

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILE 8672
1602 SCOMM 60: HOUSING FINANCE TASK FORCE, 1989

REPRESENTATIVE
C.E. "SWACK" SWACKHAMMER

Alaska State Legislature



House of Representatives

SOLDOTNA

312 TYEE STREET
SOLDOTNA, ALASKA 99699
(907) 262-7841

JUNEAU

BOX V
JUNEAU, ALASKA 99811
(907) 465-2689

MEMORANDUM

TO: Membership Housing Finance Task Force

FROM: Rep. C.E. Swackhammer, Chair
Housing Finance Task Force

DATE: August 29, 1989

TOPIC: Legal Opinion and Scheduling the Next Meeting

Attached is a legal opinion I requested regarding soliciting and accepting bids for the AHFC RFP. As indicated, the process fundamentally rests with AHFC, however, there is a potential "window" for the task force's input.

It is my intention to include the review and selection process of a consultant as a part of the next meeting's agenda. Because of the pace, I have left the remainder of the agenda open to meet specific issues and needs which materialize.

The next meeting is scheduled for 3:00 PM, September 20, 1989, 5th Floor Conference Room, Anchorage L.I.O., 3111 C STREET. I look forward to continue working with you.

STATE OF ALASKA
THE LEGISLATURE

COPY

POUCH Y STATE CAPITOL
JUNEAU, ALASKA 99811
907 465 3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

August 25, 1989

SUBJECT: Housing Finance Task Force - CSSCR 28(Fin) am
(Work Order No. 6-1099)

TO: Representative C.E. Swackhammer
Housing Finance Task Force

FROM: Michael F. Ford *M.F.*
Legislative Counsel

You have asked if the Housing Finance Task Force can solicit and accept bids for contract work, if the contract funds are program receipts of the Alaska Housing Finance Corporation. If the contract funds belong to A.H.F.C., then the recommended procedure is to allow A.H.F.C. to administer the bid process. The task force could certainly review the bids submitted and recommend that a particular bidder be chosen. This approach is legally preferable in that the funds being committed belong to A.H.F.C. and not to the legislature.

If the task force wishes to administer the bid process, then A.H.F.C. could contract with the task force to solicit bids and award a contract. In either case, applicable bidding procedures would need to be followed.

Please contact me if you have further questions.

MFF:mi
wkmi4/074

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MEMORANDUM

TO: Voting Membership, Housing Finance Task Force

FROM: Rep. C.E. Swackhammer, Chair
Housing Finance Task Force

DATE: August 29, 1989

TOPIC: Consultant Selection

It is obvious to me, after reading the legal opinion regarding the RFP-Process for the consultant, that the actual process should be completed through the AHFC. I do, however, think the task force should be involved in the selection process. For this reason, it is my intent to appoint a subcommittee composed of two task force members and two members of the AHFC Board of Directors.

I have discussed this with Mr. Behan. He agrees the task force should be involved in the eventual selection process.

If you are interested in serving on the proposed subcommittee, please let me know as soon as possible.

cc: Thomas C. Behan, Exec. Dir., AHFC

ISER PUBLICATIONS
AHFC FUNDED PROJECTS

REPORTS

The Effect of Changes in the Alaska Housing Finance Corporation Mortgage Programs, (Final Report), Matthew Berman and Lee Huskey, (November 1986).

Alaska's Economy and Housing Market, (Final Report), O. Scott Goldsmith, Matthew Berman, Lee Huskey, Linda Leask and Teresa Hull, (October 1987).

Estimated Demand for Mobile Homes in Anchorage 1987-1992, (Draft Report), ISER (December 1987).

Alaska's Housing Markets, 1988, Linda Leask (September 1988).

Stabilizing Alaska's Housing Markets, (Final Report), Matthew Berman and Linda Leask (March 1989)

PUBL. IN ALASKA REVIEW OF SOCIAL AND ECONOMIC CONDITIONS (ARSEC)
Alaska's Economy: What's Ahead? Scott Goldsmith, ARSEC 24,2 (December 1987): 20 pp. Based on materials from "Alaska's Economy and Housing Market" (October 1987).

Alaska's Housing and Recession, Scott Goldsmith, Matthew Berman, Lee Huskey, Linda Leask and Teresa Hull, ARSEC 25,1 (February 1988): 16 pp. Based on materials from "Alaska's Economy and Housing Market" (October 1987).

The Effects of Alaska's Economic Recession on Anchorage Households, Karen Pyle Foster, Linda Leask and Teresa Hull, ARSEC 25,2 (May 1988) 32 pp.

PUBLISHED IN THE SERIES, "ISER RESEARCH SUMMARY (RS)
AHFC's Market Effects, 1980-1986, Matthew Berman and Lee Huskey, RS 32 (November 1986): 2 pp. Based on the November 1986 report, "Effects of Changes in the AHFC Mortgage Programs."

Alaska's Economy and Housing Market, O> Scott Goldsmith and Matthew Berman, et al, RS 36 (November 1987): 2 pp. Based on the October 1987 report, "Alaska's Economy and Housing Market."

The Future of Anchorage Housing Markets, Matthew Berman and Linda Leask, RS 42 (March 1989): 4 pp. Based on the March 1989 report, "Stabilizing Alaska's Housing Markets."

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C.E. "SWACK" SWACKHAMMER

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MEMORANDUM

TO: Membership, Housing Finance Task Force
FROM: Rep. C.E. Swackhammer, Chair, HFTF
DATE: August 18, 1989
TOPIC: AHFC RFP Proposal

Attached is the draft for the proposed RFP by the Alaska Housing Finance Corporation, as well as a cover memorandum from Mr. Paul M. Kapansky.

I hope you receive this in time to given it a preliminary review, prior to Wednesday's meeting.



520 East 34th St.
Anchorage, AK 99503
(907) 561-1900

P.O. Box 101020
Anchorage, AK 99510

August 9, 1989

MEMORANDUM

TO: Representative C. E. Swackhammer, Chairman
Housing Finance Task Force (HFTF)

FROM: Paul M. Kapansky *(Signature)*
Alaska Housing Finance Corporation

SUBJECT: Draft RFP

The attached RFP is for review to assure it is in accordance with the directions established by the HFTF.

The content is heavily weighted toward AHFC as SCR 28 appears to be. I realize the mission of HFTF is beyond that of the analysis of AHFC but I am unaware as to how broad the Scope of Services in the RFP should be to assist in that mission.

Please use the RFP as a format to finalize HFTF's intent of the RFP. If further assistance is needed, kindly advise.

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REQUEST FOR PROPOSALS

The State of Alaska Housing Finance Task Force (the "Task Force") is inviting proposals from financial consultants to assist in the analysis and evaluation of the financial condition of 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.

Review

Offerors shall carefully review this RFP for defects and questionable or objectionable materials. Offerors' comments concerning defects and questionable or objectionable material in the RFP must be made in writing and received by AHFC at least 10 days before the proposal opening date. This will also help prevent the opening and the exposure of offerors' proposals upon which award cannot be made.

Offerors' comments should be sent to _____ at the address shown on the front of this RFP. A copy of the offerors' comments should be forwarded to Commissioner, Department of Administration, P. O. Box C, Juneau, Alaska 99811-0200.

Submission of Proposals

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To receive consideration, _____ copies of your proposal must be received at the following office:

Mailing Address

Address for Hand Delivery

Proposal must arrive at the Task Force's office no later than 4:00 p.m. _____, 1989. Failure to meet this submittal deadline with the required number of copies will result in disqualification.

The Task Force reserves the right to accept or reject any or all proposals in whole or in part. The Task Force may require proposals to be clarified or supplemented through additional written submissions. The Task Force may modify any of the terms of the RFP. If, before the award, the Task Force determines the modifications to be material, all responding proposers will be given an equal opportunity to modify their proposals in those specified areas designated by the Task Force.

Inquiries

All inquiries soliciting information regarding the proposal must be in writing and addressed to:

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All questions will be answered in writing. No questions will be answered that are received after _____, 1989.

This RFP does not in any way bind or commit the Task Force to reimburse recipients of this RFP for any costs involved in the preparation of a proposal.

Contractual Agreement

The basic agreement between the parties shall be within the framework of the State of Alaska's standard contract form.

A copy of the Contract is attached to this RFP and should form the basis, along with this RFP, for your proposal.

Preamble

The State of Alaska created a substantial public financing system designed to assist Alaskan home buyers and has provided more than \$1,000,000,000 of capital as well as bonding authority to initiate and sustain these loan programs. The management of these loan programs has been assigned to several agencies, including executive departments and public corporations. The Alaska residential housing market has evolved tremendously since most of these loan programs were established. Due to recent economic hardship, these agencies have taken possession of thousands of residential properties throughout the state. The scrutiny of the state's initial capital investment, outstanding bonded

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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.

In consideration of the aforementioned the 1989 Legislature established a Housing Finance Task Force 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.

The task force is to 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.

Of all state-assisted residential loan programs the Alaska Housing Finance Corporation ("AHFC/Corporation") is by far the dominant player; and, as such, attention should be closely focused on its current and future role in the market. The impact of the dominance of the Corporation is fundamental to the integrity of the Alaskan residential real estate market.

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Overview

Alaska Housing Finance Corporation is a secondary purchaser of mortgages made by private financial institutions or mortgage companies operating in Alaska. It does not loan money directly to borrowers. Most of the funds used to buy the mortgages are generated through the issuance of taxable and tax-exempt bonds.

AHFC is a public corporation and government instrumentality with the State of Alaska, Department of Revenue. It is governed by a Board of Directors comprised of the Commissioner of Revenue, the Commissioner of Commerce and Economic Development, and three other members who are appointed by the Governor, one of whom must be the Commissioner of another department within the executive branch of state government.

The Corporation's History

Alaska Housing Finance Corporation is charged with providing mortgage financing at the lowest rates possible to Alaskan citizens, while increasing the number of decent, safe and sanitary homes in the state. By adopting loan programs that are unique among state housing agencies and developing financing structures that have been in the forefront of those utilized in the capital markets, AHFC has been able to meet the diverse needs of Alaskan home buyers.

AHFC has been in operation for more than 18 years. From 1971 to 1975, AHFC purchased only federally insured mortgage loans for low-to moderate-income

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borrowers. Then state legislation passed in 1975 established a State Mortgage Insurance Fund which allowed the Corporation to purchase loans not federally insured; and while income limits and maximum loan amounts remained in effect, the number of eligible borrowers increased. As a result, AHFC grew to be about 25% of the statewide market.

In 1980, both federal and state legislation significantly changed AHFC's programs. With state legislative action income limits on AHFC programs were removed, loan limits were increased, mobile home and rural loan programs were established and the Home Ownership Assistance Program (HOF) was started.

Also, subsidized interest rates were established at 10% on the first \$90,000 of a loan (9% for veterans.) The legislature appropriated more than \$500 million to the Corporation to assist in implementing these changes. In the same year, Congress restricted the use of tax-exempt funds to first-time home buyers and limited the amount of tax-exempt mortgage revenue bonds which could be sold to \$200 million a year.

The net effect was that AHFC's volume surged. By 1981, when all the changes had been implemented, AHFC was purchasing 85% of all mortgage loans made in the state.

Further changes occurred in 1983 when the Alaskan voters adopted the Veterans Mortgage Program. This program allows AHFC to fund loans made to qualifying veterans with tax-exempt bonds.

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AHFC has often been on the cutting edge of new financing techniques. In 1981, AHFC was the first public agency to sell taxable bonds. In 1983 AHFC became the third largest issuer of taxable bonds in the U.S. corporate market.

