

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILE 8672
1597 SCOMM 60: HOUSING FINANCE TASK FORCE, 1989

SCOMM

60:3

STATE OF ALASKA

THE LEGISLATURE

1989

Source

Legislative
Resolve No.

HCS HSCR 2B(Fin)

54



Establishing a Housing Finance Task Force to review and recommend changes to publicly-assisted residential finance programs.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

WHEREAS the State of Alaska has created a substantial public financing system designed to assist Alaska homebuyers and has provided more than \$1,000,000,000 of capital as well as bonding authority to initiate and sustain these loan programs; and

WHEREAS the management of these loan programs has been assigned to several agencies, including executive departments and public corporations; and

WHEREAS the Alaska residential housing market has evolved tremendously since most of these loan programs were established; and

WHEREAS, due to recent economic hardship, these agencies have taken possession of hundreds of residential properties throughout the state; and

WHEREAS scrutiny of the state's initial capital investment, outstanding bonded indebtedness incurred by these agencies, authorities, and public corporations, and the reinvestment of income earned from residential loans requires the expertise of the agencies, authorities, and public corporations currently involved;

BE IT RESOLVED by the Alaska State Legislature that a Housing Finance Task Force is established to review and analyze the publicly-assisted residential finance programs, including but not limited to housing loan programs managed by the Alaska Housing Finance Corporation and the Department of Community and Regional Affairs; and be it

FURTHER RESOLVED that the task force shall report to the legislature by the 15th day of the Second Session of the Sixteenth Alaska State Legislature summarizing the financial condition of all state-assisted residential loan programs, guidelines governing each of the loan programs, and the status and condition of any bonds sold to capitalize these loans; and be it

FURTHER RESOLVED that the task force shall administer an independent evaluation of the options and implications for restructuring, reducing the size of, privatizing, or phasing out the Alaska Housing Finance Corporation, and that the evaluation also include an analysis of the potential for return on the capital invested in the corporation by the state; and be it

FURTHER RESOLVED that the task force shall review the proposal which would require the Alaska Housing Finance Corporation to purchase mortgage loans from the housing assistance loan fund, the effects of this policy on each of the loan programs, whether the purchases should be at par value or at market value and, if at market value, an appropriate method for determining that value, and the long-term anticipated demand for residential loans through the housing assistance loan fund; and be it

FURTHER RESOLVED that the task force shall consist of six members, including three members of the Senate to be appointed by the president of the Senate and three members of the House of Representatives to be appointed by the speaker of the House, and that the task force shall have an advisory group composed of the director of the rural development division of the Department of Community and Regional Affairs, the executive director of the Alaska Housing Finance Corporation, the executive director of the Alaska State Housing Authority, and the executive director of the Alaska Housing Market Council, or their designees; and be it

FURTHER RESOLVED that the Housing Finance Task Force terminates when the task force submits its report.

M E M O R A N D U M

TO: Rep. C.E. Swackhammer
FROM: Carl Nickel, Finance Aide
DATE: April 3, 1990 *me*
TOPIC: HB 462/SB 427

Senate Bill 427 passed the Senate by a vote of 13-6 with two amendments. The NAYS were Adams, Coghill, Fischer, Halford and Kerttula.

The first amendment by Senator Faiks was directed at the Railroad. According to debate, the fundamental change of the procurement code for the railroad excludes Alaska Bidder's Preference for anything that directly relates to railroad "rolling-stock" and rails. The rationale is, there are so few manufacturers of specific railroad that the bidder preference was thwarted by "someone in Alaska with a FAX machine, PC and a \$25.00 business license could call potential bidders and offer to bid for them for a fee." Senator Faiks gave examples of large commissions being paid for virtually no involvement.

The question regarding railway ties not having Alaska Bidder's Preference. They too would be excluded, but it was decided that the bidder's preference for Alaska wood products covered that issue.

The second amendment by Senator Kerttula removed the exclusion of LB&A from AHFC expenditures of program receipts. He stated there has to be oversight and if LB&A does nothing within 45 days, an appropriation request automatically passes. There was considerable debate regarding the funds in front of the budget vs funds in general. I do not think people walked away with this resolved in their minds.

There is a sectional analysis attached which addresses this bill. Please note the separate sheet dated April 2, 1990 by Dierdorff. It was requested to clarify (4) at the top of Page 2.

A M E N D M E N T #1

OFFERED IN THE SENATE

BY SENATOR FAIKS & SZYMANSKI

TO: CSSB 427 (Rules)

Page 7, line 3:

Delete "the Alaska Railroad Corporation,"

Insert "[THE ALASKA RAILROAD CORPORATION]"

Page 7, line 4, after "Corporation":

Delete ","

Page 7, following line 14:

Insert a new bill section to read:

"* Sec. 9. AS 36.30.015 is amended by adding a new subsection to read:

(f) The board of directors of the Alaska Railroad Corporation shall adopt procedures to govern the procurement of supplies, services, professional services, and construction. The procedures must

(1) reflect competitive principles and provide vendors reasonable and equitable opportunities to participate in the procurement process;

(2) include procurement methods to meet emergency and extraordinary circumstances; and

(3) for a contract awarded for supplies, services, and construction, comply with the provisions of AS 36.30.170(b) and 36.-30.250(b) that establish a preference for an Alaska bidder, except

that the Alaska bidder preference provisions of AS 36.30.170(b) and 36.30.250(b) do not apply to a contract that actually and directly relates to the purchase, operation, expansion, reduction, or maintenance of track structure or equipment moving upon track structure of the railroad."

Renumber the following bill sections accordingly.

A M E N D M E N T #2

↓ w/memo

OFFERED IN THE SENATE

BY SEN. KERTTULA

TO: CSSB 427 (Rules)

Page 1, line 10, after "Code":

Delete "and allowing the corporation to expend additional corporation receipts immediately after submission of a revised program to the Legislative Budget and Audit Committee"

Page 7, line 29, through page 8, line 16:

Delete all material.

Renumber the following bill sections accordingly.

MEMORANDUM

State of Alaska

Office of the Governor

Division of Policy

TO: Representative Swackhammer
House Finance Committee

DATE: March 20, 1990

FROM: *MH* Mary Halloran
Director, Policy

PHONE: 465-3568

SUBJECT: AHFC: DIVIDEND POLICY
HB 462

FILE NO:

Here are comments about the proposed dividend statute for AHFC from the following organizations: Bear Stearns, Shearson Lehman Hutton, and Paine Webber.

Bear Stearns and Shearson Lehman Hutton's representatives remain concerned about adverse financial consequences of adopting such a policy. Bear Stearns notes that the proposed language calls for "at least 50%" of AHFC's unrestricted annual net income, which would contribute to investors' perception of "extra risk." Shearson Lehman Hutton advises that the proposed amendment will adversely affect credit evaluations of investors and others. Paine Webber indicates that the discretionary nature of the proposed dividend is beneficial to AHFC, and that the delayed effective date is "an excellent suggestion."

cc: Members, House Finance
Bob Mintz, AHFC

HB462

BEAR STEARNS

BEAR, STEARNS & CO. INC.

345 PARK AVENUE
NEW YORK, NEW YORK 10167
(212) 272-2000

ATLANTA • BOSTON
CHICAGO • DALLAS • LOS ANGELES
NEW YORK • SAN FRANCISCO
AMSTERDAM • GENEVA • HONG KONG
LONDON • PARIS • TOKYO

March 19, 1990

Mr. Robert Mintz
Chairman
Alaska Housing Finance Corporation
520 East 34th Avenue
Suite 300
Anchorage, AK 99503

Dear Bob,

You have asked me for my comments concerning the revised Dividend Statute for the Alaska Housing Finance Corporation. I have attached to this letter my letter to you dated March 12, 1990 and call your attention to my concerns which have not changed. Any perception to the investor that the Legislature can penetrate the Corporation for funds will be detrimental to its fiscal health whether it be couched in mild or harsh terms. In today's environment sound business practices, which include the preservation of capital, are necessary. I do not believe the proposed Dividend Statute meets this criteria.

Sincerely,

Alfred B. Thacher, Jr.
Alfred B. Thacher, Jr.

BEAR STEARNS

BEAR, STEARNS & CO. INC.

345 PARK AVENUE
NEW YORK, NEW YORK 10167
(212) 271-3000

ATLANTA • BOSTON
CHICAGO • DALLAS • LOS ANGELES
NEW YORK • SAN FRANCISCO
AMSTERDAM • GENEVA • HONG KONG
LONDON • PARIS • TOKYO

March 12, 1990

Mr. Robert Mintz
Chairman
Alaska Housing Finance Corporation
520 East 34th Avenue
Suite 300
Anchorage, AK 99503

Dear Bob,

On Friday, March 9, I had a phone call with Shearson Lehman Hutton Inc. in order to update myself on the state of affairs at Alaska Housing. The reason for this letter is because I am concerned about one of the topics we discussed: namely, the Alaska Legislature's continued interest in the Corporation's cash flows and their desire to appropriate some or all of them.

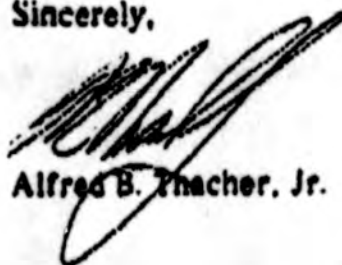
I do believe that an investor is due, if at all possible, a return on his investment, and I do believe that changing circumstances may alter the desires and expectations of an investor. In good times, he may be satisfied with letting his investment grow reinvesting his dividends. While in bad times, there may be a need for liquidity or other uses for the monies his investment is earning. I am not against such alterations of cash flow if they are made in a reasonable manner under sound business practices.

As I understand it, the Legislature would like to implement a dividend policy that would require the Corporation to pay to the State's General Fund at least 50% of its unrestricted yearly net income. It would be an understatement to say that such a policy makes me feel uncomfortable. In this day when the financial markets have been so unsettled and volatile and where the flight to good credit has been so marked, perception has become very much a part of reality. The reasoning of investors is very simple; if the legislature can take 50% of the Corporation's net income or more at whim, even with stand alone transactions, they would regard this as a depletion of net worth and thereby a reduction of its credit worthiness. This would make it more difficult for the Corporation to finance itself due to the probable loss of investor confidence. It would most definitely make the cost of money to the Corporation more expensive. This would be due to the need of increased spread for securities over treasuries to compensate investors for the perceived extra risk.

I realize that there has been a great deal of debate concerning the future role of the Corporation in Alaska. I must urge that whatever is done, should be done in an orderly fashion and in a manner that would never give the impression that the Corporation was being raided or could be raided for its surpluses. Some might argue that reputation and integrity have not been as important a factor in the past few years as long as the analysis on a transaction has been considered reasonable: as more weight was given the objective rather than the subjective. Today, investors are listening and considering everything in their search for credit worthiness.

Therefore, if the Corporation is to stay in business in today's market place, I must emphasize a most conservative approach to its cash flows and an implementation of change which is open and leaves no room for misunderstanding.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Alfred B. Thacher, Jr.', with a large, sweeping flourish at the end.

Alfred B. Thacher, Jr.

John C. Moore
Senior Vice President
208-344-5880

**SHEARSON
LEHMAN
HUTTON**

March 16, 1990

Mr. Robert Mintz
Chairman
Alaska Housing Finance Corporation
520 East 34th Avenue
Anchorage, AK 99503

Re: Proposed Dividend Policy

Dear Mr. Mintz:

We reviewed the revised language being considered for the proposed amendment to CSHB 462 (C&RA) regarding the institution of an annual dividend payment to the state general fund by the Alaska Housing Finance Corporation (the "Corporation").

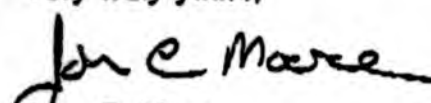
Even though this new language permits the Corporation's Board of Directors to rescind or reduce such a dividend payment if required to maintain the financial soundness of the Corporation, we still believe, as financial advisor to the Corporation, that the proposed amendment will affect the perceptions and credit evaluations of investors, credit enhancement providers and rating analysts involved in the Corporation's financing activities.

As we discussed in our letter to you dated March 8, 1990, any action taken by the Legislature to reduce the Corporation's control over its financial resources will be viewed negatively. Ongoing maintenance of the Corporation's credit worthiness is largely dependent on its ability to manage and deploy its resources in a prudent and conscientious manner. None of us are sure what the future will hold and it is entirely possible that the Corporation may eventually need those funds if actual events deviate from the assumptions originally made in structuring the Corporation's outstanding debt issues.

