ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILE 8672
1593 SCOMM 60: HOUSING FINANCE TASK FORCE 1989

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SCOMM 60: HOUSING FINANCE TASK FORCE, 1989

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Established by Legislative Resolve No. 54, 1989.

Contents: 1 box (12") of files. 11 cassette tapes are also available of meetings held July 1989-January 1990.

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SCOMM

60:1

REPRESENTATIVE
C.E. "SWACK" SWACKHAMMER

Alaska State Legislature

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M E M O R A N D U M

TO: Membership, Housing Finance Task Force

FROM: Rep. C.E. Swackhammer, Chair, HFTF Swack

DATE: August 7, 1989

TOPIC: July 26, 1989 HFTF Meeting

Attached, please find a recap of the organizational meeting held in Anchorage, on July 26, 1989.

Please direct any additions and/or corrections to Carl Nickel of my staff in Juneau.

I look forward to meeting with you August 23, 1989, at the Anchorage LIO.

VERBATIM TRANSCRIPT

THOMAS C. BEHAN
ALASKA HOUSING FINANCE CORPORATION

THOMAS C. BEHAN: Thank you Mr. Chairman - appreciate the opportunity to share Alaska Housing's present circumstances. First of all I think most of you are well aware that the Corporation was originally created to assist lower to moderate income, for housing citizens of the state to obtain housing in support of the housing industry. There's been a series of adjustments to that original charge over the years, and for almost ten years now there's been consistant subsidy of mortgage loans for Alaskan families that creation of the core (?) business of the corporation and that is to sell bonds and provide loans from Alaskan banks or mortgage bankers. That has resulted presently with the corporation having 2/3 market share of all outstanding residential loans in the state; 2/3rd of the market, about 66% of the outstanding loans are - are loaned by Alaska Housing Finance Corporation. And presently we are a vital link to the continued support of that market in roughly $30 million dollars a month (indeterminate) into the state due to our sale of bonds and purchase of mortgages. That's - that's the amount of loans recorded (?) these are rough figures of course but - on average about $30 million dollars a month is what we continue to purchase, and provide in mortgage finances of course - to our citizens. Most of that activity presently has evolved into FHA and VA financing - it has been increasing in the last year which is a good sign in terms of our ability to accomodate what we consider to be a slow recovery in the housing markets - and we feel that given - where interest rate levels are and where our present volumes are - we're relatively comfortable in terms of being able to meet the demands of - the present demands on - on our resources to accomodate the mortgage markets. I want to get back to that in a few minutes in terms of what we see in the future. But we know have a balance sheet if you look at the Corporation of roughly about $5.8 million dollars- or billion dollars, in total assets, and I have - like to share with you a copy of that balance sheet and talk about it for a moment. And if I may I'd like to just elaborate on - on how to - how to look at the Corporation in terms of it's financial structure. What you see is a typical balance sheet where we list assets and then liabilities and then our equity or net worth. As you can see, the assets of the Corporation are primarily loans that we own, and they total $5.8 billion dollars - that in essence has been relatively the same over the last three years. Also the liabilities (indeterminate-coughing) total $4.3 billion dollars and the net worth - or the total fund equity is a little less than $1.5 billion dollars. The way to look at Alaska Housing is to really understand that it is an operating business in the sense that it is contantly utilizing working capital - hundreds of millions of dollars that are necessary to continue with it's operaitons -daily, weekly, monthly - in the physically purchasing loans in $60 - $80 - $100 million dollar transactions from (seller servicers ?) - taking those loans, bundling them, securitizing them and selling them into - into a bond sale to recover those funds. So, much like - in some cases you can look at a mortgage loan just like a sack of potatoes, it has a value - it has a- it's a commodity and we buy them from mortgage bankers in the state and turn around and replenish ourselves by (bundling ?) them and putting them into bond issues - and then basically we loan that money by people who invest in those bonds and expect a return. So that's the activity - the phenomenon that's unusual - is the subsidy that's included in our activity. As you know, the first $90 thousand dollars of our loan production is subsidized - any amount of our cost of funds that's in excess of 10% - the Corporation subsidizes - if there's a veteran that's (indeterminate - coughing) that number is in excess of 9% - and what ever our cost of funds may be - we make up the difference for that borrower - when we - that loan is originated, so wherever interest rates are in the world and whatever our cost of funds are - really dictates the expense of doing business - when we factor in the subsidy- because we have a fixed charge of anything in excess of 10% we pick up; however, there is a cap on that - it's not to exceed 3% of - of our total expense - so we could have up to a 3% subsidy for any single borrower - and then if our cost of funds were in excess of 13% - in that example - the difference we could pass on to the borrower (indeterminate). We have operated in high rate cycles and now we're in a - as I recall a moderate rate cycle and as- course if interest rates go down our- the cost of subsidizing goes down along with it. And if I can just walk you through the mechanics of how this works - and how the bond issues are structured - may help understand how the - how the corporation must function. We basically go out and borrow - or - if we are in need of funds - and we are buying loans, as I said about $30 million dollars a month, we can project the need to go back to the bond market and borrow more money. Let's say we have $100 million dollar bond issue for the sake of discussion, that the interest rate cost of money to the bond holder is about 11%. And if we were to go out and originate loans at 10%, we would than have $100 million dollars borrowed - cost us 11%, we're earning 10% on the loans that we just originated and matched against - against the bond sale. The investors, knowing that we have a subsidy when we structure that sale, will request and require additional collateral, over and above what the loans are that we're matching into the bond sale. In other words, all the loans we originate are pledged to the bonds, but the cash flows, because we're a subsidy that are matched, $100 million dollars at 11%, $100 million dollars (indeterminate (10%) - coughing) require us to make up with additional loans or cash, or from ou~ own resources that 1% difference. So we have to sweeten the bond sale by more assets. This is where we go into loans that are unrestricted or that are on the - the corporations books that we can utilize for these purposes - allocate and attach to these bond issues - and maybe we have to find another $10 million dollars in loans, plus the $100 million we just - we just originated or purchased - for a total of $110 million dollars that is pledged against $100 million dollars of new money. Now if interest rates go up - and we have say a 12% cost of funds - the same phenomenon- although it requires us to pledge more dollars, more money - more of a sweetner to balance that out. So - from the practical side of running the business when you look at it as an operative business - there is a lot of working capital requirements that are associated with this function. And in order to continue the operations with the subsidy in place - we have to be able to continue to have the resources to pledge and to be able to have the bond situation work out to an investors satisfaction. That's the way we have been doing business for some time. And as I said - when interest rates were higher - a number of years ago - we- our cost of doing business was far greater than what it is right now. It's down and, if interest rates were to continue to go down, of course we - this would be quite nice for us but we're subject to - because of the fixed nature of the subsidy, we're subject to the swings on where ever interest rates are. If you look at the Corporation's balance sheet, and then understand that phenomenon, there is a factor of expense that's associated with the subsidy - that in essense this Corporation gets a return on it's $5.8 billion dollars in assets, (indeterminate) invested either short term investments or is yielding in loans - that we have purchase. So let's say that we have total return on our assets of 9% - again for the sake of discussion - when you look at our cost of funding - typically that cost of funding is about 1% over what we're yielding on our investments - so we have what's known as the negative spread between what we're earning on our assets and what we're paying ou[illegible] on our borrowers. That's a reverse what a traditiona[illegible]nk of someone who - well some banks are doing that now - (indeterminate) but you can't really stay in business that long, and the only thing and the only reason that Alaska Housing is - has continued in business - and remain relatively solvent - is that the fact that it has so many assets in excess of it's liabilities that billion and a half dollars in equity is invested, it's either in loans or short term investments. The earnings are enough to overwhelm that negative subsidy and make a slight profit. When I say slight profit, I'm talking about - a range of $30 to $50 million dollars a year - that's slight when you compare it back to $5.8 billion dollars in assets. If you were running a bank you'd be making a lot more money than that - but the subsidy cost is in there and - and taken care of - but because the Corporation is a stand alone Corporation- it's not part of the state - it has to stand on it's own two feet and support it's debt - the balance sheet works fairly well and - not on a break even basis - but even a slightly - - to make a slight profit- under normal circumstances. We have not been operating under normal circumstances and that brings me to the income statement for the corporation - which I'd like to share with you. As I said - excluding extraordinary circumstances - we think our balance sheet would - and should make us $30 to $50 million dollars a year. If you take a look at past performance - and a lot of that - a lot of those earnings is also - depending on where interest rates are- but - if you take a look at actual performance here - you'll see - in 1987 the Corporation - had a net income before it took a extraordinary item loss of $8 million dollars- is roughly $29 million or $30 million dollars. That was with some run downs on - and net operating expense associated with real estate and mobile homes of about $8 and 1/2 million dollars. Those are somewhat extraordinary events so - so back to the model I suggested - the Corporation really - without those extraordinary - hits- so to speak - should have run about $40 million dollars that year. If you then take a look at 1988 - you'll notice the - where it says expenses - the- last item - right down - the net operating expenses associated with real estate and mobile homes owned - jump from $8.5 million in 1987 to $25 million in 1988. That's the impact of - of the Alaska Real Estate recession we were showing up in our income statement - the expenses of carrying real estate - right down to mobile home loans etc., that as recession set in we - we had some very real expenses and they were recognized in that line item. We didn't have any extraordinary adjustments that year and the Corporation for the first time lost $12 million. We got in the loss column about $12 million dollars. What you see in 1989 are the first nine months of operations. So it's not a year to year comparison - when you can see after nine months that line item was grown to $33 million dollars - and will be higher by the end of this year. So that's the extraordinary item that - that I'm referring to and the drag on our earnings and ability to make money - is and understandbly so - associated with - the fact we have 2/3 of the market - we are certainly not insulated from - from the problems in the market and it costs us money - and that's - that's where a lot of this is showing up. It's my objective - and the Corporation's objective to recognize and realize our financial - circumstance - calculate what affect the - Alaskan Real Estate recession has on a corporation - and make sure that we can share what we feel the financial impact is in it's entirety - as opposed to continueing to drag this line item in our expense area -

because it's important to us to (develop ?) our creditors - for them to understand - what are we really talking about - we have - how big is this problem - is this number exponential is it going to continue to go - - as a lender - it would be a great concern if we could not answer that question - so we're working hard now to identify and model - what impact we have remaining that the write downs and the expenses associated with our real estate owned - will have so we intend to identify that and - reflect it in our year end statement this year. And hopefully once that adjustment is made - if it's accurate - we can return the Corporation profitability in that $30 to $50 million dollar range - in fiscal year 1990. So I hope that - that explains roughly the financial status of how things work. I would like to share with you further, and I'd be happy to respond to any questions - so please interupt me at any time. But beyond that - I'd like to share with you - where we are organizationally - and there's been some comment earlier about some of the internal problems that we have - there is no question we have internal problems - and they are what I would call classic management challenges - in organization dynamics primarily. Every Corportation that has had significant challenges - a lot of growth - a whole new business that it has been forced into - unprepared - and I'm referring to primarily to property acquisition and disposition. Totally different now from our core business that we were set up iin terms of selling bonds and buying loans. And as a result - because of the volume of work and the - gear up and inability to respond quickly enough to get ahead of the power curve so to speak - the property acquisition and disposition process is very difficult - and so we have been playing catch up for some time - and especially in the last - in the last few months. We do have resources to - to attack this problem and preform an additional - people which you all are familiar with the expansion of the human resource that was authorized here earlier this year - and all of the associated systems and the ability to - to basically absorb this work load - has created it's own set of facts in terms of internal dynamics - From September of last year to September of this year - the Corporation will more than double the number of people that are working in it. And there - good part of that - is a new start (indeterminate) back log and continued in-flow of property to determine how to dispose - so - We have presently a number of positions that are what I would call interim positions because obviously the work of this committee - this task force - and others who are looking at the future of the corporation, are going to di[illegible]e where we go in the 1990's - but one of the things - one of my priorities was to focus a corporate mission throughout the organization as soon as possible - and even on a short term time horizon if necessary to say -okay - this is what we're doing here - so with respect to what the Corporation has evolved to - and it's immediate challenges - I've come up with a mission statement that is Alaska Housing Corporate Mission statement - and some primary goals- and there are three of them, and I'd like to just share with you where we are. And again these are short term - but - our work agenda and the pressing needs that we see in the company are - are really incorporated in these priorities. First of all the Mission here is to preserve the integrity of the residential real estate market - and assist Alaskan home ownership. Not necessarily in that order - would be interchangeable - but - we are cognizant of the responsibility and the position we have with 2/3 market share of the relatively tiny and recovering market - it's very important for us to keep the vital link between what we see as not only the dominant player in the market presently - but perhaps one of the only ones if we were to go out - because of the experience of other secondary (?) market traditional resources i.e.,freddy-mack and fanny may others who are - who are used to buying loans. We're not sure that it would be an infill that would adequate to support present price levels (indeterminate) some of the dynamics of our being (indeterminate) so - the integrity of the residential real estate market is the mission of ours and we think that our charge here is to do our job well - to support the efficiency of the market - and at least the consistency of our funding - to do that we have to remain financially strong- we have to be able to continue to bond - to not have an interuption of our flow of funds into the market place, i.e., that $30 million dollars a month. And at least to be in a position to foster any kind of recovery it becomes. So - in terms of the integrity of the market - that's - the financial integrity is one - first of all though - and high on our agenda is to effectively dispose of those excess properties - to get a fair market return is important for the institution - and that certainly includes us - to get out of the sales (indeterminate - someone is playing with something very close to the mic) - - - - - - we want to reduce the inflow of property that we're bringing in the forclosures we'd definitely like to find ways to reduce those - and we'd also like to increase the number of sales - that we are experiencing. We did hit a mile post here in the month of June for the first time we sold more property than we took in - first time in years so - - that's something we would very much like to continue - and work on a net reduction of our overall - (indeterminate) not only for the benefit of the corporation - but for the benefit of the market - the faster we can get (indeterminate).

SZYMANSKI: Is that an anomaly - I mean this June - because of the oil spill.

BEHAN: We hope not - June is typically a good sales month in the cycle so - so - the real test is going to be this winter - whether we can keep that up or not.

SZYMANSKI: But did that include all your - I mean - weren't - maybe I'm mistaken - I thought - didn't you guys turn a lot of your mobile homes - Port of Valdez project.

AHFC'S CORPORATE MISSION STATEMENT

"AHFC's mission is to preserve the integrity of the residential real estate market and assist Alaskan homeownership."

Our primary goals:

1. Effectively dispose of excess property.

   a. Reduce the inflow of property and increase sales of real estate owned to result in net reductions through the property disposition system (Alaskan Home Properties division).

   b. Reduce foreclosures by providing a menu of presale options and workout opportunities and implementing a HOAP III program.

2. Financial stability and profitability.

   a. Financial statement production and monitoring throughout the organization (budget, performance).

   b. Year-end loan loss adjustment.

   c. Implement an investment policy.

   d. Forecasting and modelling the balance sheet for the future (interest rate sensitivity).

   e. Enhance creditor relationships and communication.

3. Internal organization to meet major challenges.

   a. Personnel Rule improvement.

   b. Establishment of a communications department.

3TB026

Alaska Housing
FINANCE CORPORATION

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MEMORANDUM

TO: Senate Resolution 28 Task Force

FROM: Thomas C. Behan

DATE: July 26, 1989

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For the contractual arrangement, we have the following questions that must be asked and are important to obtain an objective analysis of:

1. What is the future demand for housing in Alaska?

   a. By region.
   b. By price range:

      i) under $135,000 (FHA limit)
      ii) Over $235,000 (Freddie Mac limit)
      iii) Under tax-exempt limit

2. How much liquidity reserves and earnings does AHFC require?

   a. The minimum by bond covenants.
   b. To maintain a current bond rating.
   c. To maintain present programs.

3. In the absence of AHFC programs, what would the effect be, short and long term, on the Alaska real estate market?

4. What would be the effect on the real estate market (prices, demand, and supply) of eliminating all AHFC subsidy July 1, 1990, i.e., effect on public perceptions?

5. If AHFC stopped all subsidy July 1, 1990, how much cash flow would be produced from earnings and how much assets from bond retirements?

6. How must AHFC restructure it's relationship with the State in order to be able to be sold in whole or in part?

7. What is the market value of AHFC under various sale structure scenarios?

8. What would happen if AHFC stopped purchasing loans on July 1, 1990?

These and other questions must be included in the study and contract contemplated to be RFPed through the Task Force efforts.

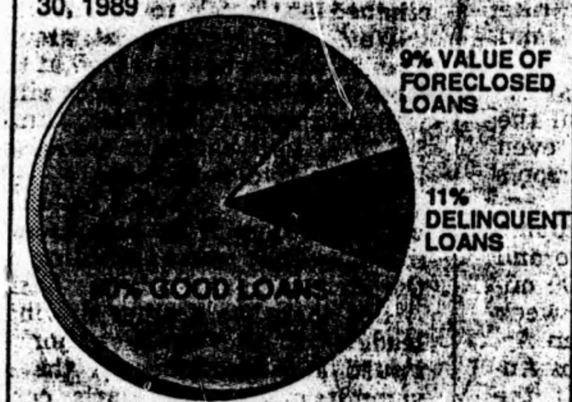
AHFC, MGIC face off in claims battle

Flood of foreclosures leads to huge dispute between housing agency, mortgage insurer

By GEORGE FROST
Daily News reporter

JULY 30, 1989

AHFC's BAD LOAN PROBLEM
Loans, defaults and foreclosures as percentage of loans and foreclosures on April 30, 1989



Source: Alaska Housing Finance Corporation

The Alaska Housing Finance Corp. stands to lose a staggering $80 million of public funds in a dispute with an insurance company over the payment of claims on thousands of foreclosed homes.