In FY 1983, AHFC adopted the Alaska Building Equity Mortgage (ABE), to take advantage of shorter term, lower ~~and~~ rest taxable bonds. An ABE mortgage has a fixed interest rate, but the monthly payment increase by 5% in years four through nine. The increased portion of the monthly payment is applied directly to the outstanding principal balance and the loan is paid off in 16 to 18 years.

In FY 1984, an agreement was signed with the Federal National Mortgage Association (Fannie Mae) to swap Alaskan mortgages for Mortgage Backed Securities which raised the Corporation's bond rating to AAA on taxable issues. The agreement also eliminated the need for mortgage pool and special hazard insurance. Also, State Guaranteed Veterans Mortgage Bonds were restructured to extend the bond maturity to 30 or 35 years allowing AHFC to take advantage of prepayments by recycling them to make new loans.

During FY 1985 the Corporation became an issuer of Government National Mortgage Association (GNMA) mortgage certificates as a means of securitizing Veterans Administration guaranteed loans.

Due to the overall slowing in the state economy, FY 1986 offered new and different challenges to the Corporation. The price of oil started a dramatic decline in December, 1985, slowing economic activity, and national tax reform

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dramatically changed the way mortgages could be financed. AHFC responded to these changes by making loans assumable, establishing two refinancing programs and providing lower interest rates.

Also in FY 1986, AHFC loans were approved by the Federal Housing Administration, qualifying AHFC loans for FHA insurances. This program allowed moderate income borrowers who do not have the ability to make large downpayments the option of choosing FHA-insured loans when conventional loans do not meet their needs.

Many of FY 1987 activities centered on responding to Alaska's slowing economy and changing borrower needs.

Internally, AHFC's Special Credits Department expanded as foreclosures and delinquencies increased. Also, AHFC instituted a real estate owned broker program, employing private real estate firms across Alaska to market AHFC foreclosed properties.

Much of the FY 1987 activities which were due to the downturn in the state's economy continued in FY 1988.

Home Owners' Assistance Program

The most significant activity in FY 1988 was the implementation of the Home Owners' Assistance Program known as HOAP (pronounced hope.) Under this unique and unprecedented program thousands of Alaskan homeowners had the opportunity to

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make their house payments more affordable and in some instances avoid foreclosure.

HOAP began as a more formalized workout or forbearance program and grew into the more sophisticated refinance and assistance program. The program was developed in conjunction with companies that have either insured or secured a majority of the 45,000 loans AHFC owns. The Mortgage Guaranty Insurance Corporation (MGIC), the Federal National Mortgage Association (Fannie Mae) and several private mortgage insurance companies embraced HOAP in an effort to make mortgages more affordable and help those Alaskans experiencing temporary financial difficulties. Nowhere else in the nation have so many housing industry companies provided so much cooperation in helping people stay in their homes and in loss mitigation.

Other Activities

In an effort to continue financing new mortgages in FY 1988, AHFC signed a new contract with the Federal Home Loan Mortgage Corporation (Freddie Mac) for \$200 million. This contract helps to continue the availability of new financing for low-cost mortgages for Alaskans. In conjunction with this change, the Corporation has now switched to a 30-year, level payment mortgage structure. Due to the increasing workload from high delinquencies and foreclosures, AHFC staff expanded in FY 1988 and FY 1989. With staff doubling in size AHFC moved its headquarters to a larger office space.

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AHFC also focused its efforts on establishing marketing programs for repossessed mobile homes and foreclosed properties. By year's end, many new regulations and management guidelines were in place allowing for bulk sales of mobile homes and more efficient handling of foreclosed properties.

In an effort to help non-AHFC borrowers, the Corporation in FY 1988 expanded its Refinance Program to include refinance on non-AHFC loans. These loans, however, are not subsidized. The interest rate charged to the borrower will be at the Corporation's cost of funds.

PROGRAMS

The AHFC offers twelve mortgage programs to meet the financing and refinancing needs of Alaskan home buyers.

Home Owners' Assistance Program

This program helped borrowers who were either current or late in making their mortgage payments. Specifically, HOAP eliminated the scheduled increases in monthly principal and interest payments resulting in a 30-year mortgage and lowered the interest rate, if possible, resulting in a lower mortgage payment. If a borrower was experiencing a hardship HOAP may have provided advances to bring the loan current and perhaps provided assistance with the monthly mortgage payment for up to two years. Any assistance provided must be repaid by the borrower.

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Taxable Mortgage Program

This program is used by the largest number of Alaskan borrowers.

The program is available to all borrowers who cannot qualify for tax-exempt funds which are restricted for use to first-time home buyers or veterans. Up to \$199,850 may be borrowed for a single-family residence or \$255,650 for a duplex. If AHFC's interest rate is above 10%, the first \$90,000 of the loan is financed at the subsidized rate. The interest rate on any additional loan amount above \$90,000 is set at the Corporation's cost of funds.

Tax-exempt Mortgage Program

In the Mortgage Subsidy Bond Tax Act of 1980, Congress established a program under which individual states could issue tax-exempt bonds and use the proceeds to make loans to first-time home buyers. Under this program, borrowers must meet criteria established by the federal government to be eligible for the funds, including average area purchase price limits for the residence and not having an ownership interest in a principal residence in the last three years.

Home Ownership Assistance Program

By providing an additional subsidy, the Home Ownership Assistance Program (HOF) reduces the monthly mortgage payment that borrowers pay. Although the mortgage loan is written at the current interest rate, borrowers receive a subsidy. The

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subsidy is based on their income in an amount that would reduce the monthly payment to 28% of their income or a 6% interest rate loan, whichever is greater. Since an additional subsidy is provided, there are criteria for the program including the amount of total assets based on family size, and sales price limits. The limits insure use of the funds by families who could not afford to purchase a home without this assistance.

Federal Housing Administration

Mortgage loans are available with Federal Housing Administration insurance under FHA's 203b, 203b2 and 234c programs.

Down payments and qualifying guidelines are more lenient under this program.

Mobile Home Loan Program

AHFC offers a choice of a 10% down payment with a 20-year loan term or a 5% down payment with a 10-year loan term. The maximum loan amount is \$75,000.

Triplex/Four-Flex Program

Under this program an owner-occupant can borrow up to \$308,900 for a triplex or up to \$384,000 for a four-plex. There is a minimum of 15% down payment. For the Taxable Mortgage Program, the Corporation offers a subsidized interest rate

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on the first \$90,000 of the loan if AHFC's interest rate is above 10%. The interest rate on amounts over \$90,000 are at the Corporation's cost of funds.

Pledged Account Mortgage Program

A graduated payment mortgage is available through the Corporation's Pledged Account Mortgage Program (PAM). With a PAM mortgage, the borrower places a portion of the down payment in an interest-bearing savings account which is pledged as additional security. Money is drawn out of the account each month to pay a portion of the borrower's monthly mortgage payment. Since the borrower is qualifying on a lower first-year payment, borrowers can purchase a larger home in anticipation of their income increasing.

Second Mortgage Program

The Second Mortgage Program is divided into two categories; the Second for Purchase Program and the Second for Home Improvement Program. The Second for Purchase Program was developed to provide a vehicle for borrowers to assume an older first mortgage, where allowed, in order to maintain a lower average interest rate. The Second for Home Improvement Program was designed to aid borrowers who wanted to retain their present lower interest rate first mortgage but needed financing to make improvements that would suit their current housing needs.

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For the Second Mortgage Program, the total-financing-to-value ratio may not exceed 80%. The Corporation's loan maximums are \$99,900 for single-family residences and \$127,800 for duplexes.

Veterans Mortgage Program/State Veterans Interest Rate Preference and Federal Veterans Administration Loans

The Veterans Mortgage Program allows AHFC to fund the mortgage loans made to qualifying veterans with tax-exempt bonds.

The savings from the use of tax-exempt funds directly reduces the subsidy costs of operating this below-market mortgage program.

Loans under the program may be for single-family through four-plex residences, with loan limits and down payment requirements the same as under the Taxable Mortgage Program and The Triplex/Four-Plex Mortgage program.

The State of Alaska has offered lower interest rate home loan programs for veterans since before statehood, and currently offers a one percent lower interest rate on the first \$90,000 of a loan.

As a result of new federal restrictions on the Veterans Mortgage Program, many veterans who entered service after January 1, 1977, and who have been out of service for more than 30 years, will find this state program an option in the

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future. The lower interest rate may be applied to any of the programs of the Corporation except the Veterans Mortgage Program.

Also available to veterans is a loan guarantee by the Federal Veterans Administration which allows for a lower down payment when purchasing a home. The guarantee may be applied to all of the Corporation's loan programs, except the PAM.

Refinance Program

The Refinance Program allows mortgagors the opportunity to reduce their monthly mortgage payments and make the loans assumable.

Non-Conforming Property Program

The Corporation also purchases loans secured by properties for which typical financing cannot be obtained through other private, state, or federal lending programs. Although these properties are structurally sound and marketable, they have non-conforming features such as low ceilings or lack of conventional utilities. Single-family homes, duplexes, and mobile homes on lots are eligible for this program.

Condominium Projects

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Prior to purchase of loans secured by units within a condominium or FUD project, AHFC review all aspects of a project including the marketability of the units, the amenities offered in the project, and adequacy of the association's budget, among others.

The Corporation maintains an approved list of condc and FUD projects. Each project must submit annually a report, including information on reserve accounts, newly elected officers, and information on owner-occupancy, in order to maintain the project's approval.

Mobile Home Parks

AHFC will purchase mobile home loans in mobile home parks that have been approved by the Corporation. The approval process includes inspections, as well as receipt of copies of appropriate health approvals, municipal permits, copies of park rules, and rental agreements. More than 136 parks have been approved and must recertify annually to maintain park approval.

Providing the lowest financing available to Alaskan home buyers continues to be a major priority for AHFC.

Fiscal Information

Fiscal years 1988 and 1989 were difficult years for the Alaska economy and the Alaska housing market. Both population and employment continued to decline.

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The housing market was a reflection of the economy. Delinquencies continued to be in double-digit levels and foreclosures were at disturbingly high rates. At the end of fiscal year 1989, delinquencies exceeded 11% which was down from an all-time high of 17.6% in February, 1988. Foreclosures for fiscal year 1989 exceeded ____% of AHFC's portfolio and AHFC real estate owned totalled _____ as of July 31, 1989.

In fiscal year 1988 the Corporation had a net loss for the first time in its history. The net loss was not an operating loss, but resulted from a substantial increase in the Loan Loss Reserve, a decrease in the value of Real Estate Owned (REO) and a decrease in the estimated collectible value of receivables involving REO's and insurance claims for REO. The total charges of \$71.5 million against net income resulted in a net loss of 12.6 million. Additional charges were incurred in 1989 which resulted in an approximate net loss of \$_____million.

SCOPE OF SERVICES TO BE PERFORMED

The purpose of this study is to help the State, both the Legislature and the Administration, and AHFC management and Board, to determine the Corporation's role in housing and real estate in the future. The fundamental question is should AHFC return to its original charge of only providing housing to low- to moderate-income Alaskans in a more traditional government role, or should it take some other form or a combination of both. The study should take into

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account that AHFC's current mission is to help present and future Alaskan homeowners while preserving the integrity of the residential real estate market.

The services required are:

I Alaska Housing Finance Corporation

A. An analysis of the options and implications of:

1. Restructuring AHFC to accommodate its purpose
2. Reducing the size of AHFC
3. Privatizing all or a portion of AHFC
4. Returning AHFC to providing housing strictly for low to moderate income borrowers.
5. Phasing out all or a portion of AHFC's programs, i.e.
 - a. Eliminating the subsidy as of July 1, 1990, or phasing out the subsidy over time.
 - 1) What would be the effect on the real estate market, i.e. public perception, prices, demand, supply.
 - 2) How much cash flow would be produced from earnings.
 - 3) How much assets from bond retirements.