Also, because of the long term nature of the Corporation's debt, much of which is scheduled to mature beyond the year 2000, it is difficult for investors to assess how an ongoing and open-ended dividend policy might affect their investment in the future. Therefore, they tend to react conservatively and may demand higher returns to compensate themselves for the uncertainty even if the proposed dividend payments are deferred until 1994 or beyond.

We appreciate your willingness to hear our views on this matter and hope that they convey our concern appropriately.

Very truly yours,


John C. Moore

JCM:jf 0692m

PaineWebber Incorporated
100 California Street, 12th Floor
San Francisco, CA 94111
415 954-6700
415 343-9000

March 16, 1990

PaineWebber

Mr. Robert Mintz
Chairman
Alaska Housing Finance Corporation
520 East 34th Avenue
Anchorage, Alaska 99503

RE: Revised AHFC Dividend Statute (attached)

Dear Mr. Mintz:

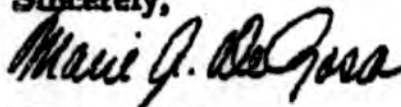
As you have requested, our observations on the current proposal to amend AS18.56, as well as the discussion regarding moving the effective thereof to 1994, are summarized below.

Our understanding is that the revision would allow the Board of Directors to review the financial performance of AHFC within six months after the close of the fiscal year before determining its ability to pay a dividend to the state general fund for that year. Conceptually the discretionary power conferred on the Board in this manner is beneficial to AHFC. The implementation may prove to be cumbersome in that "financial soundness" is a subjective standard in the absence of formal guidelines or definition. The Board will have to develop guidelines within which to measure financial soundness. The guidelines may take the form of minimum ratio targets such as total fund balances to total debt outstanding and unrestricted fund balances to total debt outstanding. We expect that annual presentations to the rating agencies would be necessitated allowing Moody's and S&P to review the Board's proposed dividend payment before the fact.

Postponement of the effective date is an excellent suggestion for the following reasons. Delaying dividend payouts until 1994 will give AHFC the opportunity to get through the worst of the impact of the downturn in the State's real estate market on its financial position. With all of its resources intact AHFC may continue to play an integral role in the recovery. In addition, it gives AHFC an adequate time frame within which to develop procedures for determining the circumstances under which the full 50% dividend payout would be acceptable to the rating agencies and credit enhancement providers. Third, any negative impact on AHFC's ability to access the capital markets may be greatly diminished by giving capital market participants advance notice and allowing them to become comfortable that the dividend payout does not adversely affect the soundness of the debt obligations of AHFC.

Please call us (415-954-5997) if you have any questions.

Sincerely,



Marie A. DeRosa
Vice President

* Sec. AS 37.07 is amended by adding a new section to read:

Sec. 37.07.085. ALASKA HOUSING FINANCE CORPORATION BUDGET. (a) Notwithstanding the provisions of AS 37.07.080, the Alaska Housing Finance Corporation may, by resolution adopted by the board of directors, increase an item appropriated from corporation receipts if:

(1) the board of directors determines that exigent circumstances require an increase in appropriations; and

(2) additional corporation receipts not specifically appropriated by the full legislature are available.

(b) Before the resolution required by (a) of this section takes effect, the board of directors shall submit a revised program to the governor and the legislative budget and audit committee.

STATE OF ALASKA

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

STATE COMPTROLLER

FOURTH FLOOR - STATE CAPITOL
JUNEAU, ALASKA 99801
PHONE: (907) 465-3600

TELECOPIER TRANSMITTAL LETTER

PLEASE DELIVER THE FOLLOWING PAGES TO:

NAME: Bob Mintz
LOCATION: Anch - Carr Court. PHONE: _____
TELECOPIER NUMBER: 561-7860
REMARKS: As we discussed

TOTAL NUMBER OF PAGES 02 INCLUDING COVER LETTER.

DATE: 3-19-90 TIME: 9:45
FROM: J. L. Baldwin
IN RE SUBJECT/FILE NO. AHF- LEGISLATION

CHARGE TO: ☒ 100 ☒ 110 ☐ 523
☐ 543 ☐ 546 ☐ 674
☐ 740 ☐ OTHER _____

IF YOU DO NOT RECEIVE ALL THE PAGES OR IF YOU HAVE ANY PROBLEMS,

PLEASE CONTACT: J.L.B.

AT (907) 465-3600 - ATTORNEY GENERAL'S OFFICE - JUNEAU

NOTE: Please fill in ALL of the blanks.

To: Bob Sullivan

RNAL

April 20, 1990

April 20, 1990

HOUSE JOURNAL

3419

HOUSE BILLS

to third reading from the
3359), was read the third

Resources) amended
resources and practices
of forest lands; and
late."

31(Res)am pass the House?"
wing result:

er, Brown, Cotten,
vis, C., Davis, M.,
s, Finkelstein,
, Gruenberg,
Hudson, Koponen,
on, Leman, MacLean,
er, Navarre, Phillips,
khammer, Ulmer,
cki

ins, Furnace, Hanley,
harp

or

ko, Shultz

a House.

nd asked unanimous consent
of the bill be considered
ate clause. There being no

ice of reconsideration of

DATE BILLS

to third reading from the
60), was read the third

HCS CSSB 427(Fin)amH

HOUSE CS FOR CS FOR SENATE BILL NO. 427 (Finance)
amended House

"An Act relating to program and administration
requirements of certain state corporations;
expanding the number of directors of the Alaska
Housing Finance Corporation; exempting the Alaska
Housing Finance Corporation from the State
Procurement Code; amending the corporation's
special mortgage loan purchase program and
progressively reducing the maximum level of loan
amounts eligible for a reduction under a mortgage
loan subsidy; amending the corporation's mortgage
loan subsidy program for persons of lower and
moderate income; and relating to procurement
practices of certain state corporations; and
providing for an effective date."

The question being: "Shall HCS CSSB 427(Fin)amH pass the
House?" The roll was taken with the following result:

HCS CSSB 427(FIN)AMH

Yeas: 33 Boucher, Boyer, Brown, Collins,
Cotten, Davis, C., Davis, M.,
Donley, Ellis, Finkelstein,
Foster, Furnace, Goll, Gruenberg,
Grussendorf, Hanley, Hudson,
Koponen, Kubina, Larson, Leman,
MacLean, Menard, Miller, Navarre,
Pettyjohn, Phillips, Rieger,
Sharp, Swackhammer, Ulmer, Wallis,
Zavacki

Nays: 1 Barnes

Excused: 2 Martin, Taylor

Absent: 4 Davidson, Hoffman, Jacko, Shultz

And so, HCS CSSB 427(Fin)amH passed the House.

Representative Navarre moved and asked unanimous consent
that the roll call on the passage of the bill be considered
the roll call on the effective date clause. There being no
objection, it was so ordered.

HCS CSSB 427(Fin)amH was referred to the Chief Clerk for
engrossment.

A M E N D M E N T

HB 462 (CR&A)

HOUSE FINANCE COMMITTEE SUBSTITUTE

Page 7, line 8:

Insert a new bill section to read:

* Sec. 9. AS 36.30.015(e) is amended to read:

(e) The boards of directors of the Alaska Railroad Corporation [AND], the Alaska Housing Authority and the Alaska Housing Finance Corporation shall adopt procedures to govern the procurement of supplies, services, professional services, and construction [BY THE CORPORATION]. The procedure must be substantially equivalent to the procedures prescribed in this chapter and in regulations adopted under this chapter.

Renumber the following bill sections accordingly.

Rep. C.E. Swackhammer

A M E N D M E N T

OFFERED IN THE SENATE

BY SEN. FAIKS

TO: SB 427

Page 1, lines 6 - 7:

Delete "the Alaska Housing Finance Corporation and its housing programs"

Insert "program and administration requirements of certain state corporations"

Page 1, lines 7 - 8:

Delete "corporation"

Insert "Alaska Housing Finance Corporation"

Page 1, line 14, after "income;":

Insert "relating to procurement practices of the Alaska Railroad Corporation;"

Page 6, following line 26:

Insert a new bill section to read:

"* Sec. 8. AS 36.30.015(e) is amended to read:

(e) The board [BOARDS] of directors of [THE ALASKA RAILROAD CORPORATION AND] the Alaska State Housing Authority shall adopt procedures to govern the procurement of supplies, services, professional services, and construction [BY THE CORPORATION]. The procedures must be substantially equivalent to the procedures prescribed in this

chapter and in regulations adopted under this chapter."

Renumber the following bill sections accordingly.

Page 7, following line 21:

#2 Insert a new bill section to read:

"* Sec. 11. AS 42.40.100 is amended to read:

Sec. 42.40.100. MANAGEMENT BY THE BOARD. The board is responsible for the management of the corporation but shall delegate certain powers and duties to the chief executive officer in accordance with AS 42.40.120. In managing the corporation the board shall

(1) be responsible for the management of the financial and legal obligations of the Alaska Railroad;

(2) operate the Alaska Railroad as a common carrier subject to the jurisdiction of the United States Interstate Commerce Commission consistent with 45 U.S.C. 1207;

(3) generally manage the corporation on a self-sustaining basis;

(4) apply to the legislature for an appropriation with the concurrence of the governor to be used to provide a particular service that is not otherwise self-sustaining if a subsidy is required to maintain that service;

(5) provide for safe, efficient, and economical transportation to meet the overall needs of the state;

(6) raise needed capital by issuing bonds of the corporation upon approval by the legislature while ensuring that borrowing by

the corporation does not directly or indirectly endanger the state's own borrowing capacity;

(7) review all state and other land disposal proposals to aid in planning for future development or expansion of transportation services;

(8) adopt and publish procedures to govern the procurement of supplies, services, professional services, and construction by the corporation; the procedures adopted must [ENSURE THAT THE PROCUREMENT PROCEDURES OF THE CORPORATION] meet accepted railroad industry standards;

(9) ensure that the accounting procedures of the corporation meet generally accepted accounting principles consistent with industry standards for comparable railroads."

Renumber the following bill sections accordingly.

M E M O R A N D U M

TO: Rep. C.E. Swackhammer
FROM: Carl Nickel, Finance Aide
DATE: February 28, 1990
TOPIC: House Finance Committee Substitute HB 462

This amendment should work to direct AHFC to develop procurement procedures "substantially equivalent" to the regular procurement code. It simply adds AHFC to ARRC and AHSA in the procurement code section.

The Banking and Economic Development substitute changes the title of the bill to enable fixing the Alaska Railroad Corporation. It removes the ARRC from AS 36.30.015(e) which is the "substantially equivalent" section and directs the management of the ARRC Board to "adopt and publish procedures to govern the procurement of supplies, services, professional services and construction by the corporation: the procedures adopted must meet accepted railroad industry standards."

Our amendment is specifically directed at AHFC and I think cleaner.

STATE OF ALASKA
1990 LEGISLATIVE SESSION

No. 1
BILL VERSION: CSHB 462(C&RA)
PUBLISH DATE: HOUSE 2/20/90

FISCAL NOTE

REQUEST:

Revision Date: _____
Title: ..relating to AHFC and its
housing programs...
Sponsor: Rules
Requestor: C & RA

Agency Affected: _____
BRU: Alaska Housing Finance Corporation
Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	-0-	-0-	-0-	-0-	-0-	-0 -

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Prepared by: Judith DeSpain, Chief Administrative Officer
Division: Alaska Housing Finance Corporation
Approved by Commissioner: *Heidi Imboden*
Agency: *AFENIAE*
Phone: 561-1900
Date: 2/15/90
Date: 2/16/90

Distribution (by preparer):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

A M E N D M E N T

HOUSE FINANCE COMMITTEE SUBSTITUTE

HB 462 (CR&A)

Page 1, line 26:

* Sec. 1. AS 18.56.030(a)(3) is amended to read:

(3) four [TWO] public members appointed by the governor of which
at least one shall be a member of the finance community.

Rep. C.E. Swackhammer



Lynn M. Manley
First Vice President

Security Pacific Bank
Washington, NA
Corporate Banking: T23-3
Security Pacific Tower, Box 3966
Seattle, Washington 98124
(206) 621-4216

April 17, 1990

House Finance Committee
House of Representatives
Alaska State Legislature
Juneau, Alaska 99801

Re: Amendment to CSSB 427 (Rules)

Gentlemen and Ladies:

Tom Behan, Executive Director of Alaska Housing Finance Corporation, has asked me to comment on the effect, if any, the proposed amendment offered by Representative Rieger would have on the financial health of AHFC.