Mortgage Guaranty Insurance Corp., a Wisconsin-based company that is the nation's largest private mortgage insurer, provided AHFC insurance during the early 1980s housing splurge and now regrets it. The company, backed by a wealthy European insurance consortium, is undergoing painful losses in its Alaska insurance portfolio.

As more and more AHFC borrowers defaulted on their mortgages during the state's three-year real estate tumble, the agency took back more and more property. With each foreclosure, AHFC submitted insurance claims for lost loan payments and the costs of managing and selling the house. A foreclosure is the process by which a lender takes away property to satisfy an unpaid debt.

But Alaska Housing officials say that MGIC, anxious to deflate its ballooning losses, is "nickel-and-diming" the agency to death when it mails in claims.

Of every $1 claimed, MGIC is discounting between 20 and 25 cents, AHFC records show. MGIC says every nickel it takes is legitimate.

Financial analysts on Wall Street say the insurance fight is potentially the largest ever between a public housing agency and an insurer. The stakes are huge: Multiply every 20 cents sliced from a claim by $400 million to $500 million. That is AHFC's estimate of the total claims it will submit for reimbursement in the next few years.

In Alaska, the financial repercussions are severe because AHFC isn't just the most important player in real estate here — it is almost the entire market. AHFC owns roughly 4,600 foreclosed homes that it is trying to sell as fast as possible without driving down home values any further.

And of those homeowners still making loan payments, two of three are paying off AHFC loans.

What AHFC does, or fails to do, largely will determine whether Alaskans buy homes and what price they pay.

According to interviews, memos and AHFC records obtained by the Daily News, MGIC has reduced or denied more than 1,100 of the 1,631 claims submitted in the 15 months ending last March. And the insurance company is getting even stingier lately — reducing payments on 95 percent of all claims submitted.

Insurance officials say the state agency has greatly exaggerated the size of the insurance problem and is at fault for mismanaging its programs.

Shortsighted policies, sloppy paperwork, bungled sales programs and improper expenses in the management and repair of AHFC's giant inventory of foreclosed homes are not insurable claims, according to Tom Ster, an insurance troubleshooter who came from the Houston real estate disaster late last year to head MGIC operations in Alaska.

Ster says that his company will pay all legitimate losses but won't subsidize AHFC mistakes.

If Alaska Housing would act more professionally in its handling of loans, insurance claims and home sales, he said, "we'd be down to a pale shadow of what they perceive the problem to be."

Tom Behan, who took over as executive director at the $5.8 billion AHFC about five months ago, admits there are major snags in the system. The agency, banks it pays to service its mortgage loans, and real estate brokers it hires to manage and sell foreclosed homes all share some blame, he said.

But Behan said that through its arbitrary denials of legitimate claims, MGIC is most to blame.

"They are taking real license here. We are not just making it up," he said.

After months of negotiations marred by shouting and charges of bad faith, a once-amiable relationship between the insurer and the agency has fizzled. Lawyers are pouring over the fine print in insurance contracts. The AHFC board on Friday authorized its attorneys to draw up a lawsuit and administrative complaints against MGIC.

"They (AHFC directors) want us to go sue them, but they gave me the option of waiting while we try to work out something," said Behan.

If no reasonable progress has been recorded by Sept. 1, AHFC will sue, said Chairman Bob Mintz. "The message is that we are going to be serious about enforcing our insurance rights," he said.

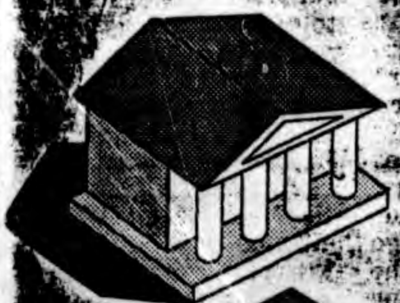
The fight could not have come at a worse time for Behan and a greenhorn crew of senior aides. The agency is undergoing considerable turmoil while doubling its staff and attempting to transform itself from a cautious bond financier into the Cal Worthington of used homes.

Alaska Housing, a legislative target year after year for liquidation and raids on its savings accounts, faces daunting problems that may hasten a final decision:

• If AHFC can't collect tens of millions of dollars of insurance claims, it must draw on the $459 million of reserves needed to

WALL STREET TO YOUR STREET

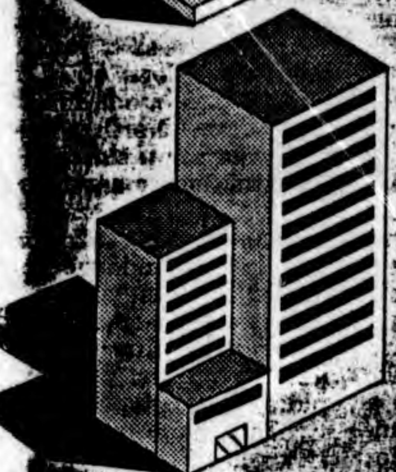
How Foreclosures Burn Through the Home-Financing System



THE BANKS

1) Home buyer borrows $95,000 from the bank, makes a $5,000 down payment and acquires a $100,000 house.

2) The bank sells the loan to AHFC but continues to service it.

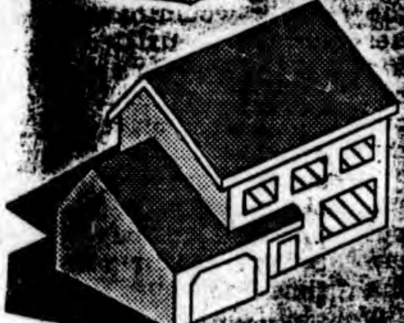


THE CORPORATIONS

3) AHFC bundles up hundreds of these loans and uses them as collateral to sell $100 million in bonds on Wall Street.

4) Insurance companies, such as MGIC, back the bonds against default. They will cover $20 million to $25 million of mortgage loan foreclosures, but no more.

5) AHFC then uses the bond proceeds to purchase additional home loans from banks, repeating the cycle.



THE FORECLOSURES

6) The home buyer defaults on the loan and AHFC forecloses.

7) AHFC tries to sell the house but incurs additional costs due to maintenance, repairs, utilities and lack of mortgage payments.

8) AHFC finally sells the house and pays the real estate agent's commission.

THE LOSSES

9) AHFC files a claim with the insurer for the loss. MGIC settles the claim.

10) After so many foreclosures, the insurer's pool of money runs dry and pays no more. AHFC and the bond holders are exposed to direct losses.

Anchorage Daily News/Ron Engstrom

nce housing. Behan insisted that AHFC
n't need a legislative bailout.

At least four insurance "pools" — mul-
illion-dollar buckets of MGIC insurance
ney used to pay off claims on foreclosed
mes — are running dry, exposing AHFC
direct losses of about $9 million within
ee years.

The insurance deadlock has virtually
ee-capped several cooperative programs
e insurer and AHFC crafted to bail out the
te's housing market, including the highly
uted condo exchange program, a special
ancing program, multiple sales of condos
investors and condo rentals.

AHFC's financial difficulties could
ompt bond-rating companies to down-
ade its creditworthiness, costing millions
additional dollars because it must pay a
gher percentage rate to borrow money on
all Street. Much of these costs would be
ssed along to future home buyers.

Although both sides have tried to keep
eir differences private, the sheer size and
mplexity of the dispute is forcing public
posturing and argument. The financial world will be aghast at the "spectacle of these two giant institutions thrashing around," said Ster, who is worried the AHFC fight will besmirch his company's reputation as a fair insurer.

How did two corporate giants get into this fix?

The answer isn't easy. Spanning a decade, it is a story of financial buck-passing from the glass towers of Wall Street, where AHFC has floated more than $4 billion of bonds to generate mortgage cash, to the tree-lined streets of Anchorage.

Along the way, the whole real estate world here turned upside down. Investors lost their footing. Families lost their homes. A dozen banks were closed, merged or taken over by regulators.

As MGIC has learned, the Alaska mortgage market was the absolute worst place for an insurer to be. Mortgage for mortgage,

Please see Page C-3, DISPUTE

Continued from Page C-1

it has a higher default rate than Texas, Oklahoma and other oil-patch states that sank into depressions when world oil prices tumbled in 1986.

But until now, Alaska Housing itself had avoided any serious damage.

"I think it is incredible we've been able to hold losses as we have," Behan recently told a legislative task force probing AHFC finances.

A legislative crusade to provide affordable home financing for low-and-moderate income citizens gave rise to AHFC. The state built a huge money-making machine operated by bureaucrats, Realtors, bankers and bond lawyers.

The mortgage machine was stoked by a rising population and fed with oil money. People needed homes. Builders wanted to cash in. Alaska Housing created dozens of programs and financed more than 46,000 single family homes, condos and mobiles in the 1980s.

Each program is different, but here are the basics: A home buyer goes to a bank, savings and loan or mortgage company for a home loan. Then the bank sells the mortgage to AHFC, immediately pocketing a couple thousand dollars and passing on the risk of a default.

Although AHFC owns the loan, the bank continues to collect mortgage payments, insurance and taxes on behalf of the agency and is supposed to make sure the borrower stays current.

An Alaska Housing loan delivers a subsidy of the interest rate paid by the home buyer. An average subsidy amounts to $100 a month to each of those 46,000 borrowers. Each time a family sits down to write a $1,000 check to pay the mortgage, Alaska Housing is paying $100 of the bill.

Agency staff figure that $100 a month equals about $11,000 in terms of actual purchasing power when a family goes shopping for a home.

The subsidy is the real estate equivalent of the Alaska Permanent Fund Dividend — and AHFC programs proved just as popular.

To satisfy the state's prodigious appetite for mortgage money, AHFC needs cash. Some money came from oil taxes — about $1 billion over the years. But most of the money used for mortgage financing was raised on the Wall Street bond market.

A bond is basically a piece of paper bearing AHFC's promise to repay a loan with interest. In the same way a credit officer scrutinizes a would-be borrower, Wall Street investors consider how good a credit risk a public housing agency is before buying a bond.

Bond investors use credit-rating companies to help them decide how likely a public agency is to repay its debt. Agency bond issues are rated on a scale from AAA — the best — to D, which is basically a default. Most AHFC issues got a AA rating, which is about as high as public housing agencies get.

A higher rating brings a lower interest rate because the investment is considered the safest. A fraction of a percentage point can add or subtract millions of dollars to the cost of repaying AHFC bond debts.

In some years, Alaska Housing was borrowing more money each year on Wall Street than General Motors. Investors today hold more than $3.7 billion of bonds.

To secure a good rating, Alaska Housing bundles together thousands of loans and uses them as security for each bond issue. A "sweetener" of additional mortgage loans — usually worth about 10 percent of the total needed to collateralize the bond — is tucked into the loan portfolio. That helps maintain a cushion of safety that secures a high bond rating and speeds the sale of the bond issue.

Just as banks pass on the risks of default to AHFC the state agency spreads the risk.

Almost all homes fi nanced through AHFC bond sales are protected by indi vidual insurance policies th homeowner pays for each month. But these policie don't cover the entire mort gage amount.

A good rating requires even more protection, and that's where MGIC entered the picture.

During the early 1980s, the insurer agreed to provide "pool" insurance protection for more than 25 bond issues worth a couple billion dollars. MGIC promised to pay about 20 percent of the total dollar amount of losses on each of the issues, above and beyond the private insurance coverage.

This insurance was issued by the "old MGIC," a Milwaukee-based company that had been the dominant force in the industry throughout the 1970s. The company fell on hard times after its purchase by Baldwin-United Corp., a Cincinnati company that asked for protection from creditors under Chapter 11 of the U.S. Bankruptcy Code.

A corporate shell of the old MGIC was formed in 1985 to pay off claims when Northwestern Mutual Life Insurance bought 90 percent of the old MGIC from Baldwin.

This company, called Wisconsin Mortgage Assurance Corp., just pays off old claims and does not write any new insurance business. A new MGIC was created out of the Bankruptcy Court action, and it is this company that operates in Alaska.

A key to the creation of the old and new MGICs was the participation of a European insurance syndicate, spearheaded by the giant Swiss Re, which promised to pay almost all of the claims. The new MGIC holds 20 percent of the policies, and 20 percent of the losses. Swiss Re pays the lion's share.

Borrowers are making

MGIC's Tom Ster

payments on about 8,000 MGIC-insured loans in Alaska, of which 4,500 were renegotiated through a special hardship program called the Home Owners Assistance Program. Many of these HOAP borrowers are still in trouble and headed for default, according to AHFC.

Ster said MGIC has some 5,000 other loans in foreclosure or headed there.

During a four-year stretch through 1988, the company paid out more than $132 million in claims, said Wisconsin insurance official Brian Hogan.

In those four years MGIC collected only $13 million in premiums, he said.

Ster won't say how much MGIC expects to lose on its Alaska portfolio, but he acknowledged it to be the highest claims payout compared to premium earnings that he knows about. AHFC officials estimated the insurer will be forced to set aside another $300 million to $400 million to pay claims.

The Wall Street companies that rate the performance of public housing agencies are aware of the struggle between AHFC and its insurer, and the implications.

"If some claims are not going to be paid, that can have a negative impact on the agency and some of their bonds," said Bill Desante, head of public finance ratings for Moody's Investors Service Inc.

Desante said he has never heard of a hassle of this magnitude between an insurer and public housing agency. Moody's will study the claims dispute and make a judgment about which side will prevail.

Another potentially troubling problem the bond raters will examine is the likelihood that four of AHFC's tax-exempt bonds, worth about $400 million dollars when issued in 1982 and 1983, are "burning through" their pool insurance protection. MGIC agreed to pay up to 20 percent of losses.

"If in fact the losses burn through those pools and we talk about the agency making those up, it's a question of how much," he said.

The other Wall Street ratings powerhouse, Standard & Poor's Corp., also is watching the agency closely.

An S&P rating team is planning a trip to Alaska to evaluate the agency's health, said Tom Gillis, managing director of the firm's mortgage ratings department.

It will look at financial reserves, bond performance, expected losses and the agency's balance sheet as well as general economic conditions.

"Pretty much all the oil economy-based states have experienced higher losses on portfolios than the rest of the nation," he said. "Unfortunately, Alaska may be the worst of those states."

When the bond raters examine AHFC's balance sheet, they will see mounting losses caused in part by the extraordinary costs of managing so many foreclosed homes and partly by the hybrid character of a public agency that subsidizes interest rates below the market level.

As an example, when AHFC sells a $100 million bond issue, investors get paid 11 percent interest a month. But the underlying mortgages are only paying about 10 percent a month to AHFC.

That crucial difference is theoretically recouped through profits from the $1.5 billion that Alaska Housing puts into government bonds and other investments.

But lately Alaska Housing's losses have outstripped its investment earnings. In fiscal 1987, it made profits of about $21 million. But the next year it lost $12.6 million as the cost of foreclosures ate away at its earnings.

During the first nine months of the 1989 fiscal year, which ended June 30, Alaska Housing had already lost $27.5 million — and expects to accumulate more than $40 million of losses for the year.

The main culprit was the rising cost of managing foreclosed homes, which increased from about $8.5 million two years ago to about $34 million for the first nine months of the 1989 fiscal year.

But now the issue of unpaid insurance claims threatens to overwhelm all else.

At the nitty-gritty level of claims adjustment, millions of dollars are going to be lost or saved.

AHFC's Behan said the agency won't give up what it calls legitimate claims. Ster said MGIC won't pay for the mistakes of Alaska Housing, the banks that service the loans or the brokers who sell foreclosed homes.

Much of the dispute hinges on mind-boggling technicalities that are the life-blood of the insurance industry. As might be expected, they involve filling out the right forms, mailing them at the right time and then performing the actions required under the policy.

Ster estimated that between 20 and 30 percent of all AHFC loan files have faulty documentation.

According to AHFC officials, the agency has a lot of trouble keeping track of all the loans, missed payments, foreclosures, insurance claims, repair work, listings and sales that roll through the system.

John Scott, a senior computer programmer who recently left AHFC after complaining about management practices, said the accounts payable system is in chaos. Although most expenses are detailed in hard-copy form, researching those claims would be a massive undertaking.

"There is no way in hell we can do that," Scott said.

These are among the problems that Mintz, relatively new to his job, calls "outrageous policy mishandling."

Bankers who get paid for servicing the loans are supposed to notify MGIC if a homeowner is going into default. That gives the insurance company time to try to work out a deal with the borrower or sell the home prior to foreclosure. About 1,650 borrowers have been approached before foreclosure, and many saved their homes, Ster said.

Behan said the failure to notify MGIC does not cause much harm to the insurer.

Incredibly, AHFC has never conducted a substantial audit of banks doing the agency's business despite glaring irregularities in paperwork, said Mintz.

After a home is taken away through foreclosure, AHFC turns over the properties to select real estate brokers who manage them, authorize repairs and then try to sell them. The brokers get a commission when the home sells. They bill AHFC for the costs of advertising, repair and other expenses. A highly critical state audit prompted AHFC to reform its so-called designated broker system. It is expanding the number of brokers and trying to establish a system to oversee their activities.

Although AHFC has been doing a better job at getting homes ready for sale, some foreclosed properties sit for months without being put on the market, according to MGIC. Others are priced so high that nobody wants them.

The insurer generally wants AHFC to lower prices. AHFC worries that "dumping" would wipe out the value of its own portfolio of foreclosed homes, as well as trigger another wave of defaults among homeowners who owe thousands more than their homes are worth. But Ster said MGIC does not advocate auctions or other destabilizing marketing strategies — just selling homes for what they are worth.

