

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILE 8672

1608 SCOMM 60: HOUSING FINANCE TASK FORCE, 1989

EXECUTIVE SUMMARY

The following report summarizes our review of Alaska Housing Finance Corporation's (AHFC) Designated Broker Program. It provides background and statistical information about AHFC's property disposition activities, and makes recommendations for revision and improvement.

AHFC began the Designated Broker program in late 1986, to manage and market its growing inventory of foreclosed, or REOs (Real Estate Owned), properties. At the time of this report AHFC had 19 designated brokers managing 3720 of its approximately 4500 properties listed for sale. These brokers had additionally listed 1167 AHFC properties which have sold since the program began.

Recommendations

This report recommends that the AHFC board review its property disposition policies in light of its experiences to date and revise its system to respond to needs and changes in the market.

If its revised system includes a Designated Broker program, we recommend that AHFC rebid all broker contracts in accordance with the state's Procurement Code, and that the new program include a broker evaluation component.

The report makes several other recommendations for improving AHFC's information gathering, management, reporting, accounting, and monitoring systems for property disposition activities, which should be reflected in a new system.

The report also recommends that AHFC solicit bids for property management of condominium projects which are off the market for long periods of time.

Program Performance

AHFC's property disposition program is significant to Alaska's economy, both in dollar amounts and in the extent to which it affects the lives of Alaskan residents. Through September 25, 1988, AHFC had paid out over \$44.7 million for expenses on approximately 9000 foreclosed properties. Over \$97 million in interest due on the foreclosed mortgages had accrued.

The sale of 2385 of these REOs had generated \$130 million on mortgages of \$185 million, resulting in a sales loss of \$55 million, on which AHFC also paid selling costs of \$14.6 million. These costs, together with \$19.2 million in expenses and \$29.5 million in accrued interest, resulted in a total gross loss of \$118.4 million on REO sales before insurance reimbursements.

PURPOSE AND SCOPE

The purpose of this review was to provide information on the performance of the Designated Broker system of property disposition to the Office of the Governor and Alaska Housing Finance Corporation's board of directors.

The scope of the project included foreclosed properties which were Real Estate Owned (REO) by AHFC between January 1, 1987 and September 25, 1988, and which were assigned to a designated broker. It also included sales of REO properties which predated the Designated Broker system, from the first quarter of 1985 through September 25, 1988.

Because of a pending Legislative Budget and Audit report on mobile homes, and because they are not usually assigned to designated brokers, we generally excluded mobile homes.

To complete the report, we reviewed related legislation and statutes, AHFC annual reports and other publications, analyzed AHFC's foreclosure data base, interviewed AHFC staff, reviewed correspondence received by the Governor's office regarding AHFC during 1987 and 1988, attended AHFC board of directors meetings and interviewed staff of other organizations.

The project did not include reviews of designated brokers' offices or internal controls and operations.

Although the purpose of the report was not to analyze the condition of the housing market in Alaska, we do present certain data extracted from AHFC's computer files for the information of the reader.

CORRECTION

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

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Most of these costs should be reimbursed by AHFC's insurance coverage, although the corporation recorded substantial loan losses and REO write down expenses during fiscal year 1988. This reflects the economic conditions in Alaska as well as inadequate property disposition monitoring and management systems.

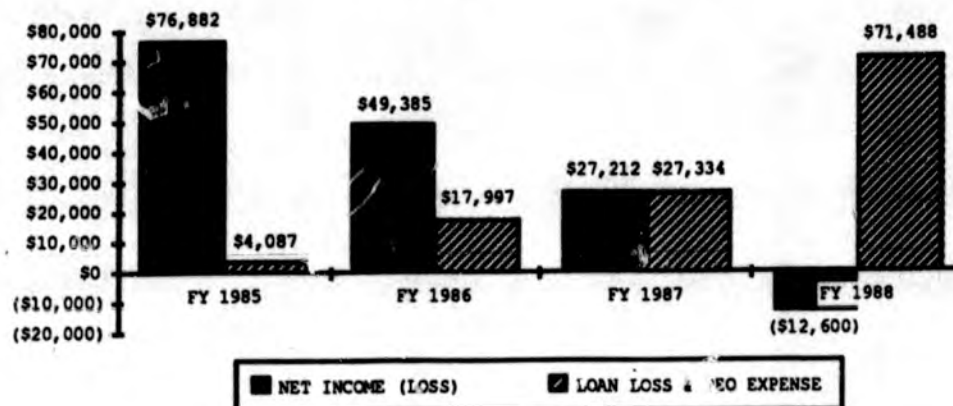
Conclusions

AHFC's property disposition activities have reflected the condition of the housing market, and have grown rapidly during the past two years without the benefit of strategic planning or adequate resources. AHFC did not strictly follow the state's procurement requirements when establishing and revising the Designated Broker program.

We believe AHFC has tried to be fair in developing and administering its Designated Broker system, although perceptions of unfairness exist within the real estate community. This perception, together with the need for changes to improve the program and bring it into line with procurement regulations, lead us to believe AHFC should start over with this program.

The corporation's potential loss from REO activities is significant and growing, requiring immediate attention. Substantial losses occurred in fiscal year 1988 in spite of a multi-layered insurance strategy, indicating that AHFC needs more controls in the administration of its property disposition activities.

GRAPH 1
RELATIONSHIP BETWEEN
AHFC LOAN LOSS & REO EXPENSE
AND NET INCOME (LOSS)



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BACKGROUND INFORMATION

OVERVIEW

Alaska Housing Finance Corporation

The legislature created Alaska Housing Finance Corporation (AHFC) in 1971 to provide affordable financing for low to moderate income Alaskan home buyers. Today it is the largest housing finance institution in Alaska as well as the largest institutional seller.

AHFC is a public corporation and government instrumentality within the Department of Revenue. It is governed by a Board of Directors comprised of the 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.

AHFC manages over \$4 billion in resources and debt. At the end of fiscal year 1988, AHFC had over \$3.7 billion in loan balances outstanding, with 45,000 borrowers. The outstanding balances on its REOs then totalled another \$254 million.

AHFC 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 has a staff of 80 permanent employees. Eight of these are property disposition specialists assigned the oversight of the Designated Broker program and AHFC's REOs. A previous report by this office recommends that AHFC increase its staff by 67 positions, which includes 26 additional positions in the property disposition division. ("Staffing Analysis of Alaska Housing Finance Corporation", Juneau, November 1988).

Growth of AHFC REO Program

In 1983 AHFC was receiving one REO per month. When AHFC issued its first Request for Proposals (RFP) for designated brokers two and a half years ago, its total REO inventory was about 350. By the end of September 1988, it owned some 4500 REOs; at the current rate of increase, it will own 7000 REOs by the end of September 1989. (See discussion in our previous related Staffing report, cited above.)

Designated Brokers System

In 1986, AHFC decided to use a Designated Broker system to manage and market its foreclosed properties. At that time the corporation's REO inventory was rapidly increasing, and it was becoming too cumbersome to deal directly with individual real estate agents.

AHFC selected the Designated Broker system over a property manager system because it believed it would be cheaper. Under its system, AHFC did not plan to pay a property management fee. The brokers would manage the properties as a cost of doing business in exchange for receiving the listing, and the eventual three percent listing commission paid when the property sells.

To implement its Designated Broker system, AHFC determined the number of real estate brokers needed in each geographic region to market its REOs and solicited proposals of interest from local brokers through Requests for Proposals (RFPs).

Eventually the following 20 brokers were selected as AHFC's designated brokers during 1987 and 1988 (see Designated Broker Chronology, Appendix A). They are listed below in the order used for all data in this report. The order is of no significance, except that brokers from the same geographic area are grouped together, as noted.

1.	Commonwealth Marston Real Estate	Anchorage
2.	Re/Max Realty, Inc.	Anchorage
3.	Vista Real Estate, Inc.	Anchorage
4.	Heritage Homes & Investments	Anchorage
5.	2001 Realty	Anchorage
6.	Fortune Properties, Inc.	Anchorage
7.	Realty Center, Inc.	Anchorage
8.	Re/Max of Eagle River, Inc.	Eagle River
9.	Jack White Company Real Estate	Eagle River
10.	Heritage Real Estate	Wasilla
11.	Marston Wasilla	Wasilla
12.	Aurora Properties	Wasilla
13.	Coldwell Banker Greatland Realty	Fairbanks
14.	Re/Max of Fairbanks, Inc.	Fairbanks
15.	Dick Mueller Realty	Kenai
16.	Homer Real Estate Associates	Homer
17.	Anderes Realty	Sitka
18.	Northway Realty	Ketchikan
19.	The Home Team Realtors	Juneau
20.	Alaska Coastal Homes	Juneau

At the outset of the program, AHFC planned to use the listing agreements for each property as individual contracts. Management didn't expect any other contracts for services to be executed. The REO manager, however, signed

contracts with three firms: Alaska Coastal Homes (Juneau), The Home Team (Juneau), and Re/Max of Fairbanks. AHFC has cancelled its contract with Re/Max of Fairbanks because of a legal dispute, leaving the program with 19 brokers.

Broker Assignment Process

The following summarizes the steps AHFC's Designated Broker system uses for property management and marketing.

Fifteen days before a property becomes REO, AHFC assigns it to a designated broker, on a rotation basis. There are three exceptions to this assignment method, relating to "remote" properties, condominiums, and mobile homes.

First, if a property becomes REO and it is not located in a geographical area for which AHFC has a designated broker, then AHFC assigns it to a local non-designated broker.

At the end of September 1988, AHFC had 3622 properties listed with 19 designated brokers, 394 listed with non-designated brokers (which included 789 mobile homes assigned to mobile home contract sales firms), 478 properties owned by other institutions, and 46 properties with no listing broker code assigned. The number of properties per designated broker ranged from a high of 408 with an Anchorage broker to ten with the broker in Sitka. The highest number of non-mobile home properties listed with non-designated broker was 15 (see below). Mobile homes (the third exception discussed below) were assigned to contractors selected through a separate RFP process.

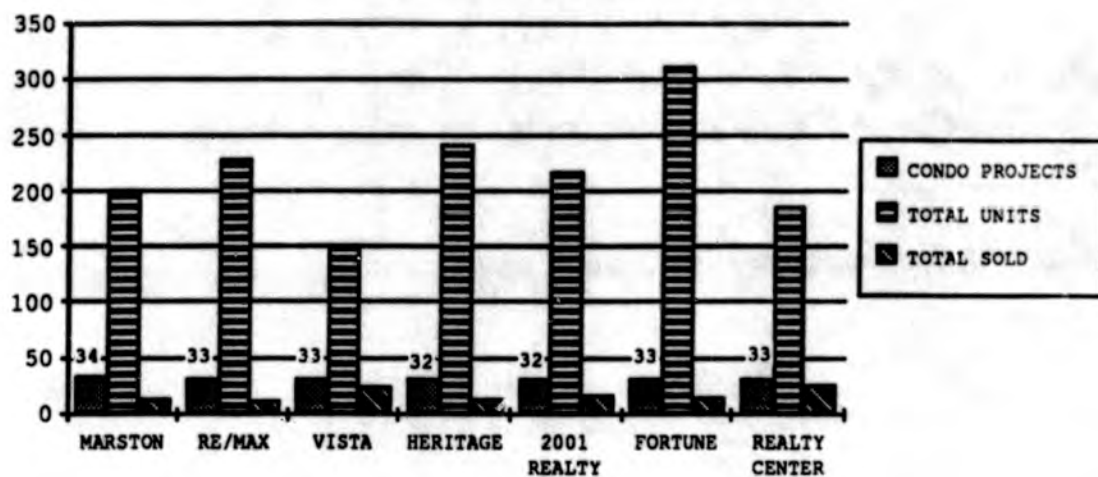
Non-designated brokers being used in September 1988 were:

Broker	Community	No. Current Listings
Leitch & Assoc.	Valdez	12
Associated, Inc.	Kodiak	12
Island Realty	Kodiak	3
Heritage Real Estate	Soldotna	14
Beluga Realty	Kenai	15
Freedom Realty	Soldotna	8
Heritage Homes & Inv.	Kenai	4
Mt. Hayes, Inc	Delta Junction	15
Seller/Service		<u>2</u>
		<u>88</u>

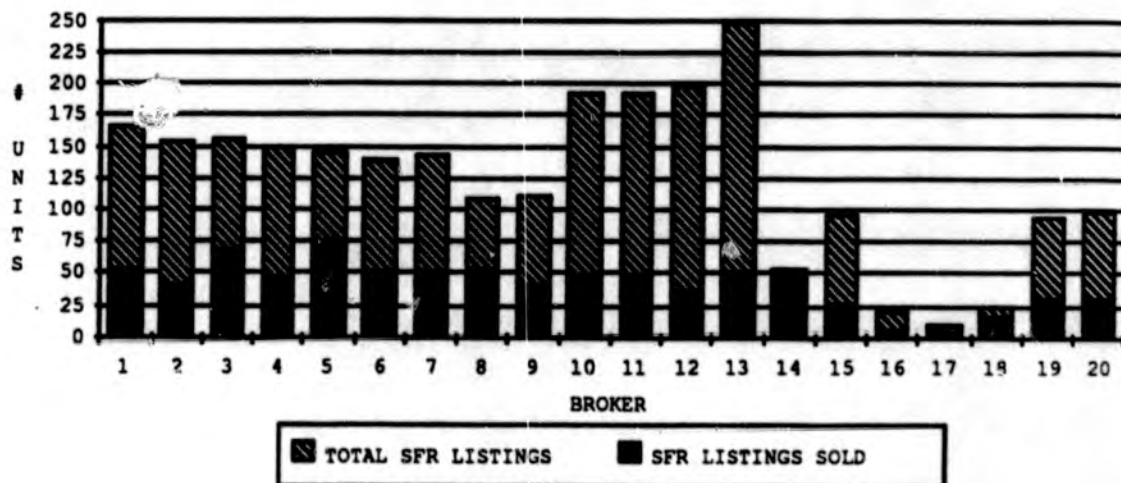
The second exception to the rotation assignment system is that all condominiums in one development are assigned to the same broker. The developments are assigned on a rotation basis within geographic boundaries. At the end of the review period, 1548 condominiums were listed with designated

brokers. Most of the REO condominiums are in Anchorage. Although the number of condominiums assigned to each Anchorage broker ranged from 125 to 295, the number of condominium projects assigned to each broker was between 32 and 34 projects. The following graphs illustrate condominium, single family residences (SFR), and total assignments.

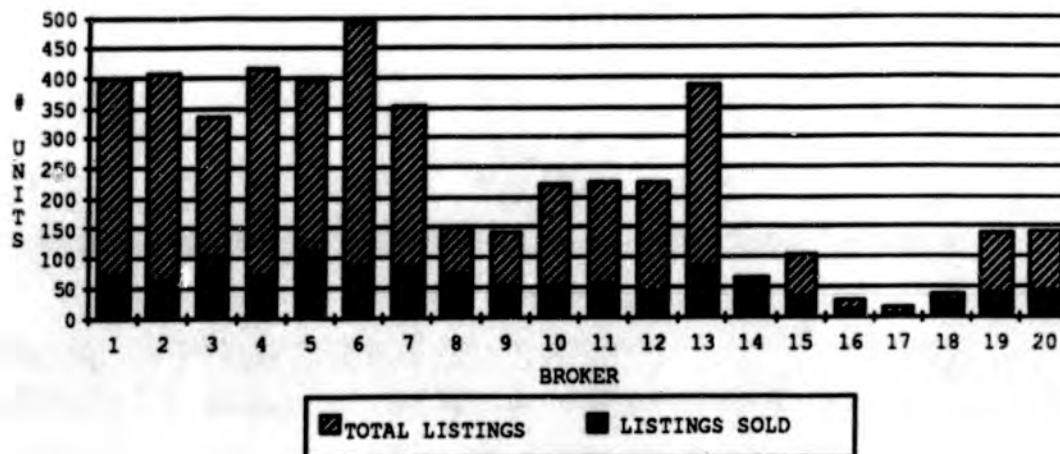
GRAPH 2
ANCHORAGE DESIGNATED BROKER LISTINGS
CONDOMINIUMS - THROUGH 9/25/88



GRAPH 3
STATEWIDE DESIGNATED BROKER LISTINGS
SFRS - THROUGH 9/25/88



GRAPH 4
STATEWIDE DESIGNATED BROKER LISTINGS
ALL PROPERTY TYPES - THROUGH 9/25/88



The properties are simultaneously assigned to the AHFC property disposition specialist monitoring the designated broker receiving the listing. Currently AHFC has seven specialists, two of whom are assigned to mobile homes. The other REOs are distributed among the remaining five specialists, who are responsible for between 500 and 800 REOs each.

Brokers' Responsibilities

As described in detail in AHFC's Property Management and Marketing Guide, designated brokers' responsibilities are numerous. They begin with meeting the bank's representatives at the REO site to inspect the property and formally accept the property for marketing. At that meeting the bank (or seller/servicer) agrees to accomplish certain standard tasks such as winterization and rekeying prior to turning the property over to the broker.

The broker plans needed repairs, and estimates the market value of the property. After obtaining necessary approvals from AHFC and the insurance company for all work, the brokers handle the subcontractors' bidding process.