By way of background, this bank, both formerly as Rainier Bank and now as part of Security Pacific Corporation, has had a relationship with AHFC since 1982. We have acted as financial advisor to AHFC in the private placement of three corporate bonds amounting to \$65 million in the aggregate, and we have made available to AHFC credit in various forms in amounts in excess of \$26 million. AHFC is currently obligated to Security Pacific Bank Washington (SPBW) on a contingent basis for \$15.8 million, representing the balance on a standby letter of credit supporting the first of the previously-mentioned corporate bonds.

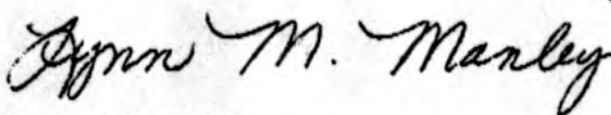
Alaska Housing's financial structure is highly complex. To generalize somewhat, while most of its bond issues are structured as "stand alone" financings (with income from pledged assets sufficient to repay the debt), all issues carry the full faith and credit of the Corporation. If there is an occurrence in which the cash flow from assets committed to a bond issue is insufficient to repay the bond, lenders can rely on the consolidated net income of the Corporation to provide for repayment of interest and principal. To the extent that income is perceived as being sufficient (with ample margin) to repay all current and contemplated obligations, the risk of loss is relatively low, and most lenders would be inclined to extend larger amounts of credit at a lower price. If the Corporation's income is reduced for any reason, the amount of available credit would very likely be restricted and/or the price increased. In my opinion, one probable result of mandating a decrease in net income would be tighter structuring of each individual bond issue--that is, requiring commitment of more cash and/or collateral as security for a specific bond issue.

Page 2

There are many other possible ramifications of a planned reduction of AHFC's net income. Unfortunately, it is difficult to assess on short notice what would be the actual effect on the capital markets of the proposed legislative amendment. I forward these brief comments to you in the interest of meeting your deadline and supplying you with at least one opinion from a lender actively engaged in supplying credit to AHFC.

I am pleased to have the opportunity of offering this testimony to the House Finance Committee on behalf of Alaska Housing Finance Corporation. Should anyone desire elaboration on any point included in this letter, please feel free to contact me.

Sincerely,

 (LH)

Lynn M. Manley
First Vice President

LMM/lh

cc: Mr. Tom Behan

AMENDMENT

*Sec. 18.56.089 is amended to read:

ANNUAL ACCOUNTING. The [EXECUTIVE BUDGET ACT. THE OPERATING BUDGET OF THE CORPORATION IS SUBJECT TO THE EXECUTIVE BUDGET ACT (AS 37.07). TO FURTHER ENSURE EFFECTIVE BUDGETARY DECISION MAKING BY THE LEGISLATURE, THE] corporation shall present a complete accounting of all assets of the corporation, including assets of the Alaska housing finance revolving funds, to the legislature by January 10 of each year. The accounting shall be audited by an independent outside auditor and shall include a full description of all mortgage loan interest and princippal repayments and program receipts, including mortgage loan commitment fees, received by or accrued to the corporation during the preceding fiscal year, [and] all income earned on the assets of the corporation during that period, including earnings on assets of the state assisted mortgage funds, and all changes in personal services activities within the corporation.

Original sponsor(s): Rules/Housing Finance Task Force

1 IN THE HOUSE

BY THE C&RA COMMITTEE

2

CS FOR HOUSE BILL NO. 462 (C&RA)

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

SIXTEENTH LEGISLATURE - SECOND SESSION

5

A BILL

6

For an Act entitled: "An Act relating to the Alaska Housing Finance Corpo-

7

ration and its housing programs; expanding the number

8

of directors of the corporation; exempting the corpo-

9

ration from the Executive Budget Act and the State

10

Procurement Code; amending the special mortgage loan

11

purchase program and progressively reducing the

12

maximum level of loan amounts eligible for a re-

13

duction under a mortgage loan subsidy; amending the

14

mortgage loan subsidy program for persons of lower

15

and moderate income; and providing for an effective

16

date."

17

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

18

* Section 1. AS 18.56.030(a) is amended to read:

19

(a) The corporation shall be governed by a board of directors

20

consisting of

21

(1) the commissioner of revenue and the commissioner of

22

commerce and economic development;

23

(2) one other member who is the head of a [THE] principal

24

department of the executive branch of state government appointed by

25

the governor; and

26

(3) four [TWO] public members appointed by the governor.

27

* Sec. 2. AS 18.56.089 is amended to read:

28

Sec. 18.56.089. ANNUAL ACCOUNTING. The [EXECUTIVE BUDGET ACT.

29

THE OPERATING BUDGET OF THE CORPORATION IS SUBJECT TO THE EXECUTIVE

1 BUI T ACT (AS 37.07). TO FURTHER ENSURE EFFECTIVE BUDGETARY DECI-
2 SION MAKING BY THE LEGISLATURE, THE] corporation shall present a
3 complete accounting of all assets of the corporation, including assets
4 of the Alaska housing finance revolving fund, to the legislature by
5 January 10 of each year. The accounting shall be audited by an in-
6 dependent outside auditor and shall include a full description of all
7 mortgage loan interest and principal repayments and program receipts,
8 including mortgage loan commitment fees, received by or accrued to the
9 corporation during the preceding fiscal year, and all income earned on
10 assets of the corporation during that period, including earnings on
11 assets of the state assisted mortgage fund.

12 * Sec. 3. AS 18.56.091 is amended by adding a new subsection to read:

13 (b) Notwithstanding (a) of this section, the loan amount eligi-
14 ble for assistance under the subsidy authorized by (a) of this section
15 is the amount determined under AS 18.56.098(f).

16 * Sec. 4. AS 18.56.098(f) is amended to read:

17 (f) In this section and in AS 18.56.099

18 (1) "graduated payment mortgage loan" means a mortgage loan
19 the terms of which provide for monthly principal and interest payments
20 that

21 (A) during the first year of the mortgage loan are
22 lower than the monthly principal and interest payments that would
23 be required under the terms of a level payment mortgage loan made
24 at the same interest rate; and

25 (B) during subsequent years of the mortgage loan are
26 graduated to provide for the same return over the term of the
27 loan that would have been provided by a level payment mortgage
28 loan made at the same interest rate;

29 (2) "loan amount eligible for assistance" means the amount

1 of a mortgage loan that does not exceed the amount of the loan estab-
2 lished by law; if an amount has not been established by law, the
3 amount is zero;

4 (3) [REPEALED] "mortgage loan" includes a beneficial in-
5 terest or participation in a mortgage loan;

6 (4) "residence" means

7 (A) an owner-occupied, single-family residence, in-
8 cluding a mobile home; [,] or

9 (B) an owner-occupied duplex, triplex, or fourplex.

10 * Sec. 5. AS 18.56.098(f) is repealed and reenacted to read:

11 (f) In this section and in AS 18.56.091 and 18.56.099

12 (1) "graduated payment mortgage loan" means a mortgage loan
13 the terms of which provide for monthly principal and interest payments
14 that

15 (A) during the first year of the mortgage loan are
16 lower than the monthly principal and interest payments that would
17 be required under the terms of a level payment mortgage loan made
18 at the same interest rate; and

19 (B) during subsequent years of the mortgage loan are
20 graduated to provide for the same return over the term of the
21 loan that would have been provided by a level payment mortgage
22 loan made at the same interest rate;

23 (2) "loan amount eligible for assistance" means

24 (A) the first \$50,000 of a mortgage loan for persons
25 of lower or moderate income whose purchase of a home is assisted
26 under AS 18.56.091; or

27 (B) except as to persons whose purchase of a home is
28 assisted under AS 18.56.091, the amount of a mortgage loan that
29 does not exceed the amount of the loan established by law; if an

1 amount has not been established by law, the amount is zero;

2 (3) "mortgage loan" includes a beneficial interest or
3 participation in a mortgage loan;

4 (4) "residence" means

5 (A) an owner-occupied, single-family residence, in-
6 cluding a mobile home; or

7 (B) an owner-occupied duplex, triplex, or fourplex.

8 * Sec. 6. AS 18.56.098(g) is amended to read:

9 (g) The corporation shall establish the interest rate on a first
10 mortgage loan purchased under (a) of this section in accordance with
11 the following:

12 (1) The interest rate on the loan amount eligible for
13 assistance [FIRST \$90,000] of a mortgage loan purchased with the
14 proceeds of an issue of taxable bonds of the corporation is three
15 percent less than the cost of funds of that issue, except that

16 (A) if the cost of funds of that issue is less than 10
17 percent, the interest rate is equal to the cost of funds; and

18 (B) if the cost of funds of that issue is more than 10
19 percent, the interest rate may not be less than 10 percent.

20 (2) An interest rate determined under this subsection on
21 the loan amount eligible for assistance [FIRST \$90,000] of a mortgage
22 loan that is not purchased from the proceeds of bonds that are qual-
23 ified veterans' mortgage bonds under the applicable provisions of 26
24 U.S.C. (Internal Revenue Code) [26 U.S.C. 103A (MORTGAGE SUBSIDY BOND
25 TAX ACT OF 1980), AS AMENDED,] shall be reduced by one percentage
26 point if the loan is made to an eligible veteran under AS 18.56.101.

27 (3) The interest rate for the amount of a mortgage loan
28 purchased under (a) of this section that exceeds the loan amount
29 eligible for assistance [\$90,000] is equal to the cost of funds to the

1 corporation attributable to that part of the loan.

2 (4) The interest rate on the loan amount eligible for
3 assistance [FIRST \$90,000] of a mortgage loan purchased with money
4 that is not the proceeds of either taxable or tax-exempt bonds is the
5 rate the corporation determines is appropriate by application of the
6 provision of (1) of this subsection.

7 (5) The interest rate on the loan amount eligible for
8 assistance [FIRST \$90,000] of a mortgage loan purchased from the
9 proceeds of bonds that are exempt from taxation other than bonds that
10 constitute qualified veterans' bonds under (i) of this section, is
11 equal to the interest rate determined under (1) and (2) of this sub-
12 section on a loan purchased under (a) of this section from the pro-
13 ceeds of the most recent applicable issue of taxable bonds sold by the
14 corporation. A higher or lower interest rate shall be established on
15 the entire loan amount if required to ensure the tax-exempt status of
16 the bonds.

17 (6) The corporation shall determine the interest rate on a
18 mortgage loan that is an adjustable rate mortgage loan as provided in
19 this subsection. The corporation shall recalculate the interest rate
20 from time to time based on changes in the cost to the corporation of
21 the funds used to purchase the adjustable rate mortgage loan. How-
22 ever, the corporation may establish a minimum interest rate applicable
23 to an adjustable rate mortgage loan, and the interest rate on the
24 adjustable rate mortgage loan may not be less than the minimum inter-
25 est rate so established regardless of the cost of funds to the corpo-
26 ration.

27 (7) For loans made under this section, the corporation
28 shall give effect to interest rate changes applicable to the loans
29 based on time of loan application, time of issuance of the

1 corporation's bonds issued to purchase loans, or other factors as the
2 corporation determines.

3 (8) [(7)] In this subsection

4 (A) "cost of funds" means the true interest cost
5 expressed as a rate on bonds of the corporation plus an addi-
6 tional percentage as determined by the corporation to represent
7 the allocable expenses of operation, costs of issuance, and
8 mortgage servicing;

9 (B) "taxable bonds" means bonds bearing interest that
10 is taxable under applicable provisions of 26 U.S.C. (Internal
11 Revenue Code) and which were [26 U.S.C. 103A (MORTGAGE SUBSIDY
12 BOND TAX ACT OF 1980)] issued to finance the purchase of first
13 mortgage loans.

14 * Sec. 7. AS 18.56.098(h) is amended to read:

15 (h) The corporation shall establish the interest rate on a
16 second mortgage loan purchased under (a) of this section in the manner
17 established for computing the interest rates on a first mortgage loan
18 under (g) of this section except that, in the case of a second mort-
19 gage loan, if the first mortgage loan made to the same borrower is
20 held by the corporation and was purchased under the special mortgage
21 loan purchase program, the outstanding principal balance of the exist-
22 ing first mortgage loan is subtracted from the loan amount eligible
23 for assistance [\$90,000] to determine the amount of the loan that is
24 eligible for an interest rate on a second mortgage loan determined by
25 reference to (g) of this section.