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- b. In the absence of AHFC programs, what would be the short- and long-term effect on the Alaska real estate market.
- 6. Selling AHFC in whole or in part, i.e. what is required? What are market values under various sale scenarios?
- B. An analysis of liquidity, reserves and earnings as they are required:
 - 1. By minimum bond covenants
 - 2. To maintain current bond ratings
 - 3. To maintain present programs
- C. An analysis of the housing demand in Alaska by:
 - 1. Region
 - 2. Price range:
 - a. Under \$135,000 (FHA limit)
 - b. Over \$235,000 (FHLMC limit)
 - c. Under tax-exempt limit
- D. An analysis of the potential for returns on the capital invested in AHFC by the state.

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E. An analysis of a proposal which would require AHFC to purchase mortgage loans from the housing assistance fund and:

1. The effects of this policy on each of the loan programs.
2. Whether the purchases should be at par value, and
3. If at market value an appropriate method for determining that value

II (Are there other services in other areas the Task Force wants included?)

Items which should be included in Proposal

1. The proposing firms experience in performing the services requested under Scope of Services.
2. Resumes of key individuals to be assigned to project.
3. Proposed approach and work plan defined by task and subtasks.
4. Proposed timetable.
5. Proposed fee. The fee must be a total fee as opposed to an hourly rate.

Evaluation of Proposals

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The Task Force will appoint an evaluation committee to review the proposals. Oral presentations, if necessary, will be decided upon and scheduled by the Task Force and, if scheduled, be considered in the evaluation of the proposals. The Task Force will award the contract to the proposer ranked highest by the evaluation committee within the specific areas.

- | | |
|--|------|
| 1. Firm's experience | (%) |
| 2. Qualifications of individuals assigned to project | (%) |
| 3. Proposed workplan and timetable | (%) |
| 4. Proposed fee | (%) |

Additional Information

1. Project must be completed by December 1, 1989.

- 2.

- 3.

A Proposal to the
State of Alaska
Housing Finance Task Force

**Status Review Concerning the
Alaska Housing Finance Corporation**

Presented by:

Ernst & Young

October 20, 1989

Ernst & Young

Suite 601
201 W. Northern Lights Boulevard
Anchorage, Alaska 99503
Telephone: (907) 279-1411

October 20, 1989

OCT 20 1989

Ms. Judith De Spain
Alaska Housing Finance Corporation
P.O. Box 101020
Anchorage, Alaska 99510

Dear Ms. De Spain:

Thank you for the opportunity to respond to your request for proposals to conduct an analysis and evaluation of the financial condition of the Alaska Housing Finance Corporation. Ernst & Young is pleased to submit this proposal in accordance with all the terms and conditions identified in your RFP.

As set forth in the scope of services to be performed in the RFP, our proposal provides for a thorough assessment of State assisted residential loan programs and the guidelines pertaining to each program. We have also provided for a full financial analysis of the status and condition of any bonds sold to capitalize these loans.

In addition to these basic requirements, our approach has re-organized work plan tasks to provide for a parallel analysis of each realistic alternative. In order that the Task Force be in the position to make truly informed decisions concerning the future direction and policy of the AHFC, we have defined an approach which accounts for human factors and needs as well as the evaluation of financial conditions.

To provide direct insight and assistance to the Task Force, we intend to apply a set of criteria to the evaluation of each option and alternative. We will assess the ease of implementation of a given option, evaluating it from the standpoint of the political implications of a proposed transition, and outlining the likely steps necessary to achieve desirable changes.

Ernst & Young understands the timeframe and commitments to the Legislature to provide an analysis for presentation in January, 1990. To meet the required timeframe and produce a final report by the end of this calendar year, we are assuming that the appropriate parties will be available to us from the State. This includes timely access to appropriate background materials, management, staff, and the Attorney General for potential legal opinions necessary to complete our comprehensive work within the timeframe as outlined in the RFP.

It is our intent to review thoroughly with you our approach and to make any necessary adjustments before initiating the project. This will ensure that the process we intend to follow responds to the expectations and needs of the Task Force and the Legislature.

A Proposal to the
State of Alaska
Housing Finance Task Force

**Status Review Concerning the
Alaska Housing Finance Corporation**

Presented by:

Ernst & Young

October 20, 1989

CORRECTION

**THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY**

Ernst & Young

Suite 601
301 W. Northern Lights Boulevard
Anchorage, Alaska 99503
Telephone: (907) 279-1411

October 20, 1989

OCT 20 1989

Ms. Judith De Spain
Alaska Housing Finance Corporation
P.O. Box 101020
Anchorage, Alaska 99510

10/20/89

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In addition to these basic requirements, our approach has re-organized work plan tasks to provide for a parallel analysis of each realistic alternative. In order that the Task Force be in the position to make truly informed decisions concerning the future direction and policy of the AHFC, we have defined an approach which accounts for human factors and needs as well as the evaluation of financial conditions.

To provide direct insight and assistance to the Task Force, we intend to apply a set of criteria to the evaluation of each option and alternative. We will assess the ease of implementation of a given option, evaluating it from the standpoint of the political implications of a proposed transition, and outlining the likely steps necessary to achieve desirable changes.

Ernst & Young understands the timeframe and commitments to the Legislature to provide an analysis for presentation in January, 1990. To meet the required timeframe and produce a final report by the end of this calendar year, we are assuming that the appropriate parties will be available to us from the State. This includes timely access to appropriate background materials, management, staff, and the Attorney General for potential legal opinions necessary to complete our comprehensive work within the timeframe as outlined in the RFP.

It is our intent to review thoroughly with you our approach and to make any necessary adjustments before initiating the project. This will ensure that the process we intend to follow responds to the expectations and needs of the Task Force and the Legislature.

Ms. Judith De Spain
October 20, 1989
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Ernst & Young is one of the largest professional management consulting firms in the world. Our proposed project team consists of professionals dedicated to the high quality standards upheld by our firm. We are equipped to provide you with a full array of professional skills and the technical capacity necessary to deliver a usable final report and product, couched in realistic terms, and fully responsive to your requirements.

We hope that the information contained in this proposal meets favorably with your anticipated outcomes for this important engagement. Should you have any questions, please feel free to contact Mr. Joe Hill or Mr. Jim Gibson in Sacramento, California at 916-443-6756, or Mr. Vere Harlow in Seattle, Washington, at 206-623-9000. As Partner-in-Charge of this effort, Mr. Hill is designated as the person legally authorized to bind Ernst & Young in any negotiations and to sign any resultant contract.

We look forward to the opportunity to discuss this project personally with you. Thank you for your consideration.

Very truly yours,

Ernst & Young

Ernst & Young

A Proposal to the
State of Alaska
Housing Finance Task Force

Status Review Concerning the
Alaska Housing Finance Corporation

Presented by:

Ernst & Young

October 10, 1989

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1. Background

1. Background

The State of Alaska has been at the cutting edge of providing aggressive public financing assistance to Alaskan home buyers. Through the vehicle of several publicly owned and operated entities, 85% of the state's home mortgages have been processed, and more than \$1,000,000,000 of capital and bonding authority applied to initiate and sustain a series of independent home loan programs.

Concerned over the future of the state's investment in the housing market, and responsible for setting policy direction, the 1989 Legislature created a Housing Finance Task Force. The charge of the Task Force is to review and analyze the publicly-assisted residential finance programs including those loan programs managed by the Alaska Housing Finance Corporation.

As the most dominant player among all the state-assisted residential loan program sponsors, the initial role and specific purpose of the Alaska Housing Finance Commission has dramatically changed since its inception in 1971. Originally intended to provide assistance to low-income potential homeowners, the Commission's programs have evolved to address a broadening population group and wider spectrum of home buying needs.

During its nearly 20 year history, the Commission has profitably functioned with more than sufficient cash flow and operating reserves. It is only due to very recent downturns in the Alaska economy that the residential housing market has changed, resulting in an increase in residential mortgage foreclosures and unprecedented outstanding bonded indebtedness held by the State.

It is the intent of this analysis that the Legislature receive documentation and usable information as to the impact of the Alaska Housing Finance Corporation on the integrity of the Alaskan residential real estate market. The study will provide direct insights and assistance to the State, the Legislature, the Administration, and AHFC management and Board to assist these parties in their determination of the Corporation's future role in housing and real estate. This will include a review of its current operating environment and loan program results, and development of alternatives which account for AHFC's mission in a changing economy and real estate market.

2. Introduction

2. Introduction

The State of Alaska has created and maintained a policy of assisting its residents in buying homes. Over the past 18 years the State has developed some of the most innovative programs in the country to provide affordable mortgage financing. As a result, many of its residents enjoy some of the lowest home mortgage interest rates in the country. At the same time, State investment in these programs has also dramatically increased.

At the center of these programs is the Alaska Housing Finance Corporation (AHFC). The AHFC was created in 1971 as a self-supporting public corporation to be a secondary purchaser of mortgages from private financial institutions operating in Alaska. As of June 30, 1988, the AHFC's loan portfolio contained 44,815 loans totalling \$3.76 billion.

The majority of this portfolio is financed through an inventive use of taxable and tax-exempt bonds and notes. The scale of the Alaska financing programs is apparent when one considers that only a few years ago, the AHFC was reported to be the third largest issuer of taxable bonds in the U.S. corporate market—in the past 16 years, the AHFC has issued \$6.64 billion in taxable and tax-exempt bonds.

While the growth of the AHFC and its programs can be traced in part to the State's interest in serving its residents, it also appears to be in response to changes that have been occurring in the Alaskan economy. When the price of oil dramatically declined in 1986, the Alaskan economy was severely affected. The AHFC responded to the situation by adapting its existing programs and developing others to support its citizens when many became unemployed. Through last year, the economy has continued to decline with population and employment dropping by an estimated 2-3% during FY 1988. Delinquencies and foreclosures in the housing market have resulted and housing values have continued to decrease.

The impact of these factors has led to the AHFC 1988 annual report disclosing a net loss of \$12.6 million — the first time in its history the Corporation has experienced a net loss. As stated in the report, the net loss was not an operating loss, but resulted from a substantial increase in the Loan Loss Reserve, a decrease in the value of its

real estate owned (REO) and a decrease in the estimated collectible value of receivables involving REO's and insurance claims for REO's. According to the report, however, there are a number of positive trends occurring which indicate the economy may have "bottomed out" and at least portions of the housing market have stabilized.

As the AHFC moves forward it will continue to face the challenges and opportunities presented by the Alaska economy. In its history of responding to these challenges and opportunities, it has created a variety of programs and financing structures which we understand are the primary focus of the study being requested. In the remainder of this section of our proposal we briefly review the major programs and financial instruments being used by the AHFC. Our approach and work plan for the study presented in the following section has been created to take into account the many unique characteristics of these programs and instruments.

Programs of the Alaska Housing Finance Corporation

AHFC's programs have evolved significantly since it began purchasing only federally insured mortgage loans for low-to-moderate income borrowers in 1971. At present, the AHFC provides thirteen mortgage programs which are briefly described below along with information on the level of activity of these programs in FY 1988.