The broker is charged with listing the property for sale as soon as possible, managing all advertising for the marketing of the property, maintaining the property in marketable condition, paying utility bills, inspecting the unit periodically, and receiving offers to purchase.

AHFC Responsibilities

AHFC is the owner/seller, and its property disposition specialists act for the corporation in this capacity. AHFC must ensure that all parties incurring expenses in preparing and marketing the REOs are paid. This begins with reimbursing the seller/servicers (see definitions, Appendix B) for foreclosure costs, includes paying for repairs and maintenance, and ends with authorizing the payment of selling costs when the REO is sold.

A property disposition specialist should meet with the seller/servicer and broker at the site for the property inspection just after its becoming REO. The specialist should then approve the plan for repairing the property developed by the broker.

AHFC is to approve all repairs over \$500, select the contractor to do the work from the bids gathered by the broker, and pay the contractor upon completion of the work. This should involve site visits to the REO to ensure that the work is needed and completed satisfactorily.

AHFC's Finance Department's Insurance Claims Division audits invoices and reimburses brokers for out-of-pocket expenses for REO maintenance and marketing. It prepares all bills for each REO for reimbursement to the pool insurance company. AHFC processes all offers to purchase presented by the designated brokers. Its policy is to pay a straight six percent commission, split equally between the listing and selling brokers.

INSURANCE

AHFC's mortgages are insured by combinations of primary mortgage insurance, private credit insurance, AHFC self insurance, and pool insurance. Theoretically, if all procedures are correctly followed, AHFC should not lose money on foreclosed properties, because insurance coverage would reimburse the corporation for losses.

The most widely known insurance carrier is the Mortgage Guaranty Insurance Corporation (MGIC), which provides pool insurance coverage for a majority of AHFC properties. MGIC sometimes deals directly with real estate brokers, and there are different perceptions about the relationship between MGIC and AHFC. Therefore a brief explanation is provided.

Mortgage Guaranty Insurance Corporation (MGIC)

Of AHFC's 4500-unit REO inventory at the end of September, some 2700 units were insured by MGIC pool insurance. For these properties, MGIC should pay all expenses incurred in REO maintenance during the period of time it is an REO. This includes lost mortgage interest, direct expenses such as utility costs, and the difference between the mortgage balance and the sales price, less any primary mortgage insurance reimbursements.

AHFC pays all REO expenses until a property is sold, although on occasion MGIC makes advance payments on interest. Within 60 days after the sale, AHFC must submit its claim package to MGIC for reimbursement. MGIC can refuse ineligible costs included in that package, and charges for tardiness in certain tasks. MGIC must also preapprove the sales price.

Because of its considerable exposure in Alaska, MGIC chooses to exercise relatively close control of its expenditures for AHFC's REOs. Therefore to try to avoid disputes over the final claims, expenses for repairs require MGIC approval before AHFC reimburses brokers or contractors. Small routine costs are billed without that prior approval.

Sparklizing

MGIC's operating policy includes "sparklizing" a property immediately for resale, on the assumption that it is cheaper to fix it up and sell it quickly than to pay the carrying costs for longer periods of time. This can sometimes create costs which might otherwise not be incurred. For instance, carpet is almost automatically replaced, painting is done, and other improvements made.

AHFC's MGIC insurance policies require that except for normal wear and tear, the property must be in the same condition it was in when the mortgage was issued. That means AHFC must pay for renovation and restoration costs. Conflict between MGIC and AHFC sometimes arises over classifying expenses and determining what is normal wear and tear and what is other kinds of damage. MGIC sometimes deals directly with brokers as well as through AHFC, which sometimes results in conflicting directives to brokers.

Office

In response to the market, MGIC has staffed its Anchorage office with one property specialist for every 150 to 200 properties and recently opened an office in the Matanuska Valley.

OTHER INSTITUTIONAL SELLER PROPERTY DISPOSITION SYSTEMS

MGIC

In addition to its involvement with AHFC REOs, MGIC has its own REOs. It uses brokers for those properties, although it does not have "designated" brokers. MGIC sometimes pays selling bonuses. MGIC has 22 property specialist positions in Alaska to manage its properties and coordinate with AHFC and the brokers. Local staff is supported by headquarter staff in Milwaukee, Wisconsin.

FNMA

The Federal National Mortgage Association (FNMA) is a federally-chartered publicly-traded private corporation. It now owns 400 REOs in Alaska; last year it sold 900. FNMA oversees its own renovation and restoration, and turns market-ready properties over to non-designated listing brokers which it selects based on reputation and performance.

FNMA's Anchorage office has seven professional property managers and sales representatives to manage its 400 properties. Local staff is supported by FNMA's headquarter staff.

FNMA has experimented with paying bonuses to selling brokers as an incentive for quick sales, but traditionally pays a six percent commission split between the selling and listing agents. Currently it also pays a 3 percent selling bonus if the sale closes within 45 days of accepting the purchase offer.

FNMA has determined that foreclosures are very expensive to the corporation, and is therefore concentrating on executing loan modifications to assist borrowers keep their homes. FNMA's policy is to maintain control of all transactions, beginning with offering their own in-house financing directly to borrowers, and carrying through to direct contacts with lenders, real estate agents, title company employees.

FNMA recently announced that it is shortening to one year, the length of time it will deny financing to individuals who filed bankruptcy or who experienced a foreclosure, provided that the actions occurred because of circumstances beyond their control. For instance if they lost their jobs because of the economic crisis or suffered from debilitating illness which led to foreclosure or bankruptcy, borrowers could be eligible for financing one year later if their employment or financial situation warranted.

HUD

The United States Department of Housing and Urban Development (HUD) sold over 900 properties in Alaska during the past federal fiscal year, and on November 1, 1988 owned approximately 1300 REOs. Insured by the Federal Housing Agency (FHA) HUD's mandate is to sell its foreclosed properties for the highest net dollar proceeds possible.

HUD reputedly does the least repair and restoration to its properties of all the institutional sellers, although it does spend what it deems necessary for the sale of the property. The repairs are coordinated by the seven Realty Specialists in HUD's Alaska property disposition office. HUD property disposition staff is supported by HUD regional staff in Anchorage.

It strives to keep expenditures under \$10,000 per unit. It also seeks a 91% net return from sales: it pays 6% sales commission and 3% closing costs.

HUD does not use a designated broker system, but contracts for property management services, bid on a price-per-unit basis. Using an open listing strategy, HUD pays a commission to the selling agent only. An open listing means the property cannot be listed with MLS. HUD therefore markets its own properties through special publications and newspaper inserts. It also processes all offers to purchase.

When properties first come on the market, HUD accepts full asking price bids for a brief period of time. It opens the bids simultaneously, and the highest bid wins, provided it is an acceptable offer. If no full asking price or better bids are received, HUD opens another bid period for the property. At the end of the period HUD selects the best bid or begins its process over.

Since a large portion of its REOs are multi-family units, HUD is targeting investors as buyers, offering three percent down payment terms to investors. It is also continuing its \$100 down program for single family residences.

HUD is sometimes criticized about its low down payment policies, because the less it costs to get into a mortgage, the higher the potential for making loans that will eventually default. However, HUD's current philosophy for Alaska is that even if the loans do eventually go bad, HUD will have had the income stream from the mortgage for the duration of the loan, rather than paying holding costs on a multitude of non-producing properties.

PROPERTY DISPOSITION ACTIVITY SUMMARY

The following summarizes AFHC's property disposition activity from inception through September 25, 1988, reflecting 5016 REOs in inventory, 4538 of which are AHFC's. The remaining 478 are being conveyed to FNMA or another institution. The summary shows 4018 properties which had been sold or conveyed. Of these, 845 were sold during 1987, and 1377 were sold during the first three quarters of 1988. Although mobile homes showed the largest increase in the number of sales, jumping from 256 in 1987 to 604 for three quarters of 1988, condominium, single family, Planned Unit Development (PUD) and multi-family sales all increased in 1988.

The summary includes AHFC outlays for REO management and property disposition by designated brokers for properties sold and unsold. They do not include AHFC operating and staff costs. They do include the cost of foreclosure and repossession, which is incurred by the seller/servicer before the property is turned over to the broker for marketing.

For the analyses in this report, we used AHFC's foreclosure file, downloaded to disk on September 25, 1988. The file showed 9034 records of foreclosed properties, dating back to 1985. (See Appendix B for definition of terms).

PROPERTY DISPOSITION COST SUMMARY AS OF 9/25/88

	<u>SOLD</u>	<u>UNSOLD</u>	
No. Properties	<u>4,018</u>	<u>5,016</u>	
Foreclosure Balances	\$185,083,140	\$381,108,900	
Sales Price	129,958,065		
Sales Loss 1/	55,125,075	N/A	5/
Expenditures 2/	19,192,180	25,528,790	
Selling Costs 3/	14,595,770	N/A	5/
Interest 4/	<u>29,488,250</u>	<u>67,905,870</u>	
TOTAL LOSS	<u>\$118,401,275</u>	N/A	5/

- 1/ Foreclosure Balance minus the Sales Price
- 2/ Includes foreclosure costs incurred by seller/servicer
- 3/ Includes commissions and closing costs
- 4/ Accrued interest is computed to date of sale or 9/30/88 (See definitions, Appendix B)
- 5/ To be determined upon sale of the property.

Although the breakdown varied slightly depending on how we queried the database, we classified the records as follows:

UNSOLD REOS IN INVENTORY: 5016 6/

Non-mobile REOs listed with designated brokers	3545	
Mobiles homes listed with designated brokers	77	
Non-mobile REOs listed with non-designated brokers	79	
Mobile homes listed with non-designated brokers	4	
Mobile homes listed with contractors	306	
Mobile homes with no listing contractor or broker code assigned	476	
Properties listed with Seller/Serviceirs	5	
Not listed with a broker, not sold and not shown as removed from pool for other conveyance	46	
Removed from pool pending other conveyance	<u>478</u>	<u>6/</u>
TOTAL Foreclosed Properties in Inventory	<u>5016</u>	

REOS CONVEYED: 4018 6/

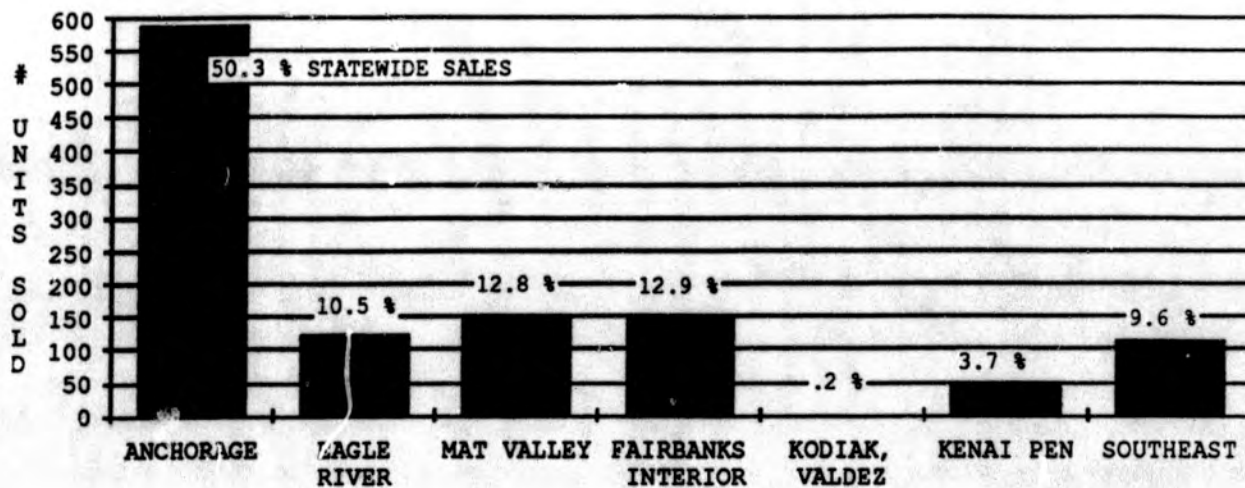
Sold by designated brokers	1043	
Sold but show net proceeds of zero	124	
Sold with no listing broker	985	<u>7/</u>
Sold with non-designated listing brokers	233	
Destroyed by AHFC	57	
Conveyed to other institutions	<u>1576</u>	
TOTAL Sold or Otherwise Conveyed	<u>4018</u>	

6/ When queried differently, the database shows 4181 properties with conveyance codes. These codes should be entered when the ownership of an REO is transferred from AHFC to another entity. This should therefore indicate that the number of Unsold REOs might really be 4853, provided the conveyance codes were correctly entered. However, because no disposal dates or sales prices were entered, we assumed that the 163 properties in question are included in the 478 REOs which have been removed from the pool of marketed properties because they are being transferred to other institutions. Therefore this difference does not affect our analysis of properties managed by designated brokers. (See related comments in other sections regarding improvements to the REO database)

7/ Of the 985 properties sold without a designated listing broker, 621 were mobile homes, which are generally excluded from the Designated Broker system. Of the remaining 324 sales, 235 occurred during 1985, 1986, and the first quarter of 1987, indicating they were covered by listing agreements signed before the Designated Broker system began. The remaining 129 were sold since April 1987, 23 of which were condos, 97 SFRs and 9 were PUDs. None of these 129 became REO after 1986, when the system began, except those located outside of geographic areas covered by designated brokers.

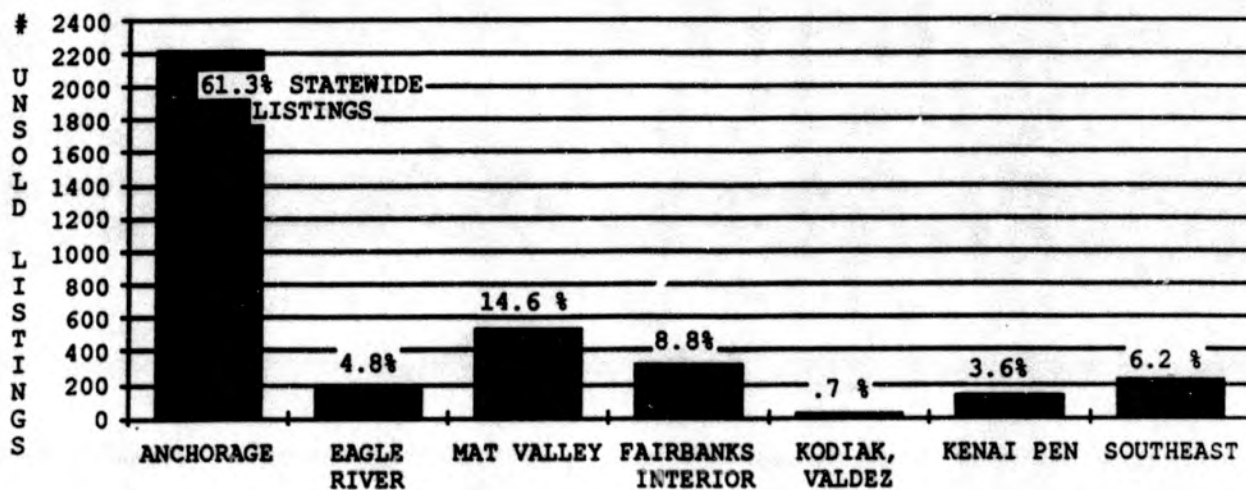
The following graphs illustrate AHFC's overall Property Disposition Activity to date.