26 * Sec. 8. AS 18.56.098(i) is amended to read:

27 (i) The interest rate on the loan amount eligible for assistance
28 [FIRST \$90,000] of a mortgage loan purchased from the proceeds of
29 bonds that constitute qualified veterans' mortgage bonds under

1 applicable provisions of 26 U.S.C. (Internal Revenue Code) is [26
2 U.S.C. 103A (MORTGAGE SUBSIDY BOND TAX ACT OF 1980) AS AMENDED, IS THE
3 GREATER OF (1) FOUR PERCENT LESS THAN THE COST OF FUNDS OR (2)] the
4 rate for other loans to veterans under (g)(2) of this section [AS
5 18.56.098(g)(3)]. A higher or lower interest rate shall be establish-
6 ed on the entire loan amount if required by applicable provisions of
7 26 U.S.C. (Internal Revenue Code) [UNDER 26 U.S.C. 103A].

8 * Sec. 9. AS 36.30.990(1) is amended to read:

9 (1) "agency"

10 (A) means a department, institution, board, commis-
11 sion, division, authority, public corporation, the Alaska Pio-
12 neers' Home, or other administrative unit of the executive branch
13 of state government;

14 (B) does not include

15 (i) [, EXCEPT FOR] the University of Alaska;

16 (ii) [,] the Alaska State Housing Authority;

17 (iii) the [AND] Alaska Railroad Corporation;

18 (iv) the Alaska Housing Finance Corporation;

19 (v) [IT DOES NOT INCLUDE] a regional Native
20 housing authority created under AS 18.55.996, or a regional
21 electrical authority created under AS 18.57.020;

22 * Sec. 10. AS 37.07.120(1) is amended to read:

23 (1) "agency"

24 (A) means a department, officer, institution, board,
25 commission, bureau, division, or other administrative unit form-
26 ing the state government, and includes the Alaska Pioneers' Home
27 and the University of Alaska;

28 (B) [, BUT] does not include

29 (i) the legislature;

1 (ii) [OR] the judiciary; or
2 (iii) the Alaska Housing Finance Corporation;

3 * Sec. 11. LOAN AMOUNTS ELIGIBLE FOR ASSISTANCE FOR LOANS ISSUED UNDER
4 AS 18.56.098 DURING STATE FISCAL YEARS 1991 - 1993. For first and second
5 mortgage loans purchased by the Alaska Housing Finance Corporation from the
6 special mortgage loan purchase program and from qualified veterans' mort-
7 gage bonds

8 (1) after June 30, 1990, and before July 1, 1991, the loan
9 amount eligible for assistance under AS 18.56.098 is \$70,000;

10 (2) after June 30, 1991, and before July 1, 1992, the loan
11 amount eligible for assistance under AS 18.56.098 is \$50,000;

12 (3) after June 30, 1992, and before July 1, 1993, the loan
13 amount eligible for assistance under AS 18.56.098 is \$30,000.

14 * Sec. 12. Of the two additional public members appointed by the gover-
15 nor under AS 18.56.030(a), amended by sec. 1 of this Act, one member shall
16 serve a term of two years and one shall serve a term of one year. When
17 making the appointments, the governor shall specify the length of the term
18 of each person appointed.

19 * Sec. 13. Sections 3 and 5 of this Act take effect July 1, 1992.

20 * Sec. 14. Except for secs. 3 and 5 of this Act, this Act takes effect
21 July 1, 1990.

#1
ADD-1-L

A M E N D M E N T

HB 462 (CR&A)

HOUSE FINANCE COMMITTEE SUBSTITUTE

Page 7, line 8:

Insert a new bill section to read:

* Sec. 9. AS 36.30.015(e) is amended to read:

(e) The boards of directors of the Alaska Railroad Corporation [AND], the Alaska Housing Authority and the Alaska Housing Finance Corporation shall adopt procedures to govern the procurement of supplies, services, professional services, and construction [BY THE CORPORATION]. The procedure must be substantially equivalent to the procedures prescribed in this chapter and in regulations adopted under this chapter.

Renumber the following bill sections accordingly.

Rep. C.E. Swackhammer

#2
ADOPTED

A M E N D M E N T

HOUSE FINANCE COMMITTEE SUBSTITUTE

HB 462 (CR&A)

Page 1, line 26:

* Sec. 1. AS 18.56.030(a)(3) is amended to read:

(3) four [TWO] public members appointed by the governor of which
at least one shall be a member of the finance community ~~and at least one shall be a member of the finance community~~

Rep. C.E. Swackhammer

A M E N D M E N T

#3
10-10

OFFERED IN THE HOUSE

BY REP. BROWN

TO: CSHB 462(C&RA)

Page 1, line 9:

Delete "the Executive Budget Act and"

Page 1, line 27, through page 2, line 11:

Delete all material.

Renumber the following bill sections accordingly.

Page 7, line 22, through page 8, line 2:

Delete all material.

Renumber the following bill sections accordingly.

Page 8, line 19:

Delete "3 and 5"

Insert "2 and 4"

Page 8, line 20:

Delete "3 and 5"

Insert "2 and 4"

#5

Amendment

By Rieyer

To. CSHB 462 (CIRA)

Page 2, line 12, insert a new section to read:

" * Sec. 3. AS 18.56 is amended by adding a new section to read:

⁰⁵¹
Sec 18.56.091

Dividend Policy. The corporation

shall pay an annual dividend to the state general fund
equal to at least fifty percent of the annual net earnings,
if any, of the corporation as determined under AS 18.56.089.
The dividend shall be paid within six months of the close
of the fiscal year, unless the board of directors establishes by
resolution that the cash flow of the corporation will not
permit the payment of the dividend without causing significant
harm to the financial soundness of the corporation. "

(renumber following sections accordingly)

A M E N D M E N T

#7 AMENDED

OFFERED IN THE HOUSE

BY REP. BARNES

TO: CSHB 462(C&RA)

Page 8, following line 13:

Insert a new bill section to read:

"* Sec. 12. CONTRACTS TO BE HONORED. Notwithstanding the amendments made to AS 18.56.098 by secs. 4 and 6 - 8 of this Act, the Alaska Housing Finance Corporation shall purchase a loan of a person whose loan purchase qualifies under the special mortgage loan purchase program of AS 18.56.098 as it read on the day before the effective date of secs. 4 and 6 - 8 of this Act if the person's intention to purchase the home is evidenced by a contract for sale, earnest money agreement, or document exercising an option to purchase if the contract, agreement, or document is executed before the effective date of those sections." *Reinsert new language*

Renumber following bill sections accordingly.

AMENDMENT #8

OFFERED IN THE HOUSE

BY REP. PHILLIPS

TO: CSHB 462(C&RA)

Page 1, line 15, after "income;":

Insert "permitting the corporation to appoint a general counsel;"

Page 1, after line 26:

Insert a new bill section to read:

"* Sec. 2. AS 18.56 is amended by adding a new section to read:

Sec. 18.56.056. GENERAL COUNSEL. The corporation may employ a general counsel. If the corporation employs a general counsel, the general counsel shall advise the corporation in legal matters and represent it in litigation."

Renumber the following bill sections accordingly.

Page 8, after line 18:

Insert a new bill section to read:

"* Sec. 14. AS 18.56.055 is repealed."

Renumber the following bill sections accordingly.

Page 8, line 19:

Delete "3 and 5"

Insert "4 and 6"

Page 8, line 20:

Delete "3 and 5"

Insert "4 and 6"

A M E N D M E N T

OFFERED IN THE HOUSE

BY REP. RIEGER

TO: CSHB 462 (C&RA)

Page 2, lines 12 - 15:

Delete all material and insert:

"* Sec. 3. AS 18.56.091 is amended to read:

Sec. 18.56.091. HOME OWNERSHIP ASSISTANCE PROGRAM. The corporation shall implement a home ownership assistance program to assist persons of lower and moderate income to purchase homes financed under the special mortgage loan purchase program by providing a subsidy to the persons as determined under AS 18.56.098(f) [IN AN AMOUNT NOT GREATER THAN THE DIFFERENCE BETWEEN

(1) THE AMOUNT ANNUALLY REQUIRED TO PAY INTEREST AND PRINCIPAL ON THAT PERSON'S LOAN AND REAL PROPERTY TAXES AND INSURANCE FOR THE HOME PURCHASE WITH THE LOAN; AND

(2) 25 PERCENT OF THAT PERSON'S ANNUAL GROSS INCOME]."

Page 8, following line 13:

Insert a new bill section to read:

"* Sec. 12. A loan made under AS 18.56.091 before July 1, 1992, is assumable with a down payment of not less than five percent of the purchase price."

Renumber the following bill sections accordingly.

Page 8, line 19:

Delete "Sections 3 and 5"

Insert "Sections 3, 5, and 12"

Page 8, line 20:

Delete "Except for secs. 3 and 5,"

Insert "Except for secs. 3, 5, and 12,"

MEMORANDUM

State of Alaska Department of Law

TO

Mary Halloran
Director
Division of Policy Development
Office of Management and Budget

DATE

March 5, 1990

FILE NO.

*

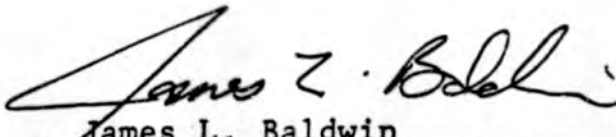
TEL NO.

465-3600

SUBJECT

House Finance Committee
Amendments to CSHB 462
(C&RA)

FROM:


James L. Baldwin
Assistant Attorney General

As requested, set out below are some brief comments concerning three of the amendments adopted on March 2 by the House Finance Committee to CSHB 462 (C&RA).

1. Amendment No. 5:

A. This amendment uses the term "annual net earnings." The term is not defined. This leaves substantial doubt as to what might be intended. The reference to AS 18.56.089 does not clarify the ambiguity. That section requires an annual report to the legislature. The report must include a statement of income earned on assets of AHFC. Is it intended that earnings and income mean the same thing?

B. The requirement to pay a dividend may conflict with bond covenants applicable to one of the many issuances of AHFC. This amendment should be reviewed by bond counsel to determine if such a conflict would result.

C. The amendment doesn't appear to operate within the time periods specified. The report required by AS 18.56.089 is to include income earned "during the preceding fiscal year." This report must be submitted by January 10 of each year. Under the amendment, the dividend must be computed on an annual basis and must be paid within six months of the close of the fiscal year. The timing of the report and date by which the dividend is to be paid must be coordinated.

2. Amendment No. 7:

A. This amendment gives purchasers grandfather rights to receive loans under existing law for a period of six months after the amendments in the bill take effect. It would be preferable if the amendment referred to commitments made before the effective date of the act.

Mary Halloran
Director

March 5, 1990
Page 2

B. The amendment refers to a person's intention to purchase a home. This may open AHFC to the argument, the legislature did not intend the documents designated as evidence of intent set out in the amendment to be exhaustive.

C. It must be presumed that the amendment would apply only to owner-occupied residential financings because it refers to the purchase of a "home." AHFC has limited authority to finance rental housing.

3. Amendment No. 8:

A. This amendment allows AHFC to hire a general counsel. The amendment allows AHFC to designate the attorney general as general counsel. Existing law designates the A.G. as the counsel for AHFC.

B. We would very much like to hear the reasons why it is felt that AHFC should have independent counsel. Generally, the centralized system for the delivery of legal services to state agencies in effect in this state is the model to which several other states aspire. Centralization assures consistency and economy.

4. Amendment No. 9:

A. This amendment effectively repeals the home ownership assistance program under AS 18.56.091. Loans under this program would be no different than those purchased under the special mortgage loan purchase program.

B. It is presumed that the five percent down payment provision is intended to create an incentive to assume section 91 mortgages after the subsidy terminates.

We hope these comments will assist you and the committee in further deliberations on this bill.

JLB:jr

cc: Art Peterson
Jeff Bush
Tom Behan

Original sponsor(s): Rules/Housing Finance Task Force

1 IN THE SENATE

BY THE RULES COMMITTEE

2

CS FOR SENATE BILL NO. 427 (Rules)

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

SIXTEENTH LEGISLATURE - SECOND SESSION

5

A BILL

6 For an Act entitled: "An Act relating to program and administration re-
7 quirements of certain state corporations; expanding
8 the number of directors of the Alaska Housing Finance
9 Corporation; exempting the Alaska Housing Finance
10 Corporation from the State Procurement Code and
11 allowing the corporation to expend additional corpo-
12 ration receipts immediately after submission of a
13 revised program to the Legislative Budget and Audit
14 Committee; amending the corporation's special mort-
15 gage loan purchase program and progressively reducing
16 the maximum level of loan amounts eligible for a re-
17 duction under a mortgage loan subsidy; amending the
18 corporation's mortgage loan subsidy program for
19 persons of lower and moderate income; and relating to
20 procurement practices of certain state corporations;
21 and providing for an effective date."

