpose of demolition of Willow Park and Hollywood Vista Apartments in Anchorage. This decision is based on several determining factors including:

- Existing buildings are old and in need of extensive renovation to remedy safety code violations. Renovation would cost more than structures are worth.
- Removing substandard units and replacing them with available public and privately owned housing units will help to stabilize the current housing market.
- Relocation would provide improved quality of life and upgraded housing for Willow Park and Hollywood Vista residents.
- The complexes are functionally obsolete and no longer meet the needs of the community.

Prepared by:
Rep. Kay Brown
2/25/88

Work Session

Office Room Discussion

10

10

Alaska HOUSING FINANCE CORPORATION



MEMO

TO: AHFC Board of Directors

FROM: Ronald D. Lehr *RL*
Executive Director

DATE: March 9, 1988

RE: Mobile Home Marketing Program

Approximately a year ago the Board and staff undertook a number of actions involving the Corporation's mobile home loan program. A summary of these actions, and progress to date is provided in the attached memo (Attachment C).

As is clear from that memo, a number of things have been accomplished in the past year. However, given the ever increasing number of AHFC owned mobile homes, much more needs to be done. The intent of this memo is twofold: first, to provide a summary of current marketing plans; and second, to solicit input from the Board on some proposed efforts.

Currently the Corporation owns approximately 1200 mobile homes statewide, with the bulk of these (90%) in Anchorage. We have about 1050 in various mobile home parks, and this memo will focus on those units. Attachment A provides a breakdown of these Corporation-owned homes.

The major change to date in the Corporation's marketing effort took place when we went to our current system which utilizes three property managers (Anchorage/Fairbanks/Juneau) and incorporates open listing. This system has provided improved inventory information, more control over the quality and condition of units offered for sale, and a more energetic and coordinated sales effort. All this is reflected in Attachment B, a graph which shows monthly mobile home unit sales during the past two years. We adopted the new marketing system in the summer of 1987, and its impact has been dramatic (February 1987 sales - 4; February 1988 sales - 33).

Still, the 1050 units currently owned represent well over two years worth of sales at present rates, even if no new units were added to

Memo to AHFC Board of Directors
Re: Mobile Home Marketing Program
March 9, 1988
Page 2

our inventory, which is unlikely. Furthermore, we have had a preliminary study done by the Institute of Social and Economic Research regarding future trends in the demand for mobile homes. Their projections indicate that it is unlikely that we will experience any significant increase in demand for mobile homes in the next few years.

Given these factors, staff believes that additional changes are necessary. The areas in which changes are felt necessary are detailed below. We believe it is important to clarify program objectives and tailor our approach to achieve these ends recognizing that we have three (sometimes competing) goals: 1) to obtain the maximum return from units; 2) to minimize the carrying costs on units prior to their sale; and 3) to cause as little disruption as possible to the remainder of the marketplace.

This latter goal is particularly important, both because of our status as a state owned corporation and because it is clearly in everyone's best interests to refrain from actions that could cause our current loans (over 3,000) to become repossessions.

We believe that our future marketing plans should be comprised of a number of efforts. The first consideration relates to the number of units we need to sell. Many of the repossessed units are in poor shape. This has become more clear with the additional information available under our new property management system. As a result, we have sold for parts or simply disposed of a number of units in the past few months. However, we believe that a specific Board policy would be appropriate with regard to disposals since other important factors are also involved.

Unit Disposals

Currently, virtually all involved agree there is an excess supply of housing, particularly in the least expensive segments of the Anchorage market. A number of suggestions have been made to demolish certain low quality housing units, such as the Willow Park project. If demolition of excess low end units becomes an accepted policy, destruction of inexpensive mobile homes is clearly an efficient approach. In any case, trying to market very low value units probably does not make economic sense because of the transaction and carrying costs involved, and because these units often times may not satisfy the Corporation's mandate regarding "safe and sanitary housing".

Therefore, we believe it is appropriate to establish a policy under which repossessed units below a certain value would automatically be either destroyed or sold for parts. If the Board agrees, staff will

Memo to AHFC Board of Directors
Re: Mobile Home Marketing Program
March 9, 1988
Page 3

prepare a series of alternatives. First the basis for valuation, either as-is value or net repaired value, must be determined. Second, the threshold value itself must be established. For instance, a reasonable first approximation would be to set the threshold as-is value at \$5,000. This value can be contrasted against an average annual carrying cost of approximately \$3700, plus a 10% sales cost (\$500 in this case), plus \$300 in closing cost, or about \$4500 if such a unit sold in one year. Hence, were the unit to be held over one year, AHFC would begin actually losing money on such a unit when compared to the option of destroying it.

Open Listing Sales Program

Second, we believe that our current sales efforts and procedures should continue. These efforts have been moderately successful, resulting in sales of about 32 units per month. We may want to enhance these efforts with certain sales agent incentives such as provided by MGIC in their recent condo sales program. Given the potential sensitivity toward AHFC giving free trips for sales, though, we will check with the Board prior to initiating any major programs.

Targeted Park Marketing Program

The third group of recommendations entails the involvement of the mobile home park owners. Clearly, it is in their best interest to have an owner occupied unit (paying space rent) in their parks. The intent of this group of suggestions is to use that incentive to aid the Corporation. Option one involves entering into an agreement with the park owners whereby they select a few units (5 - 10) in their park for this program. The park owner would receive a percentage of the price (say 5%) when the unit sells, and the sales agent the standard 10%. AHFC would pay no space rent on those units. Option two involves entering into an agreement with park owners for a fixed number of selected units (say 5 - 10) for a set time period (say one year). The park owners would have the exclusive right to sell the units. We would make the units available to the park owners at list minus one year's holding cost. The park owners would keep any sales amount above this as profit, and would be responsible for any sales commission. AHFC would pay no space rent. Option three would involve mini-bulk sales. Although these sales could not be restricted to park owners, they clearly would be a target group and likely would be the most interested in the units. In this case, AHFC would simply have small groups of units (10-20) that would be sold to the highest cash bidder. No restrictions would be placed upon where these units could be located. Restrictions could be imposed regarding whether these could be resold or had to be rented, or whether AHFC would provide financing to eventual owners if they were resold.

Memo to AHFC Board of Directors
Re: Mobile Home Marketing Program
March 9, 1988
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Creative Marketing Approaches

This group of ideas involves increasing the sales visibility of our units. This could be done in a variety of ways, including more extensive use of our sales/storage lot in Anchorage. The other main idea would involve establishing one or more sales lots for drive-bys. These lots (or this lot) would be in prominent locations, and would have model units on display and would be covered by our sales agents. We could contract for these lots by paying a per unit fee per month, or perhaps by paying no monthly charge but rather allowing for a sales commission to the lot owner.

Additional ideas along the same lines involve a more active marketing effort to attract an expanded group of buyers. For instance, we need to encourage the use of mobile homes as second homes, lake cabins, and similar uses. We also need to target possible institutional/business buyers, such as the military, mining, and timber companies both within and outside the State.

Carrying Cost Control

Next, the Corporation needs to make continued efforts to decrease carrying costs while units are being marketed. We have tried to get park owners to lower their space rent for vacant AHFC owned units, with limited success. The Corporation also contracted for a sales/storage lot in Anchorage to decrease space rents. There has been considerable opposition from park owners to the Corporation moving units to the sales/storage lot. However, unless park owners lower their space rents (significantly in many cases) staff strongly believes that units should promptly be moved to the sales/storage lot. If we are not able to get reduced rents from park owners and/or sell existing and future inventory more quickly, consideration will need to be given to contracting for another such lot.

Multi-unit Offerings

All of the above are predominantly variations on a theme, that being to sell units individually or in small groups within a geographic area while at the same time attempting to lower carrying costs while these sales are taking place. Although we believe these are all valid efforts, it must be admitted that it is rather unlikely that these efforts will be adequate to deal with our excess inventory in a reasonable length of time.

Hence, our final staff recommendation is to do some bulk sales, with the specific requirement that the units so sold cannot be used for residential purposes in the Anchorage, Fairbanks, or Juneau areas.

Memo to AHFC Board of Directors
Re: Mobile Home Marketing Program
March 9, 1988
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The advantages of an out-of-area bulk sale are obvious - a large number of units are permanently removed from the market, decreasing both the excess supply and the downward price pressure on remaining units. Of course, carrying costs for these units are also ended. The disadvantages are also apparent. A bulk sale is likely to bring in a much lower price for a given unit than a more standard sale would bring. There is likely to be considerable opposition from park owners, since these out-of-area bulk sales will result in fewer units in their parks, and hence less revenue.

Given the large inventory of units, and the length of time the Corporation is likely to have a large inventory using conventional sales techniques, we believe the advantages of a bulk sale outweigh the disadvantages. As such, staff would like Board approval to initiate a moderately sized (50 - 100 units) out-of-area bulk sale. As we learn from this experience, we can then make adjustments for future such sales, or perhaps forego further sales if our experience is negative. We also need to be prepared to respond to bulk offers from potential buyers. For instance, how should the Corporation respond to an offer to, say, buy all of our "double-wides", given that any such offer will be at prices well below list. Should we turn the offer back around as a bulk sale bid? Should we provide any financing on bulk sales (staff recommends against it)? At this time, staff would like Board approval to continue with the development of a bulk sale, with the understanding that subsequent Board approval would be required before any sale was actually conducted.