GRAPH 5
TOTAL AHFC LISTINGS SOLD
BY BROKERS THROUGH 9/25/88*



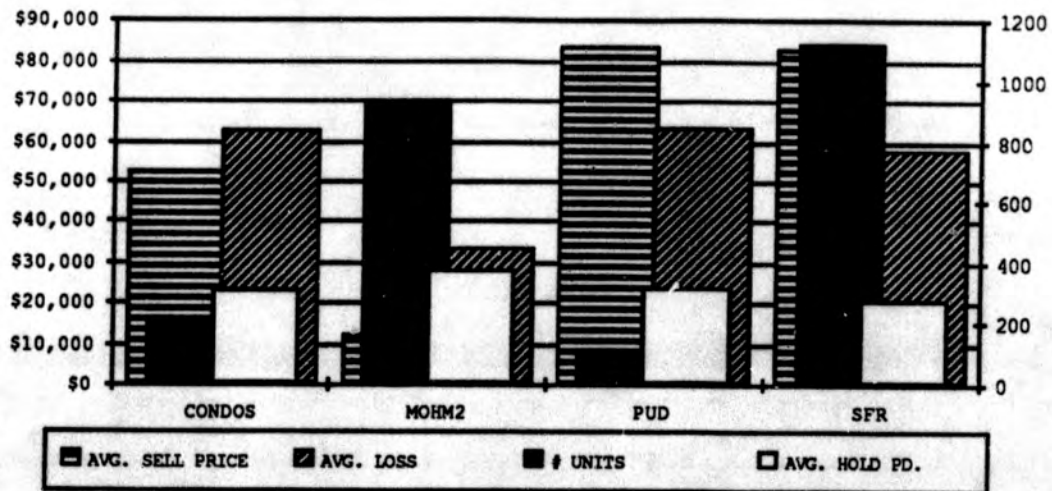
* excludes mobile homes on rented land

GRAPH 6
TOTAL UNSOLD AHFC PROPERTIES
LISTED WITH BROKERS ON 9/25/88 *

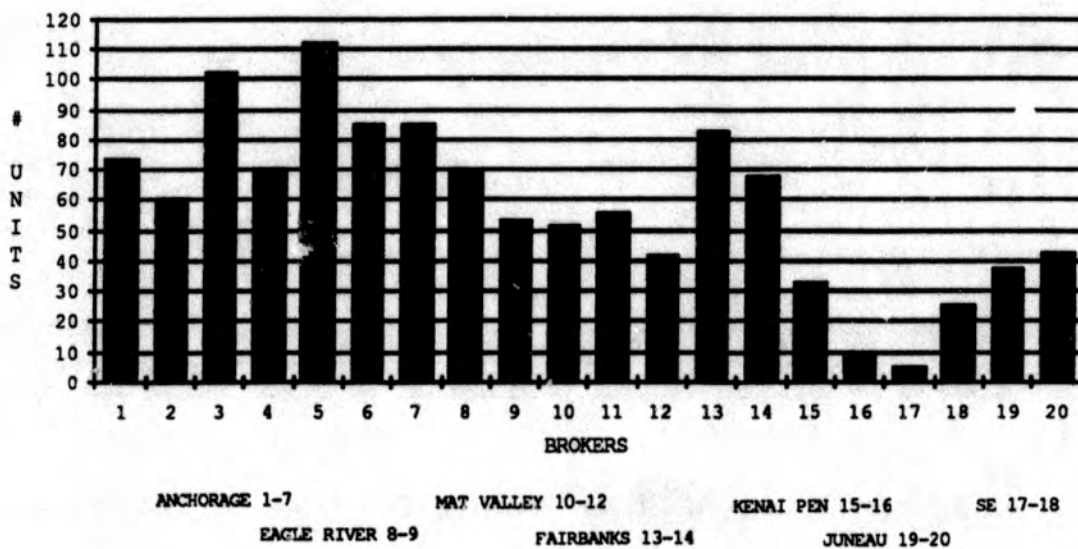


* excludes mobile homes on rented land

GRAPH 7
OVERALL AHFC REO SALES THROUGH 9/25/88



GRAPH 8
TOTAL NUMBER ALL DESIGNATED BROKERS' LISTINGS
SALES THROUGH 9/25/88



RECOMMENDATION NO: 1

The AHFC Board of Directors should give clear direction to AHFC property disposition staff and the public regarding the corporation's priorities for REO disposition.

Currently AHFC property disposition staff believes that AHFC's policies are to sell safe, clean housing, to try to keep property values up, and not to pay property management fees. These policies drive the procedures for REO disposition, especially in the Designated Broker program. It is not clear that these policies reflect the current positions of the Board of Directors. The activities of this program result in significant expenditures by AHFC, and they should accurately reflect the policies of the corporation.

These questions often arise because of the dual mission of the corporation, which is driven both to operate profitably and to be the state's vehicle for implementing its housing programs. For example, the board should answer such questions as:

Is it AHFC's policy to sell only "clean, safe" housing?

Currently there is disagreement within the industry over the extent of repairs necessary to sell a property. Individual real estate agents differ, and institutional sellers differ.

The policy to sell only clean safe housing prevents AHFC from selling some "fixer-uppers" and might result in expensive repairs. A clear policy will guide staff and brokers in deciding what repairs and improvements to make.

Is it more important to AHFC to keep property values up than to sell its REOs as quickly as possible?

Should these policies be different for AHFC's at risk REOs than for those with pool insurance?

During the past two years AHFC has operated on the theory that its responsibility to the general population of Alaska requires it to do everything in its power to keep property values up. Therefore it tries to keep listing prices up and as a result, tends to hold properties longer than other sellers.

This can work, assuming that all accrued interest, sales losses, and expenses are recovered by insurance. Given the potential of depleting pool policies, together with MGIC tightening its controls on AHFC claims, this assumption may be faulty.

In addition, the data in this report shows that holding periods are increasing, sales prices are decreasing, and the foreclosure balances of properties selling are decreasing. This may indicate that the higher end of the market sold first, and that AHFC's inventory includes many difficult-to-market properties.

The corporation should review the effects of that policy and either confirm or revise it as necessary.

Is it the corporation's policy not to pay property management fees?

It is not clear that AHFC's policy of listing all properties with brokers for property management is the most cost effective marketing method, especially regarding condominiums. Certainly there is disagreement within the industry regarding both the quality and cost of property management achieved through this method. AHFC is currently violating its own policy of not paying management fees for listed property (See Recommendation No. 7). A change in this policy might result in dramatic changes in the scope of its property disposition program.

Should the corporation develop special financing or incentive programs for its REOs?

HUD and FNMA have provided special financing incentives for selling their own properties. AHFC has not treated its REOs as a special category of properties, and therefore existing underwriting guidelines apply to its REOs as well. Our review of AHFC REO sales under the Designated Broker system shows some trends which might indicate that special financing or incentives are needed.

Condominium Trends

Currently AHFC is developing plans for special condominium programs. This is considered essential, because AHFC has over 1700 condos in inventory, having sold only 226 through September 1988. We reviewed 192 of these sales, which occurred during a seven quarter period starting in 1st Qtr 1987 and ending with 3rd Qtr 1989, summarized on the following page:

No. Condo Sales Reviewed	192
Foreclosure Balances	\$16,659,400
Sales Price Total	<u>9,405,100</u>
Sales loss	7,254,300
Accrued interest	2,956,055
Expenses	1,535,715
Selling Costs	<u>1,183,425</u> <u>2,719,140</u>
TOTAL LOSS	<u>\$12,929,495</u>

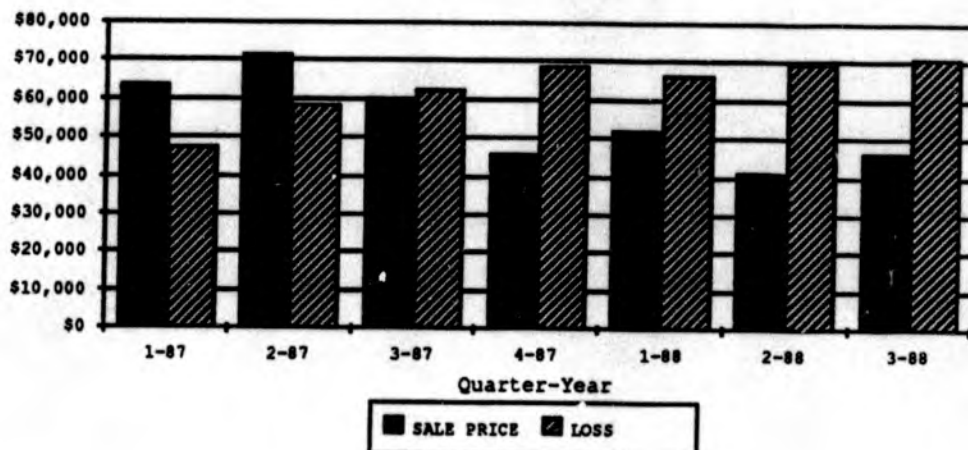
The \$2.7 million in expenses was directly paid into the Alaskan market place for marketing, management, and repairs to the units. The total gross loss on these condominium sales is before adjustments for insurance reimbursements.

We note the following trends in condominium sales which warrant special attention to unsold condominiums:

1. The number of sales per quarter increased steadily from eight in 1st Qtr 1987 to 54 in 3rd Qtr 1988 for a total of 96 during the period.
2. The average holding period increased from 288 days to 420 days.
3. Average expenditures per unit increased from \$3,815 to \$9,465. They increased consistently from 1st Qtr 1987 through 2nd Qtr 1988, when expenditure amounts began decreasing. Part of this might be because our downloaded file did not include all September 1988 expenses. It may also reflect tighter monitoring by AHFC after staff was increased slightly.
4. Selling costs remained stable, averaging between \$5,560 and \$7,125, but increased in relation to the actual selling prices, from 8.8 percent of sales price in 1987 to 13.8 percent in 3rd Qtr 1988.
5. Accrued interest increased from \$14,135 per unit to \$16,700, reflecting the longer holding periods. This is somewhat offset by a slight decrease in the average mortgage balance at foreclosure, indicating that the properties at the high end of the inventory sold first.

6. The average selling price decreased from a high of \$71,700 in 2nd Qtr 1987 to \$46,165 in 3rd Qtr 1988. This appears to be primarily because of the weakening condominium market, since the average mortgage balance at foreclosure for properties sold has remained relatively stable. The sales price as a percentage of the property's foreclosure balance decreased from 72.7% in 1st Qtr 1987 to 53.1% in 3rd Qtr 1988.
7. The result of these trends is that the average total loss per condominium sold had increased from \$47,300 in 1st Qtr 1987, to over \$71,000 in 3rd Qtr 1988. (Loss here is the sum of the sales loss, accrued interest, expenditures, and selling costs, before insurance recoveries.) See following graph.

GRAPH 9
AHFC REO CONDO SALES THROUGH 9/25/88



For the 1675 unsold condominiums with loan balances totalling \$151 million, AHFC had incurred \$7 million in expenses and \$22.4 million in accrued interest through September 1988. The average listing time of the unsold REO condos listed with designated brokers was 403 days; 940 were more than 300 days old and 546 of those had been REO for over 500 days.

Single Family Residence Trends

We also reviewed 1014 single family residence sales occurring during the same seven quarter period ending with 3rd Qtr 1988, summarized as follows:

No. SFR Sales Reviewed	1,014
Foreclosure Balances	\$106,078,360
Sales Price Total	<u>82,291,035</u>
Sales Loss	23,787,325
Accrued interest	17,430,535
Expenses	10,311,920
Selling Costs	<u>9,454,940</u>
	<u>19,766,860</u>
TOTAL LOSS	<u>\$ 60,984,720</u>

While this review confirmed that the SFR market seems to be strengthening in some respects, certain conditions bear watching, to avoid a repeat of the condominium situation. Of special note is the decrease in the number of sales, an increase in holding time and number of SFRs that have been REO more than 300 days, and a sudden drop in the average mortgage balance at foreclosure. These indicate that the most marketable inventory sold first.

Our review showed the following trends in SFR sales during the seven quarter period ending 3rd Qtr 1988: (See tables, Appendix C).

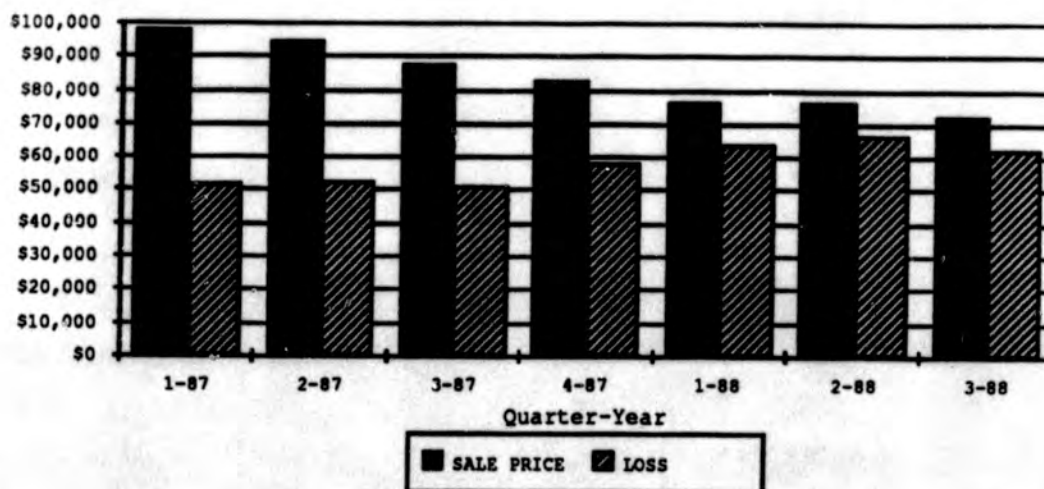
1. The average holding period increased from 235 days to 341 days.
2. The number of sales per quarter increased from 68 in 1st Qtr 1987 to 203 in 3rd Qtr 1988. However sales decreased in 3rd Qtr 1988, down from 233 in the 2nd quarter. Because SFR sales also decreased during 1st Qtr 1988 and then increased dramatically in the 2nd quarter, it is too early to determine whether this recent decrease is part of a trend which will continue.
3. Average expenditures increased steadily from \$7,312 in 1st Qtr 1987 to \$11,948 in 1st Qtr 1988, after which they began decreasing, to \$11,120 at the end of the 3rd quarter. This may be partly because our downloaded files did not include all September 1988 expenses. It may also reflect a small AHFC staff increase, which would improve monitoring.

4. Average selling costs as a percentage of sales prices remained stable. Although they appear to have decreased significantly from \$12,500 to \$8,328, this reflects a decrease in selling price. As a percentage of sales price, selling costs decreased less than half of one percent during the period.
5. Accrued interest also remained almost constant, increasing from \$17,016 in 1st Qtr 1987 to \$17,739 in 3rd Qtr 1988. However, this was up from \$15,438 in 3rd Qtr 1987, when the holding period was at its lowest, at 224 days. The fact that average accrued interest did not increase dramatically with an average holding period of 341 days in 3rd Qtr 1988 reflects the decrease in the average balance at foreclosure.
6. The average sales price decreased by 25%, from \$98,156 in 3rd Qtr 1987 to \$72,372 in 3rd Qtr 1988. This reflects the weakening market as well as the fact that the high end of the inventory sold first.

This decrease in sales price exceeds the drop in the average mortgage balance at foreclosure of sold SFRs, which decreased by 13% since 1st Qtr 1987. Thus average sales price as a percent of foreclosure balance decreased from 86.7% in 1st Qtr 1987 to 73.7% in 3rd Qtr 1988, slight improvement over 2nd Qtr 1988's 72.9%.

7. As noted above, the average foreclosure balance of SFRs sold decreased, from \$113,210 in 1st Qtr 1987 to \$98,120 in 3rd Qtr 1988. However, \$6,800 of this \$15,100 drop, or 45 % occurred during 3rd Qtr 1988. This affirms the trend discussed in (6) above.
8. A result of these trends is that the average loss per SFR sold increased from \$51,880 to a high of \$66,670 in 2nd Qtr 1988. Although it appeared to decrease to \$62,930 during 3rd Qtr 1988 (see comment on expenses, #3 above), it is too soon to determine whether this decrease will continue (Loss here is the sum of the sales loss, accrued interest, expenditures, and selling costs, before insurance recoveries.) See following graph.

GRAPH 10
AHFC REO SFR SALES THROUGH 9/25/88



At the end of September 1988, AHFC had 2036 single family homes in inventory, representing mortgage balances of \$185 million on which \$11 million in expenses had been paid and \$32 million in unpaid interest had accrued. Of unsold REOs, 743 SFRs had been REO for more than 300 days and 381 for more than 500 days.

Mobile Home Trends

AHFC's mobile home sales are not generally managed by designated brokers. For comparison purposes, we looked at their overall data, summarized as follows:

No. Mobile Homes Sales Reviewed		<u>860</u>
Foreclosure Balances		\$ 28,861,860
Sales Price Total		<u>9,982,900</u>
Sales Loss		\$ 18,878,960
Accrued Interest		4,748,220
Expenses	4,857,740	
Selling Costs	<u>1,308,620</u>	<u>6,166,360</u>
TOTAL LOSS		<u>\$ 29,793,540</u>

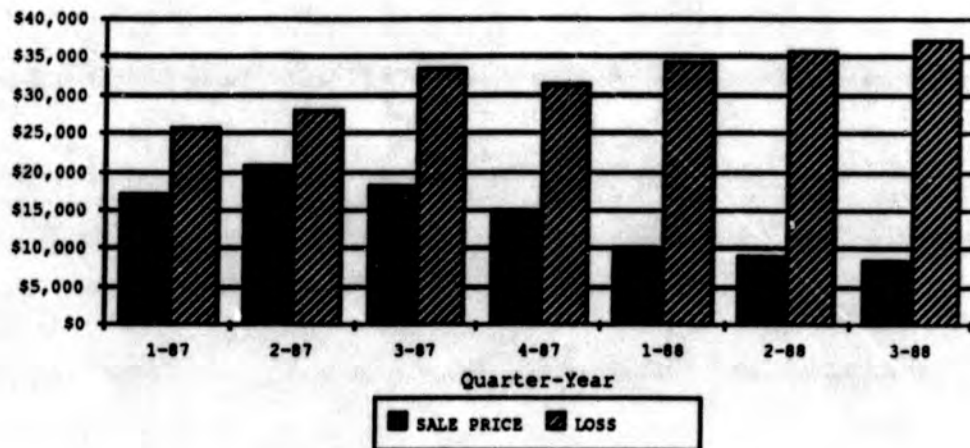
As shown on the tables in Appendix C, mobile home gross losses also increased steadily during the time period. This is primarily because the average selling price dropped by more than 50%. AHFC has implemented special marketing programs for mobile homes, including bulk sale programs.