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

23 * Section 1. AS 18.56.030(a) is amended to read:

24 (a) The corporation shall be governed by a board of directors
25 consisting of

26 (1) the commissioner of revenue and the commissioner of
27 commerce and economic development;

28 (2) one other member who is the head of a [THE] principal
29 department of the executive branch of state government appointed by

1 the governor; and

2 (3) four [TWO] public members appointed by the governor,
3 one of whom shall be a representative of the financial community and
4 one of whom shall be a person licensed as a real estate broker under
5 AS 08.88.171(a).

6 * Sec. 2. AS 18.56.091 is amended by adding a new subsection to read:

7 (b) Notwithstanding (a) of this section, the loan amount eligi-
8 ble for assistance under the subsidy authorized by (a) of this section
9 is the amount determined under AS 18.56.098(f).

10 * Sec. 3. AS 18.56.098(f) is amended to read:

11 (f) In this section and in AS 18.56.099

12 (1) "graduated payment mortgage loan" means a mortgage loan
13 the terms of which provide for monthly principal and interest payments
14 that

15 (A) during the first year of the mortgage loan are
16 lower than the monthly principal and interest payments that would
17 be required under the terms of a level payment mortgage loan made
18 at the same interest rate; and

19 (B) during subsequent years of the mortgage loan are
20 graduated to provide for the same return over the term of the
21 loan that would have been provided by a level payment mortgage
22 loan made at the same interest rate;

23 (2) "loan amount eligible for assistance" means the amount
24 of a mortgage loan that does not exceed the amount of the loan estab-
25 lished by law; if an amount has not been established by law, the
26 amount is zero;

27 (3) "mortgage loan" includes a beneficial interest or
28 participation in a mortgage loan; [(3) REPEALED]

29 (4) "residence" means

1 (A) an owner-occupied, single-family residence, in-
2 cluding a mobile home; [,] or

3 (B) an owner-occupied duplex, triplex, or fourplex.

4 * Sec. 4. AS 18.56.098(f) is repealed and reenacted to read:

5 (f) In this section and in AS 18.56.091 and 18.56.099

6 (1) "graduated payment mortgage loan" means a mortgage loan
7 the terms of which provide for monthly principal and interest payments
8 that

9 (A) during the first year of the mortgage loan are
10 lower than the monthly principal and interest payments that would
11 be required under the terms of a level payment mortgage loan made
12 at the same interest rate; and

13 (B) during subsequent years of the mortgage loan are
14 graduated to provide for the same return over the term of the
15 loan that would have been provided by a level payment mortgage
16 loan made at the same interest rate;

17 (2) "loan amount eligible for assistance" means

18 (A) the first \$50,000 of a mortgage loan for persons
19 of lower or moderate income whose purchase of a home is assisted
20 under AS 18.56.091; or

21 (B) except as to persons whose purchase of a home is
22 assisted under AS 18.56.091, the amount of a mortgage loan that
23 does not exceed the amount of the loan established by law; if an
24 amount has not been established by law, the amount is zero;

25 (3) "mortgage loan" includes a beneficial interest or
26 participation in a mortgage loan;

27 (4) "residence" means

28 (A) an owner-occupied, single-family residence, in-
29 cluding a mobile home; or

1 (B) an owner-occupied duplex, triplex, or fourplex.

2 * Sec. 5. AS 18.56.098(g) is amended to read:

3 (g) The corporation shall establish the interest rate on a first
4 mortgage loan purchased under (a) of this section in accordance with
5 the following:

6 (1) The interest rate on the loan amount eligible for
7 assistance [FIRST \$90,000] of a mortgage loan purchased with the
8 proceeds of an issue of taxable bonds of the corporation is three
9 percent less than the cost of funds of that issue, except that

10 (A) if the cost of funds of that issue is less than 10
11 percent, the interest rate is equal to the cost of funds; and

12 (B) if the cost of funds of that issue is more than 10
13 percent, the interest rate may not be less than 10 percent.

14 (2) An interest rate determined under this subsection on
15 the loan amount eligible for assistance [FIRST \$90,000] of a mortgage
16 loan that is not purchased from the proceeds of bonds that are qual-
17 ified veterans' mortgage bonds under the applicable provisions of 26
18 U.S.C. (Internal Revenue Code) [26 U.S.C. 103A (MORTGAGE SUBSIDY BOND
19 TAX ACT OF 1980), AS AMENDED,] shall be reduced by one percentage
20 point if the loan is made to an eligible veteran under AS 18.56.101.

21 (3) The interest rate for the amount of a mortgage loan
22 purchased under (a) of this section that exceeds the loan amount
23 eligible for assistance [\$90,000] is equal to the cost of funds to the
24 corporation attributable to that part of the loan.

25 (4) The interest rate on the loan amount eligible for
26 assistance [FIRST \$90,000] of a mortgage loan purchased with money
27 that is not the proceeds of either taxable or tax-exempt bonds is the
28 rate the corporation determines is appropriate by application of the
29 provision of (1) of this subsection.

1 (5) The interest rate on the loan amount eligible for
2 assistance [FIRST \$90,000] of a mortgage loan purchased from the
3 proceeds of bonds that are exempt from taxation other than bonds that
4 constitute qualified veterans' bonds under (i) of this section, is
5 equal to the interest rate determined under (1) and (2) of this sub-
6 section on a loan purchased under (a) of this section from the pro-
7 ceeds of the most recent applicable issue of taxable bonds sold by the
8 corporation. A higher or lower interest rate shall be established on
9 the entire loan amount if required to ensure the tax-exempt status of
10 the bonds.

11 (6) The corporation shall determine the interest rate on a
12 mortgage loan that is an adjustable rate mortgage loan as provided in
13 this subsection. The corporation shall recalculate the interest rate
14 from time to time based on changes in the cost to the corporation of
15 the funds used to purchase the adjustable rate mortgage loan. How-
16 ever, the corporation may establish a minimum interest rate applicable
17 to an adjustable rate mortgage loan, and the interest rate on the
18 adjustable rate mortgage loan may not be less than the minimum inter-
19 est rate so established regardless of the cost of funds to the corpo-
20 ration.

21 (7) For loans made under this section, the corporation
22 shall give effect to interest rate changes applicable to the loans
23 based on time of loan application, time of issuance of the corpora-
24 tion's bonds issued to purchase loans, or other factors as the corpor-
25 ation determines.

26 (8) [(7)] In this subsection

27 (A) "cost of funds" means the true interest cost
28 expressed as a rate on bonds of the corporation plus an addi-
29 tional percentage as determined by the corporation to represent

1 the allocable expenses of operation, costs of issuance, and
2 mortgage servicing;

3 (B) "taxable bonds" means bonds bearing interest that
4 is taxable under applicable provisions of 26 U.S.C. (Internal
5 Revenue Code) and which were [26 U.S.C. 103A (MORTGAGE SUBSIDY
6 BOND TAX ACT OF 1980)] issued to finance the purchase of first
7 mortgage loans.

8 * Sec. 6. AS 18.56.098(h) is amended to read:

9 (h) The corporation shall establish the interest rate on a
10 second mortgage loan purchased under (a) of this section in the manner
11 established for computing the interest rates on a first mortgage loan
12 under (g) of this section except that, in the case of a second mort-
13 gage loan, if the first mortgage loan made to the same borrower is
14 held by the corporation and was purchased under the special mortgage
15 loan purchase program, the outstanding principal balance of the exist-
16 ing first mortgage loan is subtracted from the loan amount eligible
17 for assistance [\$90,000] to determine the amount of the loan that is
18 eligible for an interest rate on a second mortgage loan determined by
19 reference to (g) of this section.

20 * Sec. 7. AS 18.56.098(i) is amended to read:

21 (i) The interest rate on the loan amount eligible for assistance
22 [FIRST \$90,000] of a mortgage loan purchased from the proceeds of
23 bonds that constitute qualified veterans' mortgage bonds under appli-
24 cable provisions of 26 U.S.C. (Internal Revenue Code) is [26 U.S.C.
25 103A (MORTGAGE SUBSIDY BOND TAX ACT OF 1980) AS AMENDED, IS THE GREAT-
26 ER OF (1) FOUR PERCENT LESS THAN THE COST OF FUNDS OR (2)] the rate
27 for other loans to veterans under (g)(2) of this section [AS 18.56.-
28 098(g)(3)]. A higher or lower interest rate shall be established on
29 the entire loan amount if required by applicable provisions of 26

1 U.S.C. (Internal Revenue Code) [UNDER 26 U.S.C. 103A].

2 * Sec. 8. AS 36.30.015(e) is amended to read:

3 (e) The boards of directors of the Alaska Railroad Corporation,
4 the Alaska Housing Finance Corporation, and the Alaska State Housing
5 Authority shall adopt procedures to govern the procurement of sup-
6 plies, services, professional services, and construction for [BY] the
7 respective public corporations [CORPORATION]. The procedures must

8 (1) reflect competitive bidding principles and provide
9 vendors reasonable and equitable opportunities to participate in the
10 procurement process; and

11 (2) include procurement methods to meet emergency and
12 extraordinary circumstances [BE SUBSTANTIALLY EQUIVALENT TO THE PROCE-
13 DURES PRESCRIBED IN THIS CHAPTER AND IN REGULATIONS ADOPTED UNDER THIS
14 CHAPTER].

15 * Sec. 9. AS 36.30.990(1) is amended to read:

16 (1) "agency"

17 (A) means a department, institution, board, commis-
18 sion, division, authority, public corporation, the Alaska Pio-
19 neers' Home, or other administrative unit of the executive branch
20 of state government;

21 (B) does not include

22 (i) [, EXCEPT FOR] the University of Alaska;

23 (ii) [,] the Alaska State Housing Authority;

24 (iii) the [AND] Alaska Railroad Corporation;

25 (iv) the Alaska Housing Finance Corporation;

26 (v) [IT DOES NOT INCLUDE] a regional Native
27 housing authority created under AS 18.55.996, or a regional
28 electrical authority created under AS 18.57.020;

29 * Sec. 10. AS 37.07 is amended by adding a new section to read:

1 Sec. 37.07.085. ALASKA HOUSING FINANCE CORPORATION BUDGET. (a)

2 Notwithstanding the provisions of AS 37.07.080(h), the Alaska Housing
3 Finance Corporation may, by resolution adopted by the board of direc-
4 tors, increase an item appropriated from corporation receipts if

5 (1) the board of directors determines that circumstances
6 require an increase in expenditures in excess of an existing appro-
7 priation made under the authority conferred by this chapter; and

8 (2) additional corporation receipts are available.

9 (b) Before the resolution required by (a) of this section takes
10 effect, the board of directors shall submit a revised program to the
11 governor for approval as provided in AS 37.07.080(d). A copy of the
12 revised program shall be submitted to the legislative budget and audit
13 committee.

14 (c) The increase authorized by (a) of this section may not
15 extend beyond the end of the fiscal year in which the resolution is
16 adopted.

17 * Sec. 11. LOAN AMOUNTS ELIGIBLE FOR ASSISTANCE FOR LOANS ISSUED UNDER
18 AS 18.56.098 DURING STATE FISCAL YEARS 1991 - 1993. For first and second
19 mortgage loans purchased by the Alaska Housing Finance Corporation from the
20 special mortgage loan purchase program and from qualified veterans' mort-
21 gage bonds

22 (1) after June 30, 1990, and before July 1, 1991, the loan
23 amount eligible for assistance under AS 18.56.098 is \$70,000;

24 (2) after June 30, 1991, and before July 1, 1992, the loan
25 amount eligible for assistance under AS 18.56.098 is \$50,000;

26 (3) after June 30, 1992, and before July 1, 1993, the loan
27 amount eligible for assistance under AS 18.56.098 is \$30,000.

28 * Sec. 12. Of the two additional public members appointed by the gover-
29 nor under AS 18.56.030(a), amended by sec. 1 of this Act, one member shall

1 serve a term of two years and one shall serve a term of one year. When
2 making the appointments, the governor shall specify the length of the term
3 of each person appointed.

4 * Sec. 13. Sections 2 and 4 of this Act take effect July 1, 1992.

5 * Sec. 14. Except for secs. 2 and 4 of this Act, this Act takes effect
6 July 1, 1990.

A BILL

For an Act entitled: "An Act amending the interest rates on mortgage loans purchased by the Alaska Housing Finance Corporation; and providing for effective dates."