In closing, we would like to make two final observations. First, some of the AHFC owned mobile homes have insurance on them, and actions involving these units may require approval from the relevant company. Second, although we believe the efforts described above represent a significant sales program, it should always be kept in mind that the best actions are those that prevent repossession in the first place, e.g., the Home Owners Assistance Program, Simplified Refinance, other workouts, and so forth.

su

Attachments: Attachment A - Mobile Home Inventory Statewide
Attachment B - Graph of Mobile Home Sales
Attachment C - Memo to AHFC Board of Directors
with attachment (Resolution 87-3)
Attachment D - Mobile Home Parks

**Mobile Home Inventory Statewide
Under Management
as of 2/29/88**

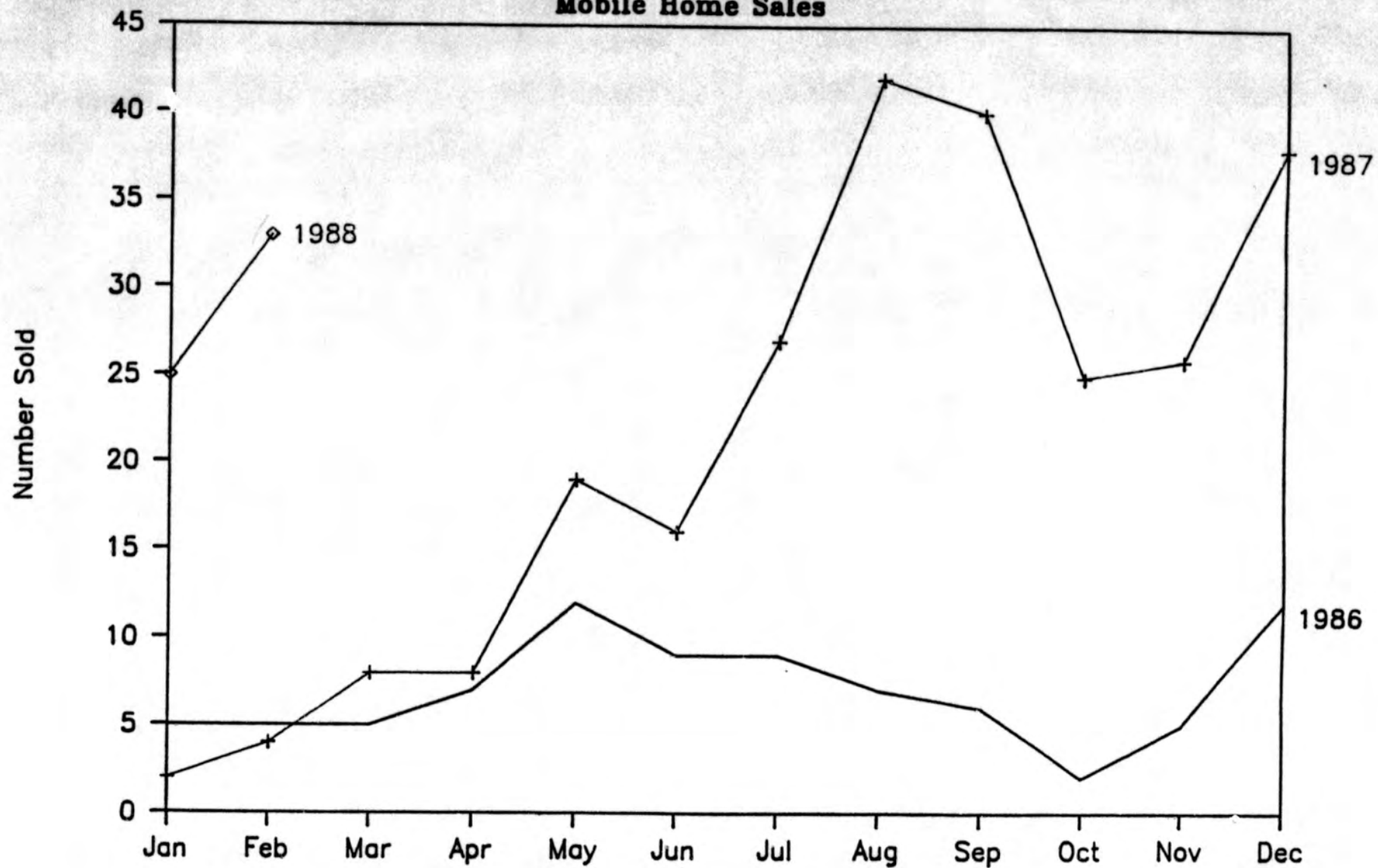
Type/Age	Anchorage/ Mat-Valley/Kenai	Fairbanks North Pole	Juneau	Total
Singlewide 0 - 1972	183	13	11	207
Singlewide 1973-1978	422	53	13	488
Singlewide 1979-new	200	49	9	258
Doublewide	97	2	2	101
TOTAL	902	117	35	1054

Average Sales Price

Type/Age	Anchorage/ Mat-Valley/Kenai	Fairbanks North Pole	Juneau	Statewide Average
Singlewide 0 - 1972	5,000	4,000	4,000	4,300
Singlewide 1973-1978	10,000	7,800	7,900	8,500
Singlewide 1979-new	20,000	18,000	12,200	16,700
Doublewide	25,000	28,700	16,000	23,200

ALASKA HOUSING FINANCE CORPORATION

Mobile Home Sales



Alaska HOUSING FINANCE CORPORATION



MEMO

TO: AHFC Board of Directors

FROM: Ronald D. Lehr *RL*
Executive Director

DATE: March 9, 1988

RE: Progress to date on AHFC's Repossessed Mobile Home Program and Mobile Homes

Attached is a copy of Board Resolution No. 87-3 which was approved May 4, 1987, giving direction to AHFC regarding AHFC's mobile home program and the marketing and sale of repossessed mobile homes.

What follows are short explanations of what AHFC has done in response to those directions:

1. "AHFC shall conduct a survey of delinquent mobile home loans to determine what steps the Corporation can take to reduce those delinquencies and foreclosures."

AHFC is working on this survey with the Institute of Social and Economic Research. Although our survey has not yet been completed, many steps have been taken to reduce delinquencies and foreclosures. A major effort is the Home Owners' Assistance Program, which was recently instituted to help distressed borrowers make their payments. Mobile home borrowers are eligible for this program.

Even prior to Home Owners' Assistance Program (HOAP), a number of workout and forbearance programs have been conducted. At least partially because of these efforts, delinquencies of the mobile home portfolio have declined from a high of 25.39% in June '87 to 20.65% in January '88.

2. "AHFC shall implement an aggressive and inclusive sales strategy for AHFC mobile homes owned. That strategy shall include:
 - a. that the mobile home marketing activities will be concentrated within the Special Credits Department;

Memo to AHFC Board of Directors
Re: Mobile Home Program
March 9, 1988
Page 2

- b. that AHFC will go to a select broker system for property management and sale of AHFC mobile home REOs;
- c. that AHFC will contract with a single servicing agent to service all sales of AHFC mobile home REOs that have AHFC financing; and
- d. that AHFC will offer 95%, 10-year financing for AHFC mobile home REOs.

AHFC has made great strides in implementing this directive. A mobile home marketing specialist position was created within the Special Credits Department to coordinate all mobile home activities within the Corporation. To date, four sales seminars have been held in Anchorage, Fairbanks, and Juneau, to educate real estate agents about AHFC's marketing program. Sixty-five agents are now approved to sell AHFC mobile homes. In calendar year 1987, AHFC sold 256 units.

AHFC recently added another position to work specifically on sales strategy, particularly bulk sales.

On June 6, AHFC issued a Request for Proposal for three contractors, one each in Anchorage, Juneau and Fairbanks, to handle mobile home inventory and management. The selection has since been completed and contracts have been signed with Summit Logistics in Fairbanks, Coldwell Banker/Joe Shaw Realty in Juneau, and Western Enterprises in Anchorage.

- 3. "AHFC shall negotiate with park owners to obtain significantly lower space rents for vacant AHFC mobile home REOs located in those parks, and, if unsuccessful, AHFC shall obtain off-site sales and storage lots."

As suggested in this directive, AHFC contacted park owners. The results of that contact are in Attachment D. Based upon these figures, AHFC believed it was cost effective to obtain sales/storage lots. On August 24, AHFC issued an Invitation to Bid and selected a sales/storage lot in Anchorage in November. The space rent in this lot is over \$100/month less than in the average space rent from all other parks. AHFC once again contacted park owners to see if they would be willing to lower their rent to match the cost of our sales/storage lot. The results to date are also summarized in Attachment D. I should note that although some of the park owners have characterized the sales/storage lot as a "boneyard" from which we will never sell a mobile home, we do not agree. Others knowledgeable in the industry believe we will have a better sales performance off the lot since it makes it easier for a buyer to "comparison shop."

Memo to AHFC Board of Directors
Re: Mobile Home Program
March 9, 1988
Page 3

Furthermore, many of our recent sales have been of units that have been subsequently moved off their current lot, so again, we do not believe that moving these units to a storage lot will cripple our sales efforts.

At this point I would like to digress and state AHFC is not arbitrarily selecting mobile homes to move. AHFC staff have developed a matrix to determine which homes should be moved. The matrix takes into account such factors as the number of units, cost, location, repairs necessary, ability to move, among others.

4. "AHFC will solicit offers for bulk purchases of AHFC mobile home REOs. Before accepting offers for bulk purchases of AHFC mobile home REOs, AHFC must ascertain that these offers are:
 - a. financially beneficial to AHFC, and
 - b. that they take into consideration the need to stabilize the market by reducing excess supply."

Western Enterprises has been pursuing this, however, most of the offers have not been realistic. With a new staff person on board, more emphasis will be devoted to this subject in the near future.

5. "AHFC shall select a broker to manage the sales and storage lots described in number 3."

This is accomplished through use of the master agents.