A typical foreclosed home costs MGIC about $800 or so a month in payments to AHFC, and the company argues that throughout the industry it is common practice to adjust claims for non-performance by a housing agency.

Alaska Housing argues the insurance company has no legal basis for refusing to pay claims merely because a home didn't go right on the market. And in this market, Behan said, it is absurd to believe those homes would have sold any faster anyway.

More fussing takes place over repairs done on foreclosed homes to pretty them up for sale.

Under the standard insurance policy, MGIC pays for "wear-and-tear" items like new carpets and painting. It throws in microwaves.

But if a home needs a new wall, roof or foundation, MGIC says that Alaska Housing has to pay.

The insurer wants AHFC to sell some homes as bargain fixer-uppers, but AHFC says that it would be exposed to lawsuits if it sold homes in serious disrepair.

"Barring that, if there was proper servicing (of the loans by banks and mortgage companies) and proper marketing, there would be virtually no adjustments," Ster said.

Another major disagreement involves the sale and rental of blocks of AHFC-financed condos to investors. MGIC has received offers on six condo projects involving 127 units, and wants to close those deals before the investors go elsewhere.

But the Alaska Housing board decided that people living in AHFC-financed condos should get a chance to veto any bulk sale in their projects. AHFC wants to restrict bulk sales to vacated "donor" projects in a proposed condo-exchange program. That joint AHFC/MGIC program would let owners in donor projects trade up to nicer condos. The Alaska Housing board also attached some strings on the bulk sales program that MGIC rejects.

Both Behan and Ster said the condo-exchange program is on hold indefinitely as the corporations try to work on the insurance claims dispute.

According to Behan, MGIC's stinginess has already cost the agency a lot of money. Under the previous administration, AHFC staff cashed millions of dollars of MGIC claims checks that bore a restrictive endorsement, basically saying "paid in full" — denying the agency any chance of recovering the disputed claims.

Since putting a stop to the practice, about $10 million worth of such checks have stacked up, he said.

Ster said that MGIC has used the endorsement for years and it is a standard, industrywide practice. But MGIC stopped a few months ago when a new state law went into effect that made it harder to justify the endorsement.

All of these issues have congealed into a real mess.

Behan said the claims argument is too important to just set aside while going ahead in other areas.

Ster said Alaska Housing veered away from previous agreements on the condo exchange program and other major programs when the Behan administration took charge.

"It is a symptom of the kind of reaction we have gotten, just a lot of changes and new items we had not anticipated," he said. "We are trying to separate the issues, not pick anybody's pocket."

REPRESENTATIVE
C.E. "SWACK" SWACKHAMMER

Alaska State Legislature

House of Representatives

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MEMORANDUM

TO: Membership, Housing Finance Task Force

FROM: Rep. C.E. Swackhammer, Chair, H.F.T.F.

DATE: September 1, 1989

TOPIC: 2nd H.F.T.F. Meeting Recap, August 23, 1989

Attached is a brief recap of our recent Housing Finance Task Force Meeting. Please share any concerns and/or corrections with my office.

I look forward to meeting with you September 20, 1989, at 3:00 PM.

I. AHMC History - closing down March 12, 1990

II. Work - as listed on sheet. Additionally:

A. Research

1. Supply and Demand analyses and numerous other research studies. (Hand out Women's transitional report) (will refer to this report later)

2. Mortgage Loan Data Report - has been recognized on the national level as the most comprehensive ongoing study of the Alaska housing market: used by bond insurers, FNMA, FHLMC, HUD, FDIC, etc.

B. Policy Development

1. The Housing Stabilization Task Force report in March of 1988. Many of the recommendations were instituted - either through legislation, or more often through administrative or regulatory changes.

2. Housing Policy Development Committee - consists of a diverse group of people from the public, the housing and real estate industry, and the legislature. Legislative Resolve 55 requires that the housing policy recommendations be delivered to the Legislature by January 31.

Members of the HPDC have conceptually agreed upon 13 policy statements which will receive

FINAL APPROVAL ON SEPTEMBER 8. AT THAT TIME, THEY WILL ALSO BEGIN FINALIZING THE SPECIFIC RECOMMENDATIONS WHICH WILL ACCOMPANY THOSE POLICIES. (HAND OUT).

IT IS OUR HOPE THAT THE HPDC AND THIS COMMITTEE WILL FEED INFORMATION BACK AND FORTH SINCE WE ARE APPROACHING SOME OF THE SAME ISSUES FROM DIFFERENT PERSPECTIVES. OBVIOUSLY, WE DO NOT HAVE THE FINANCIAL AND ADMINISTRATIVE CAPABILITIES TO DO A FINANCIAL ANALYSIS OF STATE HOUSING AGENCIES. BUT THE RESULTS OF THE STUDY YOU WILL BE COMMISSIONING WILL BE IMPORTANT TO THE HPDC'S WORK.

AS A POINT OF INFORMATION, A FNMA INVESTMENT OFFICER ON THE WEST COAST INFORMED US THAT THEY HAD HEARD ABOUT OUR HPDC AND THIS TASK FORCE HERE AND VIEWED THESE ORGANIZATIONS AS THE GOVERNOR'S AND THE LEGISLATURE'S SERIOUS COMMITMENT TO SOLVING OUR HOUSING PROBLEMS. HE MENTIONED THAT THIS COMMITMENT WILL BE THE REASON THAT OUTSIDE INVESTORS AND INSURERS WILL RETURN TO ALASKA.

III. I WOULD NOW LIKE TO SHARE WITH YOU SOME OF MY OBSERVATIONS AND CONCERNS ABOUT HOUSING AND MORTGAGE LOANS IN ALASKA:

1. SINCE MAY OF 1987, WHEN I TOOK THIS JOB, WE BEGAN TALKING ABOUT THE OBVIOUS NEED TO TAKE EMPTY HOUSES AND USE THEM FOR SOCIALLY ACCEPTABLE PURPOSES, SUCH AS HOUSING FOR THE HOMELESS, TRANSITIONAL HOUSING FOR WOMEN COMING OUT OF CRISIS SHELTERS (REFER AGAIN TO THE REPORT), ETC. YET WE HAVE MADE VIRTUALLY NO PROGRESS ON THAT FRONT - EXCEPT FOR A SMALL PROJECT WHICH ANCHORAGE NEIGHBORHOOD HOUSING SERVICES IS WORKING ON. THERE ARE WAYS THAT WE CAN MAKE GOOD USE OF OUR OVERABUNDANCE OF HOUSING, BUT TURF WARS AND A LACK OF DEDICATION TO THOSE ENDS HAVE STOOD IN THE WAY. SOME OF THOSE PROJECTS COULD HAVE BEEN INEXPENSIVE AND, IN THE LONG RUN, COST EFFECTIVE.

2. I'D LIKE TO ADDRESS THE ISSUE OF PRIVATIZATION OF AHFC. IN DISCUSSIONS WITH MR. BEHAN, WE BOTH CONCEPTUALLY AGREED THAT AHFC, AS WE KNOW IT TODAY, WILL NOT EXIST IN TEN YEARS. WE TALKED ABOUT SPLITTING AHFC INTO TWO ORGANIZATIONS: THE ONE THAT EXISTS NOW WOULD BECOME PRIVATIZED, THE SUBSIDIES WOULD GRADUALLY BE REDUCED AND THEY WOULD PHASE THEMSELVES OUT OF BUSINESS WHILE THE OTHER PART OF AHFC WOULD REMAIN AS ORIGINALLY INTENDED AND, LIKE MOST EVERY OTHER HOUSING FINANCE AGENCY IN THE COUNTRY, IT WOULD DEAL WITH LOW TO MODERATE INCOME PEOPLE. AND, AS OTHER STATES DO, PROVIDE MORTGAGES TO NON-PROFIT GROUPS TO FILL HOUSING NEEDS.

I HAVE THREE CONCERNS ABOUT A NEW PICTURE FOR AHFC:

FIRST, MY OVERALL FEAR ABOUT PRIVATIZATION IS THAT THERE ARE MANY STATE AGENCIES WHO DREAM AND PRAY FOR PRIVATIZATION SO THAT THEY CAN REMOVE THEMSELVES FROM YOUR JURISDICTION. IF YOU DECIDE TO PRIVATIZE AHFC, I HOPE THAT YOU WILL ENSURE THAT IT IS FOR THE PURPOSE OF PHASING THEM OUT - BECAUSE ONCE PRIVATIZED, THE PUBLIC AND YOURSELVES WILL HAVE LITTLE CONTROL OVER THEIR ACTIONS.

SECOND, I AM CONCERNED THAT THE CONCEPT OF LEAVING AHFC AS IT ORIGINALLY WAS CREATED - TO HELP LOW TO MODERATE INCOME CITIZENS, DOES NOT GET LOST IN THE SHUFFLE AND EXCITEMENT OF PRIVATIZING OR CLOSING DOWN AHFC'S PRESENT PROGRAMS.

THIRD, DCRA HAS A GOOD REPUTATION FOR SERVICE DELIVERY TO RURAL AREAS AND IT WOULD BE A SHAME IF AHFC TOOK OVER TOO MUCH OF THEIR PORTFOLIO AND THOSE PEOPLE WOULD GET LOST IN THE BIGGER PROBLEMS WHICH AHFC FACES. BESIDES, AHFC HAS NEVER WILLINGLY BEEN IN THE BUSINESS OF RURAL LOANS AND THEY WERE NEVER REALLY SET UP TO DEAL WITH THOSE LOANS.

3. "HURTING OUR BOND RATING" IS THE ONE PHRASE THAT STRIKES FEAR IN ALL OF US. HOWEVER, TOO OFTEN, IN THE PAST, THAT PHRASE WAS USED TO CONVINCE US THAT WE COULDN'T DO CERTAIN PROGRAMS - OR WE HAD TO CONDUCT OUR BUSINESS A CERTAIN WAY IN ORDER TO KEEP OUR BOND RATING; BUT THIS WAS NOT ALWAYS NECESSARILY SO. HIGH FINANCE IS NOT BEYOND ANY OF OUR UNDERSTANDING, THUS WE SHOULD REFUSE TO ACCEPT THAT ARGUMENT (IT'LL HURT OUR BOND RATING) WITHOUT QUESTION. WHAT I HAVE LEARNED IS THAT PLAYERS IN THE BOND MARKET DON'T ALWAYS

FROWN ON US FUNDING SOME NON-CONFORMING LOANS, AND OUR LOSSES HAVE NOT PARTICULARLY SCARED THEM AWAY - AS YOU CAN SEE - AHFC'S BOND RATING WENT UP THIS LAST YEAR. WHAT THEY LOOK FOR IS STABILITY: THEIR NEED TO BE ABLE TO PREDICT WHAT THE STATE OF ALASKA WILL BE DOING IN THE MARKET.

4. ONE LAST COMMENT IS THAT WE ALL RECOGNIZE THE SERIOUSNESS OF THE PROBLEMS OF URBAN HOUSING AND ITS SUBSEQUENT EFFECTS ON OUR RESIDENTS. IT IS A HORRIBLE FEELING TO LOSE YOUR HOME. I DON'T MEAN TO MINIMIZE IT. BUT HOUSING PROBLEMS IN THE RURAL AREAS ARE SO DIFFERENT, AND SOMETIMES FAR MORE SERIOUS, THAN OUR OWN. TRY TO PICTURE 5-7 PEOPLE, FROM THREE GENERATIONS, LIVING IN A 700-800 SQUARE FOOT HOME. THE OVERCROWDEDNESS AND THE LACK OF BASIC SANITARY CONDITIONS IN RURAL HOUSING IS HARD TO COMPREHEND UNTIL YOU EITHER SEE IT YOURSELF OR READ THE RESULTS OF DCRA'S RURAL HOUSING NEEDS ASSESSMENT STUDY. SO, I ASK THAT WE REMEMBER RURAL HOUSING CONDITIONS WHEN WE HAVE TO DECIDE WHERE TO ALLOCATE OUR DWINDLING RESOURCES.

THERE ARE MANY MORE ISSUES THAT I COULD ADDRESS HERE, BUT I WAS MOST CONCERNED ABOUT ARTICULATING THOSE WHICH HAVE NOT ALREADY BEEN BROUGHT UP. THESE ARE CONCERNS WHICH YOU MAY WISH TO TAKE INTO CONSIDERATION WHEN YOU MAKE YOUR RECOMMENDATIONS CONCERNING THE FUTURE OF MORTGAGE LOAN PROGRAMS IN ALASKA.

REPRESENTATIVE
C.E. "SWACK" SWACKHAMMER

Alaska State Legislature

House of Representatives

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MEMORANDUM

TO: Membership, Housing Finance Task Force

FROM: Rep. C.E. Swackhammer, Chair

DATE: October 3, 1989

TOPIC: HFTF Meeting, September 20, 1989

Attached in an overview of the 09-20-89 meeting of the Housing Finance Task Force.

Also attached is a brief letter from the Alaska Industrial Development and Export Authority stating AIDA offers no residentail housing loans.

"NEAR" VERBATIM

ALASKA MORTGAGE BANKERS ASSOCIATION

SEPTEMEBER 20, 1989

CHERYL HENRY, ASSOCIATION PRESIDENT

"...I am President of the Association this year and Jim Picard is Vice President, Lucille does chair our legislative affairs committee...The Board met on Monday and what we had were copies of your proposed RFP that you sent out to the field...what we tried to do is go through the questions that were on Tom Behan's memo of July 26th, taking a look at where your task force was going. Quite frankly, we would be very interested in seeing the report of your consultant, there are a lot of things on this that we would be interested in understanding before tell you how the mortgage bankers feel one way or the other on an issue. We did come up with about three points. At this point we would not recommend a raid on Alaska Housing Finance capital. If you are looking at any short or long term recovery, you can't be raiding the very capital we need to aid in that recovery process. The second thing is more of a question on our part. We want to better understand how the AHFC would be privatized as mentioned here a couple times if something your consultant will look at. How would you privatize it. Depending upon the mechanics used, to privatize would have an impact on our industry, both production and servicing. And the third issue we came up with is, and it is related to the first on not raiding Alaska Housing, so far it has been our perception that the legislature, as a whole, seems to be avoiding the hard issues of reducing expenses. You are out looking for money, you are going to rob Peter to pay Paul rather than just biting the bullet and saying we have to look at reducing expenses. We are asking you to keep that in mind. It is going to take money to fuel the recovery, if you take it away from Alaska Housing or DCRA, they are serving the rural areas, they can't aid in any recovery, or in anymore expansion meeting the housing needs across the state..."

DISCUSSION:

The presentation was followed by an assurance by Rep. Swackhammer that the task force does not have preconceived ideas about privatizing AHFC. Likewise, "status quo" is not the answer. A consultant is being sought to make recommendations to the task force so the future of the AHFC can be debated. This debate will occur when the legislature is in session and hopefully within adequate time to introduce needed legislation.

Jean Smith REALTOR

REALTOR®

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September 19, 1989

Rep. C. E. Swackhammer, Chairman
Alaska Housing Finance Task Force
3111 C Street
Anchorage, Alaska 99503

Dear Rep. Swackhammer:

It is my understanding the Alaska Housing Finance Task Force is holding a series of meetings to review and analyze the publicly-assisted residential finance programs in Alaska in preparation for your report to the Legislature early in the 1990 session.

Your analysis will reveal that the State has a great many on-going housing assistance programs designed to meet the needs of a wide variety of home buyers. The missing link in all these programs is that there is presently no financing available for buyers of cooperative housing units. Attached is a copy of the letter I wrote last year for presentation to several Anchorage area legislators setting forth the background of Safehaven, Inc. Cooperative and outlining the problem.

Because cooperative home ownership is a long-established and viable form of home ownership in other States, I believe your legislatively established Task Force is the proper vehicle to recommend the Legislature take action to include financing for individual cooperative units in programs conducted by the Dept. of Community and Regional Affairs, AHFC, State pension funds, Alaska State Building Authority, or whatever subsidiary the legislators deem appropriate.

The Board of Directors of Safehaven, Inc. and I will greatly appreciate your consideration of this problem as well as your assistance in finding an early solution to it.

Sincerely,

Jean Smith

Jean Smith

Attach.

Jean Smith REALTOR

REALTOR®

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October 29, 1988

TO: Anchorage area Legislators

RE: SAFEHAVEN COOPERATIVE, INC.

BACKGROUND INFORMATION:

Safehaven Cooperative is a long-established housing development located in the South Addition of Anchorage near the West end of Delaney Park Strip, and more particularly between West 11th and West 12th, and P Street and Beech Lane. The complex is situated on nearly 3 acres and consists of 13 buildings, including 40 residential units, 2 laundry rooms, and a combination office, meeting room, and storage building.

The complex was constructed approximately 1943 by the Civil Aeronautics Administration to provide housing for their employees due to the shortage of available housing in Anchorage at that time. Only CAA employees and their families were permitted to live there. By the mid-fifties sufficient housing had been built in Anchorage that the CAA no longer needed to provide housing to attract employees. The CAA officials met with their tenants and urged them to organize themselves and purchase the complex. With the assistance of attorneys, CAA supervisors, etc., a cooperative was formed, by-laws were drawn up, a Board of Directors was elected, and financing was obtained through the Public Housing Administration (forerunner of HUD/FHA). The Cooperative, through its Board of Directors, several years ago paid off in full their loan so the entire property is now debt-free.