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

*Section 1. AS 18.56.098 is amended to add subsection (1):

(1) AS 18.56.098 (g) and (h) and (i) apply to interest rates on loans purchased with the proceeds of bonds sold prior to January 1, 1992, only. AS 18.56.098 (g), (h), and (i) shall expire and become null and void after all the proceeds of bonds sold prior to January 1, 1992, have been used to purchase loans.

*Section 2. AS 18.56.098 is amended to add subsection (m):

(m) The corporation shall establish the interest rate on a first mortgage loan purchased under (a) of this section in accordance with the following:

(1) The interest rate on the first \$70,000 [\$90,000] of a mortgage loan purchased with the proceeds of an issue of taxable bonds of the corporation is three percent less than the cost of funds of that issue except that

(A) if the cost of funds of that issue is less than 10 percent, the interest rate is equal to the cost of funds; and

(B) if the cost of funds of that issue is more than 10 percent, the interest rate may not be less than 10 percent.

(2) An interest rate determined under this subsection on the first \$70,000 [\$90,000] of a mortgage loan that is not purchased from the proceeds of bonds that are qualified veterans' mortgage bonds under 26 U.S.C. 103A (Mortgage Subsidy Bond Tax Act of 1980), as amended, shall be reduced by one percentage point if the loan is made to an eligible veteran under AS 18.56.101.

(3) The interest rate for the amount of a mortgage loan purchased under (a) of this section that exceeds \$70,000 [\$90,000] is equal to the cost of funds to the corporation attributable to that part of the loan.

(4) The interest rate on the first \$70,000 [\$90,000] of a mortgage loan purchased with money that is not the proceeds of either taxable or tax-exempt bonds is the rate the corporation determines is appropriate by application of the provision of (1) of this subsection.

(5) The interest rate on the first \$70,000 [\$90,000] of a mortgage loan purchased from the proceeds of bonds that are exempt from taxation other than bonds that constitute qualified veterans' bonds under (i) of this section, is equal to the interest rate determined under (1) and (2) of this subsection on a loan purchased under (a) of this section from the proceeds of the most recent applicable issue of taxable bonds sold by the corporation. A higher or lower interest rate shall be established on the entire loan amount if required to ensure the tax-exempt status of the bonds.

? {
NEW
LANGUAGE
(6) The corporation shall determine the interest rate on a mortgage loan that is an adjustable rate mortgage loan as provided in this subsection. The corporation shall recalculate the interest rate from time to time based on changes in the cost to the corporation of the funds used to purchase the adjustable rate mortgage loan. However, the corporation may establish a minimum interest rate applicable to an adjustable rate mortgage loan, and the interest rate on the adjustable rate mortgage loan may not be less than the minimum interest rate so established regardless of the cost of funds to the corporation.

(7) In this subsection

(A) "cost of funds" means the true interest cost expressed as a rate on bonds of the corporation plus an additional percentage as determined by the corporation to represent the allocable expenses of operation, costs of issuance, and mortgage servicing;

(B) "taxable bonds" means bonds bearing interest that is taxable under 26 U.S.C. 103A (Mortgage Subsidy Bond Tax Act of 1980) issued to finance the purchase of first mortgage loans.

*Section 3. AS 18.56.098 is amended to add subsection (n):

(n) The interest rate on the first \$70,000 [\$90,000] of a mortgage loan purchased from the proceeds of bonds that constitute qualified veterans' mortgage bonds under 26 U.S.C. 103A (Mortgage Subsidy Bond Tax Act of 1980) as amended, is the greater of (1) four percent less than the cost of funds or (2) the rate for other loans to veterans under (g)(3) of this section [AS 18.56.098(g)(3)]. A higher or lower interest rate shall be established on the entire loan amount if required under 26 U.S.C. 103A.

*Section 4. Sections 2 and 3 of this Act shall take effect January 1, 1991, and apply to interest rates on loans purchased with the proceeds of bonds sold after January 1, 1991, and before December 31, 1991. Sections 1 and 2 of

this act shall expire and become null and void after the proceeds of bonds sold between January 1, 1991 and December 31, 1991 have been used to purchase loans.

*Section 5. AS 18.56.098 is amended to add subsection (o):

(o) The corporation shall establish the interest rate on a first mortgage loan purchased under (a) of this section in accordance with the following:

(1) The interest rate on the first \$50,000 [\$70,000] of a mortgage loan purchased with the proceeds of an issue of taxable bonds of the corporation is three percent less than the cost of funds of that issue except that

(A) if the cost of funds of that issue is less than 10 percent, the interest rate is equal to the cost of funds; and

(B) if the cost of funds of that issue is more than 10 percent, the interest rate may not be less than 10 percent.

(2) An interest rate determined under this subsection on the first \$50,000 [\$70,000] of a mortgage loan that is not purchased from the proceeds of bonds that are qualified veterans' mortgage bonds under 26 U.S.C. 103A (Mortgage Subsidy Bond Tax Act of 1980), as amended, shall

be reduced by one percentage point if the loan is made to an eligible veteran under AS 18.56.101.

(3) The interest rate for the amount of a mortgage loan purchased under (a) of this section that exceeds \$50,000 [\$70,000] is equal to the cost of funds to the corporation attributable to that part of the loan.

(4) The interest rate on the first \$50,000 [\$70,000] of a mortgage loan purchased with money that is not the proceeds of either taxable or tax-exempt bonds is the rate the corporation determines is appropriate by application of the provision of (1) of this subsection.

(5) The interest rate on the first \$50,000 [\$70,000] of a mortgage loan purchased from the proceeds of bonds that are exempt from taxation other than bonds that constitute qualified veterans' bonds under (i) of this section, is equal to the interest rate determined under (1) and (2) of this subsection on a loan purchased under (a) of this section from the proceeds of the most recent applicable issue of taxable bonds sold by the corporation. A higher or lower interest rate shall be established on the entire loan amount if required to ensure the tax-exempt status of the bonds.

New
7
why?

(6) The corporation shall determine the interest rate on a mortgage loan that is an adjustable rate mortgage loan as provided in this subsection. The corporation shall recalculate the interest rate from time to time based on changes in the cost to the corporation of the funds used to purchase the adjustable rate mortgage loan. However, the corporation may establish a minimum interest rate applicable to an adjustable rate mortgage loan, and the interest rate on the adjustable rate mortgage loan may not be less than the minimum interest rate so established regardless of the cost of funds to the corporation.

(7) In this subsection

OLD 6

(A) "cost of funds" means the true interest cost expressed as a rate on bonds of the corporation plus an additional percentage as determined by the corporation to represent the allocable expenses of operation, costs of issuance, and mortgage servicing;

(B) "taxable bonds" means bonds bearing interest that is taxable under 26 U.S.C. 103A (Mortgage Subsidy Bond Tax Act of 1980) issued to finance the purchase of first mortgage loans.

*Section 6. AS 18.56.098 is amended to add subsection (p):

(p) The interest rate on the first \$50,000 [\$70,000] of a mortgage loan purchased from the proceeds of bonds that constitute qualified veterans' mortgage bonds under 26 U.S.C. 103A (Mortgage Subsidy Bond Tax Act of 1980) as amended, is the greater of (1) four percent less than the cost of funds or (2) the rate for other loans to veterans under (g)(3) of this section [AS 18.56.098(g)(3)]. . . A higher or lower interest rate shall be established on the entire loan amount if required under 26 U.S.C. 103A.

*Section 7.

Sections 5 and 6 of this Act shall take effect January 1, 1992, and apply to interest rates on loans purchased with the proceeds of bonds sold after January 1, 1992, and before December 31, 1992. Sections 4 and 5 of this act shall expire and become null and void after all the proceeds of bonds sold between January 1, 1992, and December 31, 1992, have been used to purchase loans.

*Section 8. AS 18.56.098 is amended to add subsection (q):

(q) The corporation shall establish the interest rate on a first mortgage loan purchased under (a) of this section in accordance with the following:

(1) The interest rate on the first \$30,000 [\$50,000] of a mortgage loan purchased with the proceeds of an issue of taxable bonds of the corporation is three percent less than the cost of funds of that issue except that

(A) if the cost of funds of that issue is less than 10 percent, the interest rate is equal to the cost of funds; and

(B) if the cost of funds of that issue is more than 10 percent, the interest rate may not be less than 10 percent.

(2) An interest rate determined under this subsection on the first \$30,000 [\$50,000] of a mortgage loan that is not purchased from the proceeds of bonds that are qualified veterans' mortgage bonds under 26 U.S.C. 103A (Mortgage Subsidy Bond Tax Act of 1980), as amended, shall be reduced by one percentage point if the loan is made to an eligible veteran under AS 18.56.101.

(3) The interest rate for the amount of a mortgage loan purchased under (a) of this section that exceeds \$30,000 [\$50,000] is equal to the cost of funds to the corporation attributable to that part of the loan.

(4) The interest rate on the first \$30,000 [\$50,000] of a mortgage loan purchased with money that is not the proceeds of either taxable or tax-exempt bonds is the rate the corporation determines is appropriate by application of the provision of (1) of this subsection.

(5) The interest rate on the first \$30,000 [\$50,000] of a mortgage loan purchased from the proceeds of bonds that are exempt from taxation other than bonds that constitute qualified veterans' bonds under (i) of this section, is equal to the interest rate determined under (1) and (2) of this subsection on a loan purchased under (a) of this section from the proceeds of the most recent applicable issue of taxable bonds sold by the corporation. A higher or lower interest rate shall be established on the entire loan amount if required to ensure the tax-exempt status of the bonds.

(6) The corporation shall determine the interest rate on a mortgage loan that is an adjustable rate mortgage loan as provided in this subsection. The corporation shall recalculate the interest rate from time to time based on changes in the cost to the corporation of the funds used to purchase the adjustable rate mortgage loan. However, the corporation may establish a minimum interest rate applic-

able to an adjustable rate mortgage loan, and the interest rate on the adjustable rate mortgage loan may not be less than the minimum interest rate so established regardless of the cost of funds to the corporation.

(7) In this subsection

(A) "cost of funds" means the true interest cost expressed as a rate on bonds of the corporation plus an additional percentage as determined by the corporation to represent the allocable expenses of operation, costs of issuance, and mortgage servicing;

(B) "taxable bonds" means bonds bearing interest that is taxable under 26 U.S.C. 103A (Mortgage Subsidy Bond Tax Act of 1980) issued to finance the purchase of first mortgage loans.

*Section 9. AS 18.56.098 is amended to add subsection (r):

(r) The interest rate on the first \$30,000 [\$50,000] of a mortgage loan purchased from the proceeds of bonds that constitute qualified veterans' mortgage bonds under 26 U.S.C. 103A (Mortgage Subsidy Bond Tax Act of 1980) as amended, is the greater of (1) four percent less than the cost of funds or (2) the rate for other loans to veterans under (g)(3) of this section [AS 18.56.098(g)(3)]. A higher or lower interest rate shall be established on the

entire loan amount if required under 26 U.S.C. 103A.

*Section 10.

Sections 8 and 9 of this Act shall take effect January 1, 1993, and apply to interest rates on loans purchased with the proceeds of bonds sold after January 1, 1993, and before December 31, 1993. Sections 7 and 8 of this act shall expire and become null and void after all the proceeds of bonds sold between January 1, 1993 and December 31, 1993 have been used to purchase loans.

*Section 11. AS 18.56.098 is amended to add subsection (s):

(s) The corporation shall establish the interest rate on a first mortgage loan purchased under (a) of this section in accordance with the following:

~~(1) The interest rate on the first \$30,000 [\$50,000] of a mortgage loan purchased with the proceeds of an issue of taxable bonds of the corporation is three percent less than the cost of funds of that issue except that~~

~~(A) if the cost of funds of that issue is less than 10 percent, the interest rate is equal to the cost of funds; and~~

~~(B) if the cost of funds of that issue is more than 10 percent, the interest rate may not be less than 10 percent.~~

~~(2) An interest rate determined under this subsection on the first \$30,000 [\$50,000] of a mortgage loan that is not purchased from the proceeds of bonds that are qualified veterans' mortgage bonds under 26 U.S.C. 103A (Mortgage Subsidy Bond Tax Act of 1980), as amended, shall be reduced by one percentage point if the loan is made to an eligible veteran under AS 18.56.101.~~

~~(3) The interest rate for the amount of a mortgage loan purchased under (a) of this section that exceeds \$30,000 [\$50,000] is equal to the cost of funds to the corporation attributable to that part of the loan.~~

~~(4) The interest rate on the first \$30,000 [\$50,000] of a mortgage loan purchased with money that is not the proceeds of either taxable or tax-exempt bonds is the rate the corporation determines is appropriate by application of the provision of (1) of this subsection.~~

~~(5) The interest rate on the first \$30,000 [\$50,000] of a mortgage loan purchased from the proceeds of bonds that are exempt from taxation other than bonds that constitute qualified veterans' bonds under (i) of this section, is equal to the interest rate determined under (1) and (2) of this subsection on a loan purchased under (a) of this section from the proceeds of the most recent applica-~~

~~ble issue of taxable bonds sold by the corporation. A higher or lower interest rate shall be established on the entire loan amount if required to ensure the tax exempt status of the bonds.~~

(1) The interest rate for all mortgage loans purchased by the corporation shall be equal to the cost of funds to the corporation attributable to the loan.