6. "AHFC shall offer, on a trial basis, 95%, 10-year loans on all mobile home financing, in addition to AHFC's standard financing."

Same as 2(d), this has been accomplished.

7. "The AHFC Board of Directors will consider adopting a policy that mobile home loan amounts may not exceed the greater of the outstanding loan balance currently financed by AHFC, or the N.A.D.A. "blue book" value adjusted for transportation costs for the mobile homes. AHFC staff is to prepare a recommendation for the Board's consideration at its next meeting."

This was accomplished under regulation changes listed in 2(d).

8. "For mobile homes brought into the state after April 1, 1987, the minimum downpayment for an AHFC loan will be 10% and the maximum loan term will be 12 years."

Memo to AHFC Board of Directors
Re: Mobile Home Program
March 9, 1983
Page 4

This was accomplished under regulation changes cited in 2(d).

9. "Effective May 1, 1987, AHFC will no longer be responsible for back space rent on units not owned by AHFC."
10. "Space rents accumulated prior to May 1, 1987, on units in the process of being repossessed will be reimbursed."
11. "As of June 1, 1987, AHFC will pay space rent due on AHFC's mobile home REOs directly to park owners."

Nine, 10 and 11 were implemented immediately by staff.

12. "If the AHFC Board of Directors considers adopting a program for rental of AHFC mobile home REOs managed by park owners, AHFC will immediately hold public hearings for that purpose."

The Board has not give any further direction on the possible rental of AHFC mobile homes.

su

Attachment

RESOLUTION NUMBER 87-3

RESOLUTION OF THE ALASKA HOUSING FINANCE
CORPORATION CONCERNING THE CORPORATION'S
REAL ESTATE OWNED MOBILE HOMES

- 1) AHFC shall conduct a survey of delinquent mobile home loans to determine what steps the Corporation can take to reduce those delinquencies and foreclosures.
- 2) AHFC shall implement an aggressive and inclusive sales strategy for AHFC mobile homes owned. That strategy shall include:
 - a. that the mobile home marketing activities will be concentrated within the Special Credits Department;
 - b. that AHFC will go to a select broker system for property management and sale of AHFC mobile home REOs;
 - c. that AHFC will contract with a single servicing agent to service all sales of AHFC mobile home REOs that have AHFC financing; and
 - d. that AHFC will offer 95%, 10-year financing for AHFC mobile home REOs.
- 3) AHFC shall negotiate with park owners to obtain significantly lower space rents for vacant AHFC mobile home REOs located in those parks, and, if unsuccessful, AHFC shall obtain off-site sales and storage lots.
- 4) AHFC will solicit offers for bulk purchases of AHFC mobile home REOs. Before accepting offers for bulk purchases of AHFC mobile home REOs, AHFC must ascertain that these offers are:
 - a. financially beneficial to AHFC; and
 - b. that they take into consideration the need to stabilize the market by reducing excess supply.
- 5) AHFC shall select a broker to manage the sales and storage lots described in number 3.
- 6) AHFC shall offer, on a trial basis, 95%, 10-year loans for all mobile home financing, in addition to AHFC's standard financing.

Board of Directors
Resolution Number 87-3
Page Two

- 7) The AHFC Board of Directors will consider adopting a policy that mobile home loan amounts may not exceed the greater of the outstanding loan balance currently financed by AHFC, or the N.A.D.A. "blue book" value adjusted for transportation costs for the mobile homes. AHFC staff is to prepare a recommendation for the Board's consideration at its next meeting.
- 8) For mobile homes brought into the state after April 1, 1987, the minimum down payment for an AHFC loan will be 10% and the maximum loan term will be 12 years.
- 9) Effective May 1, 1987, AHFC will no longer be responsible for back space rent on units not owned by AHFC.
- 10) Space rents accumulated prior to May 1, 1987, on units in the process of being repossessed will be reimbursed.
- 11) As of June 1, 1987, AHFC will pay space rent due on AHFC's mobile home REO's directly to park owners.
- 12) If the AHFC Board of Directors considers adopting a program for rental of AHFC mobile home REOs managed by park owners, AHFC will immediately hold public hearings for that purpose.

This Resolution shall take effect immediately.

May 4, 1987

There are approximately 130 mobile home parks in Anchorage. Alaska Housing Finance Corporation has received 18 responses, with 11 reductions regarding space rent. Only 6 parks in Anchorage are offering \$125 or less in space rent to AHFC.

Park	Original Space Rent	Proposed Rent Request Letter 7/87	"Meet or Beat" Letter of 1/88
Alaskan Village	\$285	\$130	\$105
Four Seasons	285	130	105
Dimond Estates	225	218	Responded Requesting Meeting
Glencaren Court	230	200	Effective May 1,88 Verbal - \$170
Glen Muldoon	250	Reduced 200	-
Malaspina	265	Responded No reduction offered	-
Glacier Terrace	265	Responded No reduction offered	-
Manoogs Isle	250	Reduced 125	-
Mayflower	225-250	Responded No reduction offered	Responded No reduction indicated
Penland Park	260	Responded No reduction offered	180
Plaza 36	265	Responded No reduction offered	-
Rangeview	215	110	-
Riviera Terrace	250	Withdrawn 150	-
Southwood Manor	290	Reduced 228	-
Idle Wheels	280	-	Responded No reduction offered
Sunset M/H Park	230	Reduced 125	-
Brookside Manor	240	Reduced 190	-
Trails End	225	Reduced 125	-

Schools get funds for much-needed repairs

HARRY CAMPBELL

News reporter

The people at Clark Junior School won't have to risk being skewered when they sit on the gymnasium's wooden bleachers next year. And Williwaw Elementary, just down Bragaw Street from Clark, will finally get some new ceiling tiles and a coat of paint.

The Anchorage School District has the money to spend this summer, at \$10.4 million granted by the Alaska Legislature in the so-called "bill" passed earlier this session and signed by Gov. Steve Pritz.

The district is going to use the money to spruce up and fix up at most schools, and create between 250 and 300 jobs, according to Louis Overstreet, executive director of capital projects.

Besides replacing Clark's bleachers, which are 27 years old and splintering badly, many other projects are planned, like interior and exterior painting, landscaping, replacing floor and ceiling tiles and carpeting, upgrading ventilation systems and resurfacing parking lots and hockey rinks at schools from Government Hill to O'Malley.

Overall, the district has plans for about 300 projects this summer

at 62 locations. To oversee that many projects, the district will hire five temporary project managers for about six months to keep the scattered work coordinated, Overstreet said.

"It's labor intensive, and that's what the legislature said it wanted," Overstreet said. "But it's going to be a logistical nightmare. At one school, we could have electricians, sheetrockers and painters all working on different projects and we've got to keep them from getting in each other's way."

"It works out to spending about \$165,000 every working day. That's going to be tough."

The legislature intended for the money to be spent this summer. In addition, the district faces its own constraint of finishing projects before the three-month summer vacation is over and students return to classes. Some construction projects from last summer, such as the refurbishing at Service High's library, didn't make the deadline, and students and construction crews had to work around each other for a while.

The district must also finish surveying 77 buildings for asbestos and file a report with the federal government and the governor's office by October.

AHFC chief encourages holding properties

HARRY PERSILY

Associated Press

JUNEAU — The executive director of Alaska Housing Finance Corp. has urged with federal mortgage insurers the possibility of holding some foreclosed property off the market until prices recover.

Such a proposal to balance supply and demand — and avoid further erosion of housing prices — has been suggested by the legislative economic recovery committee.

For legislative approval or funding would be required for AHFC to take foreclosed property off the market, said Ron Lehr, executive director of the state loan agency.

An agreement from other investors, primarily mortgage insurers, would be needed, Lehr said.

"You need to be able to convince investment partners that it will have the effect you say it will have," he said.

"I need their cooperation ... we can't do it all by ourselves," Lehr said.

AHFC is working with the Federal

"I need their cooperation ... we can't do it all by ourselves."

— AHFC director Ron Lehr

Housing Administration, Veterans Administration, Federal National Mortgage Association and others to develop a plan for the agencies to manage supply and demand by holding back some of their properties.

AHFC holds 3,800 housing units taken over in foreclosure actions, Lehr said. About one-third are mobile homes, one-third condominiums and one-third single-family and duplex units.

The agency foreclosed at the rate of about 300 units a month in 1987.

Despite a generally poor economy, some of the homes are selling, Lehr said. "Our sales have gone up considerably in the last year."

AHFC sold 20 foreclosed homes in January 1987 and 120 units in December 1987.

"The prices definitely have firmed" for single-family homes, Lehr said. Condos and mobile homes are the biggest problem, he said.

In a draft report, the House subcommittee on housing and banking of the Joint Committee on Economic Recovery has recommended AHFC and other mortgage holders consider demolishing some substandard, unsafe and unsalable housing units.

The subcommittee draft report says demolishing some units would help eliminate low-end units from the market, stabilizing prices for homes left on the market.

"There's probably some housing out there that's probably best to tear down," Lehr said.

But, he said, if owners believe property may be needed in two or three years, it's better to take the property off the market and then put it back on sale in the future.

Permanent fund applications

INTERNATIONAL VENTURES
foreign investments for the perm

The Associated Press

JUNEAU — Alaskans will receive permanent fund dividend applications urging people to make sure they have enough numbers to avoid having their applications rejected from the oil money payments.

State revenue officials said applications will be distributed in June. Applications also will be a condition for offices after April 11.

Generally, people who file early receive their dividend issued beginning in October.

The IRS requires 20 percent of the dividend to be withheld for social security number. The \$813.