- **Home Owner's Assistance Program (HOAP)** eliminates the scheduled increases in monthly principal and interest payments, resulting in a 30-year mortgage and lower interest rates, possibly resulting in a lower mortgage payment. It also provides for advances to bring loans current and assistance with monthly mortgage payments for up to two years for borrowers experiencing a hardship. A total of 363 HOAP loans were purchased in FY 1988.
- **Taxable Mortgage Program** for borrowers such as first-time buyers or veterans who cannot qualify for tax-exempt funds. Up to \$199,850 may be borrowed for a single family residence or \$255,650 for a duplex. The first \$90,000 of the loan is financed at a subsidized rate if AHFC's interest rate is above 10%, and any additional loan amount above the \$90,000 is set at the Corporation's cost of funds. A total of 1,018 borrowers used this program in FY 1988 representing 42.7% of total loans purchased.
- **Tax-Exempt Mortgage Program** for loans to first-time home buyers who meet federal eligibility criteria and are subject to other restrictions. There were 645 home buyers who used this program in FY 1988.
- **Home Ownership Assistance Program** reduces the monthly mortgage payment that eligible borrowers pay through a subsidy based on their income such that the

monthly payment is reduced to 28% of their income or a 6% interest rate loan whichever is greater. Forty-eight homeowners used this program in FY 1988.

- **Federal Housing Administration (FHA)** insurance programs under FHA's 203b, 203b2 and 234c programs which allow more lenient down payments and qualifying guidelines. AHFC purchased 861 loans in FY 1988.
- **Mobile Home Loan Program** allows a choice of a 10% down payment with a 20-year loan term or a 5% down payment with a 10-year term on a maximum loan of \$75,000. Nine borrowers used this program in FY 1988.
- **Triplex/Four-Plex Program** allows an owner-occupant to borrow up to \$308,900 for a triplex or \$384,000 for a four-plex with a minimum of 15% down payment. Six owner-occupants used this program in FY 1988.
- **Pledged Account Mortgage Program** provides a graduated payment mortgage where the borrower places a portion of the down payment in an interest-bearing savings account which is pledged as additional security. Funds are drawn from the account each month to pay a portion of the monthly mortgage payment. Four home buyers used this program in FY 1988.
- **Second Mortgage Program** is divided into two categories: the Second for Purchase Program to provide a vehicle for borrowers to assume an older first mortgage; the Second for Home Improvement Program for borrowers who want to retain their present first mortgage interest rate but need financing to make improvements. Seven borrowers used these programs in FY 1988.
- **Veterans Mortgage Program/State Veterans Interest Rate Preference and Federal Veterans Administration Loans** each offer veterans the following advantages: the first allows AHFC to fund below-market mortgage interest loans for qualifying veterans with tax-exempt bonds, and 349 veterans used this program in FY 1988; the second offers a 1% lower interest rate on the first \$90,000 of a loan and can be applied to any of the AHFC's programs except the Veterans Mortgage Program; finally, the FVA provides a loan guarantee program which allows for a lower down payment, and it was used by 340 veterans during FY 1988.
- **Refinance Program** allows mortgagors the ability to reduce their monthly mortgage payments and make their loans assumable. A total of 109 borrowers used this program in FY 1988.
- **Rental Program** is limited to refinancing loans already owned by the AHFC that required continued owner-occupancy so that the borrower could rent the property on a long-term basis. Though 137 loans were refinanced in FY 1988, this program was discontinued in the latter part of FY 1988.
- **Non-Conforming Property Program** involves purchasing loans for properties that are structurally sound but have non-conforming features (e.g., lacking conventional utilities) which reduces the possibility of obtaining financing from other loan sources. Thirteen loans were purchased in FY 1988.

In addition to these thirteen programs, the AHFC is also involved in condominium project loans and mobile home parks. In both cases, the AHFC inspects these

facilities and has other requirements that must be met before it will purchase loans in condominium projects and mobile home parks.

Financing Activities of the Alaska Housing Finance Corporation

AHFC has a history of pursuing the use of new financing techniques. It was the first public agency to sell taxable bonds in 1981. In FY 1983, it began using the Alaska Building Equity Mortgage to take advantage of shorter term, lower interest taxable bonds. In FY 1984, Federal National Mortgage Association (Fannie Mae) agreed to swap Alaskan mortgages for Mortgage Backed Securities, and more recently, the AHFC has arranged a swap process with the Federal Home Loan Mortgage Corporation (Freddie Mac). The AHFC has recently experienced a lower level of financing activity due in part to the downturn in the Alaskan economy. The major financing activities of the AHFC in recent years are briefly presented below.

- **Taxable Mortgage Program Financing.** A single issue for the Taxable Mortgage Program was sold in October, 1987 which combined issuance of: \$72.5 million medium-term notes with maturities of 2 to 9 years; \$8 million floating rate notes maturing in 10 years; and \$19.5 million Z-bonds.
- **Tax Exempt Mortgage Program Financing.** Collateralized Home Mortgage Bonds, 1987 Series B in the amount of \$50 million were sold in November, 1988. This issue was to refund an earlier series which was found to not have sufficient flexibility to accommodate 30 year loans converted to Freddie Mac participation certificates. Proceeds from this series will be used to continue funding the Tax Exempt Program for first-time home buyers.
- **Veterans Mortgage Program Financing.** The only financing for this program was the Collateralized Bonds 1988 First Series in the amount of \$50 million occurring in March 1988.
- **Home Owner's Assistance Program Financing.** This program was established in December 1987 with the issuance of a \$110 million multiple series transaction. The overall structure combined \$43 million of medium-term notes, \$12 million in floating rate notes, a 15 year term bond with 5 years of call protection, a 30 year term bond callable after 7 years, and a \$10 million Z-bond which does not pay interest until the rest of the bonds are paid off. A second financing for the HOAP was sold in April 1988 in the amount of \$75 million and was the AHFC's first true collateralized mortgage obligation (CMO).
- **Mortgage Backed Bonds.** AHFC sold \$62 million mortgage-backed bonds in September 1987 consisting of \$22 million of floating rate bonds and \$40 million fixed rate securities.

- **Short-Term Financing Facilities.** AHFC continued managing its liquidity through the sales of its Fannie Mae mortgage backed securities and GNMA certificates under REPO agreements.
- **Euro Commercial Paper Program.** This program was begun in April 1987 to supplement the AHFC's short term financing activities. During FY 1988 an aggregate of \$284 million of Euro Commercial Paper was issued with an average maturity of 3 months and an interest rate of 7.4%.
- **Euro Revolving Facility Agreement.** In addition to the above program, the AHFC entered into a revolving facility agreement with a number of international banking institutions, initially in the amount of \$150 million with provisions to permit an increase to \$200 million providing the AHFC additional access to various methods of short-term financing.

In conclusion, it is obvious the AHFC operates a wide variety of mortgage loan programs and is involved in an array of financing activities. The diversity and breadth of these programs and activities have been considered in the preparation of our approach to the project and our work plan which is presented in the next sections of our proposal.

3. Proposed Project Approach

3. Proposed Project Approach

The request for proposals lays out the tasks required of the consultant. Our approach generally follows these tasks, but they are re-ordered to reflect interdependence of tasks and actual scheduling. The scope of work is also expanded somewhat to ensure that all options receive comparable analysis.

We have divided the work into three phases:

Phase 1: Environmental Analysis

Phase 2: Strategic/Organizational Options

Phase 3: Financial Implications

Our phasing approach, and the detail within each phase, provides the Alaska Housing Finance Task Force with certain advantages, discussed below.

Advantages of our Proposed Approach

While it fully addresses all the work elements defined in the request for proposals, the approach we propose has several advantages:

- 1) Our approach defines the environment prior to beginning analysis. Especially, we place RFP Tasks II and III ahead of other tasks, in order to come to a full understanding of the financial, regulatory, market, and human needs situation in AHFC's service area prior to attempting any form of prospective analysis.

Advantage: Defining the environment first means minimal lost time due to re-analysis as research forces changes in assumptions. In addition, a thorough understanding of the situation means that the right questions are more likely to be asked from the outset of analysis.

- 2) Our approach defines strategic and organizational options through a two-step process. We propose that the options defined in the RFP be given a preliminary review, and then, in consultation with the Task Force, the options be refined, combined, or added to prior to final analysis.

Advantage: The strategic and organization options used in the final analysis will be thoroughly discussed and tested; no time will be wasted analyzing financial effects of obviously infeasible options, and we will have the greatest probability of inclusion of all promising avenues of action.

- 3) Our approach clearly separates the economic, organizational, and service provision impacts of each option from the fiscal impacts. Our approach addresses these areas separately, with a Task Force screening step prior to financial analysis.

Advantage: Our approach envisions ultimate use of information generated in cost-benefit analyses. In other words, program cutbacks may generally have negative effects in the economic and service provision areas, but they may have positive impacts in the financial area. A clear separation of costs from benefits facilitates weighing one against the other to arrive at appropriate public policy.

- 4) Our approach evaluates all identified options using the same set of criteria. In order to choose among alternative paths, apples-to-apples and oranges-to-oranges comparisons must be made. Our approach ensures that identical criteria are used to evaluate options in all areas—economic, organizational, service provision, and financial.

Advantage: Decision-makers will be able to easily compare the potential effects of each proposed course of action in each affected area. Trade-offs will be easily identified and quantified.

Description of the Proposed Approach

The following, which discusses our approach briefly, is further expanded in Section 4, the Work Plan.

Phase 1: Environmental Analysis

This phase includes those tasks which define the environment within which strategic and organizational options must be evaluated:

- **Regulatory**—Those regulations and policies which currently govern AHFC's operations, or which would govern any operations under a new structure, for instance if program elements were sold, spun off, or otherwise privatized;
- **Legal**—Applicable State and federal laws which might affect the proposed sale or privatization of portions of AHFC's activities;
- **Financial**—The bond covenants and prudent business practices which affect or govern AHFC's liquidity, reserves, assets, profitability, future cash flows, program needs, and bond ratings;
- **Market**—The supply/demand situation in AHFC's geographic area of responsibility, including anticipated market changes by geographic segment and housing market segment and special housing needs; and
- **Needs**—Those human needs, both current and expected, which lead to a perceived demand for AHFC programs.

A thorough understanding of AHFC's environment in these terms will simplify the evaluation of strategic and organizational options, and will make possible reasoned and defensible assessments of the options open to AHFC.

This phase includes RFP Task III.

Product: The product of this phase will be a thorough definition of AHFC's environment in the regulatory, legal, financial, market, and human needs areas.

Phase 2: Strategic/Organizational Options

This phase includes Task I of the request for proposals. It deals with the analysis of a number of potential changes in direction for AHFC, and analyzes the probable effects of these changes.

It is critical to the structure of our proposal that:

- All options must be considered within the same framework if dependable comparisons are to be made; and
- This phase addresses only the organizational and service provision aspects of each option—financial impacts are analyzed separately in Phase 3, below.

We intend to pursue the definition and analysis of options as follows:

- 1) Review the options with the Task Force to gain the benefit of latest thinking and to sharpen the definitions of each option (*e.g.*, option B is currently "Reduce the size of AHFC". This definition must be expanded upon before meaningful analysis can take place). Options currently defined include:

- Restructure AHFC to accommodate its purpose
- Reduce the size of AHFC
- Privatize all or a portion of AHFC
- Return AHFC to providing housing strictly for low to moderate income borrowers
- Phase out all or a portion of AHFC's programs
- Sell AHFC in whole or in part.

In each case, more specific definition of the option will be required prior to analysis; that re-definition is included in this phase.