In those days the condominium concept was unknown, so formation of a Cooperative was the only feasible method to accomplish the goal. At that time then-residing CAA employees had first dibs to buy a share of stock in the Cooperative, other CAA or Government employees had second dibs, veterans had 3rd rights, and then open to anyone.

The Cooperative through the years has been most fortunate in keeping a prudent, diligent and dedicated Board of Directors who have, by their efforts, enforced the by-laws, supervised the installation of a number of capital improvements, retained a healthy reserve account while keeping monthly homeowner fees moderate, and maintained the premises in first class condition, making the units a very desirable place to live because of its close-in location.

WHAT THE PROBLEM IS:

Obtaining institutional financing for resale of the units is now impossible to get.

In the early years when units changed ownership the market value was such that a buyer was usually able to pay cash, or the seller could carry a small contract. In the past 15 to 20 years inflation, plus additions and improvements made to the complex as a whole, and to individual units by owners have increased the market value to the $50,000. to $60,000. range, making it virtually impossible for potential buyers to pay cash. Because a high majority of the current unit owners are now senior citizens, they are unable and unwilling to even consider carrying 15 to 30 year contracts. At the present time 22 of the 40 unit owners are between 65 and 80 years of age, and of the remaining 18, more than half are between ages 60 and 65. A majority of the current stockholders are long-time residents, including some who were among the original stockholders. Because of declining health some of the unit owners have moved into the Pioneer Home, while others are desirous of relocating to warmer climates or buying into retirement set-ups in the Lower 48, and the remaining owners are rightfully concerned as to what will happen to them should the need to sell arise.

Late last year two of the owners listed their units for sale with me. During the course of this year I have talked with the mortgage loan departments of every bank and mortgage company in Anchorage attempting to find financing, but to no avail. Given current economic conditions, it is understandable that neither the banks nor the mortgage companies can make loans to carry in their own portfolios and must make loans contingent upon their ability to sell the loan to an investor. Therein lies the problem. Fannie Mae, Freddy Mac, AHFC, and other institutional investors are unwilling to finance cooperative units because the evidence of ownership is a share of stock rather than a warranty deed. Title companies, however, have ruled that a share of stock is an insurable interest, but because Safehaven is the only Cooperative in Alaska (to my knowledge) the potential investors apparently choose not to revise their regulations to permit purchase of the loans for a relatively small complex.

In years past, before the current economic slump, several of the units were financed by local banks who then resold the loans to some of the State pension funds. Upon checking out that possible source this year, I was told that because of the heavy loan delinquencies being experienced by every bank in Anchorage, the State pension funds will no longer buy any loans from the banks.

WHAT'S THE SOLUTION?

Having devoted countless hours this year talking with mortgage loan personnel, bankers, bank trust officers, the Alaska Housing Marketing Council, the Older Persons' Action Group, employees of the Dept. of Community and Regional Affairs, and Arlene Patton, head of the local HUD office, I have concluded a resolution of the problem will come only through legislative assistance.

Through the years the Legislature has established a plethora of loan programs to assist fishermen, farmers, students, rural housing, non-conforming housing, business ventures, mobile home buyers, low-income housing purchasers, high income buyers, modification of loan packages, etc. Unfortunately, this group of 40 homeowners at Safehaven, being a somewhat unique in this State organizational structure, seem to fall through the cracks and not fit into any existing program.

Several of the bankers have told me they are familiar with Safehaven, know of its good reputation, and would gladly make the loan and service it if there were an investor who would buy the loan. Arlene Patton told me HUD can insure the loans under their Section 213 program entitled "Federal Mortgage Insurance to finance cooperative housing projects", but that I would first need to find an approved bank to make the loan and service it, plus an investor to purchase the loan.

It is my opinion that no new legislation is required. I believe that through legislative influence perhaps the State pension funds could be an available source for purchase of the loans, or the Permanent Fund. As an alternate suggestion, perhaps existing regulations could be modified or amended to permit the Dept. of Community and Regional Affairs to purchase the loans under their housing assistance programs, or Alaska Housing Finance Corporation could be induced to purchase the loans.

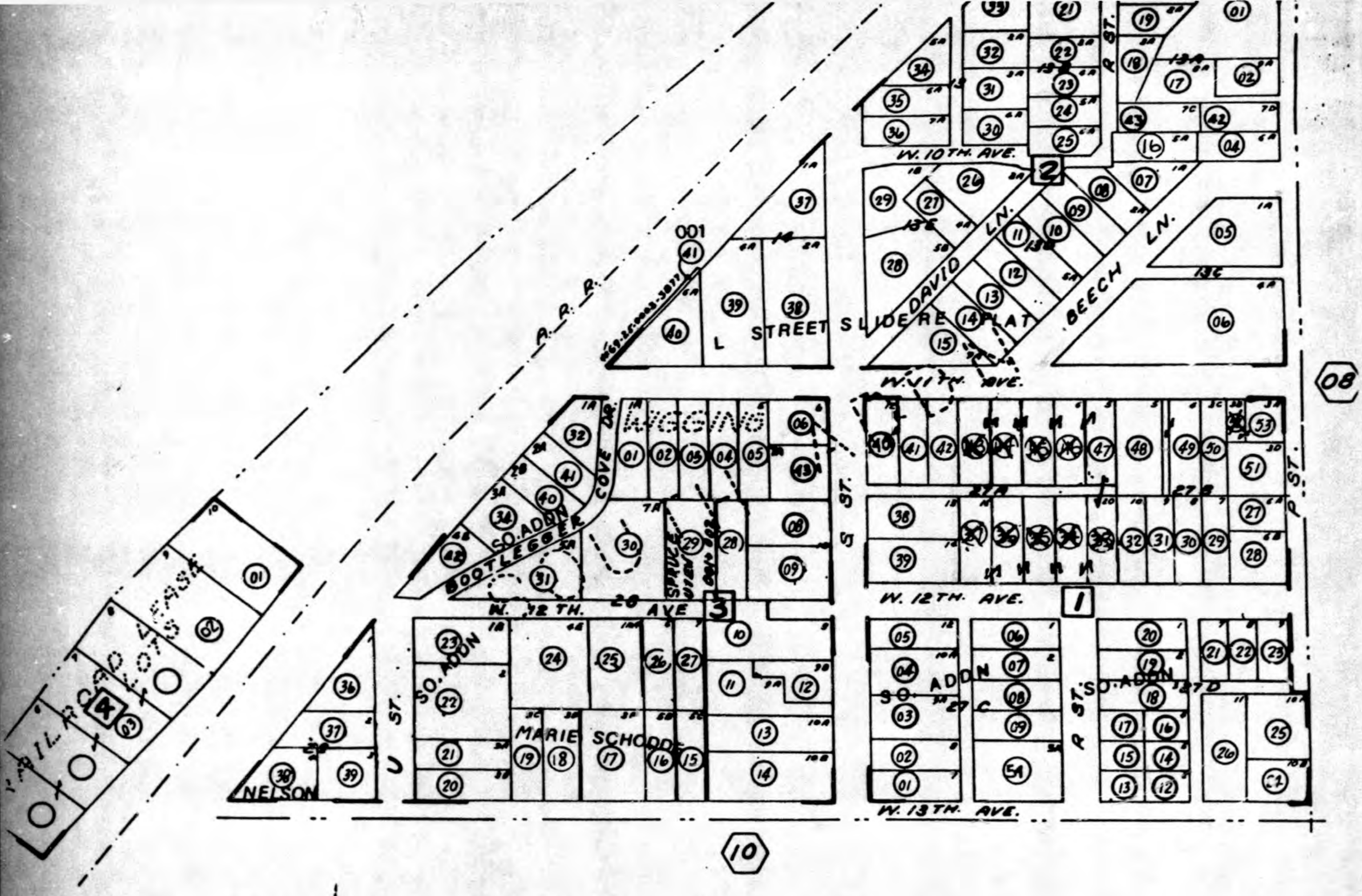
I was told by people at the Dept. of Community and Regional Affairs that they can only make housing loans in rural areas, however my reading of what I think are current regulations, state up to 20% of the housing assistance funds may be used in urban areas.

We are not talking about a large amount of money annually. It is doubtful that there would be more than 2 or 3 of the units placed on the market in any one year, if that many, and at an average sale price of perhaps $50,000. that is a relatively small amount in the big scheme of things.

The 40 owners of Safehaven Cooperative, its Board of Directors, and I will greatly appreciate your assistance in helping us find a satisfactory solution to this problem.

Jean Smith

Jean Smith
Broker



Adjoining Page No.

Assessor's Parcel No.

ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY

480 WEST TUDOR • ANCHORAGE, ALASKA 99503-6690 • (907) 561-8050 • FAX: (907) 561-8998

September 8, 1989

Honorable C. E. Swackhammer
Alaska State Legislature
P.O. Box V
Juneau, Alaska 99811

Attention: Carl Nickel

Dear Mr. Nickel:

Thanks for your letter of August 9th concerning residential housing loans. The Authority offers no residential housing loans of any form so there is very little that can be forwarded.

Some years ago a multi-family program existed but that was repealed by the legislature in 1985. If I can be of any other assistance, let me know.

Sincerely,

Bertram L. Wagnon
Executive Director

BLW/ec

GUIDE TO READING

HOUSING FINANCE TASK FORCE

12/6/89 MINUTES

The attached meeting minutes represents a "near" verbatim recap of an interim presentation to the task force. It was presented by Ernst and Young as a "to-date" explanation of what the consultants had accomplished and the direction they intend to go.

Part of the presentation included overhead slides. Please note, while tracking the minutes, there are references to follow or go to a specific page; these are attached and are copies of the overhead slides.

Likewise, there will be references, or notes. These are self explanatory and, generally, indicate that the minutes are digressing from the presentation.

Some of the dialogue by the consultants has also been reduced. It is hoped the information presented is still adequate to reflect the intent of the speaker.

MINUTES

HOUSING FINANCE TASKS FORCE

DECEMBER 6, 1989

The meeting was called to order by Rep. C.E. Swackhammer. He stated the primary purpose of the meeting was to inform members of the housing industry and the public what Ernst & Young had accomplished to date. It was decided it was the 18th day of the consultant's 42 work day schedule.

The meeting was turned over to Dr. Jim Gibson.
(PLEASE FOLLOW PAGE ONE OF SUPPORT MATERIAL)

What our agenda is during this one hour status briefing is to describe the work we have done to date.

John Michelmore will give a little in depth presentation on our view points of the financial position of AHFC. On the review of the financial position we will try to give you some of our preliminary observations of the specifics of the RFP requirements with regards to the availability of funds at AHFC.

Vere Harlowe is going to give a brief overview of Alaska Housing Market and how our analysis of the housing market is going to try and integrate with some of the policy options that we are looking at.

Ed Kaempf is going to talk about one of the policy options. And then I am going to try and summarize it.

I encourage you to ask questions so we are clear that you understand what we are doing and let us know what you are wanting us to do. The emphasis to date has been internal AHFC. Our priorities have been to go into AHFC bothering Tom and his staff, we've used up a lot of their time in trying to get a good understanding of the financial position of AHFC. After today, we are going to be spending more time externally with the industry and the market place.

The kickoff was Nov. 9th, just as a background, and that's only about three elapsed weeks ago. This is a very fast track effort. We have three senior managers working full time on this, we are putting quite a few firm resources into trying to work ourselves through. To date we've performed a lot of data collection, have done some selected interviews, we've met with the chair and vice chair of the task force. We spent a lot of time internally at AHFC, we've reviewed the financials, we've looked at the auditors work papers. We've obtained a general understanding of the programs and financing activities of AHFC. We've reviewed the debt covenant requirements. With Carl, we collected the legislative research and relevant legislation. We collected other relevant research reports from the University, like the ISER reports. We've collected data from the Alaska Housing Market Council. We've gone to the Dept. of Labor, the Dept. of Revenue. We've collected information from Alaska Business Monthly, the Municipality of Anchorage and some of the other boroughs. We've collected information from the Alaska Daily News. We looked at a lot of data.

We've just started some of the industry interviews. We talked to the National Bank of Alaska, Key Bank, City Mortgage, We talked to a local realtor, Jack White. We've outlined the final report and we feel the outline is trying to incorporate the RFP requirements.

We've had to drop our legal counsel because of a conflict of interest. We've just recently got the approval to retain Delaney, Wilde, Hays, Wrightman and Brubaker which is a local law firm. Tomorrow we are going to start on some legal questions we have identified.

So that's basically a quick overview of the mechanics that we've been going through. John is going to go through the second part of this which is probably the most substantive part of the review. It is the financial position of AHFC.

The next speaker is John Michelmore.

As Jim has mentioned so far. one of the key aspects of our what we are trying to do is to understand the financial position of the corporation as of June 30, 89. That is the last audited date. The audit, again, as a reminder was done on a combined basis and we are using it as reliable information at this time.

To understand the financial position, I would like to walk you through where we see it. I spent most of my time talking about the dollars that were put in by the State originally and show you a flow as to how those dollars have been spent or tied up.

(PLEASE GO TO PAGE TWO OF SUPPORT MATERIAL)

The chart shows essentially about a five year period. Where monies were really going in. YOu can really break that down into 81 to 83. I'm not showing any new numbers because this is a recap of different studies. The total monies that have come in is a billion thirty-three. All of my slides are in millions.

Of this, the majority of it came in through the revolving fund. Since that money has come in, the majority has also gone out into various different bond finance programs.
(PLEASE GO TO PAGE THREE)

We are going to call the billion thirty three the contributed capital. Of this, the majority has subsequently ended up in the bond finance programs. Those monies were put in principally through loan collateral when the subsidy came into effect in the early to mid 80's. As far as our understanding of it goes that 766 is principally tied up, but I am going to have a separate slide in a minute that I am going to walk you through.

Of the remainder, 267, 103 ended up in the HOF (Home ownership Fund). The other 16 in the insurance fund which leaves 148 or roughly somewhere between 10 and 15% remaining in the General Operating Accounts. I'm going to come back to this slide in a minute, but let me go on for a minute to the Bond Financed Programs.

(PLEASE GO TO PAGE FOUR)

Again, tying the 766 back, which auditors like to do, I want to show you the flow of what happened to that money. I have three columns on here, but I want to also explain to you what's going on with the entire equity of the corporation. But I want to key on the fact that the majority of that equity is made up of the original state contributions.

As you can see, there is a little over 800 million equity in those bond finance programs, to date. Let's key on the 53 million which is the retained earnings or the monies that those bond programs have made, in aggregate, since their inception. Of the 53 , which is a positive number, the majority, actually all, came from the tax exempt programs. It seems a little strange how this came about, the two key programs Insured Mortgage Bonds and what we call Others which is the housing mortgage bonds, were established before the full subsidy situation occurred. Of the 134 million, to get a real picture of that, you have to subtract out what's in the self insurance funds for the deficit because there is no pool insurance in that program. It is basically self insured by the corporation. The other slide, which we will get back to, shows about 44 million loss in that fund. The net effect is about 90 million which remains in that Insured Mortgage Bond.

Breaking down into the Veterans and the Taxable you can see significant losses have occurred in both of those. Again, those monies were put in there for the over collateralization of those bonds when the programs took effect. What that was based on was some cash flow projections that we haven't analyzed yet, but to essentially break even in those programs at their culmination. Now our understanding of what's going on is that those monies, the 776 million is really tied up in those programs. The covenants state that you can't draw them out, with some minor exceptions which I will get to in a minute, until those bonds are paid in entirety. So those monies, for all intents and purposes, are not useful for anything else.

There are some minor exceptions to that, but they're still, what I will call, within the corp. There's a few issuances within this Tax Exempt section which allow for some net excess to be taken and used for various purposes within the corp, i.e. to make loans, purchase loans, etc.

In the Insured Mortgage Bonds they can take some pre-payments of those loans and use them for other purposes, but again, within the corp. So there is nothing we've seen so far that would allow the money to be used elsewhere. The 53 million, when you take out the 40 million, shows those programs have essentially broken even. This is an important fact.

So, 800 million of your 1.3, 1.4 billion is tied up in the finance programs. One little factor that we did look into is what other covenant requirements would there be to maintain minimum balances. There are no real significant ones. All the ones we have noted have really been maintained so there's no problems noted. We do understand there is a little of an effort being made to decide internally what's going to happen with coverage of potential insurance fund deficiencies, but we haven't looked into that. It is not resolved, to our knowledge.

Interjection by Gibson. Except for the Tax Exempt Programs, all the other programs identified are losing money. That is a significant point.

Back to Michelmore: The Taxable programs specifically are, as of June 30, 89, additionally on top of that and I'm not disagreeing one way or the other what the audit finance statements show, but on a go forward basis there may or may not be some additional costs that may be incurred. The majority of the asset dollar amount, within those programs, are made up of loans. Those loans are potentially uncollectible. In addition, there's about 250 million plus within those assets, from those bond finance programs, that was real estate owned at that time. The corp. is attempting to work through problems like Magic and others, but there are still monies potentially not available.

So what we are saying is that the 53 million bottom line may be less. It is a moving target. There's constantly new bonds being issued, refinancing is taking place and a lot of activity going on in the loan section.

(PLEASE RETURN TO PAGE THREE)

I want to spend some time on the Bond Financed Programs. It really results in about a half billion in the remaining equity balance being tied up into the non-bond finance programs.