Applicants who provide their social security number receive the full dividend, and



ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY

1577 "C" STREET • SUITE 304 • ANCHORAGE, ALASKA 99501-5177 • (907) 274-1651

March 10, 1988

Honorable Kay Brown
State of Alaska
House of Representatives
P.O. Box V
Juneau, Alaska 99811

Dear Representative Brown:

Below is the additional information I promised to forward to you which explains the Small Business Administration (SBA) charts sent to you on March 7, 1988. (Those same charts are attached for your convenience.)

First of all, the chart, MARS 526, illustrates SBA's loan performance measurement system. This chart accounts not only for SBA loan guarantees, but also for SBA direct loans. Thus, on the chart, there is no distinction made between the direct loans or the guarantees which SBA has made over the last few years. However, you should be aware that SBA direct loans are minimal. The majority of business SBA sees is for loan guarantees.

The terms used in MARS 526 mean:

- | | |
|-----------------------|---|
| Cases Disbursed - | means the number of direct and guaranteed loans made in that year by SBA. |
| Failures (#'s) - | means the number of direct or guaranteed loans originated in that year which have failed. E.G. of 227 direct or guaranteed loans originated in 1986, 11 of those loans failed, not necessarily in 1986. |
| Percentage (by #'s) - | equals failures divided by cases disbursed, within the State of Alaska. |
| Region 10 Average - | refers to the SBA's Region 10 which includes Boise, Idaho; Portland, Oregon; Seattle and Spokane, Washington; and Alaska. |
| National Average - | refers to the average using the nation as a whole. |
| Cases Charged Off - | means actual number of loans that have been charged off as losses. |
| Dollars Disbursed - | means number of dollars for SBA's direct or |

guaranteed loans originated for the particular year.

Dollars Charged Off - means number of dollars that have been charged off as a loss.

Percent (by \$'s) - equals dollars charged off divided by dollars disbursed, within the State of Alaska.

Region 10 Average - refers to the SBA's Region 10 which includes Boise, Idaho; Portland, Oregon; Seattle and Spokane, Washington; and Alaska.

National Average - refers to the average using the nation as a whole.

The second chart, MARS 515, illustrates the number of direct loans and guaranteed loans extended by SBA during the years 1978 through 1987. This chart refers to Region 10 and the numbers you will see on the left hand side under the word "Office" correspond to each locale within Region 10. "1040" refers to Fairbanks; and "1084" refers to Anchorage. Here again, the chart is easier to understand when you consider that:

Disbursed in Dollars - means that direct loans or loan guarantees were extended by SBA in the amount of dollars shown for each corresponding year.

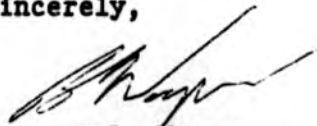
Purchase in Dollars - means that the SBA has had to disburse funds to honor guarantees. "purchase in dollars" does not necessarily mean that SBA is seeing a loss. E.G., the loan may have been rewritten.

Purchase Rate
in Dollars - equals purchase in dollars (i.e. buy backs) divided by the total dollar amount of disbursed dollars to show the rate in dollars bought back by SBA.

I hope that this information helps you to more fully understand the SBA charts. I believe that this information is helpful in that it shows that AIDEA should approach any loan guarantee program with caution. This is because loans guarantees are not a profitable business. In reality, the Authority is lending its balance sheet and taking on a future liability.

If you have any questions, please feel free to call me in Anchorage at 274-1651.

Sincerely,



Bertram L. Wagnon
Executive Director

BLW/ga

Attachments

DATE RUN 10/16/87

SMALL BUSINESS ADMINISTRATION
LOAN PERFORMANCE MEASUREMENT SYSTEM
AS OF 09/30/87
(DOLLARS IN THOUSANDS)

*Fin Loans,
Including Direct*

PAGE 93 MARS 526

ANCHORAGE, ALASKA

	YR-1 1986	YR-2 1985	YR-3 1984	YR-4 1983	YEAR OF APPROVAL					YR-8 1979	YR-9 1978	YR-10 1977	FIVE-YEAR SUMMARY		
					YR-5 1982	YR-6 1981	YR-7 1980						YEARS 86-82	YEARS 81-77	YEARS 76-72
FAILURE RATES (LOANS IN LIQUIDATION OR CHARGED OFF)															
CASES DISBURSED	227	298	466	342	283	125	107	181	133	132	1616	678	760		
FAILURES (#'S)	11	40	82	51	33	17	20	18	22	18	217	95	81		
PERCENTAGE (BY #'S)	4.8	13.4	17.6	14.9	11.7	13.6	18.7	9.9	16.5	13.6	13.4	14.0	10.7		
REGION 10 AVERAGE	3.5	11.5	16.6	15.5	21.0	26.8	26.7	23.0	16.7	15.3	14.0	21.8	13.7		
NATIONAL AVERAGE	3.1	10.2	16.1	16.8	21.7	26.2	29.7	26.5	23.7	21.9	13.6	26.0	22.7		
CHARGE-OFF RATES															
CASES CHARGED OFF	1	12	24	14	11	6	12	13	17	13	62	61	72		
DOLLARS DISBURSED	55623	67353	98401	73656	56502	20149	15540	19253	17140	18596	351536	90680	72035		
DOLLARS CHARGED OFF	39	1231	1644	1389	1055	1264	1112	617	1250	445	5561	4690	1753		
PERCENT (BY \$'S)	0.1	1.8	1.9	1.9	1.9	6.3	7.2	3.2	7.3	2.4	1.6	5.2	2.4		
REGION 10 AVERAGE	0.3	1.4	2.8	3.1	6.9	14.5	12.7	10.1	6.3	4.4	2.8	9.9	4.9		
NATIONAL AVERAGE	0.1	1.1	3.2	4.3	8.0	13.5	14.6	11.7	10.5	9.7	3.0	12.1	11.4		

REGION 10

PERIOD ENDING FY 87

PAGE 19
MARS 515
(5 IN THOUSANDS)

DISBURSED IN DOLLARS

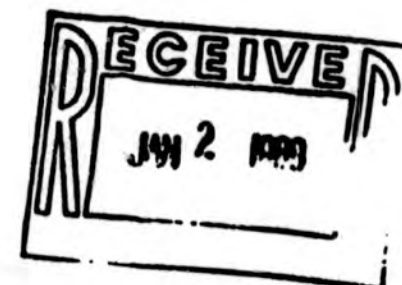
OFFICE	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
1013	0	39,257	46,846	44,084	21,199	21,867	34,313	39,429	26,237	14,681
F 1040	0	1,303	1,229	1,955	1,397	380	0	0	0	0
A 1084	0	17,624	17,462	17,056	54,487	71,215	90,442	63,752	54,258	17,715
1086	0	34,480	55,600	42,277	21,891	24,888	21,222	18,530	14,985	13,345
1087	0	22,466	24,367	20,604	18,424	25,985	22,050	16,237	16,752	11,574
1094	0	18,608	19,128	16,335	6,367	10,377	13,965	12,155	27,598	10,788
TOTAL	0	133,739	164,633	142,311	123,764	154,712	182,022	150,104	129,850	68,103

PURCHASE IN DOLLARS

OFFICE	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
1013	0	2,121	5,513	5,684	2,061	1,363	2,592	4,035	485	0
F 1040	0	0	0	0	0	0	0	0	0	0
A 1084	0	1,050	677	1,552	4,536	6,421	9,793	5,161	2,642	0
1086	0	2,696	3,869	1,801	2,545	3,008	982	2,079	282	157
1087	0	932	1,952	659	1,759	2,468	1,648	1,607	800	24
1094	0	614	1,313	338	449	745	640	345	199	0
TOTAL	0	7,413	13,324	10,034	11,350	14,006	15,655	13,228	4,409	181

PURCHASE RATE IN DOLLARS

OFFICE	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
1013	0.0	5.4	11.8	12.9	9.7	6.2	7.6	10.2	1.9	0.0
F 1040	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
A 1084	0.0	6.0	3.9	9.1	8.3	9.0	10.8	8.1	4.9	0.0
1086	0.0	7.8	7.3	4.3	11.6	12.1	4.6	11.2	1.9	1.2
1087	0.0	4.2	8.0	3.2	9.5	9.5	7.5	9.9	4.8	0.2
1094	0.0	3.3	6.9	2.1	7.1	7.2	4.6	2.8	1.1	0.0
TOTAL	0.0	5.5	8.1	7.1	9.2	9.1	8.6	8.8	3.4	0.3



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ALASKA

REVIEW OF SOCIAL AND ECONOMIC CONDITIONS

University of Alaska Anchorage, Institute of Social and Economic Research February 1988, Vol. XXV, No. 1

Alaska Housing and the Recession

The recession that started at the end of 1985 turned the Alaska housing market on its head. Prices of houses, condominiums, and mobile homes—especially the last two—have come down so far that Alaskans have been left queasy and disbelieving. Recent ISER economic projections are for the recession to end in 1988, and a *gradual* economy recovery to begin—if oil prices remain stable in the \$16- to \$20-per-barrel range. Oil prices are the crucial element in ISER's projections. But if the Alaska economy does begin to recover in 1988, the effects of the recession on the housing market will not disappear overnight.

Since the end of 1985 Alaska has lost jobs, population, and income.¹ We now have much more housing than there is demand for. In Anchorage alone in 1987 nearly 14,000 housing units—including both owner-occupied and rental units—were vacant.² Thousands of Alaska houses, condominiums, and mobile homes have been foreclosed on over the past two years. Even after the economy bottoms out, the housing market will be slow in recovering. This is particularly true of the market for condominiums and mobile homes in Anchorage.