- 2) Develop a list of evaluation criteria and review with the Task Force, to include items such as:
 - Effects of each option on the housing market (demand, supply, prices)

- Effects of each option on services available to groups currently served by existing programs
 - Effects of each option on size and organization of AHFC
 - Effects of each option on public expenditures (direct and indirect)
 - Implementation costs
 - Legal considerations
 - Other evaluation criteria as appropriate.
- 3) Perform an analysis of each option within the environment defined in Phase I, above, using these evaluation criteria.
 - 4) Review the organizational and service provision impacts with the Task Force to determine if:
 - One or more of the options should be discarded at this point;
 - One or more of the options should be combined for the financial analysis; and/or
 - One or more options should be added to the list for consideration.
 - 5) Complete the organizational and service provision analysis taking into account any changes from step 3.
 - 6) Review the analysis with the Task Force to determine the final list of strategic options to be submitted for financial analysis (Phase 3, below).

This phase includes RFP Task I, except for Tasks I.E.1.b., I.E.1.c., and I.F. It also includes RFP Task II.A.

Product: At the end of Phase 2, we will have come to a final decision as to the strategic and organizational options open to AHFC, and will have defined the organizational and service provision impacts of each.

Phase 3: Financial Implications

The result of Phase 2 will be a final list of strategic and organizational options which the Task Force believes are feasible from a regulatory, economic, organizational, and service provision point of view. The next step is to analyze each option from a fiscal point of view.

The issues to be addressed in this phase are, for each option:

- 1) Effects on future cash flows to AHFC;
- 2) Effects on bond covenants;
- 3) Potential effects on bond ratings; and
- 4) Potential effects on returns on capital invested in AHFC by the State.

Another issue to be addressed in this phase is the proposal that AHFC be required to purchase mortgage loans from the Housing Assistance Fund, currently administered by the Alaska State Building Authority. Since there is a possibility that some of these loans may be non-performing, the work will include an analysis of fair market value for such loans and effects on AHFC's various loan programs of the purchase.

This phase includes RFP Tasks I.E.1.b., I.E.1.c., I.F., Task II.B., II.C., Task IV, and Task V.

Product: At the completion of Phase 3, and the project, the Task Force will have an analysis of all identified strategic and organization options available to AHFC, and the potential impacts to AHFC and the State in the areas of organization, service levels, housing markets, housing needs, and finance.

4. Work Plan

4. Work Plan

Phase 1: Environmental Analysis

Phase 1 of our proposed work plan includes those tasks necessary to begin the project, and to define the various aspects of the environment within which decisions regarding AHFC programs and organization are to be made.

Task 1: Initiate project

We will meet with the Task Force and, if appropriate, with AHFC staff to determine:

- Project details with respect to timing, review processes, on-site work areas, available data sources, and format of deliverables;
- Task Force goals and objectives with respect to the study; and
- Persons to be interviewed during the course of the study, and availability of these persons during the approximate periods anticipated for the interviews.

During this meeting, we will update our understanding of the project with the Task Force to determine if there have been any changes in policy direction or additional options to be considered in Phases 2 and 3.

Task 2: Assess regulatory environment

We will review with AHFC staff State and federal regulations governing the activities of AHFC's programs and financing for these programs. This review will include definition of requirements for various mortgage-backed securitization activities through organizations such as GNMA, FNMA, and FHLMC, and underwriting/insurance requirements of organizations such as FHA and VA. It also will include State and AHFC requirements for bond issuance under the HOAP and related programs.

Task 3: Assess legal environment

Since the options include scenarios under which certain AHFC programs and activities might be sold, spun off, or privatized, we will research applicable State and federal laws to determine what considerations might impede or facilitate such actions. We anticipate obtaining legal opinions, if required, from the State Attorney General's office; if this cannot be arranged, independent legal counsel may be necessary. (Cost of independent legal counsel is not included in our proposed fee.)

Task 4: Assess housing market

We will implement a program to assess current and anticipated demand for housing in Alaska by region, as follows:

- South Central (Anchorage, Mat-Su, Kenai Peninsula, other South Central);
- North (Fairbanks and other North);
- Southeast (Juneau, Sitka, Ketchikan, and other Southeast); and
- Other.

This demand assessment will segment demand in each area by price range:

- Under \$135,000 (FHA limit);
- Over \$235,000 (FHLMC limit); and
- Under the tax-exempt limit.

To the extent possible, and in the interests of completing the study quickly, we will use trend and current demand estimates developed by organizations such as HUD and ISER, both of whom have pertinent data available. Where primary research can quickly generate additional useful data, we will undertake such research, using AHFC staff as available for data gathering.

Task 5: Assess financial requirements

In order to evaluate the effect of various options on AHFC's financial condition, we will review AHFC's liquidity, reserves, and earnings as required by:

- Bond covenants;
- Maintenance of current bond ratings; and
- Maintenance of current programs.

This review will have to be accomplished, in large part, by program. We intend to address these issues as follows:

Bond covenants—Review with AHFC financial staff to determine reserves, debt service coverages, liquidity, and other factors required to avoid default or other undesirable consequence;

Bond ratings—Interview representatives of Moody's, Standard & Poor's, and possibly other rating agencies to determine what State actions with regard to options considered in this study might affect bond ratings; and

Current programs—Review with AHFC staff any forecasts of program utilization, and calculate prospective financing requirements for these programs.

Task 6: Assess human needs

No decisions regarding AHFC programs can be made without reference to current needs for the services these programs were designed. Accordingly, we will work with AHFC staff to determine, by program:

- Demographic descriptions of groups most affected by each program;
- Estimated sizes of these groups;
- Alternatives available to these groups; and
- Likely degree of hardship caused by cessation of programs.

Task 7: Review Phase 1 results with Task Force

At this point, we will meet with the Task Force to share our understanding of AHFC's environment:

- Regulatory

- Legal
- Financial
- Housing
- Human needs.

We will discuss any issues which have arisen and seek guidance as appropriate.

This meeting will likely be lengthy, since it will include the activities of Tasks 8 and 9, below.

Phase 2: Strategic/Organizational Options

In Phase 1, we set the environment. In Phase 2, we will evaluate options potentially available to the State within that environment.

Task 8: Define strategic options

In the same meeting as Task 7, we will present to the Task Force our proposed lists of strategic options.

The options list will be as originally stated in the RFP, modified by Task Force guidance from Task 1, and by our subsequent findings during the environmental assessment. The options list currently includes:

- Restructure AHFC to accommodate its purpose;
- Reduce the size of AHFC;
- Privatize all or a portion of AHFC;
- Return AHFC to providing housing strictly for low to moderate income borrowers;
- Phase out all or a portion of AHFC's programs; and
- Sell AHFC in whole or in part.

The list will be tightened during discussions with the Task Force. Part of our work at this point will be to define each option narrowly enough that costs and benefits can clearly be assigned.

Task 9: Define evaluation criteria

In the same meeting, we will present a draft list of evaluation criteria (excluding financial) which will be used to evaluate the options. These criteria currently include:

- Effects of each option on the housing market (demand, supply, prices);
- Effects of each option on services available to groups currently served by affected programs;
- Effects of each option on size and organization of AHFC;
- Effects of each option on public expenditures (direct and indirect);
- Implementation costs;
- Legal considerations; and
- Other evaluation criteria as appropriate.

Working with the Task Force, we will finalize this list and assign weights to each criterion.

Task 10: Assess market impact by each option

For each option, we will estimate the housing market impact in Alaska with respect to supply, demand, and market pricing. This analysis will be especially important for options which consider placing AHFC REO directly on the market, because of the significant negative effect such action might have on overall housing prices.

Task 11: Assess service provision impact by each option

For each option, we will assess the impacts on AHFC users both current and potential. Again, a key point here is AHFC's non-conforming loan programs; alternatives to AHFC may not be easily available for borrowers under these programs, especially because of Alaska's unique geography and isolated situations.

Task 12: Assess organizational impact by each option

For each option, we will assess the likely organizational impact within AHFC. The objective will be to identify options which offer significant

savings in terms of staffing and organization costs, or which offer program savings because of potential synergies through a reorganization.

Task 13: Assess public expenditure impact by each option

For each option, we will estimate the likely impact on current and future public expenditures in Alaska. Such impacts may be direct (substitution of one subsidy for another, where a parallel program exists outside of AHFC), or indirect (where failure to provide housing may cost the State money in other areas under existing programs).

Task 14: Estimate implementation cost by each option

Certain options, especially privatization or major service cutbacks, will certainly have high implementation costs. To the extent possible we will identify and quantify these costs, which may include items such as additional staff, special studies, etc.

Task 15: Summarize findings

We will summarize our findings in matrix format for Task Force review. The matrix will list options along one axis, and evaluation criteria along the other. Each cell will contain a numerical score defining the impact of each option with respect to each criterion.

We will also use the weights developed in Task 9 to assign overall scores to each option, and to rank them. This will be a very preliminary indication of the relative attractiveness of each option, but without respect to financial benefit.

Task 16: Review Phase 2 results with Task Force

During this review, we will present our summary of findings to the Task Force and participate in an open discussion. Questions to be answered at this meeting will be:

- Which options are truly feasible? Are certain options so politically unpalatable, difficult of execution, or costly that they should be discarded now?

- Can some options be combined? Would a combination of options add to benefit without increasing costs?
- Are there additional options to be considered?
- Are the criteria scores meaningful? Are adjustments required in view of the experience of the Task Force?
- Should the weights change?

After the Task Force has agreed on answers to these questions, we will complete our analysis (Task 17, next).

Task 17: Preform residual analysis and finalize option list

Based on the results of the Phase 2 meeting, we will analyze any new options or option combinations, revise criteria scores and weightings, and re-cast the evaluation matrix. Copies will be sent to the Task Force along with our Phase 2 summary, but no further meeting is planned at this point.

Phase 3: Financial Implications

In Phase 3, we conclude the scope of study by providing the financial analysis to accompany the environmental and options analyses already completed.

Task 18: Review bond covenants by issue/series

Working with AHFC staff, we will review major bond covenants by issue and, where applicable, by series within issue. The purpose will be to identify those areas where changes in AHFC's scope, mission, or programs may bring AHFC's financial condition into conflict with the requirements of the covenants. Such conflicts may occur in the areas of earnings, cash reserves, funding of special bond reserves, ongoing debt service coverage, net asset values, etc.

Task 19: Construct computer models

To evaluate the financial impacts of program or organizational changes, we will construct a number of computer models to simulate "what-if" scenarios. Since the options to be considered will already be fully defined, constructing these models will be relatively easy.

They will include such input variables as future default rates by class and program, future service demand by program, interest rate climate, etc. The intent will be to include as input variables those aspects of the future environment most likely to cause significant changes in AHFC's financial condition.

Output variables will include liquidity position, period earnings, and borrowing requirements. Again, the intent will be to identify output variables most likely to indicate the health of remaining AHFC programs under any scenario.

Task 20: Estimate future cash flows and ROI's by option.

Using the computer models from Task 19, we will establish three scenarios—"Pessimistic", "Moderate", and "Optimistic". Then, for each scenario, we will simulate AHFC's financial operation over the next three years under each of the options identified in Phase 2. Outputs will include cash flows and annual return on State funds invested, by program where identifiable. Graphic presentations will be prepared for ease in communicating results.

Task 21: Interview bond rating sources

Based on the results of Task 20, we will informally discuss each potential scenario with representatives of bond rating sources such as Moody's and Standard & Poor's. The purpose will be to establish which option, under which scenario, might affect the ratings of State-associated bonds, whether AHFC or otherwise. It is possible that any State action which appears to impair timely interest or principal payments on AHFC bonds (for instance, HOAP issues) may have a parallel impact on ratings of other State issues.

Task 22: Summarize findings

We will summarize our findings by option in a manner parallel to the previous presentation in Phase 2. The summary will concentrate on:

- Financial results of each option under the three scenarios; and
- Potential impacts on bond ratings of each option.