What emphasis we want to make is, because of the moving target going on in the bond finance programs because the equity is essentially tied up, we would really plan to spend the majority of our time on a go forward basis trying to depict what is going on in these other accounts. We don't see a whole lot of availability of the 800 million. Even some of the 552 is tied up, so what it brings us down to is the 519 in the "Operating/General" account. Of the 519 million, 148 is part of the original capital contributions. The 371 million is from retained earnings. This may seem a little out of whack, it took us a little time to try and figure out why there are 371 million in retained earning here and very little amounts going on elsewhere. The reason for that, all monies essentially flow through the corporate general operating account. So, until that money is set aside, and used for that specific bond issuance, the revenues on those monies are coming into the general operating account, the interest revenues, etc. So that's going to reflect a big retained earnings accumulative over the period of time that the corp. has been in business.

Of that 519 million I'd like to spend a few minutes on how that number came about, why we feel it's important to know the asset component of that and then we will talk a little about what the potential availability of any results from that 519 million.

NOTE, a hand drawn chart was made as follows:

ASSETS	
CASH	168
LOANS	399
REO	27
OTHER	116

	710
DEBT	191

	519

Of the 519 million, 168 million is cash and investments, it's fairly liquid assets but not necessarily what you could pull out off your pocket book. The 399 is called loans mortgage ?? securities or other types of pooled investments. 27 is REO's. The 116 million "Other" is principally the net due from other programs. Which gets us to about 710 million. From there we have debt of 191 million which ties to the working capital of the corp. That totals down to our 519 million. The importance of this is to understand what's comprised in here. You can see the biggest chunk of that, as long as the corp. continues as it is right now, is the loans. Everything is funneling through the corporate general operating account.

NOTE: He calls LOANS-REO-OTHER, "funny money"

We hope it's good money but we are not sure. And, in addition to that, some of it may not be liquid money. In a minimum, some of that, because it is a moving target, may not come in, in a year or so. I want to walk you through what we see is a net effect of this going into possible availability of funds from the corporate operating account.

(PLEASE GO TO PAGE FIVE)

This chart starts with the 519 million and shows what we feel to be really out there. This is under an "as is" scenario, as if the corp. continues to operate as it has been operating.

The 519 is what is quoted in the audit finance statement and I will read you the quote: "Assets of the corporation not pledged as owed over specific bond indentures." It doesn't say specifically you can't use it, it says it is not tied up in bond indentures which is the other part of the 1.3-1.4 billion dollars. What we are trying to show, some of those monies may not be assessable to anybody. The 149 is not necessarily bad assets, but non-liquid.

NOTE: PARAPHRASE; The figures are best guess estimates, leading down to the 343 million dollar figure.

In addition to the bond covenant requirements, because of the current working capital arrangements you have on the short term volume side, there's other monies tied up too. At June 30, 89, from simple calculations that turns out be 336 million dollars Those covenants require to be maintained within that corporate operating account to continue current operations. As you can see there is not a whole lot after that.

We would like to do now roll that into we see as what kind of significance this has on the outside, external forces that are looking at what is going on in the State of Alaska. Obviously, some of the important groups would be the credit rating agencies, the underwriters. The two most significant aspects that are being looked at from these outside agencies is the solvency factor and the liquidity factor.

Because of the losses that have occurred to date, the liquidity factor from the outside entities is not being as rated as highly as is the solvency factor. They are keying on the fact that the corp. looks to be a solvent entity. Over a billion dollars in equity. Over half a billion in the general operating account. It is important to note that behind the solvency factor, are general obligation bonds. Principally GO bonds of the corp. There is one program, the Veterans Program that is actually guaranteed by the state which is a state obligation and outside the corp.'s GO status. But these are revenue bonds. Combine the fact that there's all the GO bonds on which has been placed heavy reliance by the outside sources because they are looking for solvency. The one last question we'd like to raise. Does the state take a risk by taking monies out of here potentially effecting the solvency factor which is the key that everyone is looking at from the outside? And are they potentially putting themselves at risk in the future.

NOTE Paraphrase, end of presentation by John Michelmore, now going forward to what has happened since June 30, 89. Looking at some of the key policy issues that might result.

DISCUSSION: Everything discussed has been on the equity side of the corp. All numbers have been summary, net-equity numbers. The 7 million is the snap shot but it is an accumulative number of all the results of the operating history of the corp. The 7 million is what was out there in June of 89. It is moving target. The amount is based on status quo with existing debt and bond covenants. If the bonding activity was shut down, then there would be a significant amount of working capital that would be freed up. There's 336 million being used as working capital to keep the corp. operating. If it was closed down, the working capital would free up over time. All of Ernst & Young figures stem from the benchmark of the auditor's report June 30,89. The past has been used to find the dynamics for taking things forward.

NOTE: Tom Behan said the efforts by the consultant have been good and it lays a groundwork for potential policy statements and directions.

Vere Harlowe is the next speaker, discussing Alaska's market trends.

(PLEASE TURN TO PAGE SIX)

I think the housing market is something that has been on everybody's mind for awhile. And it is important to address it as part of this project for a number of reasons. First, the current position of AHFC is what it is largely because of the nature of the housing market in Alaska over the past few years. Secondly, we have to know what the housing market is now, today and what the trends are in that market. We are going to be able to make, what we would call, a baseline projection of that market in the future, if nothing changes with respect to AHFC and other state policies. And if only the demographic and dynamic effects are in play, what is going to happen to the real estate market over the next five years.

Thirdly, we have to understand that market from standpoint of cost and effect. In order to make an estimate of what the impact on the market is going to be, under conditions of future policy changes with respect to AHFC which, is this last thing we've been specifically charged with in the RFP. In having some kind of understanding and presentation of the impact of changes in policy of AHFC to the housing market.

So, what we are going to look at today is really a retrospective. We are not going to look at any market forecasts and I'm not going to be talking about the various opinions that are prevalent around the real estate industry. We have not made independent forecasts, we have some forecasts in hand that we are reviewing. I want to stick to the past and share the trends in the market today.

We are going to be looking at a number of slides. The slides are going to concentrate on five areas. First, Changes in Population and Employment, these are the underlying graphics that ultimately drive the market, more than anything else.

Secondly, in response to changes in population and employment, Addition of New Units to the housing stock and the resulting change in that stock over the years. Then as a result, what the vacancies look like and how price movements have been over the years.

We'll start out by looking at population, this is kind of grim.

(PLEASE MOVE TO PAGE SEVEN)

This is tracking population change, by year, 1982 to 1988, we are showing both Alaska and Anchorage. Each of these bars represent per cent in change. If you look at the absolute numbers you get nice high bars that look like they are rolling off at the end. It is not a very dramatic picture. In actuality population changes on an annual basis, of this percentage magnitude, even if they don't appear very dramatic on those big tall bars, are very important in a housing market. These are extreme changes. Just as they are relatively extreme on the down side over the last couple of years, they are relatively extreme on the up side during the early 80's. In Anchorage, you are talking of adding 13% in one year. By anybody's standards, that is a boom town situation. However, what happens, as you can see in 85, growth was down to 2 or 3%. In 86 we actually turned negatively in the city, still hit positive in the state. 87 Anchorage lost almost 7% of its population. 88, it lost another 4, 4 1/2%. A very pronounced, vicious swing.

What is interesting too, is, if you look at the percentage changes, even though the state and the municipality, the municipality is more pronounced. You have a one and a half to two percentage swing in either the upside or the down side. So you can say that Anchorage is actually an amplified version of the state in terms of population swing.

This only goes through 1988. We have some more recent news about the employment picture

(PLEASE GO TO PAGE EIGHT)

This graph is a little harder to understand. I think it is instructive and interesting. Again, we have two lines The solid line is for Alaska and the other is for Anchorage. Let's assume they are congruent for purposes of discussion.

Each data point is a percent change over the same month in the previous year. The concept of this kind of graph comes from the Department of Labor. Basically, we can see what happens here as we get down to the end of 1985, the percent change over the previous year drops off to almost zero. In other words there is no employment growth in either the city or the state. At about Feb. or March of 1986, we hit the zero point and drop right through it. We find ourselves in a net job loss position. As long as we are below this line, we are losing jobs. The farther we are below the line, we are losing jobs at a greater rate.

The worst of the recession, or the fastest rate of job loss, came in the summer of 1987. In that period of time, the recession was in full swing. We continued to lose jobs, but at a lower rate until the beginning of 1989. In terms of absolute employment, when we came back to the zero line the absolute number of jobs was at a minimum, although we stopped losing jobs.

NOTE: End of tape side 1. There was a continued elaboration about the page 8 chart. Recent employment change is partially due to the oil spill activity. No one knows exactly, but hopefully, Alaska is creeping up from the recession. Caution is necessary because the numbers are not real strong and it is important to keep the prospects of change in the housing market in perspective.

(PLEASE GO TO PAGE NINE)

NOTE: Anchorage numbers are used because they are the most complete numbers. This now goes into the supply side of the housing market with very detailed data. Anchorage is used because it represents more than half of the AHFC portfolio. Anchorage, Fairbanks and the Mat/Su represent 80 % of AHFC activities.

Vere Harlowe continues: Looking at the new housing units authorized in Anchorage, a housing unit is a location where someone can live, so a duplex would be two housing units, a 20 unit condo would be 20 units. Looking at 1980, we are coming off the mini-recession that followed the completion of the pipeline. There were about a 1000 housing units authorized in Anchorage. Using 2.7 people per family that was capable of handling 2500 to 3000 people. 1981 we authorized 2601, 82-5257 and in 1983-9082. Huge growth in the authorized increase in housing unit demand. In the peak year, there is enough to handle a 25 to 30,000 increase in population, assuming no demolitions. That is about 15% of Anchorage's population. Things start to slow down, it dropped 50% in one year in 1984 to 4609 and then 2434 in 85 which was the last year of boom. An interesting question, what happened to the people who built these 9000 plus housing units? Where did they go? There is an interesting theory which I will touch in passing, I am not going to get into it. Housing is the economic engine of Alaska and to the extent that is true, you may have a housing cycle which is artificially amplified. The people who are building these houses are the people who are going to live in them. So when they finish building them, they don't have a job and can't live in them, so they leave the state. This is an artificial overhang, when a down turn starts, you have finished but unoccupied housing. This is what it looks like here, making the housing cycle even worse.

By the time we get to 1987 there was a grand total of 182 housing units authorized. Last year 208. What effect will policy changes have on the residential construction industry.

There are two things to consider. First, how much of a residential construction industry is there? It would appear on the face of it, not very much. There is not a very significant portion of people in housing construction in Alaska. Secondly, the houses that are being built now are in the $140 to 160,000 and then the $240,000 and up. They are the types of housing that is not going to be effected by the changes in policy in respect to the subsidy by AHFC.

NOTE: Because of the confidential nature, Labor will not release the number of people in the residential construction industry.

(PLEASE LOOK AT PAGE TEN)

Lets look at the month to month breakdown of building permit activity. This is total dollar amounts of building in Anchorage. Running 30 to 35 million dollars a month during the summer months of 1985, dropping down in 1986 to 10 to 12 million and about 5 million the rest of the way. This is a fairly current chart going up to Sept. of 1989. The question, where is the recovery? The answer is that you can't see it and are probably not going to see it for a while. There are two reasons. One, the theoretical reason, housing cycles lag economic cycles. Secondly, on the practical level there is a huge inventory of unoccupied houses in all categories. It is going to take a large population growth to absorb those units.

This is where the policies of AHFC do make a difference. If they warehouse REO's or they demolish them, that keeps units off the market. This means less units on the market which tends to push prices up. The downside of that is that AHFC has to pick up the cost of carrying those units.

(PLEASE LOOK AT PAGE ELEVEN)

There were 65,000 units in Anchorage in 1980. In 1986 they peaked out at 91,000. No growth in the past two years. There are fewer housing units in Anchorage today than at the end of 1986. The small amount of units being built the past few years has been offset by the number going off the market.

(PLEASE LOOK AT PAGE TWELVE)

Each bar represents a different category of unit. The number above the annual sets represents the average of all the units.

NOTE: This is easily read, so there is no comments recorded, taking the reader through the chart. Attention should be given to the specific units such as the mobile home category. There has been a dramatic shift since this chart, in some categories but it is unknown if the units going off the market are being occupied or merely being held by speculators. There is a great difference on the impact if they are empty. There are a lot of lower end units being boarded up and will eventually be demolished.

(PLEASE LOOK AT PAGE THIRTEEN)

These are MLS numbers, by quarter, for each year, since 1982. They are the aggregate price in each category. They reflect both changes in prevailing market prices and also show changes in the quality composition. The graph shows an example of the lag. When Alaska entered the recession was about the turn of the year 1985, 1986. The housing prices hit their peak the last quarter of 1986. Even after the recession hit, the housing costs continued to climb. Even after the population dropped, housing prices still continued to climb, peaking at the end of 1986 and then dropped. Single family dropped, in nine quarters, from 137,450 to 97,360; a forty thousand dollar decline in value. On the condo side it was even worse.

NOTE: The chart graphically shows the swing in condo prices, so no narrative is presented. Some of the figures are possibly misleading because MLS sometimes has a lag of three months in their reporting.

(PLEASE TURN TO PAGE FOURTEEN)

I don't have anything more to say about the current status. I want to talk about what is going to be effecting the future of the housing market, particularly in terms of the study we are undertaking. There are a number of questions that are raised in regard to the Alaska housing market that I think are very important with respect to AHFC's policies. Obviously, the underlying trends in population and employment are going to be very important in assessing what the market will be on the demand side. In order for those new people to buy houses, they have to have a source of credit.

This raises a number of questions. First, the subsidy programs, of AHFC, provide people the opportunity to get a mortgage loan at rates below the prevailing market. Is that a factor in demand? I'm not going to give any answers at this point. In other words, does the subsidy artificially increase demand? Will the continuation of the subsidy cause the recovery to occur faster than otherwise? Or, do people buy houses for more structural reasons? Or is the subsidy just a nice thing to have and the people are going to buy houses anyway?

Second, availability of credit, subsidy question aside, AHFC is a leading player in the Alaska mortgage market. If AHFC were to reduce the scope of its operations, or get out of mortgage lending, who is going to pick up the slack? Is Alaska redlined? All these banks out there that say they're anxious to make mortgage loans in Alaska, if only AHFC wasn't subsidizing, are they really? I'm not going to answer, but a lot of the banks here are owned outside the state. Their lending considerations are not necessarily driven by Alaskan considerations, but by corporate considerations. It is easy for someone 3000 miles away to make a snap decision about Alaska. So the question is, if AHFC isn't lending in the market, who will be? It is difficult to get an answer because no one is going to admit they have a policy against lending in Alaska.

Number three, Let us assume there isn't a subsidy, and further assume that the are a lot of others out there that are willing and anxious to serve this market. Is AHFC, as a financial institution, competitive? This raises a couple interesting questions. If AHFC is competitive and is able to make loans below the rate of the commercial banks what is the effect? Well that in effect is going to keep the SL's and the commercial banks out of the mortgage market in Alaska because they can't compete. On the other hand, if, due to the various factors in AHFC's makeup and operations, it is forced to make mortgage loans at above market rates, then all it is going to get is the junk loans, the ones the banks are not willing to underwrite and it is probably going to be incurring losses. SO there are some down sides either way, whether AHFC is very competitive or not, as long as it is playing in the mortgage market, I think the state and AHFC have to be very careful about their effect both on the state finance and the rest of the lending community.

Point three, Absorption of Excess Stock/Availability of new stock. The importance for AHFC policy here is, what are AHFC's policies with respect to the REO's. To what extent is AHFC going to do, through pricing or other methods keep its REO's off the market in order to support the market? To what extent is it going to undertake demolition of low ends or mobile units? Its policies will have an impact to the stocks on the market, have a major impact on price.

With respect to future REO generation, this is a problem and will continue to be a problem for a while. There's an issue here as far as the effect of subsidy on the price of homes. There are two camps, one says it does effect the price and the other says no. There is also a second level question. A lot of people in the state now have negative equity, the market value is below the mortgage. This is very discouraging thing. Most people's homes are their major asset. There's a school of thought: The greater the amount of negative equity, the more likely a person will throw up his/her hands and default. This means new REO's for AHFC and other lenders. So the question is this. If removing the subsidy reduces demand and causes more prices to fall, will that fall in market prices cause a greater number of defaults? This is something we are addressing, it is an academic question and can be viewed by a very complex analytical variables and relationships. But it is something we must address.

NOTE: This completes Vere Harlowe's presentation, the next person to address the group is Edward Kaempf.

Today we've been working primarily on getting the background for what is now. Vere touched on some of the big issues that must be addressed. Primarily, what the legislature asked us to look at some changes in policy and how these changes would impact AHFC and the housing market. The biggest change would be to phase out or eliminate the subsidy.

The subsidy was instituted by the legislature in 1980 to provide home buyers with 10% mortgage money when interest rates were at double digit rates. About a year later that was changed to allow a maximum 3% subsidy. When first introduced, some mortgages were subsidized up to 7%. So the law was changed to provide a maximum of 3% subsidy. Basically, the law says, up to 90,000 dollars of the loan, AHFC will lend the money at 10% or its cost of funds whatever is less. The remainder is loaned at AHFC's cost of funds.

The subsidy drove a lot of economics, drove a lot of prices on the homes and may or may not have driven demand. If the question exists now, what happens if we phase out the subsidy and, is there a subsidy now?

I am going to show you something about bond sales this year to show you something about the subsidy. We've been asked to look at phasing the subsidy out and we are not sure that a subsidy exists right now.

NOTE: The slide used by Ed is not available. This portion will be paraphrased. Recent bonds have been sold at less than 10%. Some as low as 6.1%. With AHFC's cost of funds being between one half and one per cent, there may not be a subsidy in existence. There was some discussion about the HOAP programs (Home Owners Assistance Program) having cost some money to AHFC in the past. Ed Kaempf continues....