The following trends for mobile home sales during seven quarters ending September 1988, support the need for special attention to mobile home marketing:

1. The average holding period of units sold increased steadily from a low of 242 in 2nd Qtr 1987 to 443 in 3rd Qtr 1988, despite bulk sale activity during 1988.
2. The number of sales per quarter increased overall from a low of 13 in 1st Qtr 1987 to 210 during 3rd Qtr 1988. However, the 2nd Qtr 1988 saw the most sales, at 287. It is too early to determine whether the 3rd quarter decrease is part of a trend which will continue.
3. Average expenditures increased from \$3,940 per unit in 1st Qtr 1987 to \$5,742 in 3rd Qtr 1988. The all time high was \$6,500 in 1st Qtr 1988, after which expenditures began decreasing.
4. Selling costs as a percent of sales price almost doubled, increasing from 10.6% to 19.3%. This reflects the decrease in sales price, because AHFC pays a flat sales fee for mobile homes.
5. Average interest accrued increased steadily, from from \$4,050 to \$6,150, consistent with the growing holding period.
6. The average sales price decreased steadily from 2nd Qtr 1987 high of \$20,844 to \$8,525 at the end of 3rd Qtr 1988. This reflects the weakening market, as it does not appear to be related to the average mortgage balance at repossession.
7. The average mortgage balance at repossession decreased only slightly from \$33,337 to \$32,213. Thus, given the drop in sales prices, the selling price as a percentage of the balance at repossession decreased from 51.6 % to 26.5 % in 3rd Qtr 1988.

8. A result of these trends is that the average total loss per mobile home sold increased from \$25,890 to \$37,230 (Loss here is the sum of the sales loss, accrued interest, expenditures, and selling costs, before insurar recoveries.) See following graph.

GRAPH 11
AHFC REO MOBILE SALES THROUGH 9/25/88



At the end of September 1988 AHFC had 860 mobile homes in inventory, representing loan balances of \$27.8 million, on which AHFC had paid \$4.5 million in expenses and on which \$5.8 million in interest had accrued. Of unsold inventory, 502 mobile homes had been REO for over 300 days, 409 of which were over 500 days old.

RECOMMENDATION NO. 2

AHFC should issue a new Request for Proposals for all needed brokers in its Designated Broker Program. It should develop the RFP to reflect policies and priorities defined by the board (see Recommendation No. 1) and sign standard contracts for services with the brokers selected.

Summary

The corporation currently has written agreements with only two of its 19 designated brokers. This is because it did not treat the designated broker agreements as "professional service contracts" when it began the program. It chose to call it "contractual service" and used the individual property listing agreements as its written contracts. Without standard comprehensive agreements, AHFC cannot enforce performance requirements. In order to standardize and formalize the relationship between AHFC and designated brokers, AHFC should issue a new RFP for all broker slots and sign professional service contracts with the selected brokers.

Current Situation

AHFC does not have written agreements with each of its designated brokers which describe the duties and responsibilities of each party. Currently one broker has a written "Marketing Agreement" and one has a written "Addendum to Listing Contracts" with AHFC. AHFC has no written contract with the remaining 17 brokers other than the individual listing agreements executed for each property. The two written agreements are not identical, and do not include a termination or renewal date for the agreement.

Now AHFC wants to formalize its agreements with all the designated brokers with written contracts which are standard for all brokers and include definite time frames for contract performance.

Why Aren't There Standard Written Contracts?

AHFC did not follow state procedures described in Alaska Statutes Title 37 Chapter 98, for obtaining professional service contracts. When AHFC began its Designated Broker Program it chose to treat the solicitation process to recruit brokers as a "competitive bid" process for contractual services rather than as a solicitation for professional services.

AHFC selected the participating brokers from their responses to a Request for Proposals (see Appendix A for Designated Broker Chronology.) It planned to use the individual listing agreements for each property as the only written contracts.

However, three brokers wanted comprehensive agreements, so they drew up their own documents which AHFC's property disposition staff signed. The three contracts (or "marketing agreement" and "Addendums") were not consistent with each other about such items as travel expenses, advancing funds, duration of listings, subcontracting policies, and reimbursable expenses.

A dispute between AHFC and one of these three brokers over a provision in the contract led AHFC to drop the broker from its Designated Broker Program and cancel the contract. AHFC and the broker have not yet settled the resulting law suit.

Designated Brokers Provide Professional Services

The state's Administrative Manual, Section 8104, revised May 1983, was in effect when the Designated Broker Program began. Its definition of professional services states that:

...Professional services are any professional, technical, or consultant services predominantly intellectual in character. They include analysis, evaluation, predicting, planning, or recommendation and result in the production of a report or the completion of a task. A professional services contract, therefore, requires specialized knowledge and training or in-depth experience in a particular field or discipline..

...Carpenters can perform a professional service, but only if their expertise is used in a consultant mode. For example, they can review a construction or remodelling project or specification to verify the feasibility or quality of the project; however, they cannot actually perform any manual carpentry work under a professional services contract...

AHFC requires that its designated brokers be licensed professionals, and that they provide a number of consultant and technical services. For instance, the brokers inspect each unit and recommend repairs which should be done to market the property.

Among other duties, they develop a Broker's Opinion of Value for each unit, which recommends the price at which the property should be advertised for sale. They oversee the

bidding process for obtaining contract services to complete repairs. They oversee the paperwork involved in processing offers to purchase.

What if There Are No Contracts?

Without written agreements, duties, responsibilities, obligations, and liabilities are unclear. Performance requirements cannot be enforced. AHFC can decide to change designated brokers, or change reimbursement policies. Brokers could decide to change operating procedures, or ignore AHFC marketing guidelines. Neither side has recourse.

But Why Start Over?

One suggestion was to have each current designated broker sign a standard contract which reflects and formalizes the informal agreement currently in existence. However, Designated Broker contracts must comply either with the law in effect in 1986 or with the new Procurement Code in effect today. Without a new RFP the contracts will not comply with either.

Also, the Designated Broker Program has changed significantly since AHFC issued its first RFP for brokers in 1986. These changes have caused unrest among some of the "non-designated" brokers in the state, who say that they didn't respond to the original RFP because of conditions which have now changed. Their position is that if they had known the conditions would change, they would have submitted proposals.

For example, the original RFP said that only 90 day listings would be signed; most listing agreements are now signed for six months. One of the two existing contracts stipulates that all listings will be for one year.

The RFP said that AHFC would only advance funds to the broker on repair items of \$5,000 or more, with reimbursements every three weeks. This became prohibitively expensive for the brokers (one Anchorage broker had up to \$350,000 of its own funds extended at a given time). AHFC changed the program to pay subcontractors directly for repairs and eliminate the need for brokers to front the repair money.

Some brokers could not afford to advance the amount of money they thought would be required to operate on a reimbursement basis for repairs of less than \$5,000, and therefore didn't bid for a broker slot. They would have submitted a proposal had they known that AHFC would change the program.

Conclusions

AHFC should have written contracts with its designated brokers, to enhance performance, define expectations and liabilities, and permit evaluation.

AHFC has tried to use a fair process in selecting its designated brokers by using a Request for Proposal method. However, the process did not fully comply with the state's procurement requirements, especially because AHFC did not follow through by executing standard written contracts with the brokers.

Further, the Designated Broker Program grew at a rate unanticipated by AHFC. This required significant changes in the system which, although perhaps necessary, have created the perception of unfairness by AHFC within the real estate community.

Therefore to achieve written contracts and avoid any appearance of impropriety, AHFC should issue a new RFP for all needed designated brokers. To ensure standardization, the RFP should even include the seven broker contracts solicited in September 1988. (AHFC has received the responses to this RFP, but not yet awarded any contracts).

A new RFP and subsequent contracts must follow the new Procurement Code, which requires that contractors identify their subcontractors before the final contract award is made. This should alleviate current dissatisfaction about how designated brokers choose their subcontractors.

The new RFP should reflect board policies regarding property disposition. It should also reflect changes suggested by AHFC's experience over the past two years. (Subsequent recommendations in this report address items which should be included in the RFP).

The resulting contract should clearly define the time period for the contract performance, and describe responsibilities and liability of both parties.

To establish the new program, existing listings with current designated brokers should be allowed to run out. New listings should be for 90 days only, to facilitate faster transfer to another broker if required.

Although processing a new RFP is an administrative burden for AHFC and brokers who wish to submit proposals, this is also an opportunity to establish a program which incorporates needed changes.

RECOMMENDATION NO. 3

AHFC should develop specific performance criteria from which to evaluate the performance of designated brokers on a regular basis. This criteria should be included in Request for Proposals soliciting interest from brokers, and incorporated into ensuing contracts. At a minimum, the criteria should reflect regional differences, and address:

- o maximum time from assignment to listing with MLS;
- o maximum repair and maintenance expenses per unit;
- o pricing methodology;
- o percentage of own listings sold by broker;
- o percentage of all AHFC listings sold by broker;
- o sales price as a percent of foreclosure balance and appraisal;
- o average market time;
- o average overall gross loss per unit;
- o percentage of gross loss recovered by insurance (when the property is covered by pool insurance); and
- o a review of the marketing strategy on all properties that are REO for 300 days or more.

AHFC should adjust its information gathering and management system to ensure needed data is consistently available for use in evaluations.

Summary

AHFC does not have a method for evaluating the performance of its brokers. This is partly because its information gathering system was not designed for a property disposition division and certain information needed for evaluation is not collected. It is also because there are no definite standards against which the brokers' performance can be measured. Without defined performance measures and a system to track them, AHFC will have difficulty justifying corrective action or terminating agreements with non-performing brokers. AHFC can use its experience to date to develop performance and evaluation criteria.

Current Situation

One of the problems AHFC has in evaluating brokers' performance is that its system does not easily manage the information needed. For example, it does not:

- o record the date a property is listed with MLS, to determine how long it takes a broker to list the property and how long it is on the market;
- o break out expenses by category, such as repairs, maintenance, snow removal, carpeting, cleaning, etc., to isolate expenses and permit cost analysis;

- o record the amount of insurance claim filed to compare against insurance received, to determine whether brokers' expenditures are within the bounds of insurance policies;
- o maintain a record of the original listing price or appraised value, to determine performance relative to sales prices.

The existing system also has data gaps because of the unplanned development of the property disposition system, turnover of temporary accounting personnel entering data, and shortage of data processing and property disposition personnel.

Another problem is that there are few "standards" against which to measure the brokers. How high a price is a reasonable sales price given the market? How much should be spent on repairs and maintenance? How long should it take to get the property "market ready" and listed with MLS? How long should it be listed with one broker before it is reassigned?

In exploring this problem of standards, we compared the performance of current designated brokers with each other, to try to determine which factors contributed most to total costs, and to try to define boundaries of acceptable performance.

Performance Comparison

We looked for performance criteria which were measurable given available data, and which reflected AHFC existing policies and priorities. We recorded, by property type by broker:

- o total number of sales;
- o percent of own AHFC listings sold;
- o total dollar volume of sales;
- o percent of AHFC sales;
- o average sales price per unit;
- o average sales price as a percentage of foreclosure balance;
- o average expenses per unit (computed from the last date to which interest payments had been applied;
- o average holding time (number of days between foreclosure and sale); and
- o total average loss per unit (expenses + interest + sales loss before insurance reimbursement).

First we compared the performance of designated brokers with each other in each category based on AHFC's data as of September 25, 1988. Then to get an idea of how the various criteria worked together, we assigned points to arrive at an overall ranking (see following tables). For these comparisons we chose single family residences, which had the highest number of sales to date and therefore gave us the most data.

However, these results and the distribution of REOs between geographic regions indicated that we should compare performance among brokers from the same region, because prevailing economic and market conditions differ.

Therefore for illustration purposes, and to eliminate differences caused by geography, we then ranked the Anchorage brokers according to their performance in these areas, based on the same data. The following tables and graph show the results. It is important to note that these results are not weighted to reflect AHFC priorities. However, when we weighted the points to give extra credit for condominium activity, the ranking changed slightly and the gaps between brokers narrowed considerably. The same occurred when we weighted the points for sales price as a percent of foreclosure balance.

There were complaints by some brokers that designated brokers were privately marketing properties before they were listed with MLS, therefore reducing the market time and exposure. This could result in lower prices, if the broker knew there would be no competition for the sale. Because AHFC did not record the dates properties were listed with MLS in its database, we checked the holding periods (length of time from foreclosure to sale) for those properties which sold in 100 days or less.

Of 1167 sales by designated brokers, 91 had holding periods of less than 100 days. Of these, 39 were sold by the listing broker and 52 were sold through other brokers. We also checked eight properties reported to us by a non-designated broker which had sold with less than 100 days on the market. Five of these had become REO less than 30 days prior to listing with MLS and three were listed in less than 60 days. These numbers did not indicate a widespread practice which would reduce market exposure.

Overall, listing brokers sold less than 50 percent of their own listings which sold, and 75 percent of the total sales of designated brokers' listings.

ALL BROKERS SFR SALES COMPARISON

Broker No. (Not rank)	# Own List Sold	# List % Unsold	Own List % Sold	Percent All Sales	Total \$ Vol	Price % Fore	Sales Price	Hold Time	Avg Expense	Avg Loss
1 Marston	53	114	31.74%	6.3%	4,956,240	82	93,514	287	10,511	59,331
2 Re/Max Anch	41	113	26.62%	4.9%	3,616,241	76	88,201	264	9,285	65,386
3 Vista	68	89	43.31%	8.1%	5,913,212	78	86,959	221	13,073	63,021
4 Heritage Anch	47	103	31.33%	5.6%	4,290,442	82	91,286	299	9,420	58,042
5 2001 Rlty	77	69	52.74%	9.1%	6,431,810	76	83,530	210	7,783	59,377
6 Fortune	53	88	37.59%	6.3%	4,333,598	75	81,766	230	10,342	63,587
7 Realty	51	93	35.42%	6.0%	4,307,154	77	84,454	243	10,210	61,803
8 Re/Max ER	53	57	48.18%	6.3%	4,551,004	78	85,868	303	10,342	63,683
9 Jack White ER	42	70	37.50%	5.0%	3,923,766	83	93,423	249	11,808	61,404
10 Heritage Wasilla	49	145	25.26%	5.8%	3,013,500	67	61,500	302	9,974	64,299
11 Marston Wasilla	49	145	25.26%	5.8%	3,082,982	68	62,918	320	10,272	63,335
12 Aurora	37	162	18.59%	4.4%	2,558,069	72	69,137	326	9,873	62,628
13 Coldwell/Grtd **	51	198	20.48%	6.0%	3,890,127	78	76,277	262	15,505	63,874 **
14 Re/Max Fbx **	53	1	98.15%	6.3%	3,822,466	80	72,122	284	11,945	52,145
15 Dick Mueller	28	68	29.17%	3.3%	2,042,908	84	72,961	298	9,641	47,206
16 Homer Realty	7	15	31.82%	.8%	555,100	87	79,300	201	7,968	42,903
17 Anderes	4	7	36.36%	.5%	266,000	81	71,500	406	6,499	45,934
18 Northway	17	8	68.00%	2.0%	1,034,858	72	60,874	317	6,524	51,293
19 Home Team	31	63	32.98%	3.7%	2,245,547	69	72,437	292	7,805	66,092
20 Alaska Coastal	32	67	32.32%	3.8%	2,237,152	72	69,911	301	9,416	61,056
	843	1,675	33.48%	100.0%	\$67,072,176		\$79,564	267	\$10,020	\$60,537

** Fairbanks data is skewed because Re/Max listings were transferred to Coldwell/Banker

20 points awarded for each 1st place
19 points for each 2nd, etc.
In ties, high points awarded each

ALL BROKERS RANKED - SFR SALES

Broker No. (Not rank)	% Own SFR List Sold	% All SFR Sale	Total \$ Vol	Price as % Forec	Sales Price	Hold Time	Avg Expense	Avg Loss	TOTAL POINTS	OVERALL RANK
1 Marston	8	18	18	17	20	11	5	14	91	4
2 Re/Max	5	8	10	9	17	13	15	2	62	14
3 Vista	16	19	19	13	16	18	2	8	95	2
4 Heritage	7	10	14	17	18	8	13	15	84	8
5 2001 Rlty	18	20	20	9	13	19	18	13	117	1
6 Fortune	14	18	16	7	12	17	6	6	84	9
7 Realty	12	15	15	10	14	16	9	10	86	6
8 Re/Max ER	17	17	17	13	15	5	6	5	81	10
9 Jack White ER	15	9	13	18	19	15	4	11	85	7
10 Heritage Was	4	12	8	1	2	5	10	3	43	19
11 Marston Wasilla	4	12	9	2	3	3	8	7	45	18
12 Aurora	1	7	7	6	4	2	11	9	43	20
13 Coldwell/Grtd**	2	14	12	13	10	14	1	4	60	16
14 Re/Max Fbx **	20	18	11	14	7	12	3	16	94	3
15 Dick Mueller	6	4	4	19	9	9	12	18	72	11
16 Homer Realty	9	2	2	20	11	20	16	20	89	5
17 Anderes	13	1	1	15	6	1	20	19	70	13
18 Northway	19	3	3	6	1	4	19	17	71	12
19 Home Team	11	5	6	3	8	10	17	1	53	17
20 Alaska Coastal	10	6	5	6	5	7	14	12	60	15