Other issues will undoubtedly have arisen as well, which will be discussed in this summary.

Task 23: Review status of Housing Assistance Fund loans

We will evaluate the proposal that AHFC purchase mortgages from the Housing Assistance Fund. While the transfer of assets from a State entity (the Alaska State Building Authority) to a State corporation (AHFC) possibly will have no net impact to the State (on the "out of one pocket, into another" theory), there may be significant impact on AHFC's published financial position if:

- The mortgages are purchased at par value;
- Significant numbers of mortgages are discountable because of non-performance or other factors; and
- This discount is reflected in subsequent audited financial statements.

For this reason, it will be necessary to review the status of the mortgages to determine whether or not discountability is a factor. To do this, we will select either the entire pool of mortgages slated for purchase, or a representative sample if the pool is quite large. We will then prepare evaluation criteria for discountability and guide AHFC staff in evaluation of each mortgage. This will result in an aggregate potential discount factor for the pool.

Task 24: Establish yield level for fair market value determination

To convert the mortgage par values to fair market value, it will first be necessary to convert the potential discount factor from Task 23 to a percentage yield figure. This yield figure will be the sum of the expected yield for a "comparable performing" mortgage and a risk premium. The two numbers will be derived as follows:

- The yield of a "comparable performing" mortgage will be determined from published current mortgage rates and from interviews with established residential mortgage brokers. The spread of published numbers and opinions should be quite small, so there will be little problem establishing a satisfactory figure.

- The risk premium will be more subjective and will be established by reference to current estimates of the capital market pricing line, which relates perceived risk to required rates of return. Our initial estimates will be confirmed through interviews with mortgage brokers and others associated with risky secured obligations.

The product of this task will be an "expected yield" for securities which approximate the cash return patterns and risk characteristics of the aggregate of Housing Assistance Fund mortgages slated for purchase by AHFC.

Task 25: Determine fair market value

The fair market value of the Housing Assistance Fund mortgages will then be determined by discounting the aggregate future cash flows resulting from the mortgages by the expected yield derived in Task 24.

Task 26: Review Phase 3 results with Task Force

This will complete our scope of work under the Request for Proposals. We will summarize Task 3 results in the following manner:

- Significant bond covenants affecting options for AHFC;
- Description of computer models used to measure financial impacts of the options;
- Descriptions of the three scenarios under which the financial impacts were estimated; and
- Estimated future cash flows and ROTs for each option under each scenario.

This summary will complement the Phase 2 analysis, which covered the legal, organizational, market, service provision, and public expenditure aspects of each option.

In addition, our summary will include the assessment of Housing Assistance Fund mortgages, and their estimated fair market value at the yield rates determined.

Task 27: Prepare draft final report

Subsequent to Task Force review of our Phase 3 findings, we will prepare a final report in draft form. The format of this report will follow the structure of the work as presented in this proposal:

- Environmental Analysis;
- Strategic/Organizational Options; and
- Financial Implications.

All relevant findings, analysis, and presentations will be shown in a clear, concise, and organized fashion. Graphical exhibits will be used generously.

Since the request for proposals did not ask for recommendations, we do not intend recommending specific courses of action unless asked. However, the analysis contained in the report should provide information in a clear and even-handed way that will support efficient decision-making.

Task 28: Prepare and deliver final report

After Task Force review of the draft report, we will make any needed changes and deliver ten bound copies plus one set of camera-ready originals.

5. Project Organization

5. Project Organization

This section describes our overall project organization, discussing the key functional areas our team members will address, summarizing the qualifications of our personnel, and the specific role we envision each team member will play. The project team proposed for this engagement will be composed of seasoned professionals from Ernst & Young. Our personnel assignments complement the work elements contained in the request for proposals, with the skills and experience of our individual team members corresponding to the various tasks as outlined in the proposed work plan.

Description of Key Functional Areas

Our consultant team is qualified in several key functional and programmatic areas relevant to this effort. The most pertinent of these are described as follows:

- **Familiarity with Housing Issues**—This study requires demonstrated knowledge and experience in bond-financed housing, assessment of affordable housing needs, and an analysis of current and alternative housing subsidy programs. Our team consists of individuals who have provided this type of assistance through strategic planning for housing authorities, development of state wide housing plans, analysis of housing requirements, and awareness of housing programs and strategies.
- **Experience in the Real Estate Market**—Our project team members have extensive experience in the field of real estate advisory services. Three of our team members have demonstrated expertise and understanding of the real estate appraisal industry, loan purchaser problems associated with home equity loans, familiarity with real estate owned and foreclosed properties, and other applicable areas.
- **Financial Analyses Capabilities**—This proposal requires the evaluation of the current financial status of the AHFC and its individual loan programs in order to develop alternatives for retaining, refining, or otherwise changing existing programs in response to future market needs. Our team has the necessary

capacity to evaluate the current operating environment of AHFC, and to perform a comprehensive analysis of liquidity, reserves, and earnings affecting bond covenants and ratings.

- **Public Policy Analysis and Development Experience**—The ultimate audience for the results of this study will be the Alaska legislature, the decision-makers who will determine future policy direction for the AHFC. Our consultants are accustomed to working with elected officials. We will prepare a succinct report which summarizes the results of our research efforts and highlights alternatives for consideration by the Legislature. The financial impacts of our recommendations will be summarized, along with other major factors important for the Legislature to evaluate in its deliberations concerning state housing policy.
- **Strategic Planning and Organizational Analysis**—Preliminary recommendations resulting from the assessment of AHFC's current operations and future alternatives will require strategic insight and analysis. Our team is accustomed to forming key strategic decisions in light of such factors as the availability of financial resources, likely political support, effects on constituents, and probable organization or structural changes. Our work with the Task Force will draw from our strategic planning methodology and approach, which has often been successfully applied to housing issues.

The structure of our proposed team fully addresses each of these important topical areas.

Individual Roles of Team Members

This section describes the role of each team member and their associated qualifications as proposed in our project organization.

1. Partner-in-Charge: Joseph F. Hill

At Ernst & Young, the Partner-in-Charge is responsible for the overall success of the engagement. The Partner-in-Charge ensures that all work is performed in accordance with our agreement, that the work and deliverables meet the firm's quality standards and project requirements, and that there is overall client

satisfaction with our performance. In addition, the Partner-in-Charge ensures that the engagement obtains the necessary resources and attention of the firm.

Joseph F. Hill, Director of the Government Operations group for the northern portion of our West Region Consulting Practice, has over twenty years of operating and consulting experience with government.

2. Technical Director: O. Andrew Orien

For this engagement, we have assigned a Technical Director, M. O. Andrew Orien. Mr. Orien, an Audit Partner in our Anchorage office, has extensive experience in valuation of residential loan portfolios and is familiar with the securitization process for pooled loan portfolios. He has recent experience advising the North Pacific Rim Housing Authority and Alaska Pacific (now Key Pacific Mortgage).

Mr. Orien's valuation experience and his local familiarity with AHFC's position and the Alaska housing finance situation will be invaluable in this engagement.

3. Project Manager: James Gibson

The Project Manager has the responsibility for supervising all work performed under this contract, including:

- Quality control and review of all products;
- Detailed planning and scheduling;
- Determining specific knowledge and skills needed and assigning team members to specific project tasks;
- Review of project documentation, interim reports, and the final report;
- Progress monitoring and reporting; and
- Participating directly in task activities.

In addition, our Project Manager will serve as the primary point-of-contact for the Task Force, working with you to insure proper communication and timeliness of all tasks performed under this contract.

Our Project Manager will be Mr. James Gibson, a Director of the firm's Northern West Region Economic and Financial Consulting Practice. He offers eighteen

years of experience in applied financial, economic, and market analysis to this project. Mr. Gibson will also serve as our primary contact with the Task Force.

4. Lead Technical Consultants:

To meet the requirements in the outlined work plan, we have assigned professional, technical consultants to assume lead responsibilities in the major research areas of real estate, financial analyses, housing policy, and strategic/organizational issues. The following individuals will have primary roles in conducting the necessary data collection, research, and analysis of your current operating environment and financial status, development of alternatives, and assessment of the policy implications and projected results of the alternatives. These lead consultants include:

Real Estate Leader: Vere Harlow, Senior Manager. Mr. Harlow is Director of Ernst & Young Seattle's Strategic & Financial Services Group. He is also Chairman of Ernst & Young Seattle's Real Estate Focus Group, a ten-member team concentrating on consulting, tax, and accounting services to the real estate industry. In managing several recent real estate-related engagements, Mr. Harlow has been responsible for assessing current market conditions in specific areas and projecting demand and development trends.

Real Estate Second: Ron Morris, Senior Consultant. Mr. Morris, Senior Consultant in Real Estate for the West Region Corporate Services consulting group, has extensive experience in real estate demand and feasibility studies for office, hospitality, and single-family properties. He is experienced in basic research, demand projections, and financial analysis.

Financial Analysis Leader: Ed Kaempf, Senior Manager. Mr. Kaempf, a Senior Manager, serves as Director of our Northern West Region Analysis Services Group. Mr. Kaempf has 12 years of quantitative analysis experience with a special focus on real estate.

Financial Analysis Second: John Micheltmore, Senior Manager. Mr. Micheltmore, with over eight years of auditing and financial analysis experience, will work closely with Mr. Kaempf. He brings a specialty in the financial analysis of both single and multi-family housing projects and issues.

Policy, Strategic and Organizational Issues Leader: Margie Harris, Manager. Ms. Harris is a member of our Northern West Region Government Operations Practice, with a 15 year history of public sector and non-profit management experience. She has been project manager for the Seattle Housing Authority Strategic Plan, (now being updated) and has direct experience in the development of state-wide low-income housing incentive programs involving bonding, low-interest loans, and tax credits. Ms. Harris has also recently completed a housing needs study for the Seattle-King County area and is presently facilitating a Home-Ownership Committee process for the City of Seattle, Department of Community Development.