The point is that there is a window right now where we may not have to talk about phasing out the subsidy over three years.

TOM BEHAN INTERJECTION First of all there is another HOAP financing that will be in 1990. It will be HOAP #3, we had #1 and #2. Our projections are that we are going to have about 100 to 150,000 million in activity. It should be the last of the HOAP programs. It will kick off in January, the bonding will be exposed to the market later in the year. Where subsudy exists, you are right, the tax exempt activity which is relatively small, although it is growing on a percentage basis from year to year. What has really grown, if you look at 1989 activity, excluding HOAP and tax exempt, we've had almost 400 million dollars in taxable activity. The cost of the bonds is calculated at about 10.42% which is about 42 basis' point for a non-veteran, but 142 for the veteran, so there is a subsidy where interest rates presently are. The big question is where are interest rates going to go.

RETURN TO ED KAEMPF: The other question is the cost of the corporation's funds. Can corporation compete, if there in fact are lenders, with the lenders. In our brief discussions with the financial institutions, they feel they can compete with AHFC which is good.

DISCUSSION BY TOM BEHAN: He feels the above statement is good, but questions where the financial institutions decision makers exist, outside being a good guess. He also states that there is no thrift industry in Alaska and there is a capital shortage. The value of importing capital is critical to our existing market and our future markets. There are a lot of variable in the private industry which will impact the market. AHFC handles about 2/3 of the market and there is a great risk at handing that over to the private sector.

NOTE: This basically concluded this portion of the presentation. The meeting is turned over to Jim Gibson for a summary.

This is a summary of our baseline of knowledge and the question is, where do we go from here? We've identified four global policy options. There's subsets and different variables, but to simplify things we are going to talk about four different options.

The first option is Status Quo. It is kind of a baseline case of having AHFC go forward as they do now. One of the questions was whether there was any available liquid assets that could come out of AHFC. I feel like we have pretty well answered that to our satisfaction. We are not really going to beat on that anymore. Unless there's a need to. What I'm saying is, we've spent a lot of time and energy trying to understand the present financial position of AHFC. AHFC is an extremely complex institution. And we've used a good share of our time and resources trying to understand the financial position you are in. Our priorities are now for trying to go forward, we feel we can't put anymore time on that subject. We are comfortable with regards to the question of raiding any monies from AHFC.

DISCUSSION: Whether or not there's any money available to extract, what would be the impact on the financial position of AHFC? Because of the general obligation of the nature of AHFC debt the funds should be left alone.

The second issue is a real blockbuster one that deals with the subsidy. What we have to do is integrate the impact of changing the subsidy on the housing market. That is our biggest challenge right now. We have to get out to industry and try to get as much good input as we can to answer some of the questions Vere was listing. What we are trying to do is give the subsidy every benefit of the doubt. Try to get some idea from the industry to get some common understanding of the impact of change in the subsidy. That's the hard question. The easier question is what's the financial ramifications to AHFC. We will have to bring the two of those together to come up with our best opinion on the policy option of changing the subsidy.

The third one, which we haven't got into, is the whole policy option of scaling back AHFC over time and returning AHFC to its original legislative intent.

The fourth policy option has to do with changing the ownership structure of AHFC. Again, we haven't got to that one yet. Of all the options, this one is probably the most nebulous and we will have to work ourselves through that one.

Anyway, that is basically where we are going. AHFC has been very helpful to us. People in the industry know the importance of this study. We have had great cooperation.

Some of our investigation is limited by the sensitive situation that we are in. If this was a normal circumstance, we could maybe go out and have some pointed interviews with MAGIC or Standard and Poors and Moody's. Because we are in a delicate situation we don't want to make a delicate situation even worse by shaking up industry needlessly. What I am saying is that we are limited on how we get some of our information.

GENERAL DISCUSSION: The legislature thinks there is a need for policy change, but unsure about what direction to go. And it is a big enough issue that having a random policy change could have many ramification down the road.

Concerns were expressed about looking at the social implications of the options. Ernst and Young thinks the social implications rest with the legislature, they are a financial type "folks." They are looking at the financial implications on AHFC and the market place. Ernst and Young realizes there are social implications surrounding the subsidy program. They will have to basically point out them in regards to the various policy recommendation but they will focus on the economic implications.

DRAFT

HOUSING FINANCE TASK FORCE

December 6, 1989 Meeting

STATUS OF ERNST & YOUNG'S EVALUATION OF AHFC POLICY OPTIONS

1. Work Performed To-Date - Jim Gibson

2. Financial Position of AHFC - John Michelmore

3. Alaska Housing Market - Vere Harlow

4. Position of AHFC Under Policy Options - Ed Kaempf

5. Summary of Progress To-Date - Jim Gibson

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ALASKA HOUSING FINANCE CORPORATION

HISTORY OF STATE FUNDING

(Dollars in Millions)

YEAR	-- REVOLVING FUND -- GENERAL PURPOSES	HOME OWNERSHIP FUND (HOF)	RURAL MORTGAGE PURCHASE	MOBILE HOME PURCHASE	STATE MORTGAGE INSURANCE FUND	TOTAL STATE FUNDING
FY 1979 and Prior			$1		$7	$8
FY 1980					3	3
FY 1981	$474	$53	12	$12	7	558
FY 1982	222	43				265
FY 1983	105	45				150
FY 1984	7	42	—	—	—	49
Total	$808	$183	$13	$12	$17	$1,033

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ALASKA HOUSING FINANCE CORPORATION

EQUITY -- CORPORATION AND COMBINED

June 30, 1989
(Dollars in Millions)

PROGRAM	RETAINED EARNINGS	CONTRIBUTED CAPITAL	TOTAL
OPERATING/GENERAL	$371	$148	$519
HOF	(42)	103	61
INSURANCE FUNDS	(44)	16	(28)
Corporation Totals	$285	$267	$552
Bond Financed Programs	53	766	819
Combined Totals	$338	$1,033	$1,371

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ALASKA HOUSING FINANCE CORPORATION

EQUITY -- BOND FINANCED PROGRAMS

June 30, 1989
(Dollars in Millions)

PROGRAM	RETAINED EARNINGS	CONTRIBUTED CAPITAL	TOTAL
TAX-EXEMPT			
Insured Mortgage Bonds	$134	$(29)	$105
Home Mortgage Bonds	(38)	142	104
Others	31	7	38
VETERANS	(44)	106	62
TAXABLE			
HOAP	(5)	168	163
State Assisted Mortgage Bonds	(21)	174	153
Other	(4)	198	194
	$53	$766	$819

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ALASKA HOUSING FINANCE CORPORATION

CORPORATION UNRESTRICTED ASSETS

June 30, 1989
(Dollars in Millions)

Unrestricted Assets		$519
Less:	**Long-term (non-liquid) assets**	(149)
	Net due from other programs	(27)
	Net unrestricted liquid assets (before debt covenant requirements)	$343
Restricted Assets (from debt covenant requirements)		(336)
	Net unrestricted liquid assets	$7

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ALASKA HOUSING FINANCE CORPORATION

TRENDS IN ALASKA'S HOUSING MARKET

- **Changes in Population and Employment**
- **Addition of New Units**
- **Changes in Housing Stock**
- **Vacancies**
- **Prices**

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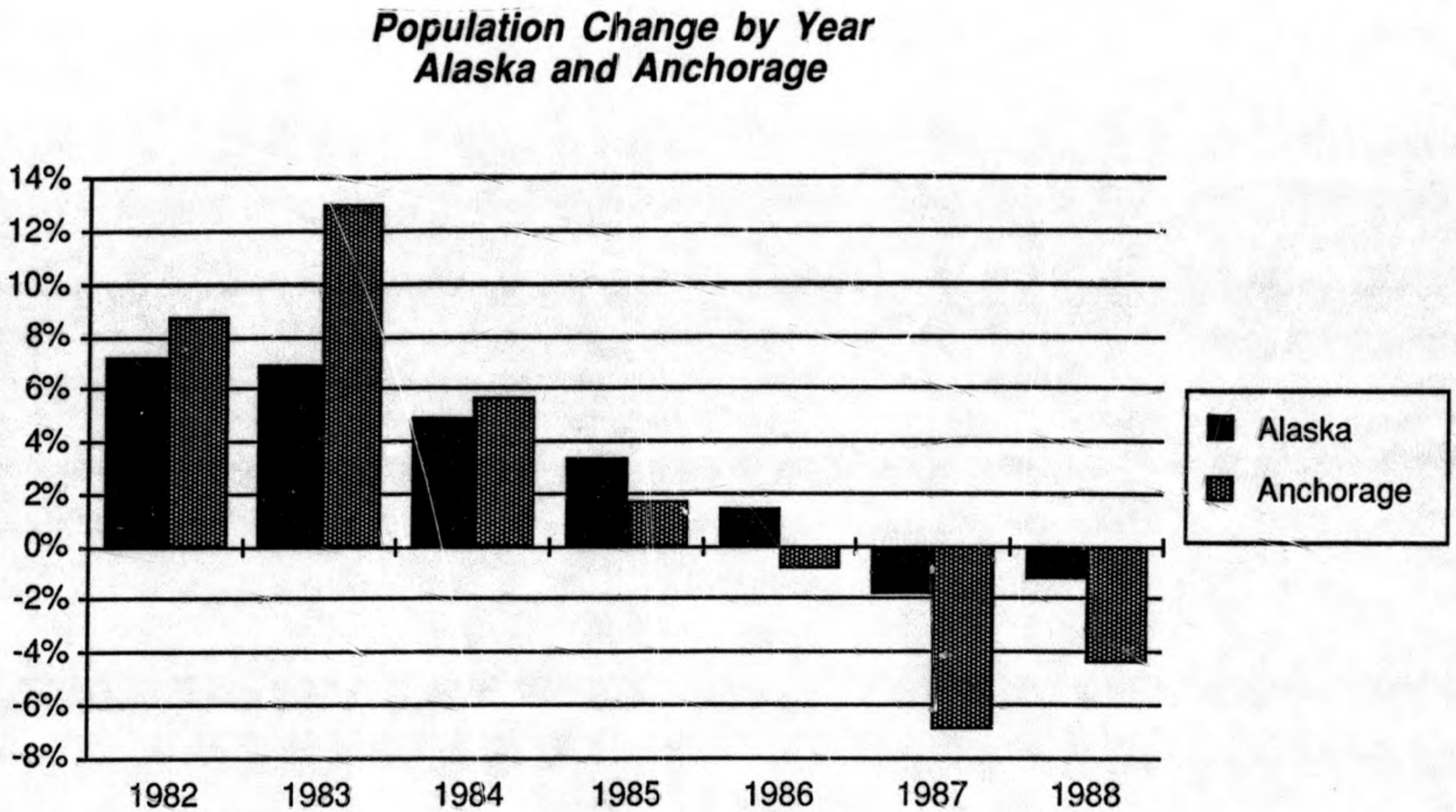

Population Change by Year
Alaska and Anchorage
14%
12%
10%
8%
6%
4%
2%
0%
-2%
-4%
-6%
-8%
1982
1983
1984
1985
1986
1987
1988
Alaska
Anchorage

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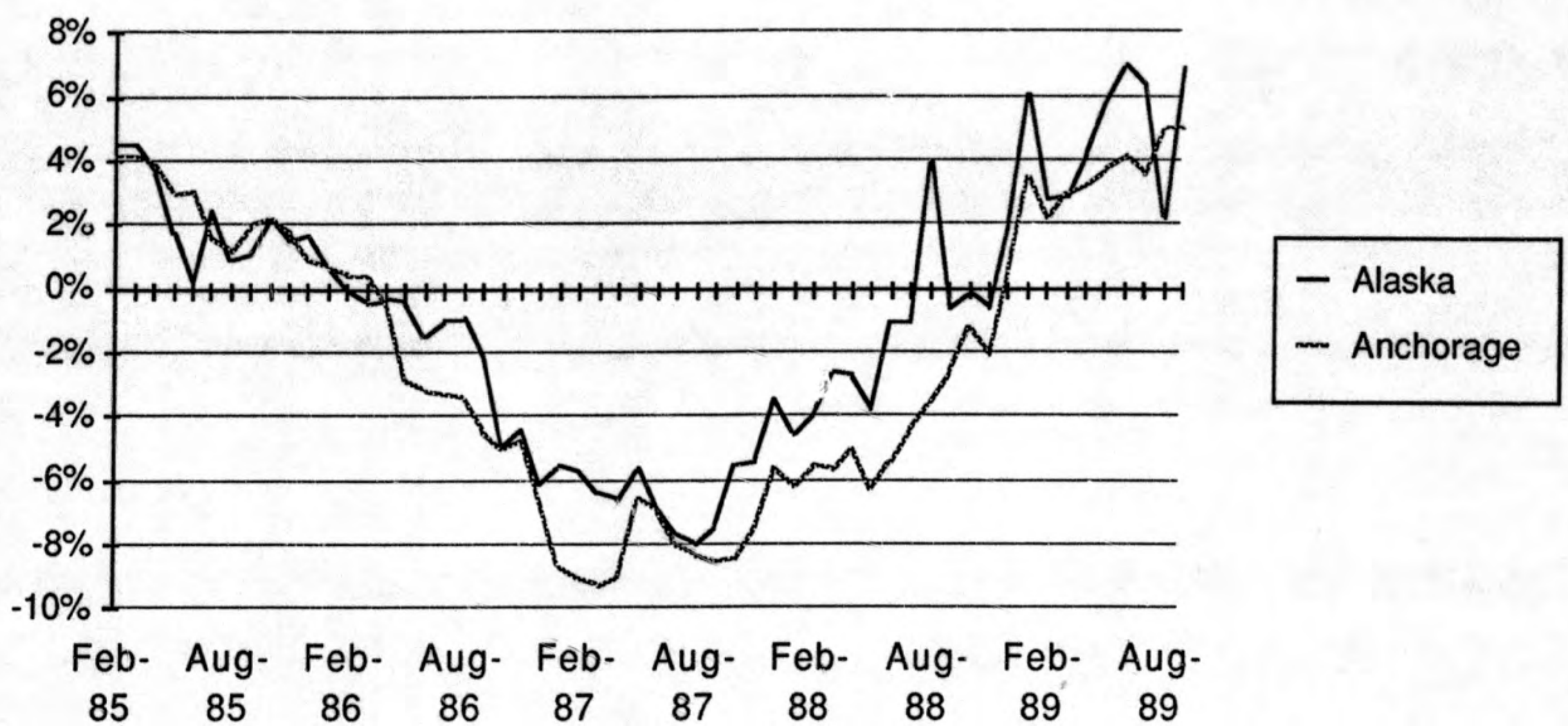
Change in Employment over Previous Year
Alaska and Anchorage



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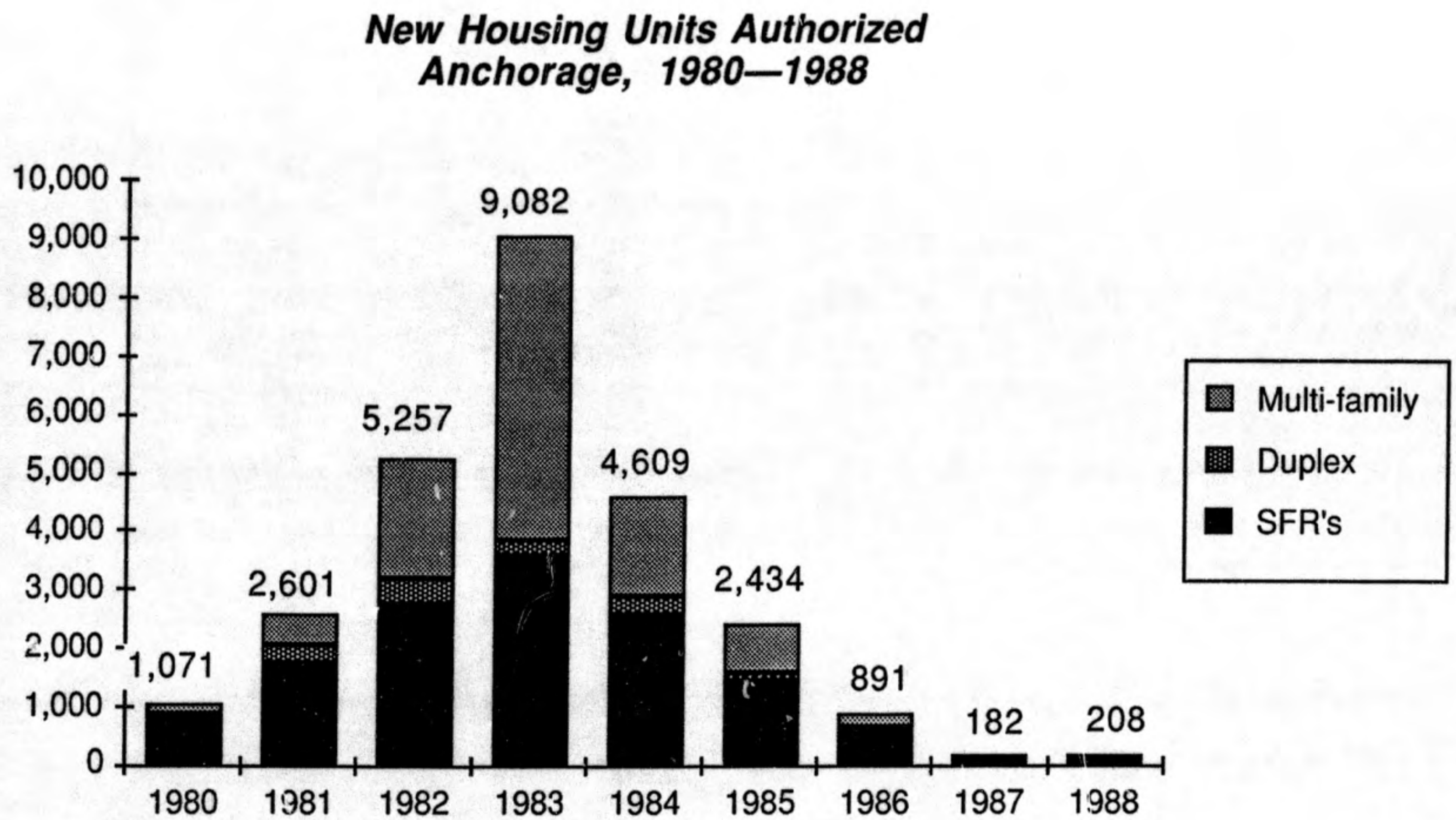
New Housing Units Authorized
Anchorage, 1980—1988
10,000
9,000
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
1,071
2,601
5,257
9,082
4,609
2,434
891
182
208
1980
1981
1982
1983
1984
1985
1986
1987
1988
Multi-family
Duplex
SFR's