Recent ISER work indicates that it will likely be well into the 1990s before real—adjusted for inflation—condominium prices in Anchorage regain their 1985 levels. There are hundreds more mobile homes in Anchorage right now than are likely to be occupied by 1992. Very few condominiums or apartments

will be built in Anchorage over the next few years: the units that already exist will more than meet the projected demand.

Single-family houses should fare better—because most buyers prefer houses when they can afford them. Lower prices in the past two years have put single-family houses within the reach of some buyers who in the early 1980s might have bought condominiums or mobile homes.

Economic conditions will of course be crucial in determining the future health of the Alaska housing market. But after economic conditions, how the major lenders handle their big inventory of foreclosed properties will make the most difference to the stability of the Anchorage housing market in the next few years. If they try to quickly sell large numbers of those properties, they will further depress prices and increase loan defaults.

Depressed prices and large numbers of loan defaults are serious problems for all Alaska homeowners and mortgage lenders—but particularly for AHFC, which holds more than 60 percent of the outstanding residential mortgages in the state.

This publication has two main parts. The first part describes conditions in the Alaska housing market in 1987, and contrasts them with conditions during the economic boom of the early 1980s. Those descriptions set the stage for the second part, which

This Review is the second of two publications based on Alaska's Economy and Housing Market, a report ISER recently prepared for the Alaska Housing Finance Corporation (AHFC). AHFC commissioned the report to help the corporation in its efforts to stabilize the Alaska housing market. The first publication summarized the economic forecasts in the ISER report; this one discusses the report's findings on the housing market.

¹See "Alaska's Economy: What's Ahead?" *Alaska Review of Social and Economic Conditions*, December 1987, Vol. XXIV, No. 2, University of Alaska Anchorage, Institute of Social and Economic Research.

²Vacancies as of July 1987, as reported by the Municipality of Anchorage's Community Planning Department in 1987 *Anchorage Population Profile*, December 1987.



Winter scene in a residential area of south Anchorage.

Photo: Rob Hallinen/Anchorage Daily News

ALASKA REVIEW OF SOCIAL AND ECONOMIC CONDITIONS

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Alaska Housing and the Recession

This publication is based on several chapters of *Alaska's Economy and Housing Market*, an October 1987 report by O. Scott Goldsmith, Matthew Berman, Lee Huskey, Linda Leask, and Teresa Hull. All the authors except Huskey are ISER faculty and staff members. Huskey is associate professor of economics with UAA's School of Economics and Public Policy.

reports on how various policies available to AHFC and other lenders might affect the housing market.

ALASKA MORTGAGES AND FORECLOSURES

National Secondary Lenders

Alaskans planning to buy houses generally apply for mortgage loans at banks or savings and loans or mortgage companies. These institutions—known as primary lenders—process the applications, approve or disapprove the loans, and collect the monthly mortgage payments. But very rarely do the banks themselves actually hold the mortgages: they sell almost all of them on the secondary market. In fact, primary lenders as a rule won't make a mortgage loan without first determining that a secondary lender will buy it. This system greatly reduces the risks for primary lenders in making long-term loans and frees their money for other uses.

The biggest secondary lenders nationally were created by the federal government to help increase the amount of home mortgage money available—on the grounds that a healthy housing industry is important to the U.S. economy. Of these, by far the biggest is the Federal National Mortgage Association (FNMA)—widely known as Fannie Mae—which holds about \$100 billion in mortgage loans. Another—much smaller—secondary lender is the Federal Home Loan

Mortgage Corporation (FHLMC, or Freddie Mac).

The Federal Housing Administration (FHA) and the Veterans Administration (VA) are federal agencies that do not actually buy mortgage loans but rather insure or guarantee them. Loans insured by FHA or guaranteed by the VA sell easily on the secondary market because they carry government backing. Most FHA-insured or VA-guaranteed loans go on to the secondary market through mortgage-backed securities that are issued by yet another federal organization—the Government National Mortgage Association (Ginnie Mae)—and are sold to investors. FHA and VA are often thought of as secondary lenders, because their backing for a loan generally insures its marketability.

The Farmers Home Administration is another federal agency that makes home loans, but only to farmers and to low-income Americans living in rural areas. This agency holds its own mortgages.

Alaska Housing Finance Corporation

The national lenders and insurers described above all operate in Alaska, but here the state government has also created several secondary lenders. The biggest is of course the Alaska Housing Finance Corporation, which holds more than \$4 billion in Alaska residential mortgages, or about 60 percent of the outstanding home mortgage debt in Alaska in 1987.

AHFC is a public corporation created by the

Alaska Legislature in 1971. As a public corporation, AHFC is under the control of the state government, but it has more autonomy than traditional state agencies, and it can sell bonds to raise mortgage money.

The state legislature originally established AHFC to help Alaskans with low or moderate incomes get housing at reasonable costs. Alaska officials said that the high cost of housing in the state, the lack of mortgage money in many rural areas, and other factors was making it hard for many Alaskans to buy houses.

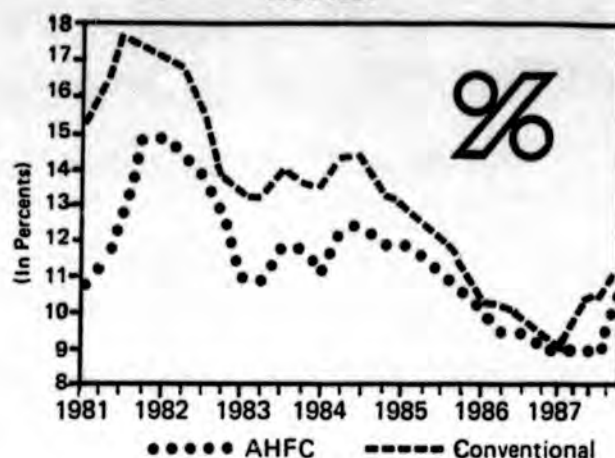
At the start of the 1980s the state legislature made several decisions that quickly transformed AHFC into the dominant mortgage lender in Alaska. National mortgage interest rates were at all-time highs, peaking above 17 percent. The legislature decided to begin subsidizing home mortgage interest rates. As Figure 1 shows, in 1981 Alaska borrowers could get a \$135,000 loan from AHFC for less than 11 percent—or they could go to a national lender and pay more than 15 percent. AHFC's interest rate advantage narrowed in later years as the legislature tied AHFC's rates closer to its costs of borrowing money, but through 1985 AHFC loaned money at significantly lower rates than the national lenders.

The legislature also decided to open AHFC's lending programs to virtually all Alaskans by removing the income ceilings for borrowers, and to establish special new programs that would make it easier for more Alaskans to buy houses. Examples of those programs are the mobile home program that makes long-term mortgages available for mobile homes in trailer parks, and the Home Ownership Assistance (HOF) program that pays part of monthly mortgage payments for borrowers whose incomes aren't high enough to qualify them for conventional loans.

AHFC's lower interest rates and special programs drew 80 percent of Alaska borrowers to AHFC in the first half of the 1980s. In the past several years AHFC's share of Alaska mortgages has declined steadily. Market interest rates began dropping off sharply in 1985, and in 1987 they reached their lowest point since the 1970s. At one point in 1987 rates under AHFC's biggest loan program were the same as those of other lenders (see Figure 1).

As national interest rates fell, special conditions and restrictions on AHFC loans prompted more borrowers to look to other lenders. For example, most AHFC loans written before 1985 couldn't be assumed, and before 1986 AHFC didn't have the authority to refinance loans. Also, in 1982 the corporation had adopted the Alaska Building Equity (ABE) payment system that increases mortgage payments five percent a year from the fourth through the ninth year of the loans. Still, in 1987 AHFC remained the biggest single buyer of mortgages written for home sales.

Figure 1. Home Mortgage Interest Rates, AHFC Taxable Program and Conventional,* 1981-1987



*Mortgage rates for a \$135,000 loan under AHFC's taxable program and under FNMA's 30-year, fixed-rate mortgages.

Since 1980 AHFC has raised several billion dollars in mortgage money by selling bonds. The legislature appropriated about \$1 billion for AHFC mortgage subsidies between fiscal years 1981 and 1984. For the past several years, AHFC has had a revolving loan fund and received no subsidies.

Other Sources of Mortgage Money

The Alaska Department of Community and Regional Affairs also acts as a secondary lender, but it buys loans only in the most remote areas of Alaska. Its operations are small as compared with AHFC's, and it gets its loan money not through bond sales but through state appropriations.

The managers of the Alaska Permanent Fund and the state pension funds (the Public Employees Retirement System and the Teachers Retirement System) also buy some residential mortgage loans—but not many as compared with the other secondary lenders, and frequently those that exceed the loan limits of other lenders. In recent times, however, those agencies have bought very few loans.

There are a variety of others who hold some Alaska mortgage loans. Credit unions hold rather than sell some mortgages. Individuals sometimes finance the sale of their own houses. Figures on mortgages held by those and others are not available, but they are few compared with those held by the big lenders.

Mortgage Activity, 1979-1987

Figure 2 marks the ups and downs of housing sales in Alaska from 1979 through 1987: it shows the numbers of mortgages written for home sales. (The figure excludes mortgages for refinancing, which are shown in Figure 3.)

Figure 2. Alaska Mortgages Written for Home Sales, 1979-1987*



*1987 figure is an estimate based on numbers for the first six months of the year.

About 5,500 mortgages worth \$380 million were written in Alaska in 1979. That was a slow year as compared with what was to come. The economic boom created by construction of the trans-Alaska pipeline was over; some people were leaving the state; and mortgage interest rates were on their way up. Mortgage activity in 1980 was not much higher, but the stage was set for the next boom. High oil prices were fattening the Alaska treasury. The state government began spending its oil revenues in many ways that sparked unprecedented economic growth. At the same time, the legislature also voted to subsidize mortgage interest rates.