** Fairbanks data is skewed because Re/Max listings were transferred to Coldwell/Banker

ANCHORAGE DESIGNATED BROKER COMPARISON

SCORING: 7 Points awarded for each 1st place
 6 Points for each 2nd, etc.
 In ties, equal high points given both
 Not weighted for AHFC priorities

ANCHORAGE SFR SALES

	Total # Sold	Total \$ Vol	Avg Price as % Forec	Avg Sales Price	Avg Hold Time	Avg Expense per SFR	Avg Loss per SFR	TOTAL POINTS
Marston	5	5	7	7	2	2	6	34
Re/Max	1	1	3	5	3	6	1	20
Vista	6	6	5	4	6	1	3	31
Heritage	2	2	7	6	1	5	7	30
2001 Rlty	7	7	3	2	7	7	5	38
Fortune	5	4	1	1	5	3	2	21
Realty Cntr	3	3	4	3	4	4	4	25

ANCHORAGE CONDOMINIUM SALES

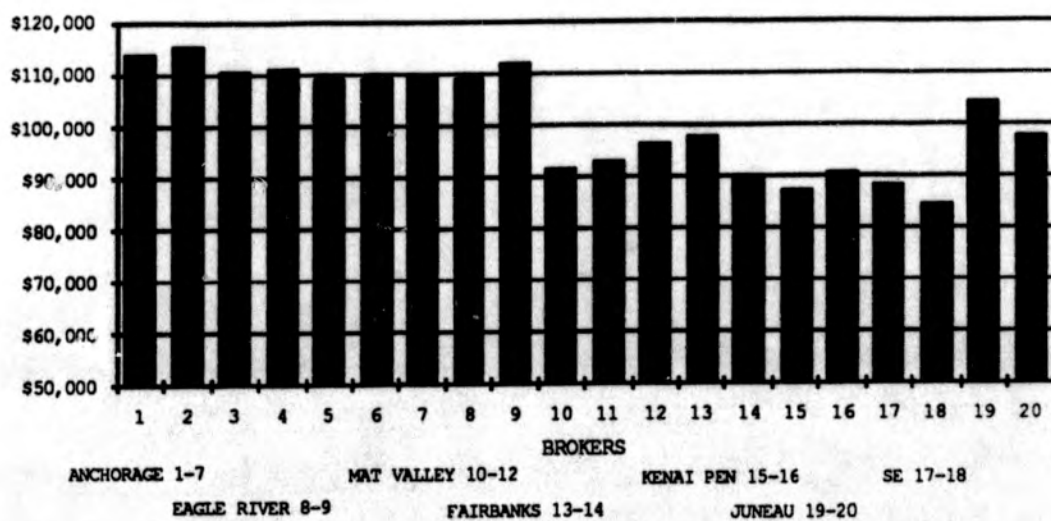
	Total # Sold	Total \$ Vol	Avg Price as % Forec	Avg Sales Price	Avg Hold Time	Avg Expense per Unit	Avg Loss per Unit	TOTAL POINTS
Marston	2	2	6	7	4	5	5	31
Re/Max	1	1	1	2	1	3	2	11
Vista	6	6	4	3	5	1	4	29
Heritage	3	3	7	5	3	7	6	34
2001 Rlty	4	4	5	6	6	2	3	30
Fortune	5	5	4	1	7	4	7	33
Realty Cntr	7	7	2	4	2	6	1	29

ANCHORAGE OVERALL SALES

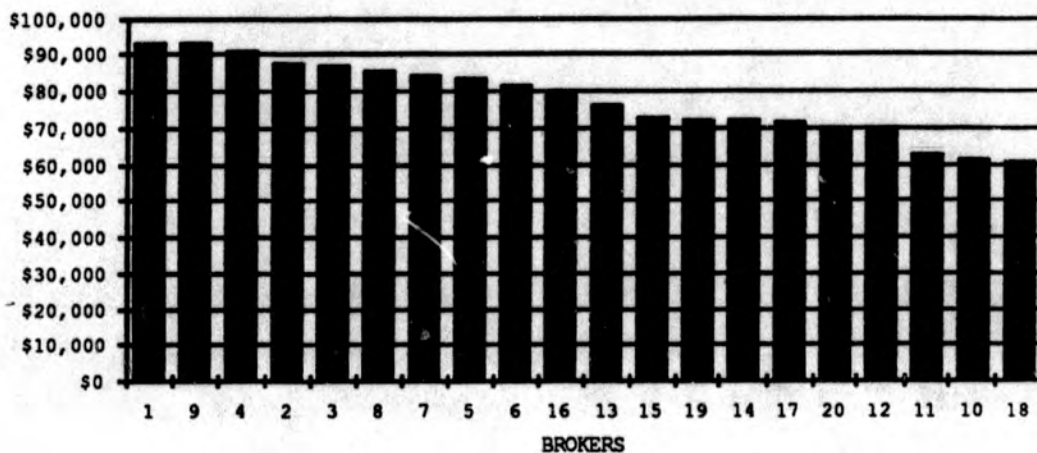
	Total # Sold	Total \$ Vol	Avg Price as % Forec	Avg Sales Price	Avg Hold Time	Avg Expense	Avg Loss	TOTAL POINTS
Marston	3	4	6	7	3	2	5	30
Re/Max	1	1	5	5	2	4	2	20
Vista	6	6	4	2	5	1	4	28
Heritage	2	2	7	6	1	5	1	24
2001 Rlty	7	7	3	4	7	7	7	42
Fortune	5	3	2	1	6	3	3	23
Realty Cent	5	5	1	3	4	6	6	30

	TOTAL POINTS	RANK	TOTAL POINTS Weighted for Condos	WEIGHTED RANK
Marston	95	2	126	2
Re/Max	51	7	62	7
Vista	88	3	117	4
Heritage	88	3	122	3
2001 Rlty	110	1	140	1
Fortune	77	6	110	6
Realty Cntr	84	5	113	5

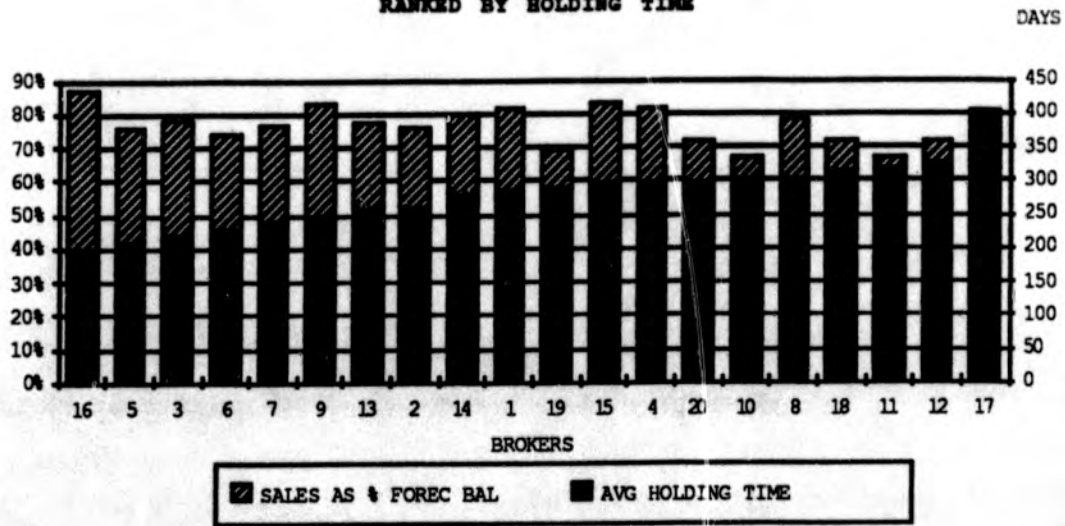
GRAPH 12
AVG BALANCE AT FORECLOSURE
AHFC SFRs SOLD THROUGH 9/25/88



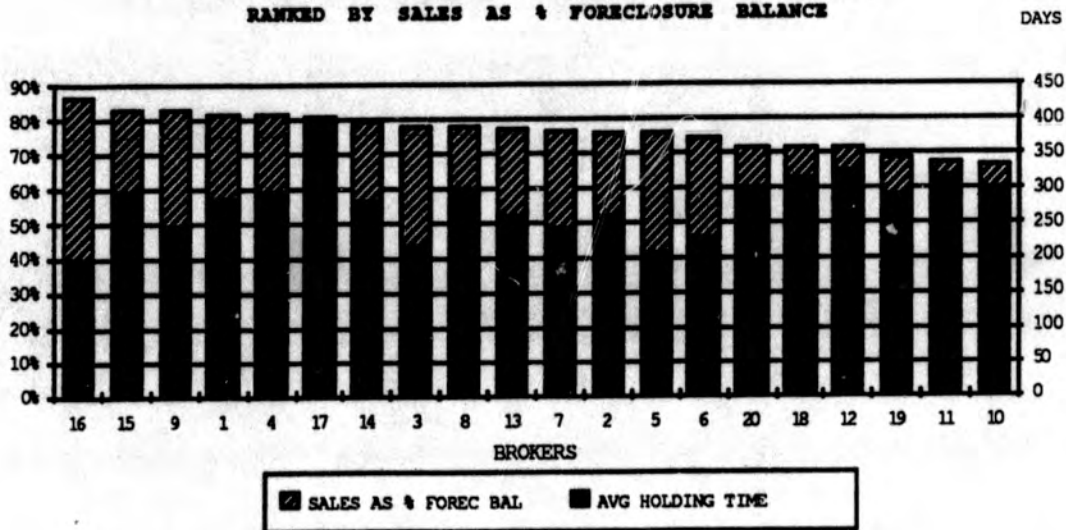
GRAPH 13
ALL DESIGNATED BROKERS' SFR SALES THROUGH 9/25/88
RANKED BY AVG SFR SALES PRICE