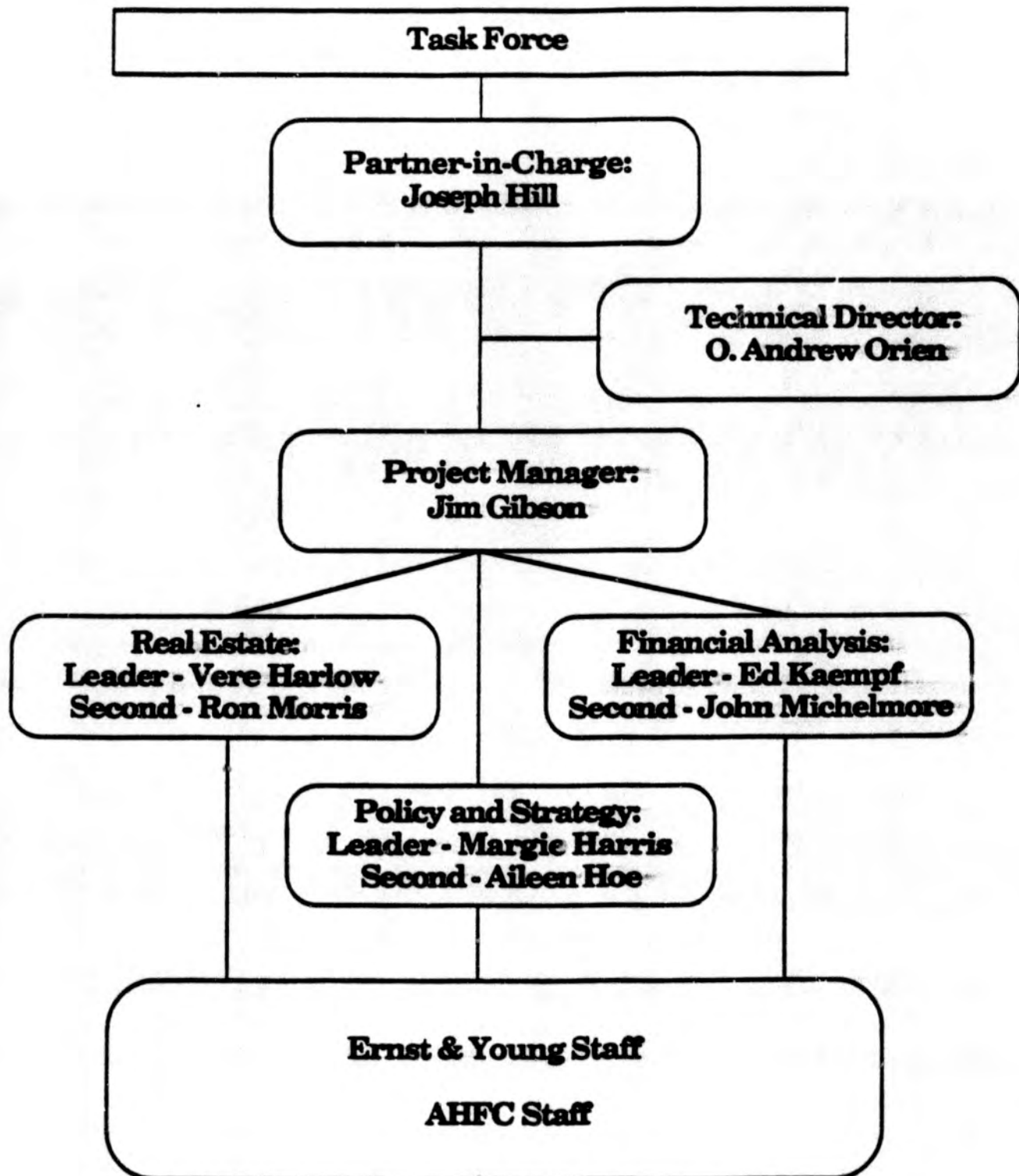
Policy, Strategic and Organizational Issues Second: Aileen Hoe, Manager. Ms. Hoe is a member of the Management Consulting Group of our West Region with demonstrated experience in both the development of financial projects and organizational alternatives specific to housing authorities. She brings a structural analysis capability to the team from the perspective of conducting numerous management reviews of government agencies, including housing authorities.

The combined roles of these individual team members address all essential elements and skill areas required to perform the work plan tasks necessary to this engagement. Detailed resumes of all team members identified in this section are provided in Section 8.

In addition to the persons identified above, Ernst & Young will assign other staff and management resources as required to provide the best and most useful study for the Task Force. No substitutions for management personnel will be made without Task Force consent.

A schematic of our proposed project organization is shown on the next page.

Project Organization



6. Schedule and Fees

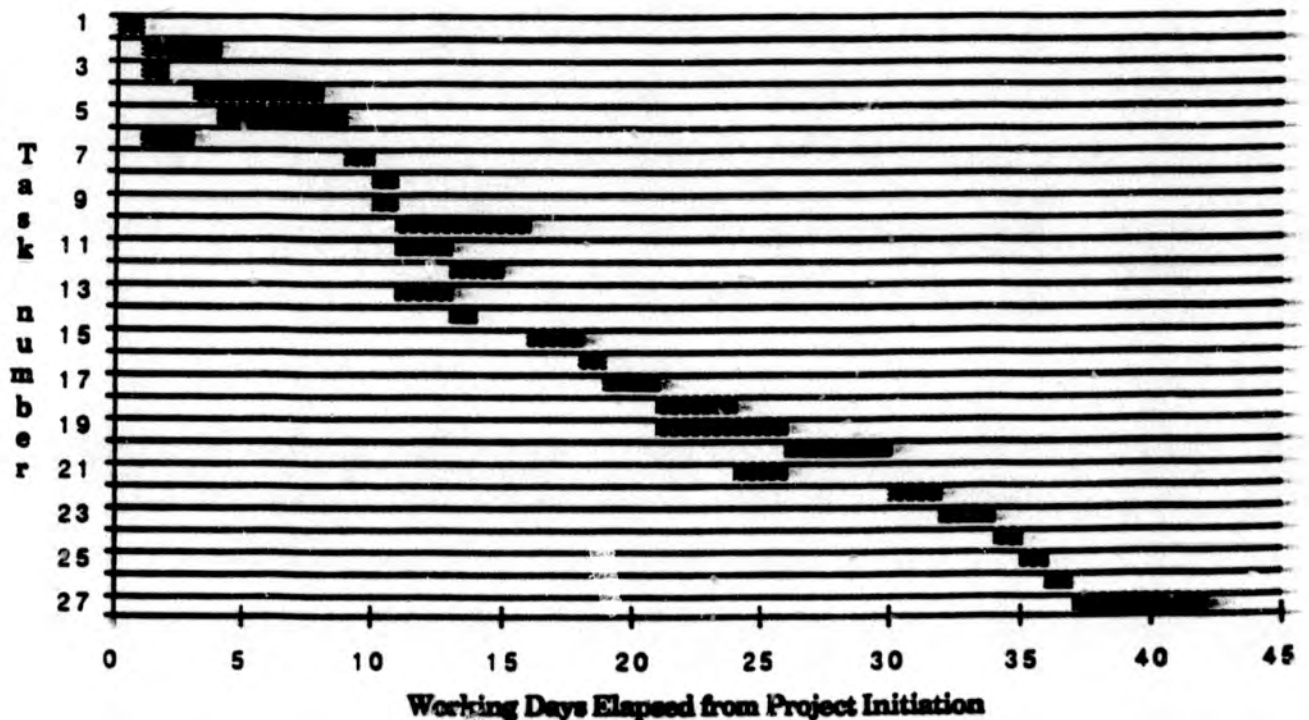
6. Schedule and Fees

Project Schedule

Our project schedule is shown below. Although the number of professional hours involved in this engagement is quite high, some tasks may be performed concurrently. Accordingly, and with full concentration of our resources, we estimate that the draft final report (Task 27) can be delivered 42 working days from project initiation—if all information requested is readily available and personnel required for interview are available at scheduled times through the performance period.

We emphasize that the schedule below contains no slack time.

Estimated Project Timeline



Project Budget

Our total budget for this engagement is \$194,285. This includes both professional fees and out-of-pocket costs reasonably anticipated, including transportation and per diem costs for consulting resources where required.

7. Ernst & Young Qualifications

7. Ernst & Young Qualifications

Ernst & Young is a general partnership which provides management consulting, accounting, and tax services to a wide range of public and private sector clients throughout the world. We are one of the largest professional services organizations in the U.S. and in the world, with a reputation for high quality professional work and distinguished client service.

The firm was created in 1989 by the merger of the two "Big Eight" public accounting firms of Arthur Young & Company, founded in 1894, and Ernst & Whinney, founded in 1903. Ernst & Young is organized on an international basis with over 200 offices in major metropolitan areas throughout the United States, including our office in Anchorage. Worldwide, we have offices in over 100 countries. In total, the firm has 70,000 employees, including more than 3,200 Management and Information Systems consultants.

Our size provides the strength and resources of a multi-national organization, but our system of local practice development offices and expertise guarantees personal services to all of our clients. Ernst & Young brings together the varied experience of financial and real estate analysis, strategic planners, and policy analysts who hold a professional commitment to excellence in service to our clients.

Ernst & Young offers a specialized line of services to state and local governments through our government operations practice serving the Western United States. These services feature practical, proven, and structured methodologies which emphasize a participatory approach involving our client's management and personnel. Distinct from other firms providing similar services, we tailor our approach and our services to the particular concerns, needs, environment and requirements of our every client.

The following section provides a sampling of our qualifications and experience in the three primary areas of importance to this project:

- A. Financial Analyses;
- B. Real Estate; and
- C. Strategic Planning, Organizational and Housing Policy.

A. Financial Analyses

Skills in financial analysis are fundamental to providing the Task Force with a dependable view of future financial results under the variety of options considered. At Ernst & Young, we have used sophisticated computer modeling techniques for many years to simplify the process of testing multiple scenarios for our clients. But in this process, we have never lost sight of the fact that solid and accurate research is required to support the calculations, and that poorly thought out assumptions will destroy the validity of any calculation, however sophisticated.

Below is a sampling of our experience performing financial analysis relevant to this engagement.

State of California Department of Real Estate

We were engaged to determine the actuarial solvency of the recovery account and developed a flexible, long-term method of funding the account. We also developed a base of historical data related to recovery account activities and balances, determined state costs of the Recovery Account Program for the current fiscal year; evaluated and prepared a plan to implement a recovery account monitoring and tracking system; and designed and implemented an automated, microcomputer-based recovery account cash forecasting system. In addition, we projected the status of the recovery account over the following four years and over the following five to ten years; evaluated the financial impact which mortgage loan brokers claims would have on the recovery account over the following four years and the following five to ten years; and determined possible changes to current funding mechanisms, including the ratio of

education and research account funds to recovery account funds, and the license fee.

City of Sacramento—Economic Assessment of Alternative Revitalization Strategies

We provided economic analysis of alternative revitalization strategies for downtown Sacramento. The planning objectives of the City and results of the urban design plan were integrated to produce program objectives and corollary mechanisms for implementation which were tailored to the specific characteristics of the Sacramento central business district. The resultant products included an overview of the office market, a summary incentive programs used by other cities, preliminary recommendations for Sacramento downtown support program and preliminary projections of office demand for the Sacramento downtown and metropolitan area.

City of Fontana—Redevelopment Agency Review of Impact Fees

We reviewed the City of Fontana's existing impact fees for a designated planned community (Southridge) which was projected to have over 9,000 residences at buildout. We assessed the adequacy and equity of current developer charges, and calculated new impact fees where appropriate.

National CTA for Housing Management

Ernst & Young was asked to join the client in assessing needs of the Puerto Rico Urban Renewal and Housing Corporation. Specifically, Ernst & Young was assigned to evaluate the manual and automated procedures in financial management areas, to develop a concept for financial systems development, and to set out a plan to effect improvements in their financial operations. PRURHC was the second largest public housing authority in the U.S. (60,000 units, \$45 million budget) and was considered by HUD to be "operationally troubled."

Chicago Housing Authority

The CHA needed to fully understand its 1987 cash requirements for the upcoming meetings with HUD. Ernst & Young was asked to assist the CHA in determining an estimate of 1987 cash requirements and supporting cash flow

estimates. The engagement involved working with CHA management to instruct their staff on developing estimates for cash flow line items. Ernst & Young independently conducted a limited review of staff estimates. We confirmed cash requirements for 1987 and provided findings and recommendations to senior management.

New York City Housing Authority

We have worked with the Housing Authority for over three years in developing and implementing a new financial management system. For the past year we have assisted the Authority in supporting the operation of the system. The Authority later asked us to provide a reduced level of assistance for an additional five months.

City of Chicago - Department of Housing

Ernst & Young analyzed the department's accounting and financial reporting procedures. The following areas were considered; Purchasing, budgeting, accounts receivable, personnel control, general ledger, programmatic reporting, and cash flow projections.

Carolinas Council on Housing

Ernst & Young provided accounting services quarterly and annually for this group. This included accounting certification, rate analyses, loss projections and asset-liability matching.

Columbia Association

We evaluated the current organization and operations, the isolation of key problem conditions and constraints and the development of practical and cost effective recommendations for improvement. We also developed creative strategies to secure significant operational savings which could be applied to new and expanded services while not increasing associated administrative costs.