The economic boom created by state spending drew tens of thousands of people into the state. The combination of a burgeoning population, growing incomes, and special programs tripled numbers of new

mortgages between 1979 and 1983, when more than 16,500 mortgages for home sales were written. Numbers of new mortgages began dropping in 1984, but it was in 1985 that the really sharp decline started.

The recession began toward the end of 1985, as state spending declined. In 1986 the recession worsened as oil prices plummeted. Fewer than 5,000 mortgages for home sales in Alaska were written in 1986—fewer than had been written in 1979. And in 1987 an estimated 3,000 mortgages were created for home sales in Alaska.

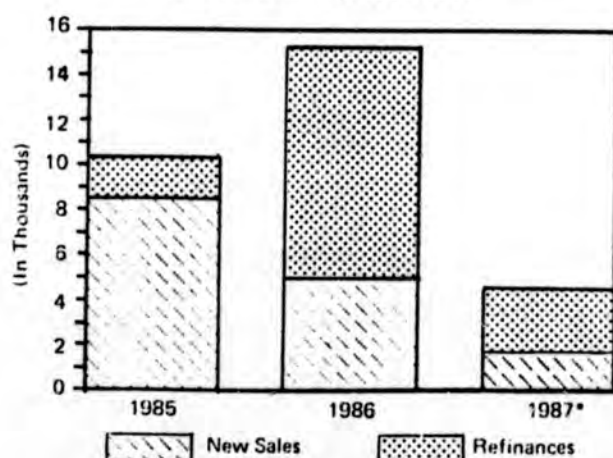
Home Refinancing

In 1985 national interest rates began dropping sharply, and many Alaskans who held home loans at much higher rates refinanced their houses. As Figure 1 shows, AHFC's subsidized rates in 1982 were as high as 14 percent; by late 1985 conventional and AHFC rates were below 11 percent. And in 1986 and early 1987 rates were near 9 percent.

Firm figures on how many mortgages are written for Alaskans refinancing their homes are hard to get. Figure 3 shows our estimates of how many mortgages written in Alaska in 1985, 1986, and the first half of 1987 were for refinances and how many for sales. Presumably there was very little refinancing before 1985, when interest rates were much higher.

The figure shows that in 1985 less than 20 percent of the 10,000 mortgages created in Alaska were for refinancing. In 1986, 15,000 mortgages were written—but more than 10,000 of those, or 70 percent, were for refinancing. In the first half of 1987, more than 60 percent of new Alaska mortgages were for refinancing.

Figure 3. Alaska Mortgages Written for Home Sales and Refinancing, 1985-1987*



*The 1987 figure is just the first six months.

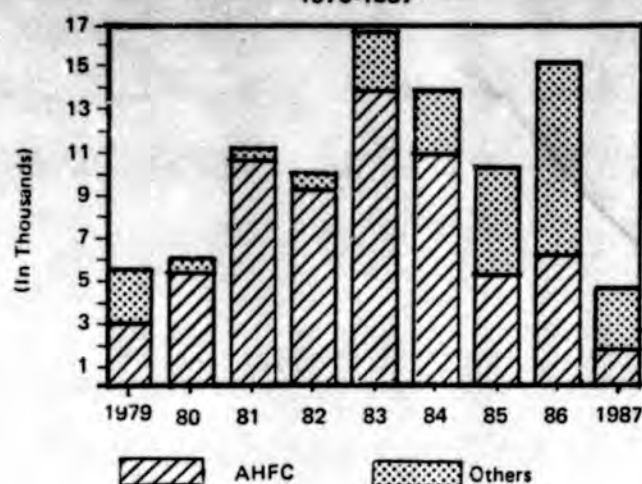
AHFC's Market Share

Figure 4 clearly shows why AHFC is the biggest mortgage holder in Alaska: it identifies shares of total mortgages (including those for sales and for refinances) AHFC and other lenders bought each year from 1979 through the first half of 1987. From 1980 through 1982, when AHFC's rates were several percentage points below those of other lenders, AHFC bought 90 percent or more of new mortgages. Through 1984 AHFC still had 80 percent of the market. In the past several years interest rates and terms of other lenders became more competitive. AHFC's share dropped from about 50 percent in 1985 to less than 40 percent in the first half of 1987.

1987 Mortgage Holdings of Major Alaska Lenders

What is at stake in the Alaska housing market? How much home mortgage debt is there in the state? Table 1 shows the mortgage holdings of major Alaska lenders as of mid-1987.

Figure 4. AHFC's Share of New Alaska Mortgages,^a
1979-1987^b



^aIncludes mortgages for sales and for refinances.

^bFigures for just the first six months of 1987.

In 1987 the major lenders in Alaska held more than 84,000 home mortgage loans worth \$7 billion dollars. The biggest mortgage holder is AHFC, which as of June held more than 52,000 home mortgages with an outstanding balance of about \$4.3 billion. Other state government entities held another 3,000 loans with a balance of \$230 million.

National lenders and insurers are also carrying tens of thousands of loans. AHFC holds some FHA-insured and VA-guaranteed loans; to avoid double-counting, those are included in AHFC's holdings and excluded from FHA's and VA's. In addition to those held by AHFC, there were nearly 8,500 FHA-insured loans and 8,600 VA-guaranteed loans in Alaska in 1987, with a combined unpaid balance of \$1.6 billion. FNMA and FHLMC were each carrying more than 5,000 mortgage loans with a combined balance of nearly \$900 million.

Table 1

Residential Mortgage Holdings of Major
Alaska Lenders, June 1987^a

	Number of Loans Outstanding	Unpaid Principal Balance (\$ millions)
AHFC		
Mobile Homes	4,760	\$ 151
AHFC/FNMA ^b	10,722	1,170
AHFC/Other	36,686	2,967
Total	52,168	\$4,288
FNMA ^c	5,471	\$400
FHLMC ^d	5,152	479
FHA-Insured ^e	8,437	844
VA-Guaranteed ^f	8,602	763
Alaska Dept. of CRA ^g	1,194	123
Farmers Home Admin. ^h	1,322	106
Alaska Permanent Fund	300	42
Alaska Pension Funds ⁱ	NA	NA
AIDA & Div. of Invest. ^j	1,565	68
Total	84,211	\$7,113

^aAs of June 1987, unless otherwise noted.

^bThese are loans financed with FNMA money from early 1984 through 1986; AHFC makes principal and interest payments to FNMA on collateralized notes. FNMA is, however, liable for any losses not covered by private mortgage insurance if borrowers default.

^cExcluding loans cited in note b; these are loans purchased from banks and other primary Alaska lenders.

^dFigures are for FHLMC loans serviced by Alaska

lenders as of June 1987; they may include some loans on homes outside the state but serviced by Alaska lenders and exclude some loans on Alaska homes that are serviced by lenders outside the state.

^eOutstanding loans as of December 31, 1986, excluding AHFC loans insured by FHA. The unpaid principal balance is an estimate, based on average size of outstanding loan. Although FHA is an insurer rather than a lender, FHA-insured loans are included here because most of those loans go to lenders other than those listed in this table. Most FHA-insured loans go into mortgage-backed securities (MBSs) issued by the Government National Mortgage Association (GNMA) and sold to various investors.

^fFigures as of March 31, 1987, excluding VA-guaranteed loans held by AHFC. A very large share of new VA-guaranteed loans in Alaska in the first half of the 1980s were purchased by AHFC. Most VA-guaranteed loans not purchased by AHFC go into MBSs issued by GNMA and sold to various investors.

^gAs of March 1987.

^hOutstanding loans as of May 1987. Unpaid principal balance is an estimate based on average size of outstanding loan.

Good estimates of cumulative Alaska residential mortgage holdings of the pension funds are not available because figures on such holdings are combined with figures on other mortgage holdings of the funds.

ⁱThese are mortgage loans made under a state veterans' loan program that no longer exists; it was replaced in the early 1980s by the state veterans' program administered by AHFC. Most of these loans are now held by the Alaska Industrial Development Authority (AIDA); the Division of Investments in the Alaska Department of Commerce and Economic Development holds a few and services those held by AIDA.

Source: *Alaska's Economy and Housing Market*, ISER Report, October 1987, Tables 3.1 and 3.3.

Mortgage Liabilities

The current recession has pushed thousands of Alaska homeowners into default and foreclosure. Before we look at 1987 figures on properties in foreclosure, we'll broadly outline liability on mortgage loans when borrowers default. When we say "mortgage liabilities," we mean just losses lenders and borrowers take when individual borrowers default. There are of course other kinds of liabilities—for instance, AHFC is liable for payment on the billions of dollars in bonds it sold to finance mortgage loans. We don't discuss that or other potential liabilities here.

Table 2 summarizes insurance requirements and liabilities of home buyers and major lenders. When agreeing to make a mortgage loan, lenders generally require two kinds of protection against default. The first step is requiring a down payment, generally 5 to 10 percent of the sales price. The chief exception is the Veterans Administration program, under which qualified veterans can borrow up to a specific amount with no money down.

Second, lenders typically require borrowers to carry private mortgage insurance (PMI) on loan amounts above 70 to 80 percent of the purchase price. If the borrower defaults, the private mortgage insurer pays the lender any losses on the insured portion of the loan. Loans in remote areas of Alaska generally don't carry private insurance because it usually isn't available in those areas. Loans held by the Alaska Department of Community and Regional Affairs and the Farmers Home Administration are uninsured. Also, some loans made before 1980 under various state loan programs are uninsured.