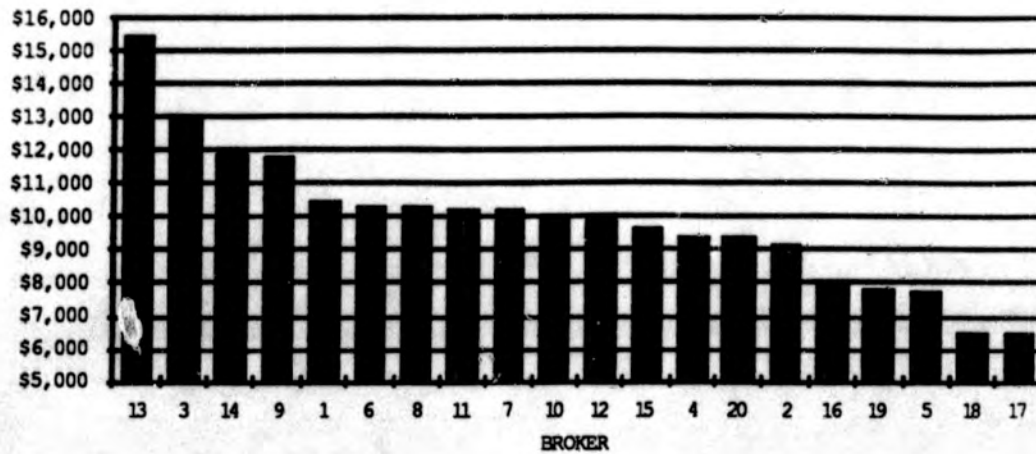
GRAPH 14
ALL DESIGNATED BROKER SFR SALES THROUGH 9/25/88
RANKED BY HOLDING TIME



GRAPH 15
ALL DESIGNATED BROKER SFR SALES THROUGH 9/25/88
RANKED BY SALES AS % FORECLOSURE BALANCE

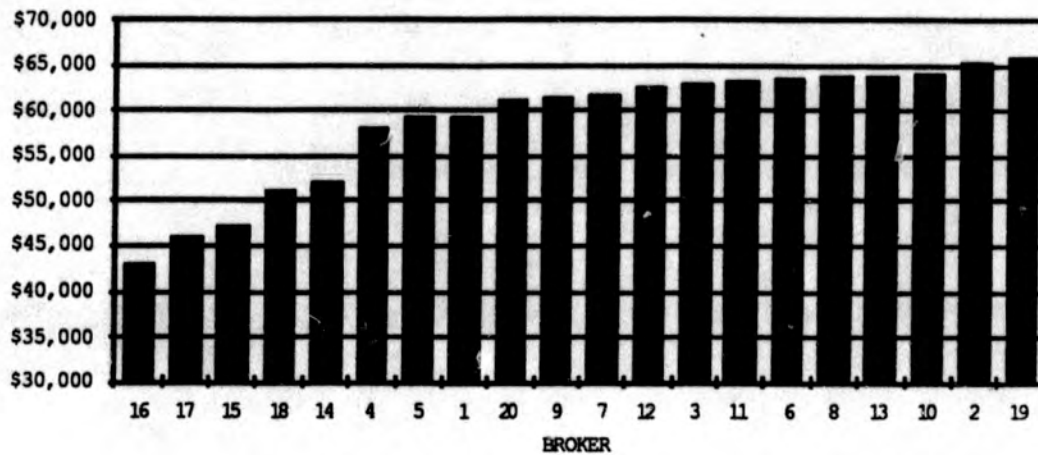


GRAPH 16
ALL DESIGNATED BROKER SFR SALES THROUGH 9/25/86
RANKED BY AVG EXPENSES PER SFR



GRAPH 17
ALL DESIGNATED BROKER SFR SALES THROUGH 9/25/86
RANKED BY AVG TOTAL LOSS PER SFR

AVG LOSS



ANCHORAGE 1-7

EAGLE RIVER 8-9

MAT VALLEY 10-12

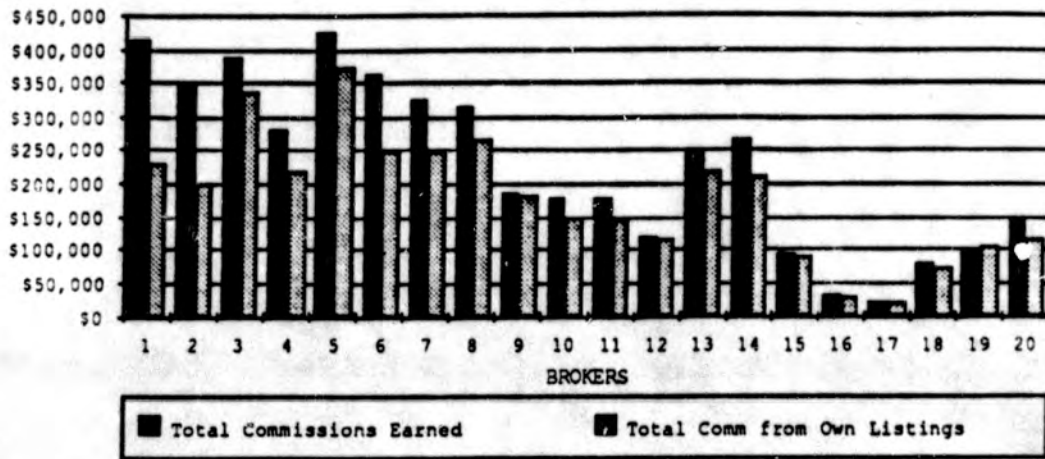
FAIRBANKS 13-14

KENAI PEN 15-16

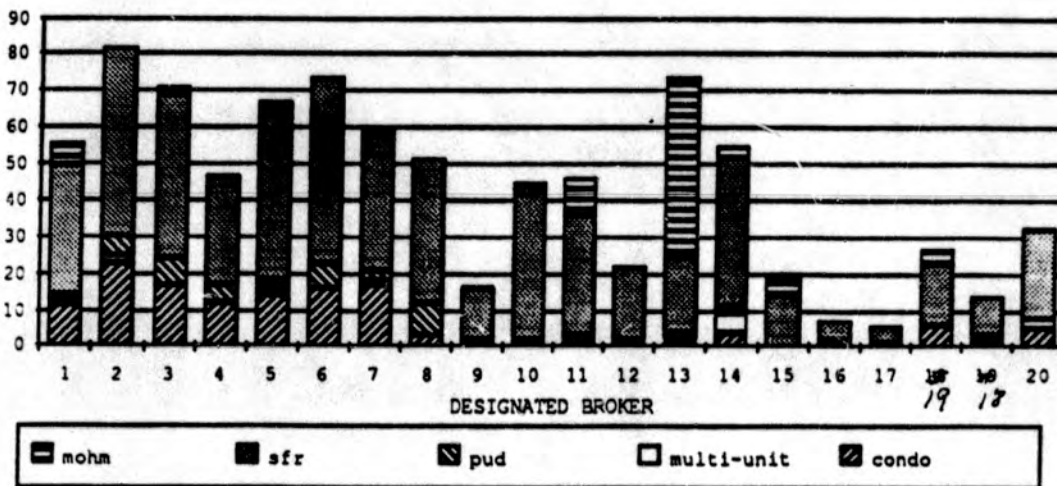
JUNEAU 19-20

SE 17-18

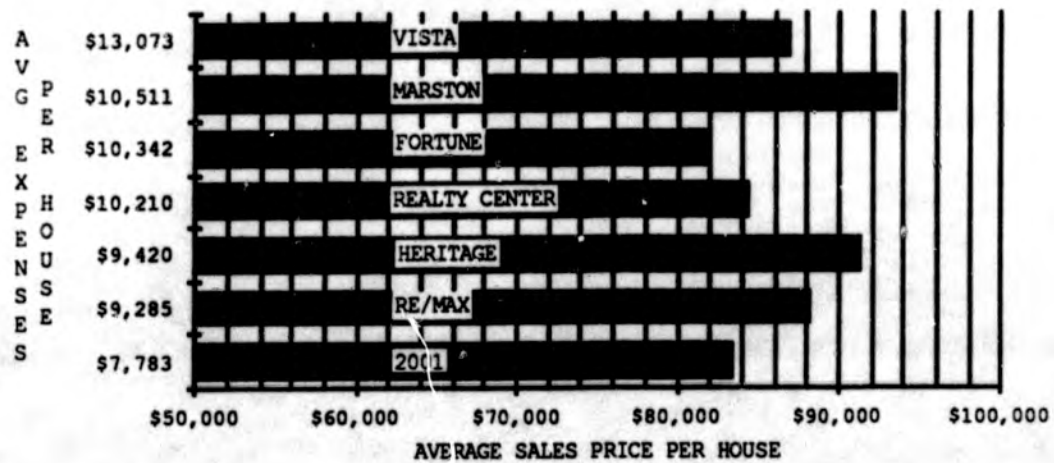
GRAPH 18
COMMISSIONS EARNED FROM AHFC LISTINGS SALES THROUGH 9/25/88



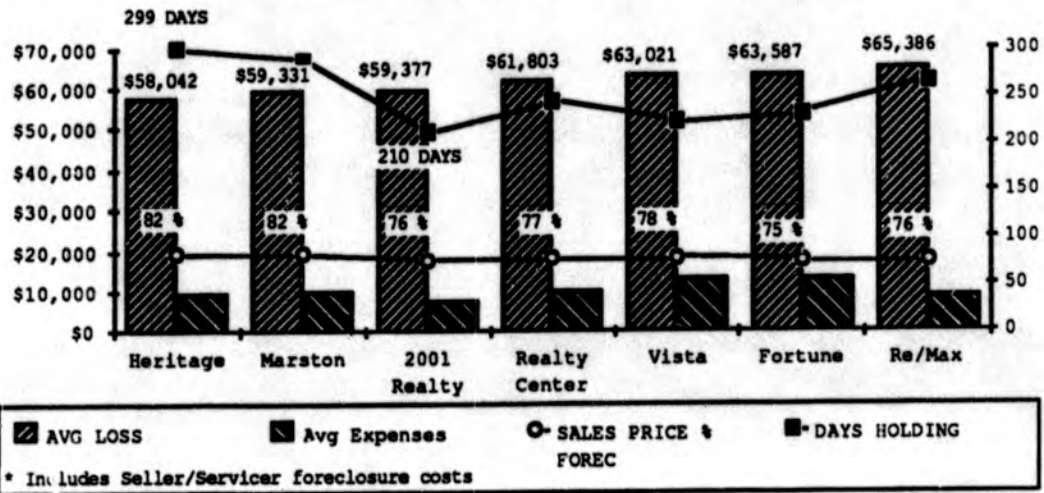
GRAPH 19
AHFC REO SALES BY SELLING BROKER THROUGH 9/25/88



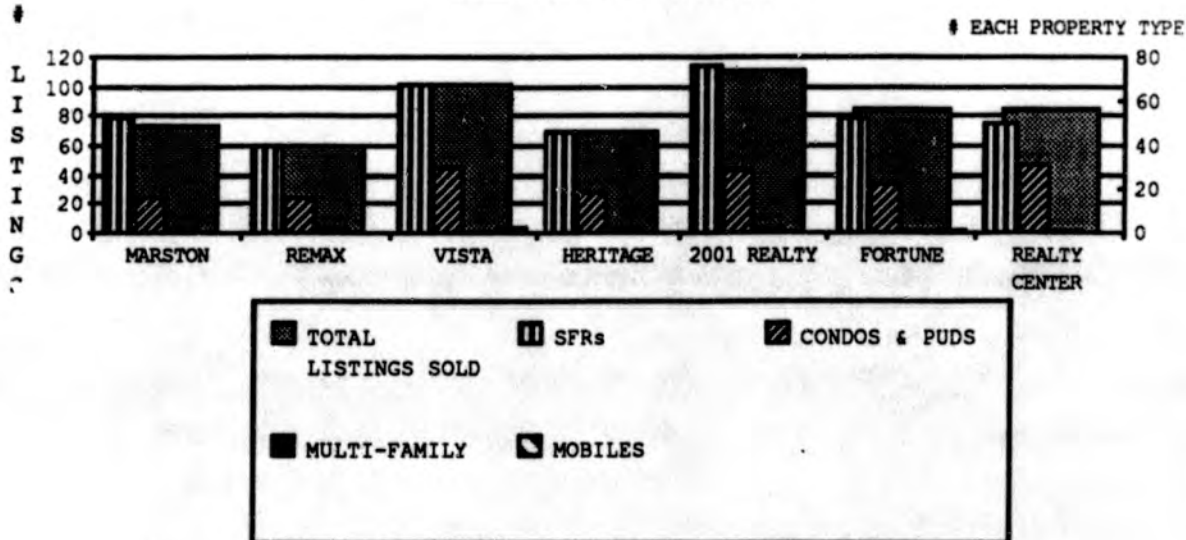
GRAPH 20
ANCHORAGE SFR SALES THROUGH 9/25/88
AVERAGE SALES PRICE AND EXPENDITURES



GRAPH 21
ANCHORAGE DESIGNATED BROKERS' SFR LISTINGS SOLD
LOSSES*, EXPENSES*, PRICES, HOLDING TIME



GRAPH 22
ANCHORAGE DESIGNATED BROKERS' LISTINGS
SOLD THROUGH 9/25/88



Evaluation Criteria

These exercises are interesting, but they don't tell us what level of performance is acceptable. However, based on the experience to date, it seems that (see Graph 20) expenditures over \$10,000 per unit for SFRs don't generally increase the sales price (these include an average \$3,000 foreclosure costs reimbursed to the seller/servicer); average holding times over 300 days don't increase sales price. Sales prices under 75 percent of foreclosure balance in Anchorage, and 70 percent statewide, seem out the bounds of normal performance (see Graph 21).

Conclusions

It is important that properties receive the best market exposure possible to ensure highest prices, and that repair and marketing activities be monitored to ensure strict compliance with AHFC and insurance requirements.

The sales price does not increase as the holding period increases, usually indicating that the property is not the most desirable. This indicates a need to develop clear policies on marketing strategies for "older" REOs.

AHFC can expect brokers to try to perform most of the marketing requirements in a timely manner because they enhance the sale of the property. However, certain items, such as a timely listing of the property with the Multiple Listing Service (MLS), careful control of expenditures, fast closing times, and realistic property pricing, should be monitored by AHFC as the seller.

This indicates that AHFC should place heavy emphasis on the listing management ability of brokers competing for designated broker contracts. Because all selling agents can sell AHFC REOs, the number of sales agents in an agency should not have as much bearing on the overall performance for AHFC as the number of agents assigned to manage the REOs.

To accomplish any evaluation, the necessary information must be available. AHFC has information on individual properties, but cannot evaluate a broker's overall performance or compare brokers. It cannot verify which agencies are performing better or worse than others, or if the brokers are performing better in the overall marketplace than they are for AHFC. AHFC should make necessary adjustments to its information-gathering system and database to ensure the following information, in addition to data currently collected, is recorded and easily retrievable:

- o name and date current broker assigned;
- o the date a property is listed with MLS;
- o the original appraisal/listing price and current listing price;
- o amount spent on each property by category by date;
- o net loss after insurance receipts and reason for insurance claims denials or reductions.

This will require closer attention to accurate data input.

AHFC should evaluate each broker periodically on the criteria in place. It should also develop an aging report for the brokers' inventories, evaluating all properties for reassignment or other marketing strategy when they have been REO for 300 days.

RECOMMENDATION NO. 4

A revised property disposition system should ensure the broadest marketing effort possible.

Summary

Complaints and knowledge resulting from its two-year-old Designated Broker program indicate that AHFC's property disposition division's financial performance will improve with changes in certain REO marketing practices. Other changes might also be warranted to improve public perception of the program.

Current Situations

AHFC relies on the cooperation of the real estate industry to effectively market its REOs. Its Designated Broker program has generated many complaints, both from its participating designated brokers and from "non-designated" brokers which may affect program performance.

Designated Brokers' Complaints

Designated brokers have complained that the tasks which AHFC brokers must accomplish are greater than those normally performed for sellers. For example, designated brokers are required to pay all utility bills on REO properties, and submit invoices to AHFC for reimbursement. Brokers must solicit competitive bids for all repair and renovation work, and obtain AHFC and MGIC approval of the best bid. This is a time consuming process. Brokers pay for routine maintenance work and are reimbursed by AHFC, which creates more paperwork and recordkeeping. The result of these conditions, they believe, is that they spend less time selling the properties than they do managing them.

As we noted in Recommendation No. 3 regarding broker performance, of 1170 sales through designated brokers' listings, the designated brokers themselves sold 874, or 75 percent. However, only one Anchorage broker sold more than 50 percent of its own listings. This may indicate that while the designated brokers seem to be more "in the loop" for AHFC REO sales, they may sell fewer of their own listings because of administrative requirements.

"Non-Designated Brokers'" Complaints

Non-designated brokers complain that designated brokers have an unfair advantage in the marketplace. This is primarily because designated brokers place "for sale" signs on their REO listings with give their company's name and telephone number. Because of the large number of AHFC REOs,

this gives greater exposure to designated brokers and increases the traffic through their offices for all types of buyers.

Another complaint is that designated brokers have an unfair advantage because they have "pocket listings" which means they market properties before they are available to other selling agents. This perception exists because AHFC assigns its REOs to brokers two weeks prior to the foreclosure sale, so that the broker can be preparing its improvement and marketing strategy for the property. The broker cannot list it with MLS until the foreclosure sale is accomplished and AHFC is the official owner.

Some non-designated brokers believe that designated brokers sometimes extend the time it should take to accomplish repairs to make the property "market-ready" and therefore increase this "pocket-listing" time. The theory is that the brokers use this front end time to line up sellers, so that when good properties are listed with MLS they are quickly followed by offers to purchase. As discussed in Recommendation No. 3, our research did not indicate that this is a wide spread practice, although AHFC should include MLS listing dates in its database to monitor this.

The non-designated brokers say that the effect of these problems is two-fold: AHFC is not always getting the best prices possible for their properties; and because of volume, non-designated brokers' selling agents are leaving to join Designated Brokers' firms, which could eventually eliminate the small brokerages.

Brokers also complain that designated brokers cause unnecessary repairs to be accomplished. This is more of an overall perception rather than a condition supported by concrete examples. It is also an allegation difficult to prove or disprove from paperwork after the fact. Who can tell, after the work is done, the property sold, and a new family moved in, whether the carpet really needed to be replaced and the walls repaired? Rather, it requires close monitoring by AHFC property disposition staff at the time the work is being authorized and completed.

Another complaint is that designated brokers have so many listings that they are unable to respond in a timely manner to inquiries and offers from other agents.

Some brokers believe designated brokers are removing valuable fixtures and personal property from REOs, and thereby unfairly benefiting on a personal basis. AHFC's marketing guide says that the seller/servicers are responsible for disposing of personal property. Again, this is something more effectively monitored during the marketing process than after-the fact.

MGIC Complaints

MGIC's primary concern is that designated brokers are too busy to adequately market the REOs. Its concern is that the properties bring the best price possible, which requires healthy competition within the real estate community. MGIC believes that non-designated brokers are not actively trying to sell AHFC REOs because of difficulty in working in the system, and bad feelings about the program.

Conclusions

Many of the complaints about the program are the results of an inherent contradiction in AHFC's role as a government entity and player in the real estate market. It is perceived that because it is a government entity, AHFC should operate differently than private sellers when marketing its REOs. On the other hand, AHFC is judged largely on its financial performance, and must make decisions regarding property disposition which are sound business decisions. As AHFC revises its property disposition program (see Recommendation Nos. 2 and 3) it should consider the complaints, weighing its two roles and the financial impact of its decisions.

The following are examples of issues it can address as it makes changes.

Since real estate brokers are primarily specialists in selling, AHFC should revise its system to eliminate some of the designated brokers' paperwork. For example, it should expedite the installation of an automated system for paying REO utility bills, to eliminate one designated broker task.

It should follow the State of Alaska's Procurement Code requirements that contractors name subcontractors they will use, thereby reducing time in justifying use of specific contractors and eliminating procurement problems.

It should establish a maximum length of time between REO assignment and listing with MLS, to ensure adequate market exposure. When this time period is exceeded AHFC should review the property to determine whether extraordinary repairs were required causing delays, or whether the property should be reassigned.

It should develop a system in which representatives of MGIC, the seller/servicer, AHFC, and the broker meet together to inspect the property and agree to a work plan. If all parties sign off on tasks, responsibilities, and anticipated costs, at the outset, the marketing process will be streamlined.

It should meet with all interested brokers to determine whether the real estate industry will cooperate in a system which includes a "bid receipt" period. During this time, for example 10 days after first listing a property with MLS, AHFC would accept offers to purchase. It would open them simultaneously at the end of the time period, and accept the best offer, or accept none, if none were considered reasonable. Although this suggestion would eliminate the charges of "pocket listing" advantage, it is a departure from standard real estate practices and would require agreement by real estate professionals.

Although AHFC is striving to reduce the administrative tasks of designated brokers, it nonetheless relies on them for paperwork processing. Therefore it should evaluate proposals from brokers largely on the management capacity of its agency and the number of personnel assigned to manage AHFC listings, rather than the number of selling agents. This should alleviate the concerns of the smaller agencies that only the large agencies can sell AHFC properties, because theoretically, if a property is well-managed and marketed, any agent can sell it.

The discussion on broker performance in Recommendation No. 3 indicates that those Anchorage brokers who performed the "best" overall, sold the fewest condominiums. Those who sold the most condominiums ranked the lowest overall. Because condominiums are a serious problem for AHFC, it should include separate criteria for condominium brokers in its new program, selecting those with records of successfully marketing condominiums.

RECOMMENDATION NO. 5

AHFC should ensure that its property disposition, insurance claims, and data processing divisions are staffed with adequate professional personnel to manage the REO activities.

The property disposition and insurance claims processing divisions, which administer the Designated Broker program, are seriously understaffed. Personnel are managing caseloads of up to seven times industry standards, and authorizing over \$1 million in REO expense payments each week. The result is expensive, both to AHFC and to Alaskans who need AHFC's prompt and thorough service. Resources should immediately be approved to staff the program at a level commensurate with its value and importance to the state.

Through September 1988, AHFC's property disposition staff and accounting had administered \$45 million in AHFC out-of-pocket expenses for REO repairs, maintenance, and marketing for properties whose mortgage values at foreclosure totalled over \$566 million. Sales prices on the REOs continued a downward trend, increasing the loss on sales to an aggregate of more than \$55 million. The properties had accrued \$97.4 million in unpaid interest since going into default. For its "at-risk" properties, AHFC pays these expenses, and for those covered by insurance, AHFC is reimbursed only for appropriate expenses incurred in a timely manner.

Although we cannot accurately predict what amount of these costs will be recovered, at June 30, 1988, AHFC had \$17 million in REO loan receivables. They had reserved \$6.7 million, or almost 40 percent of that as unlikely to be collected.

AHFC's loan losses and REO expenses increased from \$27 million at the end of FY 1987 to more than \$71 million at the end of FY 1988, resulting in a net loss of \$12.6 million to the corporation (see Graph 1).

AHFC's current system lacks adequate controls to prevent AHFC from paying for unnecessary work, for inflated bills, and for erroneously billed items. The staffing level does not permit adequate site visits for inspection of repairs and maintenance. It does not provide a means to confirm the broker's opinion of value for pricing the property. It does not allow thorough review and follow through when insurance claims are reduced by insurance companies. It does not permit timely response to offers to purchase properties.

Staffing has a direct correlation to REO expenses. For FY 1989, AHFC received permission to add 19 positions, at least 10 of which were directly associated with property

disposition tasks. In the third quarter of 1988 average expenses for REO units began decreasing. Staffing is also related to REO. Buyers get frustrated if offers to purchase are not processed quickly, and select other properties or decide not to purchase. Brokers and selling agents get frustrated and sell non-AHFC properties instead.

Conclusion

Given the rates of sale and numbers of REOs, AHFC should not expect property disposition activities to decrease during the next two years. Its exposure increases as pool insurance policies come close to being exhausted and insurance companies go bankrupt. Until its REO inventory is considerable reduced, AHFC should direct adequate staff and resources to their management. Some of this staff must be directed to updating and improving the database and computer system (see Recommendation No. 6). AHFC will not save money by inadequately staffing for property disposition tasks.

RECOMMENDATION NO. 6

AHFC should code its REO expenses and receipts by category and consistently enter other necessary REO-related data.