(2) [6] The corporation shall determine the interest rate on a mortgage loan that is an adjustable rate mortgage loan as provided in this subsection. The corporation shall recalculate the interest rate from time to time based on changes in the cost to the corporation of the funds used to purchase the adjustable rate mortgage loan. However, the corporation may establish a minimum interest rate applicable to an adjustable rate mortgage loan, and the interest rate on the adjustable rate mortgage loan may not be less than the minimum interest rate so established regardless of the cost of funds to the corporation.

(3) [7] In this subsection

(A) "cost of funds" means the true interest cost expressed as a rate on bonds of the corporation plus an additional percentage as determined by the corporation to represent the allocable expenses of

operation, costs of issuance, and mortgage servicing;

(B) "taxable bonds" means bonds bearing interest that is taxable under 26 U.S.C. 103A (Mortgage Subsidy Bond Tax Act of 1980) issued to finance the purchase of first mortgage loans.

***Section 12.**

Section 11 of this Act shall take effect January 1, 1994 and apply to interest rates on loans purchased with the proceeds of bonds sold after January 1, 1994.

DRAFT 7

, 1990

M E M O R A N D U M

TO: Honorable Steve Cowper
Governor

FROM: Douglas B. Baily
Attorney General

RE: Attached draft
Our file: 773-90-0027

Attached is a bill to amend the method by which interest rates on mortgage loans purchased by the Alaska Housing Finance Corporation (AHFC) are established. This bill proposes to gradually reduce the amount of the loan which receives an interest rate below AHFC's cost of funds. Currently, this amount is established at \$90,000. The bill will reduce this amount to \$70,000 on January 1, 1991, \$50,000 on January 1, 1992, and \$30,000 on January 1, 1993. Effective January 1, 1994, the entire loan amount will have an interest rate equal to the applicable cost of funds.

The attached version is the result of a cooperative effort between this office, the AHFC board members and staff, and the private law firm serving as bond counsel to the Corporation.

A draft transmittal letter to the legislature explaining the bill in more detail is also attached.

DBB:tg

cc w/enc.: Alison Elgee, Director
 Division of Budget Review
 Mary Halloran, Director
 Division of Policy
 John Lucas, Director
 Division of Audit & Management
 Office of Management & Budget
 Office of the Governor

D R A F T

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to the establishment of interest rates on loans purchased by the Alaska Housing Finance Corporation. This bill provides for a gradual reduction and eventual elimination of the amount of the loan which receives an interest rate below AHFC's cost of funds. Currently, this amount is established at \$90,000. The bill will reduce this amount to \$70,000 on January 1, 1991, \$50,000 on January 1, 1992, and \$30,000 on January 1, 1993. Effective January 1, 1994, the entire loan amount will have an interest rate equal to the applicable cost of funds.

The changes are directed primarily at the AHFC's taxable mortgage program, AS 18.56.098(g)(1) and (2). Where the rates on other programs were dependent upon rates applicable under the taxable program, corresponding changes have been made. These other programs include the tax-exempt financed Veterans Mortgage Program, AS 18.56.098(i), and the tax-exempt financed First Time Homebuyers Program, AS 18.56.098(g)(5).

Additionally, section 20 of the bill repeals the preferential rate provisions applicable to certain veterans of the

armed forces, the national guard, and the public health service as of January 1, 1984. The eligibility of such individuals for the preferential rates is currently detailed in AS 18.56.101 with the one percent reduction in the assisted portion of the mortgage loan provided for in AS 18.56.098(g)(2). The impact of the elimination of the preferential rate is minimized by its application to the assisted portion of the mortgage loan which, under other provisions of the proposed bill, is gradually reduce over the next several years.

I urge your prompt action on this bill.

Sincerely,

Steve Cowper
Governor

Referred: _____

EDW/jf

FILE NO. 3598/0001

IN THE _____

BY _____

_____ BILL NO. _____

IN THE LEGISLATURE OF THE STATE OF ALASKA

SIXTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to Alaska Housing Finance Corporation; and providing for an effective date."

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

* Section 1. AS 18.56.030 is amended to read:

Sec. AS 18.56.030. CORPORATION GOVERNING BODY. (a) The corporation shall be governed by a board of directors consisting of

(1) the commissioner of revenue and the commissioner of commerce and economic development;

(2) one other member who is the head of the principal department of the executive branch of state government appointed by the governor; and

(3) four [TWO] public members appointed by the governor.

(b) If a member described in (a) (1) or (2) of this section is unable to attend a meeting of the board, the member may by an instrument in writing filed with the board, designate a deputy or assistant to act in the member's place at the meeting. For all purposes of this chapter, the designee is a member of the board at the meeting.

(c) The board member[s] described in (a) (2) [and (a) (3)] of this section serves a two-year term. Two of the board members described in a (3) of this section serve three-year terms and two serve four-year terms as fixed by the governor.

(d) If a vacancy occurs on the board, the governor shall make an appointment, effective immediately, for the unexpired portion of the term.

(e) The members of the board described in (a) (3) of this section receive[d] [\$100] compensation commensurate with service on boards of private corporations of similar asset size, as determined by the governor, for each day spent on official business of the corporation and may be reimbursed by the corporation for actual and necessary expenses at the

1 same rate paid to members of state boards under AS 39.20.180 (§ 1 ch 107
2 SLA 1971; am § 5 ch 151 SLA 1975; am § 79 ch 218 SLA 1976; am § 1 ch 167
3 SLA 1978; am § 13 ch 106 SLA 1980; am § 32 ch 37 SLA 1986)

4 * Sec. 2. AS 18.56.055 is amended to read:

5 Sec. AS 18.56.055. LEGAL ADVISOR. The corporation may employ staff
6 legal counsel and retain outside legal counsel to perform all necessary
7 legal services, including representation in litigation. [THE ATTORNEY
8 GENERAL IS THE LEGAL COUNSEL FOR THE CORPORATION. THE ATTORNEY GENERAL
9 SHALL ADVISE THE CORPORATION IN LEGAL MATTERS AND REPRESENT IT IN SUITS.]

10 * Sec. 3. AS 18.56.089 is amended to read:

11 Sec. AS 18.56.089. EXECUTIVE BUDGET ACT. From and after July 1, 1990,
12 the [THE] operating budget of the corporation is no longer subject to the
13 Executive Budget Act (AS 37.07). To further ensure effective budgetary
14 decision making by the legislature, the corporation shall present a
15 complete accounting of all assets of the corporation, including assets of
16 the Alaska housing finance revolving fund, to the legislature by January
17 10 of each year. The accounting shall be audited by an independent
18 outside auditor and shall include a full description of all mortgage loan
19 interest and principal repayments and program receipts, including mortgage
20 loan commitment fees, received by or accrued to the corporation during the
21 preceding fiscal year, and all income earned on assets of the corporation
22 during that period, including earnings on assets of the state assisted
23 mortgage fund. (§ 20 ch 106 SLA 1980; am § 3 ch 102 SLA 1983)

24 * Sec. 4. AS 18.56. is amended by adding a new section to read:

25 Sec. AS 18.56.102. HOUSING ASSISTANCE FUND. If and to the extent the
26 corporation determines that (i) its net income for the previous fiscal
27 year has increased, (ii) the corporation is in compliance with all
28 covenants and agreements with respect to its borrowings and after the
29 transfer will remain in compliance and (iii) a transfer will not impair
30 the operation of any of its existing programs, the corporation shall
31 transfer from the general account of its revolving fund an amount equal to
32 one-half of the net income to a separate fund to be called the housing
assistance fund.

1 Earnings on the housing assistance fund may be spent or pledged
2 for low income or other special housing purposes. The principal of the
3 fund shall not be spent except (i) to replenish any deficiency in funds
4 pledged or covenanted to be maintained in connection with borrowings of
5 the corporation and (ii) as necessary to pay general obligation debt of
6 the corporation.

7 * Sec. 5. AS 18.56.098 (a) is amended to read:

8 (a) The corporation shall establish a special mortgage loan purchase
9 program. Under the special mortgage loan purchase program, the
10 corporation may purchase first or second mortgage loans. A first or
11 second mortgage loan purchased under this subsection must be made for the
12 purchase, improvement, or rehabilitation of a residence or must be a
13 refinancing loan. First or second mortgage loans purchased under this
14 subsection may include graduated payment mortgage loans and adjustable
15 rate mortgage loans. A low and moderate income program is established to
16 begin on July 1, 1991. The corporation shall establish by regulation
17 under AS 18.56.088 criteria for purchase of mortgage loans under the
18 program based on median family income.

19 *Sec. 6 AS 18.56.098 (g) is amended to read:

20 (g) The corporation shall establish the interest rate on a first
21 mortgage loan purchased under (a) of this section in accordance with the
22 following:

23 (1) The interest rate on the first \$90,000 until July 1, 1990, the
24 first \$70,000 between July 1, 1990 and June 30, 1991, the first \$50,000
25 between July 1, 1991 and June 30, 1992 and on the first \$30,000 between
26 July 1, 1992 and June 30, 1993 (herein called the "state assisted amount")
27 of a mortgage loan purchased with the proceeds of an issue of taxable
28 bonds of the corporation is three percent less than the cost of funds of
29 that issue, except that

30 (A) if the cost of funds of that issue is less than 10 percent, the
31 interest rate is equal to the cost of funds; and

32 (B) if the cost of funds of that issue is more than 10 percent, the
interest rate may not be less than 10 percent. The state assisted amount

1 shall remain at \$50,000 as to the low and moderate income program referred
2 to in (a) of this section.

3 (2) An interest rate determined under this subsection on the state
4 assisted amount [FIRST \$90,000] of a mortgage loan that is not purchased
5 from the proceeds of bonds that are qualified veterans' mortgage bonds
6 under the applicable provisions of the Internal Revenue Code [26 U.S.C.
7 103A (MORTGAGE SUBSIDY BOND TAX ACT OF 1980), AS AMENDED,] shall be
8 reduced by one percentage point if the loan is made to an eligible veteran
9 under AS 18.56.101.

10 (3) The interest rate for the amount of a mortgage loan purchased
11 under (a) of this section that exceeds the state assisted amount [\$90,000]
12 is equal to the cost of funds to the corporation attributable to that part
13 of the loan.

14 (4) The interest rate on the the state assisted amount [FIRST
15 \$90,000] of a mortgage loan purchased with money that is not the proceeds
16 of either taxable or tax-exempt bonds is the rate the corporation
17 determines is appropriate by application of the provision of (1) of this
18 subsection.

19 (5) The interest rate on the state assisted amount [FIRST \$90,000] of
20 a mortgage loan purchased from the proceeds of bonds that are exempt from
21 taxation other than bonds that constitute qualified veterans' bonds under
22 (i) of this section, is equal to the interest rate determined under (1)
23 and (2) of this subsection on a loan purchased under (a) of this section
24 from the proceeds of the most recent applicable issue of taxable bonds
25 sold by the corporation. In the event the corporation is no longer
26 committing to the purchase of mortgage loans from the proceeds of taxable
27 bonds, the interest rate determined under this subsection shall be equal
28 to the cost of funds of the bonds from which the mortgage loans are
29 expected to be purchased. A higher or lower interest rate shall be
30 established on the entire loan amount if required to ensure the tax-exempt
31 status of the bonds.

32 (6) The corporation shall determine the interest rate on a mortgage
loan that is an adjustable rate mortgage loan as provided in this

4 may establish a minimum interest rate applicable to an adjustable rate
5 mortgage loan, and the interest rate on the adjustable rate mortgage loan
6 may not be less than the minimum interest rate so established regardless
7 of the cost of funds to the corporation.