B. Real Estate Industry

Our professionals have the industry background to provide first-rate service. Our involvement in the real estate industry has been recognized in many ways:

- Members of our Real Estate Advisory Group have performed numerous valuation engagements for financing. Clients we have served in this capacity include Security Pacific National Bank, Citicorp Industrial Credit Corp., and Federal Asset Disposition Association. Ernst & Young has actively assisted investors in taking advantage of low-income housing credits. We have worked with California Equity Fund (CEF), one of the leading non-profit low-income housing development programs, and the first national program to make widespread use of the credit. We also assisted this non-profit provider of low-income housing in identifying Fortune 500 investors. These investors were solicited to raise funds for the construction and development of low-income housing in California.
- We have frequently conducted seminars that deal with such key industry topics and issues as financial sourcing and transactions, mergers and acquisitions, the Tax Reform Act of 1986, and utilizing the low income housing credit. We also have presented seminars for the foreign investor. Recent examples included:
 - "The Real Estate Industry: Building a Winning Team for Maximizing Global Opportunities," an *Institutional Investor Seminar* co-sponsored by Ernst & Young and held in Tokyo.
 - An International Investors Symposium, co-sponsored by Ernst & Young and the Braemer Group and held in Atlanta. Ernst & Young professionals and representatives from Salomon Brothers, London & Edinburgh Trust, Sanwa Bank, Prudential Development Company, Lloyds International Bank, and Swiss Bank Corporation spoke on such topics as "Foreign Banks - The Next Wave," "Japanese Investment in U. S. Real Estate," "The Tax Implications of the 1986 Tax Act on the Foreign Investor," and "The International Investor Discovers Atlanta."
- We are active members of the Urban Land Institute. Other professional organizations in which we actively participate include International Association of Corporate Real Estate Executives; International Real Estate Institute; Mortgage Bankers Association (including representation on the

Internal Management Committee); National Association of Home Builders; National Association of Industrial and Office Parks; National Association of Realtors; and the Real Estate Securities and Syndication Institute.

- Ernst & Young real estate professionals frequently testify as experts on matters relating to real estate accounting and auditing.
- Our Real Estate Advisory Group produces a number of publications which address the tax, accounting, and operational issues of current interest to the real estate community. Among them is *Real Estate Alert*, which provides over 20,000 readers with timely information on new developments in the industry and in our practice, and *The Ernst & Young Real Estate Report*, a quarterly audio cassette on current developments in the real estate industry. In addition, we are co-authors of *The Dow Jones-Irwin Guide to Commercial Property Development*. On an as-needed basis, we also issue other publications to treat significant developments in greater technical detail.

Ernst & Young is, therefore, a recognized leader in serving the real estate industry. We are the real estate advisors to such industry leaders as Public Storage, Rockefeller Group, Cushman & Wakefield, Daniel Realty, Paine Webber Properties, Mobile Land Development, Trammell Crow, Grubb & Ellis Company, Balcor, and Pulte Homes, as well as hundreds of small to mid-size real estate clients. We serve the full spectrum of real estate companies, from traditional developers and builders, to today's new and emerging organization, including real estate investment trust, syndications, and master limited partnerships.

Below is listed a representative sampling of our real estate experience.

California Department of Real Estate—Evaluation of Licensee Interaction with Respect to the Marketing of REO's

This study was undertaken to examine licensee interaction with respect to the marketing of real estate owned/foreclosed properties (REO). This study arose primarily from concern about the increasing inventory of commercial and residential properties acquired by lenders as a result of record loan foreclosures during the early 1980's. The goal of this study was to assess and evaluate new techniques and methods for marketing and disposing of REO properties through

improved lender/owner and licensee interaction. Recommendations were developed for improving licensee interaction in the REO marketing and disposal process.

California Department of Real Estate—Evaluation of Real Estate Appraisal Industry

The purpose of this project was to conduct an evaluation of the past history and future outlook of the California real estate appraisal industry. Recent legislative actions regarding appraisers and appraisals at both State and Federal levels provided the basis for a study of this nature. Major study tasks included: (1) conduct of interviews with relevant federal regulatory and legislative officials, real estate appraisal industry trade association, mortgage lending and insurance institutions, and realty companies, (2) development, administration, compilation, and analysis of 1,500 surveys distributed to relevant industry-related professionals, and (3) development of viable alternative recommendations regarding the appraisal industry.

California Department of Real Estate—Study of Home Equity Lending by Mortgage Loan Brokers

The project examined (1) the business practices, and (2) borrower and lender problems associated with home equity loans made or arranged by mortgage loan brokers (MLB's) in California. The project involved telephone and personal interviews with these principals of home equity transactions in order to develop recommendations regarding the business practices of mortgage loan brokers. A major mail survey was made of over 5000 MLB's in order to solicit comments on the proposed recommendations.

Morgan Stanley & Co. Inc.

We were engaged to verify the mathematical accuracy of computations relating to a bond issue prepared by our client. We verified cash flows and yields using locally developed software.

YMCA of Metropolitan Madison, Inc.

We examined the financial projections for a new YMCA facility to be located in downtown Madison, Wisconsin. These projections were to be used to support the issuance of Development Revenue Bonds by the City of Madison.

Analysis of the Future Outlook for Common Interest Developments

This report concentrated on the primary factors that ensure and enhance the market values of Common Interest Developments (CID's), namely the active support of home owners in the CID, and the proper financial planning and funding of the CID by its Home Owner's Association. The study examined and made recommendations in the following areas: (1) developer setup budgets and government documents, (2) lawsuit and arbitration issues, (3) licensing, training, and education deficiencies by home owners, board members, and other professionals, (4) liability concerns by board members, and (5) CID marketing deficiencies by developers. Telephone and on-site interviews were conducted with home owner trade associations, real estate attorneys, title company representatives, developers, lenders, local government planners and regulators, appraisers, and property managers. A state wide mail survey was made of over 400 CID consumers, providers and regulators in order to solicit comments on the proposed recommendations.

Analysis of Specialized Licensure and Education for Non-Residential Licensees.

The principle goal of this study was to evaluate the need, feasibility, and advisability of requirements for brokers and sales persons employed in California mortgage banking and loan brokering, property management, business opportunity brokerage, commercial and industrial brokerage, and time-share sales. Surveys were conducted of licensees who are active in these specialty fields, enabling us to produce a profile of licensees who provide services in one or more of these specialized real estate fields. A cost and benefit analysis was then performed to determine which system of specialized licensure and education, if any, could deliver more benefits for an overall lower cost to the consumer, when compared with the current system of real estate licensing. Recommendations for the Legislature necessary to accomplish the improvement

and continuation of support programs were included along with the method of implementing the programs and systems needed to fulfill these recommendations.

C. Strategic Planning, Organizational and Housing Policy Experience

Ernst & Young has provided expertise on a wide range of housing issues and matters of public policy, including low income housing needs analyses, provision of case studies for low income housing publications, and assessments of affordable and frail and elderly housing markets. Additionally, we have provided technical expertise in the evaluation of several redevelopment, revitalization, urban and suburban development projects. Many of these projects called for recommendations consistent with local and state housing policy and land use plans.

The following is a sampling of our engagements, demonstrating our familiarity with strategic planning, organizational and policy issues related to housing.

Dimeo Enterprises—Low Income Housing Analysis

Ernst & Young conducted an analysis of refinancing alternatives for eight buildings that contained low income housing. The buildings were eligible for Section 8 low income housing subsidies and the study analyzed the potential for using Section 8 rehabilitation loans.

Urban Land Institute—Low Income Housing

We provided five case studies for an Urban Land Institute book on low income housing. We also contributed a chapter on the role of low income housing tax credits in financing projects developed through public/private partnerships.

Sacramento Housing and Redevelopment Agency—Affordable Housing Needs Assessment

We conducted a needs assessment to determine the role of housing rehabilitation as a tool in providing affordable housing. The report contained two major components including: (1) an affordable housing needs assessment, and (2) a rehabilitation needs assessment. Within the affordable housing needs

assessment, questions regarding the current and projected affordability of owner and renter-occupied housing were addressed. Specifically, the demand for, and supply of affordable housing by county income level, and the influence of housing market trends on the future supply of affordable housing were discussed.

Sacramento Housing and Redevelopment Agency—Frail and Elderly Housing Market Analysis

We prepared a demographic profile of the elderly population in Sacramento County, showing population trends and projections by location. The "at risk" elderly population was described, accompanied by an analysis of the geographic areas with the highest concentrations of this population sub-group. The concept of the frail and elderly then was defined, and estimates of the size of the frail and elderly population were projected to 1990.

The demand for housing for the frail and elderly also was analyzed. The market area and the mobility of the elderly in general was described. Managers or administrators of 28 residential care facilities and 35 independent facilities for the elderly were surveyed. Information on absorption, vacancy, and rent levels was assessed, emphasizing the characteristics of residential care facilities.

Seattle Housing Authority

Ernst & Young was engaged to facilitate the development of a five-year strategic plan for the Seattle Housing Authority. Using the E&Y/FOCUS approach to strategic planning, E & Y conducted a planning retreat with the Management Team to develop a common mission, goals, objectives, and priority programs. Subsequent work sessions resulted in management and budget training and the preparation of a draft strategic plan for public comment. This engagement included extensive public involvement activities with SHA constituents, residents and social service providers as well as an employee survey.

Local Initiatives Support Corporation

Ernst & Young was retained by the Local Initiatives Support Corporation (LISC) in Seattle to perform an analysis of housing needs for the Seattle-King County area. The analysis included extensive data collection on existing low-income

housing, eligibility criteria, monthly costs, and gaps between available supply and demand. The study resulted in a final report containing individual summary matrices of available housing units vs. need, organized by special needs population groups. The report received widespread distribution, and has been cited as a reference in policy and budget decisions affecting the future of local housing programs.

City of Seattle, Department of Community Development

Ernst & Young has been retained by the City of Seattle, Department of Community Development to assist in the facilitation of a Home Ownership Committee. The Committee is comprised mainly of residents in an area of the City impacted by the completion of Interstate 90. The goal of this effort is to insure that local residents have the opportunity to provide input to the City's plan to increase home ownership opportunities among long-time local tenants of housing currently owned by the Washington State Department of Transportation.

City of Santa Rosa

Ernst & Young was engaged by the City of Santa Rosa to conduct a management audit of the Housing Authority & Redevelopment Agency.

Portland Bureau of Community Development

We reviewed and developed an understanding of HUD, city and program statutes, regulations and rules, files and identified other potential problems or weaknesses in processes and guidelines. We also reviewed a completed policy and procedures manual, prepared a report of conclusions and recommendations and developed detailed work plans for organization management and staffing. Our work also included a review and quarterly follow-up of reviews of progress and effectiveness of policies and procedures implementation actions.

Portland Bureau of Community Development

Ernst & Young assisted in a quarterly compliance review, conducted a review of updates and amendments to the policy and procedures manual and tested compliance with selected prescribed procedures.

Hawaii Housing Authority

We were engaged to conduct a performance review of the single family mortgage purchase revenue bonds program and home mortgage purchase revenue bonds program (HULA MAE Loan Program). The objectives of this performance were to evaluate the HULA MAE program's operations to ascertain that amounts authorized had been authorized or were being utilized for the purposes for which such authorizations were made and to evaluate the effectiveness of the HULA MAE program in accomplishing legislative intent.

County of Kauai

We conducted a procedures review of the development branch of the Hawaii Housing Authority. This included a general assessment of the branch operations and its administration of the program and the development of a procedural guide.