So what happens when a borrower defaults and his property goes into foreclosure? First, borrowers who default lose their down payments and any additional amount they've paid on the loan principal.

Another liability borrowers face is that lenders may institute what is known as a judicial foreclosure. If a lender believes that a borrower who defaulted could have continued to make his payments but chose not to, he may go to court to try to make the borrower liable for any losses when the property is re-sold. In a non-judicial foreclosure, the lender accepts that the borrower has neither the income nor the assets to meet his payments and does not press for any further liability. (Damage that defaulting does to a borrower's future credit is also certainly a loss, but a less measurable one.)

The losses that lenders and insurers face when properties go into foreclosure are complicated to calculate. The biggest factor is the condition of the housing market. If prices are rising, insurers and particularly lenders don't generally lose money—because they can expect to re-sell the relatively few

properties that go into foreclosure for enough to cover the outstanding mortgage and foreclosure costs. But when prices are falling—as they have been in Alaska over the past two years—it's a different story: there are thousands of foreclosed properties and they frequently sell for less than the outstanding mortgage, especially if the mortgage was written when prices were at their peak.

In Alaska's housing market today, insurers face the first losses when properties with private mortgage insurance go into foreclosure. They try of course to keep those losses to a minimum, and they have two broad choices. The insurer can take a foreclosed property and re-sell it, or the insurer can let the lender re-sell it and pay the lender a claim up to the maximum insured amount.

Say for example that a property with a \$100,000 outstanding mortgage goes into foreclosure, and that private mortgage insurance covers \$20,000 of that mortgage.³ Estimate the foreclosure costs at \$5,000. Suppose the insurer thinks the property will be hard to re-sell (which means that there will also be substantial interest and other holding costs) and that it might command only \$70,000 when it does sell. If the insurer took the property, held it, and re-sold it at a depressed price, his costs could easily exceed \$35,000. On the other hand, if the insurer let the lender take the property and simply paid the maximum insurance claim, he would limit his costs to \$20,000. Only in cases where the insurer thinks he can keep his costs below the maximum insurance claim will he be likely to try to re-sell it himself.

What about lenders? What losses do they take in foreclosures? Again, in a market where prices are rising, lenders who require down payments and mortgage insurance don't generally take any losses. But in the Alaska market today, values of many properties are so much lower than the outstanding mortgages that insurance doesn't cover all the losses. And on loans not covered by insurance, lenders take all the losses.

AHFC's liability on mortgage loans varies considerably among loans made at different times and under different programs, as Table 3 shows. But AHFC has better protection than most lenders on the majority of loans it made between 1981 and 1986. Most AHFC loans made during that period carry private mortgage insurance and additional features that limit AHFC's liability.

Most AHFC loans made between 1981 and early

³These figures are simplified to make the example straightforward. To show precisely how much private insurance covered of any given loan we would have to know original purchase price, size of down payment, subsequent payments on principal, and amount of insurance the lender required.

Table 2

Liability* in Home Foreclosures

Lender	Insurance Requirements	Liability of Borrowers in Foreclosure	Liability of Lenders in Foreclosure
FNMA/FHLMC	Borrowers required to carry private mortgage insurance (PMI) on loan amounts above 80% of the house price.		Lender liable for any losses not covered by PMI.
FHA-Insured Loans	Borrowers pay premium for government insurance, either in lump sum or as part of monthly payments.		FHA liable for all losses.
VA-Guaranteed Loans	The federal Veterans Administration guarantees up to \$27,500 on mortgage loans to veterans as a benefit of military service; this guarantee takes the place of private mortgage insurance.	<i>Borrowers in all cases lose their down payments, which can be as low as 0-5% but are generally 10% or more of the purchase price. Also forfeited is any amount subsequently paid on the loan principal. And, in some cases, lenders will undertake judicial foreclosures, in which they go to court to try to make borrowers who default liable for losses on resale of the properties.</i>	VA liable for losses up to \$27,500 on each loan; additional liability falls on primary or secondary lender.
Farmers Home Administration	This federal agency makes loans to low-income households in rural areas; no private mortgage insurance.		Farmers Home Administration liable for all losses.
State of Alaska			
AHFC	Most borrowers required to carry private mortgage insurance on loan amounts above 75% to 80% of the house price; on mobile home loans, borrowers must carry private credit insurance on 40% of the loan amount.		Varies substantially among different types of loans; see Table 3.
DCRA	Loans in rural areas; no private mortgage insurance required (because it is not available in many cases).		DCRA takes all losses.
Ak Permanent Fund	Borrowers required to carry private mortgage insurance on loan amounts over 70% of the house price.		Permanent Fund bears any losses not covered by PMI.
Division of Investments and AIDA	These loans were made to veterans before 1981 through the former Division of Veterans Affairs; no private mortgage insurance required.		Losses accrue either to Veterans' Revolving Loan Fund or AIDA.

*Includes just losses the various parties may be liable for when individual loans go into foreclosure; does not include AHFC's liability for repayment of bonds and notes financing the loans, or other kinds of liabilities.

1984 carry pool insurance—insurance that covers any losses not covered by private mortgage insurance. Mortgage Guarantee Insurance Company (MGIC) provided that pool insurance as a provision of bonds AHFC sold to finance loans during that period. So AHFC has virtually no liability when borrowers default on those particular loans.⁴

From 1984 through 1986, the national lender FNMA financed a large share of AHFC loans—and on those particular loans, FNMA rather than AHFC is liable for any losses not covered by private insurance. (AHFC is, of course, liable to re-pay principal and interest to FNMA on the notes that financed the loans.)

AHFC's liability on other loans varies, as Table 3 shows. Some loans it took over from earlier state loan programs carry no insurance. Mobile home loans made before 1983 carry no insurance; loans made

⁴However, the pool insurance is in effect only until the bonds financing the loans have been paid off—when the bonds are paid off, AHFC becomes liable for losses not covered by private mortgage insurance.

after that time carry private credit insurance on 40 percent of the value of the loan. AHFC takes losses beyond what private credit insurance covers.

Homes in Foreclosure

We've seen the mortgage holdings of major lenders and how the losses are divided up when borrowers default. Now we turn to the grim evidence of Alaska's battered housing market: properties in foreclosure.

Table 4 shows foreclosed properties held by the major lenders and insurers as of mid-1987. In June 1987, lenders and insurers were holding more than 4,200 foreclosed properties. During the preceding 18 months, they had sold an additional 1,600 properties that had been foreclosed on. Taken together, the foreclosed properties still in inventory and those re-sold during the preceding year and a half totaled nearly 5,900—or 7 percent of outstanding residential mortgages in Alaska in mid-1987. And there were doubtless other foreclosures not recorded on Table 4—properties held by individual banks and private mortgage insurers other than MGIC, for instance. Reliable figures on such foreclosures are hard to get.

Table 3

AHFC's Liability* in Foreclosures

All Loans Except Mobile Homes

Loans with private mortgage insurance and pool insurance; include most loans made from 1981 to early 1984.

None, until bonds carrying pool insurance provision are paid off; then AHFC liable for any losses not covered by PMI.

Loans with private mortgage insurance that were financed by FNMA, 1984-1986; include most loans made during that period.

None. FNMA is liable for any losses not covered by PMI on loans it financed for AHFC during this period.

Loans with just private mortgage insurance; include some loans made throughout AHFC history and almost all loans made since January 1987.

AHFC is liable for any losses not covered by PMI.

Loans with no insurance; include loans made under several special programs that no longer exist.

AHFC liable for all losses.

Loans with federal government insurance or guarantee; include loans made throughout most of AHFC's history.

FHA takes all losses on FHA-insured loans. VA takes liability only up to \$27,500 on each VA-guaranteed loan; AHFC liable for additional losses.

Mobile Home Loans

Loans before 1983 with no insurance.

AHFC liable for all losses.

Loans since 1983 with private credit insurance.

AHFC liable for losses not covered by PCI.

*Includes just losses AHFC is liable for when individual borrowers default.

It's no surprise that AHFC held about 65 percent of foreclosed properties in mid-1987. AHFC bought most of the new mortgages written in Alaska in the 1980s and in particular most of those written when prices were at their peak. Also, from 1980 on,

AHFC bought almost all the mortgage loans on mobile homes—which have seen tremendous losses in value during the recession.

FNMA, FHA, and VA were also holding several hundred properties each in the middle of the year. Other lenders held fewer. The 100 properties that the insurer MGIC was holding at that time were just properties it had actually taken title to; remember that MGIC carries substantial liability on properties that are in AHFC's inventory.

We don't have foreclosure figures more recent than mid-1987 for most individual lenders, but we do have them for AHFC through the end of 1987. We know that, like AHFC, other lenders continued to add to their inventory of foreclosures in the second half of the year.

Table 5 and Figure 5 document the relentless climb in AHFC's inventory of foreclosures from 1984—before the start of the recession—through 1987. At year-end in 1984, AHFC held just 129 properties. By the end of 1985 that had grown to more than 500, and in 1986 to more than 1,600. At the end of 1987 AHFC held 3,700 properties. If we compare those figures with the mid-1987 figures in Table 4, we see that at the end of 1987 AHFC held 1,000 more properties than it had six months earlier.

Table 6 shows a more detailed breakdown of properties in AHFC's inventory as of the end of 1987: 1,325 single-family houses and duplexes, 1,171 condominiums and townhouses; 1,192 mobile homes; and 13 triplexes and fourplexes.