8 (7) In this subsection

9 (A) "cost of funds" means the true interest cost expressed as a rate
10 on bonds of the corporation plus an additional percentage as determined by
11 the corporation to represent the allocable expenses of operation, costs of
12 issuance, and mortgage servicing;

13 (B) "taxable bonds" means bonds bearing interest that is taxable
14 under the applicable provisions of the Internal Revenue Code [26 U.S.C.
15 103a (MORTGAGE SUBSIDY BOND TAX ACT OF 1980)] and which were issued to
16 finance the purchase of first mortgage loans.

17 (8) The corporation shall give effect to interest rate changes under
18 this section for loans based on time of application, the time of issue of
19 bonds issued to purchase loans, or other factors as the corporation
20 determines.

21 * Sec. 7. AS 18.56.098 (h) is amended to read:

22 The corporation shall establish the interest rate on a second
23 mortgage loan purchased under (a) of this section in the manner
24 established for computing the interest rate[s] on a first mortgage loan
25 under (g) of this section except that, in the case of a second mortgage
26 loan, if the first mortgage loan made to the same borrower is held by the
27 corporation and was purchased under the special mortgage loan purchase
28 program, the outstanding principal balance of the existing first mortgage
29 loan is subtracted from the state assisted amount [\$90,000] to determine
30 the amount of the loan that is eligible for an interest rate on a second
31 mortgage loan determined by reference to (g) of this section.

32 * Sec. 8. AS 18.56.098 (i) is amended to read:

1 The interest rate on the state assisted amount [FIRST \$90,000] of a
2 mortgage loan purchased from the proceeds of bonds that constitute
3 qualified veterans' mortgage bonds under the applicable provisions of the
4 Internal Revenue Code shall be [26 U.S.C. 103A (MORTGAGE SUBSIDY BOND TAX
5 ACT OF 1980) AS AMENDED, IS THE GREATER OF (1) FOUR PERCENT LESS THAN THE
6 COST OF FUNDS OR (2)] the rate for other loans to veterans under AS
7 18.56.098 (g) (2) [(3)]. A higher or lower interest rate shall be
8 established on the entire loan amount if required under the applicable
9 provisions of the Internal Revenue Code [26 U.S.C. 103A].

10 * Sec. 9. AS 36.30.990 (1) is amended to read:

11 (1) "agency" means a department, institution, board, commission,
12 division, authority, public corporation, the Alaska Pioneers' Home, or
13 other administrative unit of the executive branch of state government,
14 except for the University of Alaska, Alaska Housing Finance Corporation,
15 the Alaska State Building Authority and the Alaska Railroad Corporation;
16 it does not include a regional Native housing authority created under AS
17 18.55.996, or a regional electrical authority created under AS 18.57.020;

18 * Sec. 10. This act takes effect immediately under AS 01.10.070 (c).
19
20
21
22
23
24
25
26
27
28
29
30
31
32

DRAFT# 0DATE: 1/23/90BOOKPROOFED: #5

APPROVED: _____

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

1 IN THE _____

2 _____ BILL NO.

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act amending the interest rates on mortgage loans
7 purchased by the Alaska Housing Finance Corporation;
8 and providing for effective dates."

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

10 * Section 1. AS 18.56.098(g)(1) is amended to read:

11 (g) The corporation shall establish the interest rate on a first
12 mortgage loan purchased under (a) of this section in accordance with
13 the following:

14 (1) The interest rate on the first \$70,000 [90,000] of a
15 mortgage loan purchased with the proceeds of an issue of taxable bonds
16 of the corporation is three percent less than the cost of funds of
17 that issue, except that

18 (A) if the cost of funds of that issue is less than 10
19 percent, the interest rate is equal to the cost of funds; and

20 (B) if the cost of funds of that issue is more than 10
21 percent, the interest rate may not be less than 10 percent.

22 * Sec. 2. AS 18.56.098(g)(2) is amended to read:

23 (2) An interest rate determined under this subsection on
24 the first \$70,000 [90,000] of a mortgage loan that is not purchased
25 from the proceeds of bonds that are qualified veterans' mortgage bonds
26 under 26 U.S.C. 103A (Mortgage Subsidy Bond Tax Act of 1980), as
27 amended, shall be reduced by one percentage point if the loan is made
28 to an eligible veteran under AS 18.56.101.

29 * Sec. 3. AS 18.56.098(g)(1) is amended to read:

DRAFT

DATE: _____

BOOKPROOFED: _____

APPROVED: _____

(g) The corporation shall establish the interest rate on a first mortgage loan purchased under (a) of this section in accordance with the following:

(1) The interest rate on the first \$50,000 [70,000] of a mortgage loan purchased with the proceeds of an issue of taxable bonds of the corporation is three percent less than the cost of funds of that issue, except that

(A) if the cost of funds of that issue is less than 10 percent, the interest rate is equal to the cost of funds; and

(B) if the cost of funds of that issue is more than 10 percent, the interest rate may not be less than 10 percent.

* Sec. 4. AS 18.56.098(g)(2) is amended to read:

(2) An interest rate determined under this subsection on the first \$50,000 [70,000] of a mortgage loan that is not purchased from the proceeds of bonds that are qualified veterans' mortgage bonds under 26 U.S.C. 103A (Mortgage Subsidy Bond Tax Act of 1980), as amended, shall be reduced by one percentage point if the loan is made to an eligible veteran under AS 18.56.101.

* Sec. 5. AS 18.56.098(g)(1) is amended to read:

(g) The corporation shall establish the interest rate on a first mortgage loan purchased under (a) of this section in accordance with the following:

(1) The interest rate on the first \$30,000 [50,000] of a mortgage loan purchased with the proceeds of an issue of taxable bonds of the corporation is three percent less than the cost of funds of that issue, except that

(A) if the cost of funds of that issue is less than 10 percent, the interest rate is equal to the cost of funds; and

(B) if the cost of funds of that issue is more than 10

DRAFT

DATE: _____

BOOKPROOFED: _____

APPROVED: _____

percent, the interest rate may not be less than 10 percent.

* Sec 6. AS 18.56.098(g)(2) is amended to read:

(2) An interest rate determined under this subsection on the first \$30,000 [50,000] of a mortgage loan that is not purchased from the proceeds of bonds that are qualified veterans' mortgage bonds under 26 U.S.C. 103A (Mortgage Subsidy Bond Tax Act of 1980), as amended, shall be reduced by one percentage point if the loan is made to an eligible veteran under AS 18.56.101.

* Sec. 7. AS 18.56.098(g)(1) is amended to read:

(g) The corporation shall establish the interest rate on a first mortgage loan purchased under (a) of this section in accordance with the following:

(1) The interest rate on [THE FIRST \$30,000 OF] a mortgage loan purchased under (a) of this section with the proceeds of an issue of [TAXABLE] bonds of the corporation is [THREE PERCENT LESS THAN] the cost of funds of that issue[, EXCEPT THAT

(A) IF THE COST OF FUNDS OF THAT ISSUE IS LESS THAN 10 PERCENT, THE INTEREST RATE IS EQUAL TO THE COST OF FUNDS; AND

(B) IF THE COST OF FUNDS OF THAT ISSUE IS MORE THAN 10 PERCENT, THE INTEREST RATE MAY NOT BE MORE THAN 10 PERCENT].

* Sec. 8. AS 18.56.098(g)(3) is amended to read:

(3) The interest rate for the amount of a mortgage loan purchased under (a) of this section that exceeds the amount set out in AS 18.56.098(g)(1) [\$90,000] is equal to the cost of funds to the corporation attributable to that part of the loan.

* Sec. 9. AS 18.56.098(g)(4) is amended to read:

(4) The interest rate on the amount set out in AS 18.56.098(g)(1) [FIRST \$90,000] of a mortgage loan purchased with money that is not the proceeds of either taxable or tax-exempt bonds

DRAFT

DATE: _____

BOOKPROOFED: _____

APPROVED: _____

is the rate the corporation determines is appropriate by application of the provision of (1) of this subsection.

* Sec. 10. AS 18.56.098(g)(5) is amended to read:

(5) The interest rate on the amount set out in AS 18.56.098(g)(1) [FIRST \$90,000] of a mortgage loan purchased from the proceeds of bonds that are exempt from taxation other than bonds that constitute qualified veterans' bonds under (i) of this section, is equal to the interest rate determined under (1) and (2) of this subsection on a loan purchased under (a) of this section from the proceeds of the most recent applicable issue of taxable bonds sold by the corporation. In the event the Corporation is no longer committing to the purchase of mortgage loans from the proceeds of taxable bonds, the interest rate determined under this subsection shall be equal to the cost of funds of the bonds from which the mortgage loans are expected to be purchased. A higher or lower interest rate shall be established on the entire loan amount if required to ensure the tax-exempt status of the bonds.

* Sec. 11. AS 18.56.098(h) is amended to read:

(h) The corporation shall establish the interest rate on a second mortgage loan purchased under (a) of this section in the manner established for computing the interest rates on a first mortgage loan under (g) of this section except that, in the case of a second mortgage loan, if the first mortgage loan made to the same borrower is held by the corporation and was purchased under the special mortgage loan purchase program, the outstanding principal balance of the existing first mortgage loan is subtracted from the amount set out in AS 18.56.098(g)(1) [\$90,000] to determine the amount of the loan that is eligible for an interest rate on a second mortgage loan determined by reference to (g) of this section.

DRAFT

DATE: _____

BOOKPROOFED: _____

APPROVED: _____

1 * Sec. 12. AS 18.56.098(i) is amended to read:

2 (i) The interest rate on the first \$70,000
3 [90,000] of a mortgage loan purchased from the proceeds of
4 bonds that constitute qualified veterans' mortgage bonds
5 under the applicable provisions of the Internal Revenue Code
6 shall be [26 U.S.C. 103A (MORTGAGE SUBSIDY BOND TAX ACT OF
7 1980) AS AMENDED, IS THE GREATER OF (1) FOUR PERCENT LESS
8 THAN THE COST OF FUNDS OR (2)] the rate for other loans to
9 veterans under AS 18.56.098(g)(2[3]). In the event the
10 Corporation is no longer committing to the purchase of
11 mortgage loans from the proceeds of taxable bonds, the
12 interest rate determined under this subsection shall be
13 equal to the cost of funds of the bonds from which the
14 mortgage loans are expected to be purchased. A higher or
15 lower interest rate shall be established on the entire loan
16 amount if required under the applicable provisions of the
17 Internal Revenue Code [26 U.S.C. 103A].

18 * Sec. 13. AS 18.56.098(i) is amended to read:

19 (i) The interest rate on the first \$50,000
20 [70,000] of a mortgage loan purchased from the proceeds of
21 bonds that constitute qualified veterans' mortgage bonds
22 under the applicable provisions of the Internal Revenue Code
23 [26 U.S.C. 103A (MORTGAGE SUBSIDY BOND TAX ACT OF 1980), AS
24 AMENDED], is the greater of (1) four percent less than the
25 cost of funds or (2) the rate for other loans to veterans
26 under AS 18.56.098(g)(2[3]). In the event the Corporation
27 is no longer committing to the purchase of mortgage loans
28 from the proceeds of taxable bonds, the interest rate deter-
29 mined under this subsection shall be equal to the cost of

DRAFT

DATE: _____

BOOKPROOFED: _____

APPROVED: _____

funds of the bonds from which the mortgage loans are expected to be purchased. A higher or lower interest rate shall be established on the entire loan amount if required under the applicable provisions of the Internal Revenue Code [26 U.S.C. 103A].

* Sec. 14. AS 18.56.098(i) is amended to read:

(i) The interest rate on the first \$30,000 [50,000] of a mortgage loan purchased from the proceeds of bonds that constitute qualified veterans' mortgage bonds under the applicable provisions of the Internal Revenue Code [26 U.S.C. 103A (MORTGAGE SUBSIDY BOND TAX ACT OF 1980) AS AMENDED], is the greater of (1) four percent less than the cost of funds or (2) the rate for other loans to veterans under AS 18.45.098(g)(2[3]). In the event the Corporation is no longer committing to the purchase of mortgage loans from the proceeds of taxable bonds, the interest rate determined under this subsection shall be equal to the cost of funds of the bonds from which the mortgage loans are expected to be purchased. A higher or lower interest rate shall be established on the entire loan amount if required under the applicable provisions of the Internal Revenue Code [26 U.S.C. 103A].

* Sec. 15. AS 18.56.098 is amended by adding a new subsection to read:

AS 18.56.098(1). The corporation shall give effect to mortgage loan interest rate changes resulting from amendments to this section and AS 18.56.101 based upon the date the mortgage loan was submitted to the corporation for consideration of approval for purchase.

* Sec. 16. AS 18.56.098(g)(2), 18.56.098(i), and 18.56.101 are repealed.