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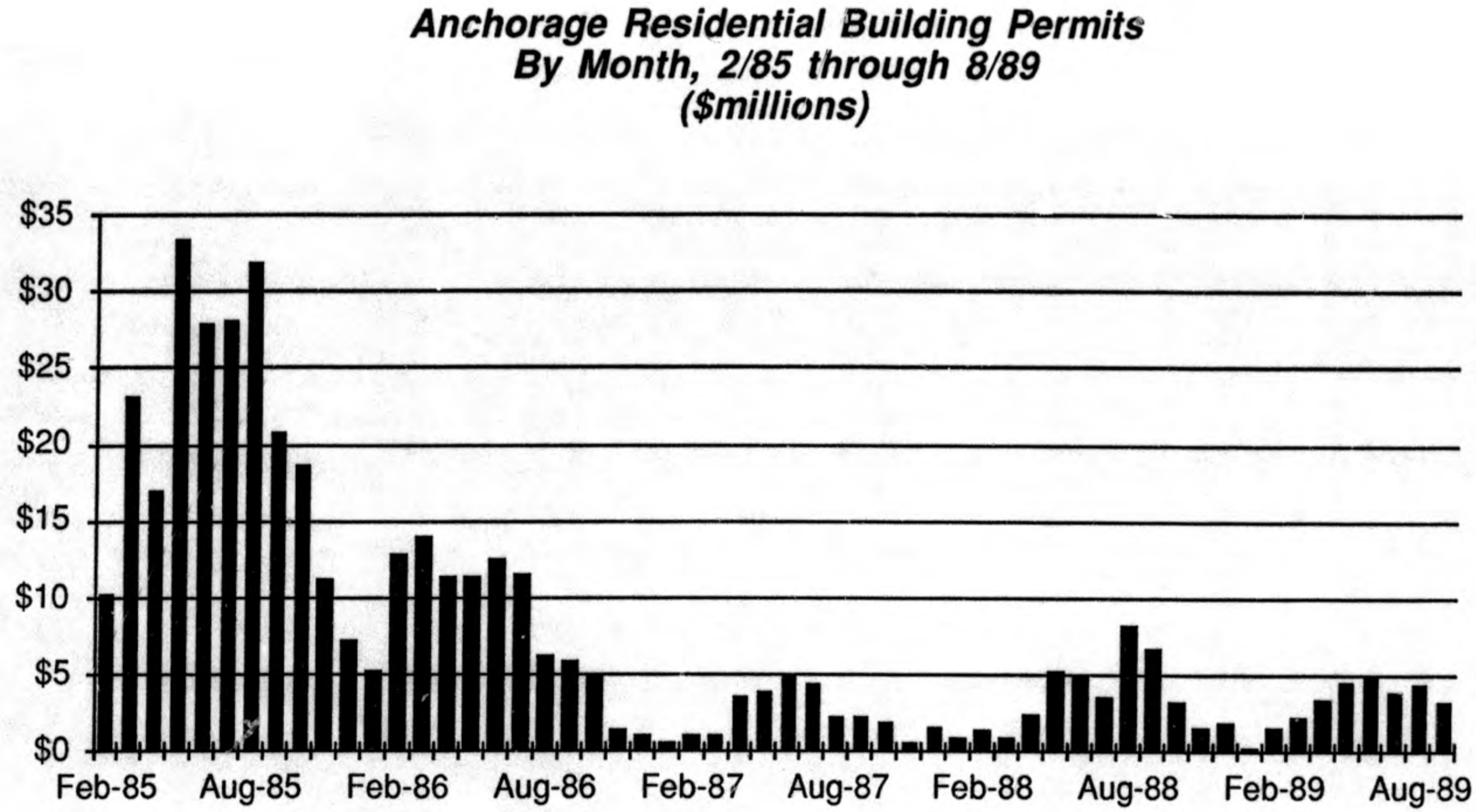
Anchorage Residential Building Permits
By Month, 2/85 through 8/89
($millions)
$35
$30
$25
$20
$15
$10
$5
$0
Feb-85
Aug-85
Feb-86
Aug-86
Feb-87
Aug-87
Feb-88
Aug-88
Feb-89
Aug-89

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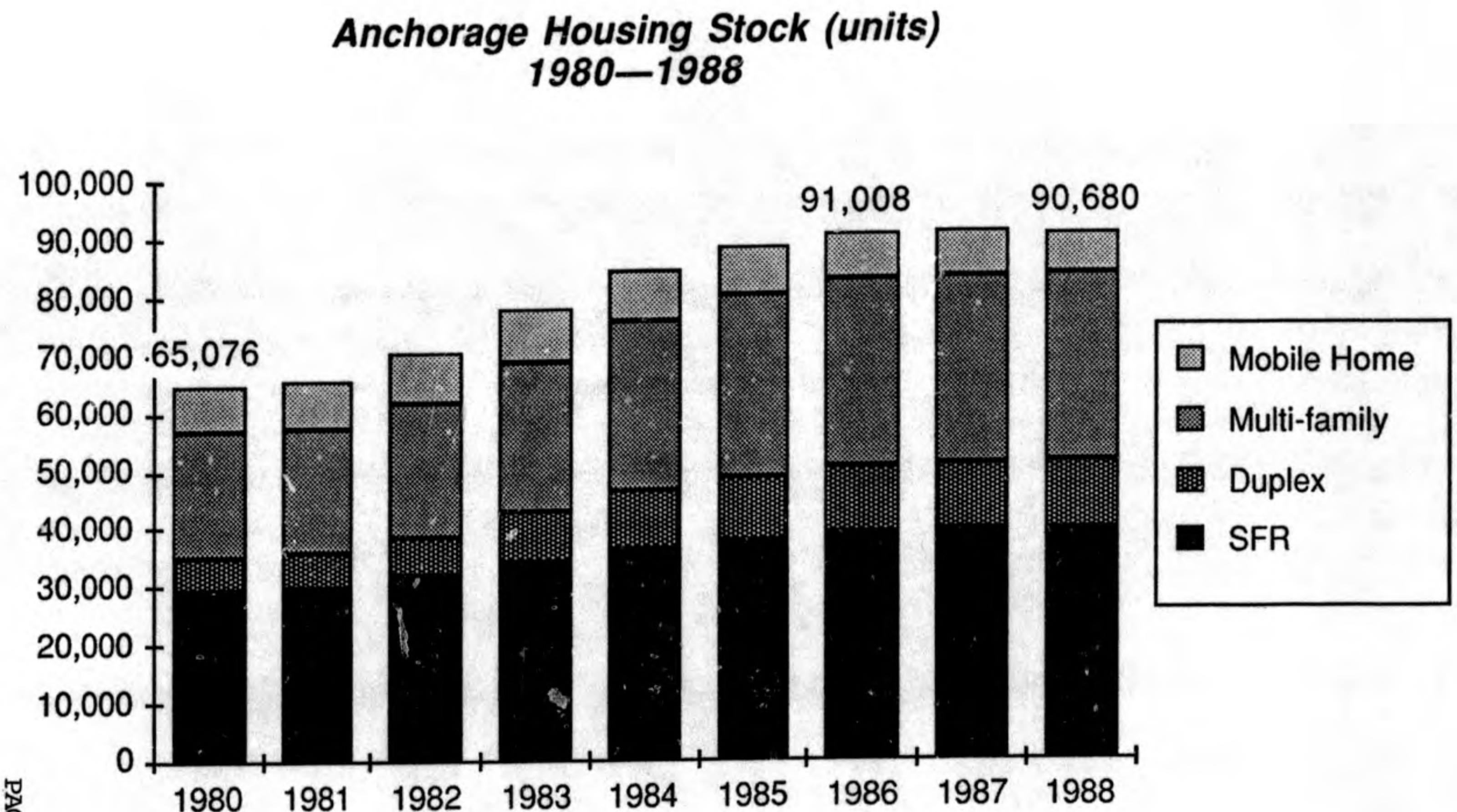
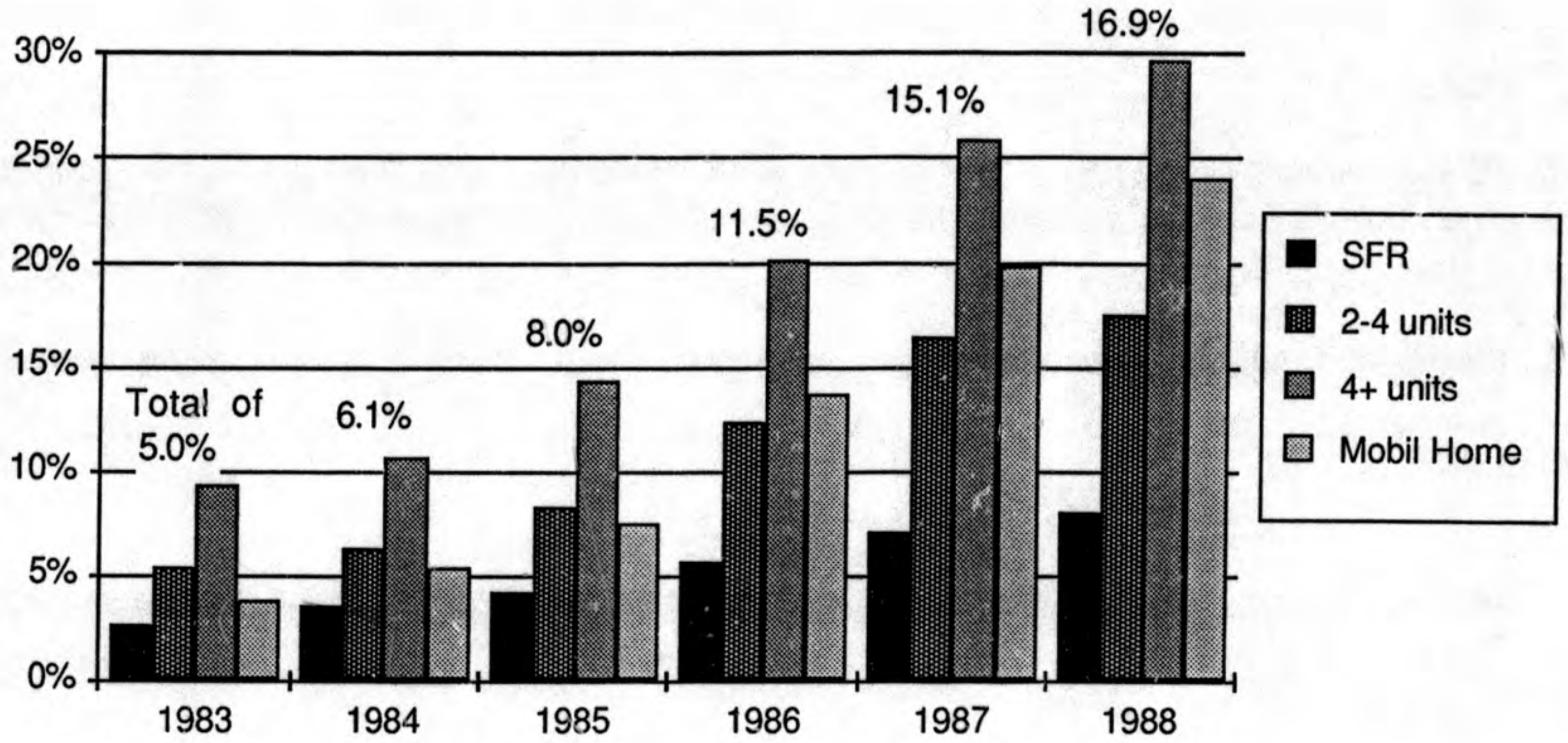

Anchorage Housing Stock (units)
1980—1988
100,000
90,000
80,000
70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
65,076
91,008
90,680
1980
1981
1982
1983
1984
1985
1986
1987
1988
Mobile Home
Multi-family
Duplex
SFR

DRAFT

Anchorage Vacancies by Housing Type
1983—1988



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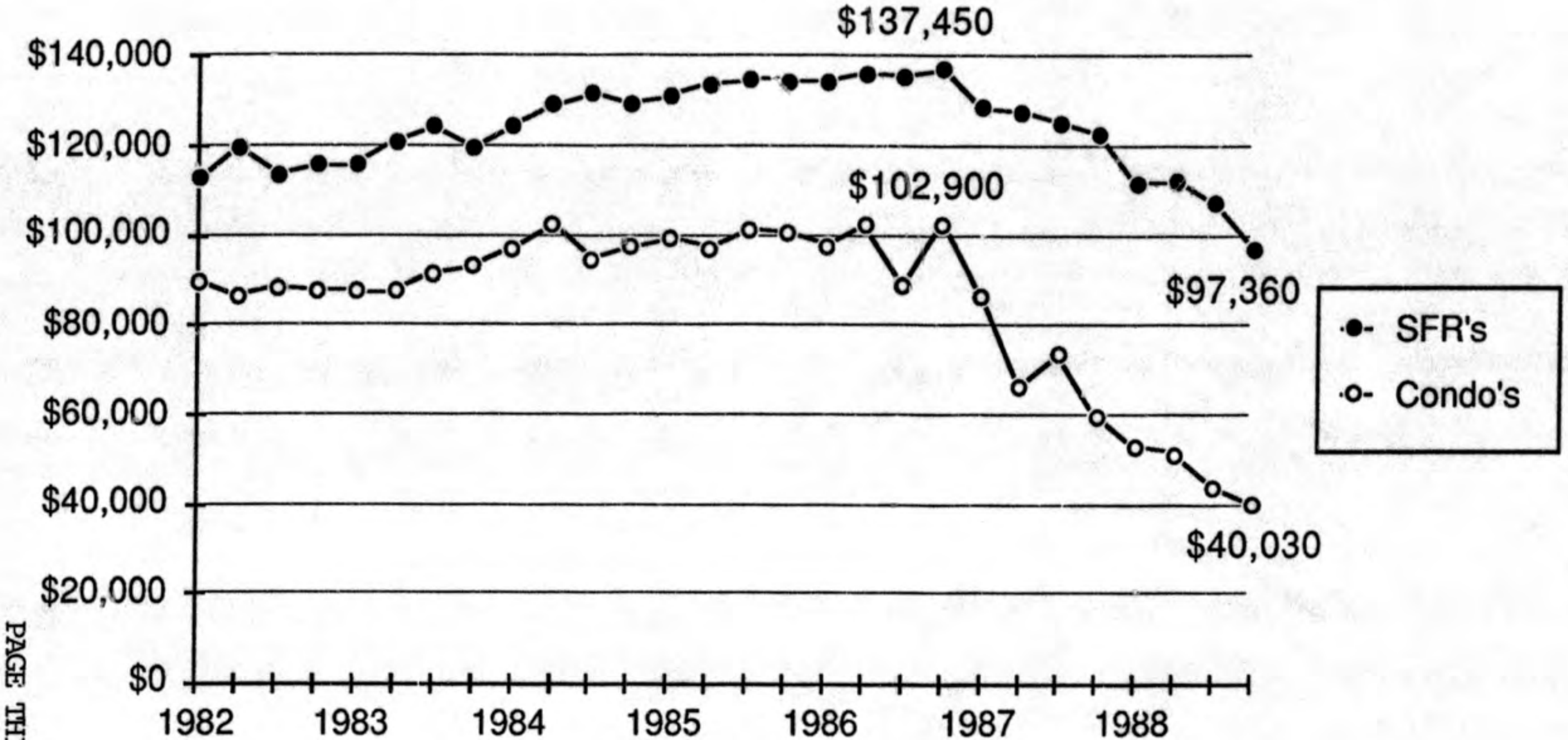
Housing Prices, Single-family Homes and Condo's, Anchorage, 1982--1988 by quarter



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ALASKA HOUSING FINANCE CORPORATION

ISSUES IN ASSESSING THE HOUSING MARKET

1. **Growth in population and employment**

2. **Availability of Credit**

   - AHFC subsidy—is it a factor in demand?
   - Do alternatives exist to AHFC lending? ("Is Alaska red-lined?")
   - Will AHFC be competitive without the subsidy if the market is opened?

3. **Absorption of excess stock/Availability of new stock**

   - What will be AHFC policies re REO (warehousing, demolition, etc.)?

4. **Future REO generation rates**

   - Question: Will reduction/removal of subsidy cause an increase in default rates, due to depression of market values and resulting increases in negative homeowner equities?