It's easy to see why the problems in the condominium and mobile home markets are more severe than in the market for single-family houses: there are a great many more single-family houses in Alaska

Table 4

**Inventory of Foreclosed Properties Held by^a
Major Alaska Lenders and Insurers, June 1987**

	Held in Inventory June 1987	Foreclosed Properties Sold 1986-June 1987
AHFC		
Mobile Home	965	143
Other	1,793	1,075
Total	2,758	1,218
FNMA	394	160 ^e
FHLMC ^b	78	—
FHA-Insured	385	87
VA-Guaranteed ^c	366	80
MGIC	105	25 ^f
Alaska Dept. of CRA	40	1
Farmers Home Admin.	100	30
Alaska Permanent Fund	23	11
AIDA and Div. of Invest.	5	6
Others ^d	NA	NA
Total	4,254	1,618

^aProperties "held by" each lender or insurer include just those to which each already held title or was in the process of acquiring title as of June 1987.

^bIncludes both completed and nearly completed foreclosures.

^cIncludes both properties the VA had already acquired title to and pending title acquisitions. Excluded are properties that the VA paid claims on but did not take possession of. Most such properties probably went into AHFC's inventory of foreclosed properties; some ended up in the hands of mortgage companies, banks, or other primary lenders.

^dSome foreclosed properties are held by a wide range of Alaska banks, other primary lenders, and private mortgage insurance companies other than MGIC. Figures on such holdings are extremely difficult to get, and the numbers are small compared with the holdings of the secondary lenders and largest insurers.

^eProperties sold 1986–May 1, 1987.

^fEstimated sales from November 1986–June 1987.

Sources: See Sources, Table 3.1, *Alaska's Economy and Housing Market*.

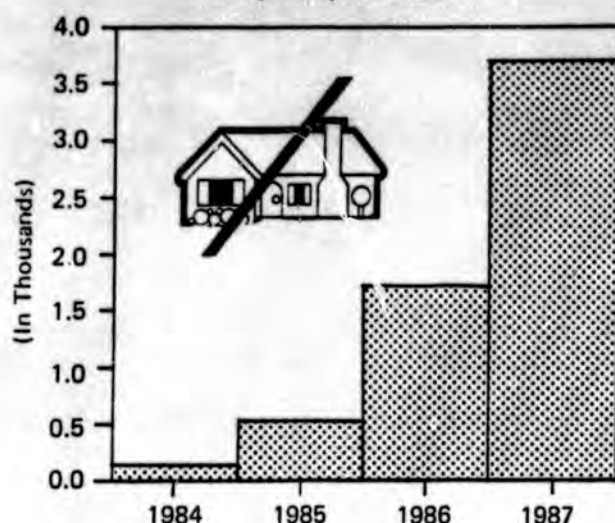
Table 5

**AHFC Cumulative Inventory* of Foreclosed
Properties, Year-End, 1984-1987**

	1984	1985	1986	1987	% of 1987 Total
Mobile Homes	38	186	610	1,192	32%
Other	91	322	1,061	2,509	68%
All	129	508	1,671	3,701	100%

*The year-end inventories are total properties foreclosed on minus those resold. These figures are AHFC's state-wide inventory.

Figure 5. AHFC Year-End Inventory of Foreclosed Properties, 1984-1987



than there are either condominiums or mobile homes, but there are just about as many mobile homes and condominiums in foreclosure as there are single-family houses.

As the last column of the table shows, houses and duplexes made up more than 75 percent of active AHFC loans in 1987, but just 36 percent of foreclosures. By comparison, condominiums and townhouses made up 15 percent of total loans but 32 percent of foreclosures. Mobile homes, while making up just 7 percent of active AHFC loans, accounted for 32 percent of foreclosures.

Table 6

AHFC Inventory of Foreclosed Properties, Year-End 1987

	Number of Foreclosures	Percent of Total Foreclosures	Active AHFC Loans by Type
Single-Family Houses & Duplexes	1,325	36%	77%
Condominiums & Townhouses	1,171	32	15
Mobile Homes	1,192	32	7
Triplexes & Fourplexes*	13	1	1
Total	3,701	100%	100%

Source: AHFC.

*Although AHFC loans by type give us a good idea of the composition of housing stock in general, this is not true of triplexes and fourplexes, of which AHFC finances few. Most are financed by other lenders.

POLICY OPTIONS

Future economic conditions will be the biggest force in the recovery of the Alaska housing market. But the next biggest force will be the mortgage lenders and insurers with big inventories of foreclosed properties. They can help stabilize the market by selling their holdings at a moderate pace rather than selling large numbers quickly—which would further depress prices and put more homeowners at risk of default.

What is the Problem?

The problem in the Alaska housing market today is that we have more housing than we have households: too many condominiums, mobile homes, houses, and apartments. Having too big a supply and too little demand has created an unstable market, where prices have already fallen dramatically and there is great anxiety about the future.

Thousands of homeowners have defaulted on their mortgages over the past two years. Some lost their jobs and were unable to keep up the payments; some had to move and were unable to sell the houses for what they still owed on them. Still others simply walked away from their properties because they had lost value. Many thousands more Alaskans are still making their payments but have negative equity—that is, their homes are worth less than their outstanding mortgages.

The big lenders and insurers are holding depressingly large inventories of foreclosed properties. They have already taken tens of millions of dollars in losses.

The worst thing for the housing market right now would be panic. If the big lenders decided to dump their inventories of housing on the market at any price in an attempt to cut their losses, they could create panic among homeowners with negative equity. Large numbers of homeowners might simply walk away from basically sound properties that will appreciate in value in the future. The result of such panic would be a continuing downward spiral of prices and many more foreclosures.

What would help the housing market most is a move toward stability: a leveling-off of prices and a reduction in defaults. Such a move toward stability would boost confidence among homeowners, and make them more likely to try to stay in their homes. Fewer defaults would ease the pressure on the lenders. Stability would help buy time toward solutions of the housing problems and eventual recovery of the market.

We are not saying that lower prices are bad for everyone and that higher prices are universally good.

Lower prices are obviously good for some Alaskans who might not have been able to buy houses a few years ago. What we are saying is that a *stabilization* of prices would be good. If prices became stable, the stage would be set for the recovery of the market and Alaskans could become more confident that housing is a good investment.

If, on the other hand, prices continue to fall and defaults persist in such disheartening numbers, investors will be reluctant to put money into the Alaska housing market in the future. That reluctance will translate into more expensive mortgage money for Alaskans. AHFC's ability to sell bonds could be hampered. Mortgage insurers might pull out of the Alaska market entirely, or charge much higher premiums for staying in.

So how can the market be stabilized? The biggest factor in the recovery of the housing market will of course be economic conditions. ISER projects that if—a crucial qualifier—oil prices remain stable in the \$16-to-\$20-per-barrel range, the state economy should bottom out in 1988 and begin a gradual recovery. This is our medium-case projection, and we consider it the most likely, if oil prices stay in that range. The economic recovery would be faster over the next several years if oil prices suddenly rose to around \$25 a barrel (our high-case projection) and stayed that high. At the other extreme, if oil prices dropped to \$15 a barrel or less and stayed that low for many months, the economy could continue to decline into 1989 and we would see very little growth over the next few years (the low-case projection).⁵

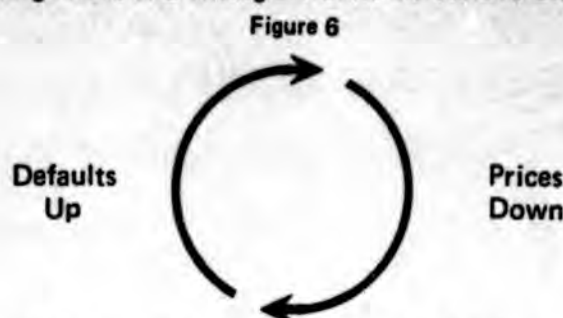
The next biggest factor in stability of the housing market will be—for reasons we describe below—sales of foreclosed properties. In the following pages we assess how rates of foreclosure sales and other factors could affect the Anchorage housing market between now and 1992.⁶ We don't have enough information to make such assessments for housing markets in other areas of the state, but movements in the Anchorage market will reflect general trends in housing markets throughout Alaska—with some obvious regional differences.

An important point to keep in mind is that we cannot forecast what is going to happen in the Anchorage housing market. To do that we would have to know how many foreclosed units the institutional sellers are going to put on the market and at what rate. What we can show are effects on the market of various rates of sale.

⁵Those economic projections appear in "Alaska's Economy: What's Ahead?" *Alaska Review of Social and Economic Conditions*, Vol. XXIV, No. 2, December 1987.

⁶Anticipating what may happen is of course complicated by the fact that each lending institution has its own interests in and constraints on holding foreclosed inventory.

Sliding Prices and Rising Defaults: A Vicious Circle



The faster AHFC and other big lenders and insurers put foreclosed properties on the market—at the extreme, through large auctions without bid floors—the more prices will be depressed and defaults persist, as illustrated by Figure 6. More defaults will mean the lenders will end up with even more foreclosed properties.

Flooding the market with housing pushes prices down. As prices go down, more and more homeowners find themselves with negative equity—that is, their mortgages are larger than the market prices of their properties. If owners with negative equity are forced to sell, many will likely default because they are unable or unwilling to make up what can be a very substantial difference between what they owe and what the properties will sell for.

Also, a continuing downward spiral of prices erodes confidence among would-be buyers and existing homeowners. Alaskans who might be attracted by lower housing prices won't buy if they think prices could go much lower. Demand for housing could dry up. Existing owners with negative equity become more likely to walk away from their properties if the value continues to drop and they can see no turnaround in sight.

Figure 7 illustrates how prices of Anchorage condominiums are related to the number of fore-

Figure 7. Relationship Between Real Prices and Sales of Foreclosed Anchorage Condominiums, 1988