GENERAL POINTS

11-09-89 MEETING

ERNST AND YOUNG

The following is simply notes of interest that emerged from the meeting with Ernst and Young, AHFC and Rep. Swackhammer.

SWACK: Wants insights and options directed toward the "policy" level, protecting the stability of the housing market.

Results should be back around January 11, 1990. Intent, to have meetings in the evenings and weekends so the issues can be debated without interferring with the general operations of the legislature.

BEHAN: Interested in the analysis of the loan subsidy, wishes to minimize withdrawal symptoms.

PHILLIPS: Liked the Price-Waterhouse approach. Wants the consultants to touch base with all the aspects of the housing market. They are the ones being impacted.

ERNST & YOUNG: Are flexible.

SWACK: Rodey is one of the drafters of the inception of AHFC, would be an excellent source for historical perspective. Carl Nickel is the link with the legislature in regards to accessing information, intends for hime to be in Anchorage once a week.

ERNST & YOUNG Willing to make a formal presentation to the combined legislative finance committees.

AHFC: Mitzi Barker is an AHFC Research Analyst and the link to Tom Behan. Paul Kapansky is the link to AHFC in general.

SWACK: Introduced a bill which would mandate an inspection process before AHFC could loan mortgage monies. AHFC is in support.

POINTS OF DISCUSSION:
Access to Peat- Maravich accounting,
Alaska Housing Market Council
DCRA/Had Loans
Title 13 Bankrupcy ????
Current Legislation
Privitization, similar to ARR Corp.
Equity impact on housing
Private mortgage insurance representation
Time vs quality, the task force should remain flexible to assure best product possible.

WOHLFORTH, ARGETSINGER, JOHNSON & BRECHT
A PROFESSIONAL CORPORATION

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January 18, 1990

Representative C.E. Swackhammer,
Chairman,
Housing Finance Task Force
Alaska Slate Legislature
Room 521
State Capitol
Juneau, Alaska 99811

Dear Representative Swackhammer:

Some important clarifications are necessary in the legal opinion set forth as Appendix E in the draft Ernst & Young Report on Alaska Housing Finance Corporation dated January 12, 1989. As bond counsel to the Corporation, we have issued our opinions on numerous occasions with respect to the validity of pledges of Corporation assets and covenants with respect to those assets which secure bonds of the Corporation. We also have a responsibility in connection with "full disclosure" of material facts regarding the Corporation in the official statements or circulars, which accompany each of the Corporation's bond issues. In this capacity, we would like to point out for the committee's record several aspects of the opinion which we respectfully submit need correction.

The portions of the opinion referred to are found on page 13 where the author states that covenants of AHFC to maintain collateral are not enforceable against the State if collateral is expropriated, the similar statement on pages 14 and 15, to the effect that while bondholders may have a valid claim against AHFC if the State reappropriated Corporation assets, bondholders would not have a claim against the State for such breach of covenant to the extent of State expropriation, and the statement on page 15 that "bondholders would not have a valid claim against the State of Alaska by virtue of the extraction of a pledged asset from AHFC by the State of Alaska."

Our view is that both the assets referred to in the "maintenance" covenants and assets pledged to bondholders are protected against expropriation by Article I § 10 of the United States Constitution which prohibits a State from passing any

"Law impairing the Obligation of Contracts..." as well as Article I, Section 7 of the Alaska Constitution. The Contract Clause of the United States Constitution was most recently considered by the United States Supreme Court in United States Trust Company of New York v. New Jersey, 431 U.S. 1 (1977). There the court held that the repeal of a statutory covenant impaired the obligation of the States' contract with bondholders. The Court held that repeal of the covenant eliminated an important security feature for the benefit of the bondholders and impaired the obligations of the Contract between them and the States of New York and New Jersey.

It is submitted that extraction, expropriation or reappropriation of moneys pledged to bondholders or to which bondholders have a covenanted maintenance right is a much clearer impairment of contract than that considered in the United States Trust Company case and in other cases since. An example is Continental Illinois National Bank v. Washington 696 F.2d 692 (1983), where the Court considered that imposition of a vote requirement before completion bonds could be issued impaired earlier bondholder's rights.

I suggest respectfully that the problem with the opinion is that the writer does not accept the fact that the appropriation of the funds to AHFC was complete when made and that the funds were then available for expenditure or pledge without further State action. Neither the anti-dedication provision nor other provisions respecting appropriations of the State Constitution are violated by AHFC when it spends, pledges or enacts covenants with respect to appropriated funds, because the appropriations are complete when made. (The opinion does not apparently question the validity of the covenants and pledges to bondholders made under AS 18.56.110.) M-K Engineering Co., Inc. v. Alaska Power Authority. 662 F. Supp. 303 (D. Alaska 1986) is not applicable because of specific statutory provisions providing for general fund deposit of that Authority's funds.

I would not presume to speak for the attorney general on this point, however, a review of his past opinions including 1982 Op. Att'y Gen., (November 30; J66-785-81) and 1985 Op. Att'y Gen., (April 24; 366-463-85) do not reveal any inconsistency between the position I am stating above and his position. Of course he may wish to comment directly on the issue. Our position is simply that once appropriated moneys are spent or obligated by valid pledge or negative covenant to bondholders they are no longer available for reappropriation.

Our other disagreements with the opinion are minor in nature. I would be less optimistic about the ease with which consents of bondholders are obtainable to substantial changes in the Corporation's structure or covenants. My experience is that such consents typically involve substantial time and expense where they are obtainable. Also, I note that a change in the form of the Corporation to a stock Corporation could have implications for its ability to finance on a tax exempt basis.

Very truly yours,

WOHLFORTH, ARGETSINGER,
JOHNSON & BRECHT

By Eric E. Wohlforth
Eric E. Wohlforth

EEW/jf

OVERVIEW

HOUSING FINANCE TASK FORCE MEETING

SEPTEMBER 20, 1989

Task Force Membership Present:

Rep. C.E. Swackhammer, Chair
Rep. Randy Phillips
Sen. Rick Halford
Hank Hodge DCRA
Paul Kapansky AHFC
Glenda Straube AHMC

NOTE: Insufficient representation for a quorum.

The meeting opened with Rep. Swackhammer clarifying the bid process for the AHFC consultant. A legal opinion indicated the AHFC should be responsible for the handling, tracking and ultimate selection of the consultant. The HFTF could participate. Senator Rick Halford and Rep. Randy Phillips were appointed as a subcommittee to work with AHFC in the selection process.

Paul Kapansky, AHFC, gave a bid update for the consultant. Sept. 20, 1989 is the issue date of the RFP. In keeping with the State's Procurement Code, AHFC went through the State Vender's List and selected 64 in-state concerns who seemed appropriate vender prospects. Likewise, advertisements were distributed to Anchorage newspapers, as well as, Seattle, San Francisco, Los Angeles and New York. Ads were also listed in East and West Coast Journals. It was suggested the AHFC also include Fairbanks and Juneau newspapers.

The deadline for response is 4:00 PM, October 20, 1989. The receipt and tracking of the bids will be handled by AHFC. The deadline for the report is December 30, 1989. It was agreed the selection of the consultant should be made by Nov. 1, 1989.

There was a discussion regarding the resolution stating a report will be made to the Legislature by the 15th day of the second session. Rep. Swackhammer stated the options proposed by the consultant would not be appraised by that date and the first report to the Legislature will be limited to a progress report.

It is the Chairman's intention to expedite the process during the session by conducting evening meetings, as well as teleconferences, to enable as much participation as possible. It is important to get the options assessed and to the Legislature with adequate time to take necessary action.

Rep. Swackhammer gave a brief presentation regarding the status of the request for AHFC to expend program receipts, as given to LB&A. LB&A has not been able to collect enough people for a quorum. Consequently, the request by HFTF to them to expend 300.0 in program receipts has not yet been heard. He was assured the question of the amount is not a concern; the only true concern was getting enough people together to have a vote. The next scheduled LB&A meeting is October 20, 1989 which coincides with the letting of a consultant contract.

AHFC has submitted a revised plan to OMB, addressing the need to expend 300.0. It was the opinion of the members present that OMB support is necessary, but the ultimate decision to expend program receipts rests with the Legislature.

A presentation was made to the task force by the Alaska Mortgage Bankers Association. A "near" verbatim report of the representation is attached.

There was a discussion regarding the availability of information on distribution of loans. The Chair said it was important to see the distribution of loans based on income to aid in assessing the direction the task force takes. AHFC was to investigate attaining this information.

There was a discussion regarding loan subsidies. The Alaska Mortgage Bankers Assn. is in favor eventually eliminating the subsidies, however, it should be a gradual "weaning" process. Glenda Straube suggested that loan income support loan programs should possibly be considered for a continued subsidy. There was a question as to whether or not early low income loans ever had subsidies.

There was a final presentation by Jean Smith, an Anchorage Real Estate Broker, regarding loans to cooperative home ownerships. Attached is a copy of her cover memorandum and presentation.

<u>NEXT MEETING:</u> November 1, 1989, 4:00 PM, 5th Floor Conference Room, Anchorage LIO, 3111 "C" Street.

HOUSING FINANCE TASK FORCE
AUGUST 23, 1989 MEETING
ANCHORAGE, ALASKA

SYNOPSIS

The second meeting the the HFTF was held in the 5th Floor Conference Room of the Anchorage LIO, 5:30 PM on August 23, 1989. A quorum was present:

Senator Halford
Senator Rodey
Rep. Phillips
Rep. Swackhammer

Advisory membership present:

Mary Halloran, OMB
Charles Akers, DCRA
Pay Price, ASHA
Paul Kapansky, AHFC
Glenda Straube, AHMC

Rep. Kay Brown was present as well. Also present was Thomas D. Ster, manager of MGIC, as well as members of the real estate industry, and a representative, Danna Moser, of Leg. Audit.

The meeting started by Rep. Swackhammer giving an overview, to newcomers, of what happened at the first meeting.

The first presentation was by Charles Akers, DCRA. A recent portfolio analysis was distributed from which Mr. Akers gave his presentation. (I will not reiterate his presentation because of the hand-out, if a copy is desired, please contact Carl Nickel at Rep. C.E. Swackhammer's Juneau Office.)

Three areas of discussion stemming from Mr. Akers' presentation arose. Mr. Akers is to present the information to the HFTF.

(1) Foreclosure Process, Policies and Procedures,

(2) Statistics regarding bank errors impact on loans, and

(3) Loan applicant qualifications.

Carl Nickel of Rep. Swackhammer's Office is to work with Mr. Akers regarding request No. 3.

The next presentation was made by Glenda Straube, AMHC. Policy statements of AMHC were distributed.

ATTACHED IS A (NEAR) VERBATIM COPY OF MS. STRAUBE'S PRESENTATION

Copies of the AMHC policy statements are available upon request.

The third presentation was made by Mary Halloran, OMB.

The present administration, upon taking office, looked at receiving some returns from AHFC. They did not take any action in fear of hurting the depressed real estate market. Approximately one year ago, the Administration again looked at the prospects of receiving funds from the AHFC. (Mary handed out the guidelines during her presentation.) However, nothing was done because AHFC was going through a management transitional period.

The Administration is basically happy with the RFP because it parallels the guidelines they developed in 1988. The Administration warns that the task force should be cautious in its efforts. What happens to AHFC can greatly impact the "average person on the street."

Mary Halloran had specific comments about the process:

Normal Procurement Process would take approximately 60 days which means the first part of Novemeber before there would be a contract "on the street." She urged that timelines be changed and asked for consideration of having a preliminary draft from the contractor at the start of the next session, with a final draft to follow.

The next concern was the dropping of the subsidy by July 1, 1990. It was felt the timeline was too soon, that 1991 would be a better objective. Mary agreed that the subsidy should be gradually reduced.

Likewise, the consultant should react to the financial impact of each of the options listed on Page 22 of the RFP.

The Governor has requested OMB to look at housing policies in the rest of the states, and possibly this may benefit the task force.

The final presentation was by Paul Kapansky of AHFC about the proposed RFP. The RFP is basically directed at AHFC and to include the rest of the loan programs would mean developing a historical perspective of each program included. It was concluded that, if other areas need to be included, it could be accomplished by amending the contract.

Thr procurement process was discussed as a major constraint to the completion of the consulting contract. It was agreed upon that the task could take until February and still have sufficient time to present the information to the total legislature. Mary Halloran offered to assist in expediting the administrative process.

It is the role of the AHFC to solicit for the consultant. A resolution passed unanimously that the task force request authorization from LB&A for expenditure of up to $300,000.00 of AHFC program receipts for the RFP.

HOUSING FINANCE TASK FORCE
JULY 26, 1989 MEETING
ANCHORAGE, ALASKA

SYNOPSIS

The organizational meeting of the Housing Finance Task Force (HFTF) was held in the 5th Floor Conference Room of the Anchorage LIO, on July 26, 1989. Present were:

Senator(s) Rodey
Szymanski
Halford
Representative(s)
Swackhammer
Phillips

NOTE: Representative Foster was not able to attend due to a conflict, he expressed his apologies for not being able to attend.

The first order of business was to organize. Rep. Swackhammer was nominated and unanimously approved as Chair of HFTF, Senator Rodey was unanimously named Vice Chair.

Other members of the task force, pursuant to SCR 28, were named:
Thomas C. Behan, Exec. Director AHFC
Mike Harper, Director, DCRA Rural Development Division
Ray Price, Exec. Director, DCED, ASHA
Glenda Straube, Exec. Director, Alaska Housing Market Council

NOTE: These members, as stated in SCR 28, serve in an advisory capacity only.

Mary Halloran, Director, OMB Division of Policy, was nomiated and unanimously approved as an additional, ex officio, member of the HFTF.

ISSUES DISCUSSED

STAFFING;

It was the general concensus that each member designate a key staff person to be responsible for information pertinent to the HFTF. Senator Rodey designated Mark Begich, Rep. Swackhammer designated Carl Nickel. Other members are to designate staff and inform the task force.

BUDGET;

Because the Administration vetoed the funds which were to be used to fund the HFTF, the question of funding was discussed. It was assumed that approximately 20.0 was needed to cover costs of travel, supplies, publishing, etc. It was the concensus that the senate members would charge their costs of "doing state business" to their general leadership account. It was moved and unanimously approved that the amount of 20.0 be requested and designated as the cost of conducting HFTF business. This amount would be a guideline figure.

It is the understanding that AHFC will cover the cost of a consultant to assist in assessing their program. Likewise, the cost to the advisory membership will be borne by the administration.

FOCUS OF THE TASK FORCE;

The general concerns of the HFTF were: (AHFC Emphasis)

None of the efforts of the HFTF have an adverse affect on the precarious mortgage market,

Have a gradual elimination of the subsidy program in a manner that it will not have an adverse affect on AHFC bond standing,

Look at a reasonable return from AHFC without impairning its financial standing or bond rating,

Have a careful plan that will allow all, or a portion of AHFC to be privatized in the future, and, in general,

That the HFTF look solely at subsidized, privately owned, housing projects.

GENERAL GOALS OF THE TASK FORCE; (as outlined in the 7-20-89 memo from Carl Nickel to Rep. Swackhammer).

Status of all state assisted residential programs and opportunities related to those programs.
- Identify all programs
- Number of participants
- Target population (Guidelines for participants)
- Current status of participants, e.g., foreclosures, in arrears
- Financial stability (Assets vs Liabilities)

Status of all bonds capitalizing the loans.
- Identify bonds and sources
- Liquidity of the bonds
- Availability of bonding in the future

Reorganization/Privatization
- Economics of above
- Privatize some aspects/components
- Salability of each program
- * Phase-out (added in committee)

DISCUSSION: Concerns were expressed regarding the impact of short term goals which deal with the economics of continued funding and changes in "trailor and condo" loan programs.

ALASKA HOUSING FINANCE CORPORATION
PRESENTATION BY
THOMAS C. BEHAN, EXECUTIVE DIRECTOR

(Initial presentation is verbatim)
(See attached)

(AHFC's Corporate Mission Statement)
(See attached)

(Questions posed to HFTF)
(See attached)

GENERAL DISCUSSION:

It is the general concensus that AHFC "is the market" and because it is a subsidy, it is price driven. The average subsidy is approximately $100 per month for 45,000 loans. If the removal of the subsidy is essential, it is important to profile the market. The key issue is the fact that during the real estate growth era, AHFC was subsidizing individuals to make a profit, now the market is going down and the question is whether, under these circumstances, the subsidy should be "pulled out?"

It was discussed that the legislature must share the responsibility for the general shape of sudsidy and AHFC because it responded to the needs and wishes of the public at AHFC's inception.

The question is how to reduce/eliminate the subsidy program without destroying the market, public monies involved and the liabilities of AHFC?

No matter what happens to AHFC, the reality of $4+ billion in bonds still exists. AHFC has approximately $400 million in unrestricted funds. The question is, if AHFC was put, in its entirety, on the market, what would be the net gain? (What is the the marketability of AHFC?)

It was the concensus that objective consulting is necessary to assess the worth and future of AHFC. The HFTF wants something concrete before the next session. AHFC thinks 60-90 days is adequate time for an overview. There was an expressed concern that whoever does the consulting work is independent and free of conflict. A university was suggested as a potential consultant.

It was a general concensus that the consultant be followed through the process to make sure the right questions are being asked and the correct direction maintained. It was suggested the consultant give interim updates to the HFTF to assure desired goals are attained.

An immediate concern of AHFC is the response by M.G.I.C. to claims.

(Alaska Daily News 7-30-89 Article)
(See attached)

The next meeting was scheduled for 5:30 PM, August 23, 1989.