Summary

In its computerized database, AHFC currently records most REO-related expenses with the same code, uses a "miscellaneous" code for many types of REO receipts, and inconsistently enters information for other data fields. This means it is impossible to isolate costs for any specific types of income and expense, making evaluation and informed management decisions difficult. Given the impact of the REO disposition function's performance on the overall financial performance of the corporation, AHFC must be able to evaluate its components.

Current Situation

AHFC's foreclosed properties database file showed \$44.7 million in expenditures as of September 25, 1988. With a few inconsistently-applied exceptions, all expenses in this file had the same code. For example, reimbursements to banks for attorney fees for foreclosure activities, reimbursements to brokers for maintenance and utility costs, and payments to contractors for repairs and restoration all had the same expense code. Some property management fees were coded separately, but others were recorded in the primary expense code. While some costs can be isolated by grouping payments to vendors, this is a cumbersome method of analysis, and still does not provide cost breakdown by activity.

Also, certain receipts needed for analyzing the overall property disposition function performance, such as amounts collected from banks for insurance deductions, are coded as miscellaneous income and cannot be separately identified.

We also found that other data which is essential for program evaluation, such as dates and amounts of pool insurance claims filed, listing and selling brokers' codes, net proceeds from sales, and dates for broker assignments was not consistently and/or accurately entered.

Why Is The Database Incomplete?

AHFC's organization and computer system was originally designed to support financing activities, not property management and disposition activities. It has tried to add information as experience indicates the need. However, its data processing staff does not have positions available

to develop new systems, and data entry personnel are often temporary employees, who leave the positions before they are completely trained in the jobs.

Why Is It Important To Improve The Database?

AHFC daily makes decisions regarding financing and marketing strategies that rely on accurate information. A small example might be carpeting. AHFC replaces the carpeting in many of its REOs, and the competitive bid process for this task is handled by the listing broker. Perhaps AHFC could save money by selecting carpet vendors based on per yard prices, who would work with all brokers. Performing a cost analysis is difficult. Currently we can't call up carpet expenses per unit, except by vendor. That method would work only if all carpet costs were paid directly to carpet vendors, who were easily identified as carpet vendors in the database, and if data processing personnel were always available to run special programs to answer such queries. That was not the case.

Other examples can be seen in attempts to evaluate brokers and seller/servicers. We wanted to know which brokers were spending more on expenses per unit and whether or not increased expenses increased the sales prices. However, we could only separate costs for REOs by vendors, which helps if vendors are clearly identified as to function. They are not. Therefore in this report, expenses per REO include banks' costs and brokers' costs. Further, in the banks' costs we can't separate attorney costs for foreclosures from winterization costs; for brokers' expenses we can't tell how much is the payment of utility bills and how much is for cleaning and maintenance.

AHFC has lost millions of dollars in reductions of insurance claims, when insurance companies decide that certain parts of the claim are ineligible for reimbursement. While AHFC has come to realize this is an expensive problem, its database does not quantify the difference between the claims submitted and the reimbursements received.

Other data gaps, such as missing dates for insurance and property disposition tasks, and inconsistently-entered data make overall program evaluation difficult.

Conclusions

AHFC's property disposition functions have a significant impact, not only on the corporation's overall performance, but on many sectors of Alaska's economy. Real estate professionals, individual home owners, financing institutions, institutional sellers, carpenters, painters, maintenance companies, carpet layers, electricians, and plumbers are all affected by AHFC's marketing decisions.

AHFC needs to improve its database for REO properties to facilitate informed decisions and accurate information. This will require a commitment of resources to data processing for property disposition and insurance claims functions.

RECOMMENDATION NO. 7

AHFC should develop a Request for Proposals to solicit contractors for property management functions.

Summary

During the past year AHFC has paid per unit property management fees to designated brokers for maintenance of certain condominiums which are either "unmarketable" or whose marketability is in dispute with MGIC. This conflicts with AHFC's policy not to pay flat rate management fees for its REOs. Although these fees were initially paid because MGIC pre-approved them at the brokers' request, MGIC has since denied all claims on the condominium developments in question. AHFC will dispute the decision; it is not clear whether AHFC or MGIC will ultimately be responsible for the fees. Other brokers who are listing condominiums which are not selling feel this is unfair because they are not allowed to charge flat rate fees.

Situation

Currently AHFC is paying monthly \$30 per unit management fees to Fortune Properties, Inc. for 68 units in the Village I & II condominium projects, and to Heritage Homes for 33 units in Northwest Village condominiums.

In April and May of 1987, the brokers negotiated the management fee with MGIC, arguing that because certain improvements had not been made, the units were unmarketable. The completion of improvements was pending agreement between MGIC and AHFC on necessary repairs and financial responsibility.

AHFC management told the brokers it would not approve the fees because it was against AHFC policy. MGIC informed AHFC that it had approved these fees. The brokers then began billing AHFC for the fees and AHFC paid them, planning to recover the costs from MGIC.

Since then, MGIC began denying all claims on those properties because of the unresolved disputes over needed repairs and restoration. AHFC has continued to pay bills on the properties, anticipating that MGIC will approve a portion when agreement is reached on restorations.

AHFC assigns all the units in one condominium development project to the same broker. The projects in question had been assigned to the brokers before the controversy began.

The Need for a Contract

At the end of September 1988 AHFC had sold a total of 225 condominiums, after holding periods (the length of time in AHFC ownership, from foreclosure to sale) averaging 316 days. However, the average holding period for unsold condos listed with designated brokers on September 25, 1988 was 324 days. Of its 1700-unit unsold condominium inventory, 940 had been REO longer than 300 days and 546 were over 500 days old.

AHFC is developing special programs directed at stabilizing the condominium market. These will require that some developments be treated differently than others, and some will be removed from the market.

Property management is a contractual service which is covered by the state's Procurement Code.

Conclusions

The age of AHFC's condominium inventory indicates that most of the condominium projects are probably not being actively marketed by brokers because of slow sales. However, because AHFC expects the brokers to inspect each REO weekly, this really becomes a property management service and not a marketing service for those developments with little sales potential.

AHFC should contract for property management services for REOs not actively marketed. Upon evaluation of its portfolio, this might result in AHFC removing all condominiums from the Designated Broker program and placing them in a property management program.

Because AHFC did not use the state's procurement process when assigning condominium development projects currently requiring property management services to brokers, AHFC should solicit competitive bids for this service pursuant to the state's Procurement Code.

APPENDICES

AHFC BROKER CONTRACT CHRONOLOGY

March 31, 1986	First RFP issued. Not treated as Professional Services Contract under Code, so no Authority to Negotiate (ATN). Didn't specify number of brokers to be selected, but said it expected: 3 in Anchorage 2 in Mat-Su 1 Eagle River 1 Fairbanks North Star Borough 1 Juneau 1 Kenai/Soldotna 1 Ketchikan 1 Kodiak
April 30, 1986	RFP responses due. 35 reponses received; In house committee evaluated. Eventually 19 brokers were named as designated brokers.
September 19, 1986	Letter of award. Included AHFC performance expectations. Not clear when each broker was named. Each had submitted a proposal, and they were to perform according to the RFP requirements and basic guidelines provided by AHFC. 90-day Listing agreements were to be contracts.
October 16 & 24 1986	AHFC signed agreements with 2 brokers, The Home Team and ReMAX of Fairbanks. Each had submitted an <u>Addendum to Listing Agreements</u> which AHFC's special credits manager signed.
Approximately November 1, 1986	Seems to be when Designated Broker program really began.
January 10, 1987	AHFC signed a similar contract called a <u>Marketing Agreement</u> with Designated Broker, Alaska Coastal Homes.

January 14, 1987 Letter to all Designated Brokers regarding problems to date.

March 15, 1987 RFP to add a broker in Fairbanks issued.

April 30, 1987 Responses Due.

Records indicate five responses received. Realty Co. of Ak (Coldwell Banker/Greatland) ranked highest.

November, 1987 Change in program - now AHFC pays contractors directly. Prior, brokers had paid contractors up to \$5,000 and been reimbursed. Over \$5,000 advance was possible. Change implemented to reduce cash required by brokers, and reduce time to payment for contractors.

Summer, 1988 Change in program - now brokers are asked not to use firms with owners with whom they have a business or family relationship for routine maintenance.

August 31, 1988 A third RFP for up to 7 more brokers issued for the following areas:

Kenai/Soldotna	1
Kodiak	1
Fairbanks (up to)	2*
Anchorage (up to)	2*
Wasilla (up to)	1*

Maximum to Select 7

* Actual number to be determined by inventory at time of proposal review

(There are now 19 Designated Brokers. There were 20, but Re/Max of Fairbanks was cancelled and is now in a lawsuit with AHFC. The new brokers would make it 26.)

August, 1988	ReMax of Fairbanks agreement cancelled and all listings reassigned due to lawsuit stemming from conflict between listing addendum and program policy.
August 31, 1988	30 day cancellation notice sent to all Designated Brokers, together with new standard contract.
September 30, 1988	28 RFP Responses Received by AHFC. Signed contracts from Designated Brokers due to AHFC.
December 6, 1988	No award of contracts on the last RFP announced, pending audit. Eight signed contracts received; none executed pending audit. No listings cancelled pending action.

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PROPERTY DISPOSITION DATA THROUGH 9/25/88EXPLANATION OF DATA

The data in this report was extracted from AHFC's computerized foreclosure data base. It covers REO activities through September 25, 1988.

Because of inconsistent data entry, we got slightly different numbers when we extracted information according to broker and according to property type over time, in order to classify REO properties as "Sold" and "Unsold". However, we do not believe that these differences skew the overall picture provided by the data.

Therefore, although there are some gaps, we feel there is sufficient data to present the following overview information. We also suggest additions and changes to the database in other sections of this report.

Definition of Terms

Accrued Interest: A calculation of interest accruing on the loan balance at foreclosure, computed from the interest paid-to date, and the date of sale, at the interest rate for each mortgage. Where mortgage insurance proceeds are received prior to the date of sale, accrued interest is reduced by the calculation of interest on the mortgage insurance proceeds between the date of their receipt and the date of sale at the interest rate for the mortgage.

Disposal Date (or Date of Sale): The date REO is sold or ownership is otherwise conveyed from AHFC to new owner.

Designated Brokers: Real Estate brokers selected by AHFC to list its REOs for sale.

Expenditures: The sum of all out-of-pocket expenses AHFC paid for repairs, maintenance, and foreclosure for the unit.

In the twenty months between January 1987 and October 1988, AHFC paid out \$44.7 million to brokers, seller/servicers, and vendors for property maintenance, utilities, advertising, repairs, renovations, cleaning, snow removal, lawn care, legal fees, property owners fees, taxes, and other costs.

These are amounts generated by AHFC properties, but are not, for the most part, costs to the state. AHFC is reimbursed for most of its out-of-pocket expenses on properties through PMI insurance and pool insurance providers such as Mortgage Guaranty Insurance Corporation (MGIC).

However, if AHFC wrongly pays costs, they are not reimbursed.

Because of the way AHFC coded expenses, we could not separate the expenses associated with the foreclosure process conducted by the seller/servicers, and those associated with the marketing process conducted by the brokers. However, since this condition was true for all properties in the data, we used the expenditure total to compare brokers with each other. MGIC uses \$3,000 as average seller/servicer costs for foreclosure, taxes, rekeying, and maintenance.

Holding Period: The number of days between the date of foreclosure and the date of sale, used to gauge market time.

AHFC has not kept a record in the database of the date the property is listed with the Multiple Listing Service. Therefore we could not calculate the time between foreclosure and listing on the market.

The holding period, then, does not truly reflect the time a property is "on the market", because it includes the time when the property was being made market ready. Because this condition was true for all properties in the data, we use the holding period to compare sales time. We understand that each broker has some properties which required extensive repairs or were held longer for other reasons.

MGIC: Mortgage Guaranty Insurance Company, AHFC's largest pool insurance provider.

Pool Insurance: Insurance policies which cover pools of mortgages in particular bond funds rather than covering individual properties. Coverage is used on a "first come first serve basis".

REO: Real Estate Owned - properties to which AHFC holds title, usually acquired through foreclosure or bankruptcy proceedings.

Sales Loss: The difference between the balance at foreclosure and the sales price.

Sales Price: The price paid by the purchaser to buy an REO from AHFC.

Selling Costs: Sales price minus the net proceeds to AHFC. this includes selling and listing commissions.

Seller/Servicers: Financial institutions that originated AHFC-backed mortgages, or purchased such loans from originating institutions, and now service the loans.

Sold Properties: Records with a date of sale and a sales price.

Total Costs: The sum of accrued interest, expenditures, mortgage balance at foreclosure, and selling costs.

Total Gain or Loss: Sales price minus the total costs incurred for a property from the time it becomes delinquent to the date of sale.

Unsold: REO properties with no sales price and no disposal or sales date.

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ALASKA HOUSING FINANCE CORPORATION
SCHEDULE OF LOSS ON FORECLOSURE SALES
SINGLE FAMILY RESIDENCES
January 1, 1987 through September 30, 1988

DATE	UNIT COUNT	AVERAGE HOLDING PERIOD	FORECLOSURE BALANCE	EXPENDITURES	SELLING COSTS	ACCRUED INTEREST	TOTAL	SELLING PRICE	*GAIN OR (LOSS)
1/87-3/87	68	235	\$ 7,698,101	\$ 497,186	\$ 850,049	\$ 1,157,061	\$ 10,202,397	\$ 6,674,600	\$ (3,527,797)
4/87-6/87	101	231	11,216,919	834,655	1,151,401	1,668,963	14,871,937	9,575,030	(5,296,907)
7/87-9/87	113	224	12,060,195	892,031	1,050,046	1,744,516	15,746,787	9,924,851	(5,821,936)
10/87-12/87	155	257	16,255,107	1,474,574	1,402,803	2,671,896	21,804,380	12,803,535	(9,000,845)
1/88-3/88	141	284	14,484,885	1,684,811	1,190,140	2,450,593	19,810,229	10,782,865	(9,027,364)
4/88-6/88	233	295	24,445,495	2,671,447	2,120,000	4,136,451	33,373,393	17,838,727	(15,534,666)
7/88-9/88	203	341	19,917,657	2,257,416	1,690,499	3,601,056	27,466,629	14,691,426	(12,775,203)
TOTALS	1014		\$ 106,078,359	\$ 10,311,920	\$ 9,454,938	\$ 17,430,536	\$ 143,275,752	\$ 82,291,034	\$ (60,984,718)

QUARTERLY AVERAGES:

DATE	UNIT COUNT	AVERAGE HOLDING PERIOD	FORECLOSURE BALANCE	EXPENDITURES	SELLING COSTS	ACCRUED INTEREST	TOTAL	SELLING PRICE	*GAIN OR (LOSS)
1/87-3/87	68	235	\$ 113,207	\$ 7,312	\$ 12,501	\$ 17,016	\$ 150,035	\$ 98,156	\$ (51,879)
4/87-6/87	101	231	111,059	8,264	11,400	16,524	147,247	94,802	(52,445)
7/87-9/87	113	224	106,727	7,894	9,292	15,438	139,352	87,831	(51,522)
10/87-12/87	155	257	104,872	9,513	9,050	17,238	140,673	82,603	(58,070)
1/88-3/88	141	284	102,730	11,948	8,441	17,380	140,498	76,474	(64,024)
4/88-6/88	233	295	104,916	11,465	9,099	17,753	143,233	76,561	(66,672)
7/88-9/88	203	341	98,117	11,120	8,328	17,739	135,304	72,372	(62,932)

* Not adjusted for insurance reimbursement

ALASKA HOUSING FINANCE CORPORATION
SCHEDULE OF LOSS ON FORECLOSURE SALES
MOBILE HOMES
January 1, 1987 through September 30, 1988

DATE	UNIT COUNT	AVERAGE HOLDING PERIOD	FORECLOSURE BALANCE	EXPENDITURES	SELLING COSTS	ACCRUED INTEREST	TOTAL	SELLING PRICE	*GAIN OR (LOSS)
1/87-3/87	13	251	\$ 433,380	\$ 51,223	\$ 22,826	\$ 52,610	\$ 560,038	\$ 223,500	\$ (336,538)
4/87-6/87	44	242	1,689,444	169,834	97,022	199,095	2,155,395	917,139	(1,238,256)
7/87-9/87	110	330	4,303,253	592,851	189,458	624,245	5,709,807	2,019,250	(3,690,557)
10/87-12/87	89	288	3,098,196	449,553	140,705	427,198	4,115,652	1,303,225	(2,812,427)
1/88-3/88	107	379	3,373,376	695,385	118,603	554,482	4,741,846	1,071,730	(3,670,116)
4/88-6/88	287	409	9,199,500	1,693,115	394,173	1,598,784	12,885,571	2,657,816	(10,227,755)
7/88-9/88	210	443	6,764,711	1,205,781	345,830	1,291,804	9,608,126	1,790,238	(7,817,888)
TOTALS	860		\$ 28,861,860	\$ 4,857,742	\$ 1,308,617	\$ 4,748,218	\$ 39,776,435	\$ 9,982,898	\$ (29,793,537)

QUARTERLY AVERAGES:

DATE	UNIT COUNT	AVERAGE HOLDING PERIOD	FORECLOSURE BALANCE	EXPENDITURES	SELLING COSTS	ACCRUED INTEREST	TOTAL	SELLING PRICE	*GAIN OR (LOSS)
1/87-3/87	13	251	\$ 33,337	\$ 3,940	\$ 1,756	\$ 4,047	\$ 43,080	\$ 17,192	\$ (25,888)
4/87-6/87	44	242	38,396	3,860	2,205	4,525	48,986	20,844	(28,142)
7/87-9/87	110	330	39,120	5,390	1,722	5,675	51,907	18,357	(33,551)
10/87-12/87	89	288	34,811	5,051	1,581	4,800	46,243	14,643	(31,600)
1/88-3/88	107	379	31,527	6,499	1,108	5,182	44,316	10,016	(34,300)
4/88-6/88	287	409	32,054	5,899	1,373	5,571	44,897	9,261	(35,637)
7/88-9/88	210	443	32,213	5,742	1,647	6,151	45,753	8,525	(37,228)

* Not adjusted for insurance reimbursement

ALASKA HOUSING FINANCE CORPORATION
SCHEDULE OF LOSS ON FORECLOSURE SALES
CONDOMINIUM UNITS
January 1, 1987 through September 30, 1988

DATE	UNIT COUNT	AVERAGE HOLDING PERIOD	FORECLOSURE BALANCE	EXPENDITURES	SELLING COSTS	ACCRUED INTEREST	TOTAL	SELLING PRICE	*GAIN OR (LOSS)
1/87-3/87	8	342	\$ 698,270	\$ 30,516	\$ 44,494	\$ 113,091	\$ 886,370	\$ 508,000	\$ (378,370)
4/87-6/87	5	288	507,136	32,946	35,613	75,244	650,940	358,500	(292,440)
7/87-9/87	24	292	2,257,924	166,881	153,156	358,176	2,936,135	1,441,200	(1,494,935)
10/87-12/87	23	313	1,969,422	187,331	128,423	345,177	2,630,353	1,048,050	(1,582,303)
1/88-3/88	31	335	2,717,900	280,741	212,510	453,294	3,664,445	1,612,320	(2,052,125)
4/88-6/88	47	417	3,816,204	444,858	265,081	709,101	5,235,243	1,944,131	(3,291,112)
7/88-9/88	54	420	4,692,547	392,442	344,147	901,970	6,331,106	2,492,900	(3,838,206)
TOTALS	192		\$ 16,659,403	\$ 1,535,715	\$ 1,183,424	\$ 2,956,053	\$ 22,334,592	\$ 9,405,101	\$ (12,929,492)

QUARTERLY AVERAGES:

DATE	UNIT COUNT	AVERAGE HOLDING PERIOD	FORECLOSURE BALANCE	EXPENDITURES	SELLING COSTS	ACCRUED INTEREST	TOTAL	SELLING PRICE	*GAIN OR (LOSS)
1/87-3/87	8	342	\$ 87,284	\$ 3,815	\$ 5,562	\$ 14,136	\$ 110,796	\$ 63,500	\$ (47,296)
4/87-6/87	5	288	101,427	6,589	7,123	15,049	130,188	71,700	(58,488)
7/87-9/87	24	292	94,080	6,953	6,382	14,924	122,339	60,050	(62,289)
10/87-12/87	23	313	85,627	8,145	5,584	15,008	114,363	45,567	(68,796)
1/88-3/88	31	335	87,674	9,056	6,855	14,622	118,208	52,010	(66,198)
4/88-6/88	47	417	81,196	9,465	5,640	15,087	111,388	41,364	(70,024)
7/88-9/88	54	420	86,899	7,267	6,373	16,703	117,243	46,165	(71,078)

* Not adjusted for insurance reimbursement

ALASKA HOUSING FINANCE CORPORATION
SCHEDULE OF LOSS ON FORECLOSURE SALES
PLANNED UNIT DEVELOPMENTS
January 1, 1987 through September 30, 1988

DATE	UNIT COUNT	AVERAGE HOLDING PERIOD	FORECLOSURE BALANCE	EXPENDITURES	SELLING COSTS	ACCRUED INTEREST	TOTAL	SELLING PRICE	*GAIN OR (LOSS)
1/87-3/87	2	458	\$ 253,950	\$ 13,748	\$ 18,732	\$ 40,816	\$ 327,046	\$ 208,900	\$ (118,146)
4/87-6/87	11	161	1,265,763	77,818	178,729	160,494	1,682,804	1,066,111	(616,693)
7/87-9/87	10	239	1,088,410	96,470	93,605	151,004	1,429,490	903,000	(526,490)
10/87-12/87	9	278	977,028	72,725	76,632	159,656	1,286,040	766,900	(519,140)
1/88-3/88	20	366	2,148,290	231,892	250,965	410,762	3,041,909	1,539,200	(1,502,709)
4/88-6/88	17	290	1,906,050	209,632	158,634	299,957	2,574,273	1,476,300	(1,097,973)
7/88-9/88	27	335	2,770,899	336,910	206,466	498,577	3,812,852	1,946,901	(1,865,951)
TOTALS	96		\$ 10,410,390	\$ 1,039,195	\$ 983,763	\$ 1,721,066	\$ 14,154,414	\$ 7,907,312	\$ (6,247,102)

QUARTERLY AVERAGES:

DATE	UNIT COUNT	AVERAGE HOLDING PERIOD	FORECLOSURE BALANCE	EXPENDITURES	SELLING COSTS	ACCRUED INTEREST	TOTAL	SELLING PRICE	*GAIN OR (LOSS)
1/87-3/87	2	458	\$ 126,975	\$ 6,874	\$ 9,366	\$ 20,308	\$ 163,523	\$ 104,450	\$ (59,073)
4/87-6/87	11	161	115,069	7,074	16,248	14,590	152,982	96,919	(56,063)
7/87-9/87	10	239	108,841	9,647	9,361	15,100	142,949	90,300	(52,649)
10/87-12/87	9	278	108,559	8,081	8,515	17,740	142,893	85,211	(57,682)
1/88-3/88	20	366	107,415	11,595	12,548	20,538	152,095	76,960	(75,135)
4/88-6/88	17	290	112,121	12,331	9,331	17,645	151,428	86,841	(64,587)
7/88-9/88	27	335	102,626	12,478	7,647	18,466	141,217	72,107	(69,109)

* Not adjusted for insurance reimbursement

UNSOLD SFRS LISTED WITH DESIGNATED BROKERS ON 9/25/88

Broker No. (Not rank)	No. Units	Total Forec Bal	Avg Fore Bal	Total Expend	Avg Expend	Total Interest*	Avg Interest	Total Costs	Avg Costs	Total Exposure	Avg Expos	Avg Hold
1 Marston	114	10,964,054	96,176	677,427	5,942	1,947,717	17,085	2,625,144	23,028	13,589,198	119,203	322
2 Re/Max	113	10,824,884	95,795	511,463	4,526	1,707,925	15,114	2,219,388	19,641	13,044,272	115,436	250
3 Vista	89	8,540,922	95,965	407,529	4,579	1,326,203	14,901	1,733,732	19,480	10,274,654	115,446	244
4 Heritage Anch	103	9,688,252	94,061	429,849	4,173	1,663,166	16,147	2,093,015	20,321	11,781,267	114,381	253
5 2001 Realty	69	6,329,677	91,734	269,912	3,912	960,464	13,920	1,230,376	17,832	7,560,053	109,566	231
6 Fortune	88	8,101,959	92,068	396,740	4,508	1,287,260	14,628	1,684,000	19,136	9,785,959	111,204	226
7 Realty	93	8,542,284	91,853	427,830	4,600	1,375,403	14,789	1,803,233	19,390	10,345,516	111,242	248
8 Re/Max ER	57	5,933,187	104,091	377,136	6,616	1,025,293	17,983	1,402,429	24,604	7,335,616	128,695	300
9 Jack White ER	70	7,423,046	106,044	491,656	7,024	1,365,366	19,505	1,857,022	26,529	9,280,068	132,572	291
10 Heritage Was	145	12,091,828	83,392	796,087	5,490	2,113,222	14,574	2,909,309	20,064	15,001,136	103,456	325
11 Marston Wasilla	145	11,969,301	82,547	997,189	6,877	2,199,585	15,170	3,196,773	22,047	15,166,074	104,594	349
12 Aurora	162	13,201,657	81,492	1,025,183	6,328	2,540,055	15,679	3,565,238	22,008	16,766,895	103,499	417
13 Coldwell/Grtlnd	198	17,314,536	87,447	1,323,423	6,684	3,978,837	20,095	5,302,260	26,779	22,616,796	114,226	253
14 Re/Max Fbx **	1	77,973	77,973	29,523	29,523	18,201	18,201	47,724	47,724	125,696	125,696	515
15 Dick Mueller	68	5,733,025	84,309	633,753	9,320	1,069,388	15,726	1,703,141	25,046	7,436,166	109,355	377
16 Homer Realty	15	1,462,278	97,485	62,027	4,135	269,777	17,985	331,804	22,120	1,794,082	119,605	254
17 Anderes	7	661,748	94,535	33,766	4,824	108,867	15,552	142,633	20,376	804,381	114,912	329
18 Northway	8	665,687	83,211	27,015	3,377	90,820	11,352	117,835	14,729	783,522	97,940	253
19 Home Team	63	5,822,851	92,426	319,652	5,074	969,383	15,387	1,289,035	20,461	7,111,886	112,887	292
20 Alaska Coastal	67	5,897,017	88,015	358,345	5,348	1,037,870	15,491	\$1,396,215	\$20,839	7,293,232	\$108,854	274
All DB Listed SFRs	1675	\$151,246,164	\$90,296	\$9,595,503	\$5,729	\$27,054,799	\$16,152	\$36,650,302	\$21,881	\$187,896,466	\$112,177	296

UNSOLD SFRS NOT LISTED OR LISTED WITH NON-DESIGNATED BROKERS ON 9/25/88

Broker	No. Units	Total Forec Bal	Avg Fore Bal	Avg Expend	Total Expend	Avg Interest*	Total Interest	Avg Costs	Total Costs	Avg Exposure	Total Expos	Avg Hold
None Named	289	27,962,089	96,755	1,334,839	4,619	4,431,761	15,335	5,766,600	19,954	33,728,686	116,708	273
Leitch & Assoc.	9	889,960	98,884	60,876	6,764	152,734	16,970	213,610	23,734	1,103,570	122,619	254
Associated, Inc	9	737,511	81,946	50,259	5,584	115,567	12,841	165,826	18,425	903,336	100,371	269
Island Realty	2	152,687	76,343	0	0	15,752	7,876	15,752	7,876	168,439	84,219	52
Heritage Soldot	12	1,022,216	85,185	19,549	1,629	129,744	10,812	149,293	12,441	1,171,509	97,626	124
Beluga Realty	13	981,741	75,519	24,608	1,893	133,846	10,296	158,454	12,189	1,140,195	87,707	132
Freedom Realty	8	731,580	91,447	47,147	5,893	104,557	13,070	151,704	18,963	883,283	110,410	160
Heritage Kenai	4	285,297	71,324	23,005	5,751	41,426	10,356	64,431	16,108	349,728	87,432	207
Mt. Hayes	15	1,135,694	75,713	61,978	4,132	230,740	15,383	292,717	19,514	1,428,411	95,227	369
All Non-Designated	361	33,898,772	\$93,902	1,622,259	\$4,494	5,356,126	\$14,837	\$6,978,385	\$19,331	\$40,877,158	\$113,233	262
TOTAL UNSOLD SFRs	2036	\$185,144,936	\$90,936	\$11,217,762	\$5,510	\$32,410,925	\$30,989	\$43,628,687	\$21,429	\$228,773,623	\$112,364	290

* Computed through 9/30/88

AHFC UNSOLD CONDOS BY LISTING BROKER ON 9/25/88

Broker	No. Units	Total Forec Bal	Avg Fore Bal	Total Expend	Avg Expend	Total Interest*	Avg Interest*	Total Costs	Avg Costs	Total Exposure	Avg Expos	Avg Hold
1 Marston Anch	186	13,079,970	70,322	953,891	5,128	2,582,755	13,886	3,536,646	19,014	16,616,616	89,337	463
2 Re/Max Anch	217	16,384,382	75,504	948,724	4,372	2,972,541	13,698	3,921,264	18,070	20,305,646	93,574	396
3 Vista	125	9,487,181	75,997	539,252	4,314	1,671,413	13,371	2,210,665	17,685	11,697,845	93,583	369
4 Heritage Anch	227	16,099,240	70,922	991,440	4,368	3,170,220	13,966	4,161,660	18,333	20,260,900	89,255	440
5 2001 Rlty	199	14,301,748	71,868	306,061	4,051	2,474,220	12,433	3,280,281	16,484	17,582,028	88,352	364
6 Fortune	295	20,091,117	68,105	1,001,547	3,395	3,675,714	12,460	4,677,261	15,855	24,768,377	83,961	396
7 Realty Cntr	159	12,121,883	76,238	661,268	4,159	2,262,307	14,228	2,923,575	18,387	15,045,458	94,626	391
8 Re/Max ER	9	692,503	76,945	34,336	3,815	156,450	17,383	190,786	21,198	883,289	98,143	517
9 Jack White ER	4	300,019	75,005	9,130	2,282	40,070	10,017	49,199	12,300	349,218	87,304	262
10 Heritage Was	0											
11 Marston Wasilla	0											
12 Aurora	1	79,604	79,604	6,150	6,150	27,872	27,872	34,022	34,022	113,626	113,626	1052
13 Coldwll/Grtlnd**	57	3,967,246	69,601	207,916	3,648	705,910	12,384	913,826	16,032	4,881,072	85,633	313
14 Re/Max Fbx **	0											
15 Dick Mueller	0											
16 Homer Realty	0											
17 Anderes	2	149,139	74,570	9,646	4,823	38,624	19,312	48,270	24,135	197,409	98,705	794
18 Northway	3	221,716	73,905	12,692	4,231	36,303	12,101	48,995	16,332	270,711	90,237	358
19 Home Team	38	2,638,094	69,424	154,491	4,066	519,673	13,676	674,164	17,741	3,312,258	87,165	439
20 Alaska Coastal	26	1,727,770	66,453	104,524	4,020	317,471	12,210	421,995	16,231	12,236	471	394
TOTAL LISTED W/DB	1548	\$111,341,608	\$1,094,363	\$6,441,066	\$62,821	\$20,651,541	\$218,999	\$27,092,608	\$281,820	\$136,296,688	\$1,293,970	403
0 No List Broker	168	12,374,055	73,655	686,434	4,086	1,771,615	10,545	2,458,049	14,631	14,832,104	88,286	216
TOTAL CONDOS	1716	\$123,715,663	\$1,168,018	\$7,127,500	\$66,907	\$22,423,156	\$229,544	\$29,550,657	\$296,451	\$151,128,792	\$1,382,256	363

* Computed through 9/30/88

UNSOLD MOBILES LISTED WITH DESIGNATED BROKERS ON 9/25/88

Broker	No. Units	Total Forec Bal	Avg Forec Bal	Total Expend	Avg Expend	Total Interest*	Avg Interest*	Total Costs	Avg Costs	Total Exposure	Avg Expos	Avg Hold
1 Marston Anch	3	162,285	54,095	4,696	1,565	27,152	9,051	31,848	10,616	194,132	64,711	193
2 Re/Max Anch	2	146,612	73,306	10,149	5,074	28,263	14,132	38,412	19,206	185,024	92,512	357
3 Vista	1	71,885	71,885	3,403	3,403	9,124	9,124	12,527	12,527	84,412	84,412	134
4 Heritage Anch	2	101,629	50,814	7,460	3,730	27,614	13,807	35,074	17,537	136,703	68,351	429
5 2001 Rlty	3	176,224	58,741	9,585	3,195	51,253	17,084	60,838	20,279	237,062	79,021	542
6 Fortune	0											
7 Realty Cntr	3	184,883	61,628	12,693	4,231	3,910	1,303	16,603	5,534	201,485	\$67,162	320
8 Re/Max ER	3	163,817	54,606	18,558	6,186	53,417	17,806	71,975	23,992	235,792	\$78,597	555
9 Jack White ER	5	349,623	69,925	46,622	9,324	91,006	18,201	137,628	27,526	487,251	\$97,450	544
10 Heritage Was	11	557,483	50,680	38,916	3,538	136,864	12,442	175,780	15,980	733,263	\$66,660	395
11 Marston Wasilla	12	750,631	62,553	51,632	4,303	205,972	17,164	257,604	21,467	1,008,234	\$84,020	506
12 Aurora	11	552,695	50,245	34,933	3,176	136,041	12,367	170,974	15,543	723,669	\$65,788	471
13 Coldwell/Grtlnd**	11	466,588	42,417	35,304	3,209	100,334	9,121	135,638	12,331	602,226	\$54,748	342
14 Re/Max Fbx **	0											
15 Dick Mueller	6	264,660	44,110	23,892	3,982	44,962	7,494	68,854	11,476	333,514	\$55,586	256
16 Homer Realty	1	27,385	27,385	0	0	3,436	3,436	3,436	3,436	30,821	\$30,821	311
17 Anderes	0											
18 Northway	2	88,257	44,128	860	430	16,831	8,415	17,690	8,845	105,947	\$52,974	151
19 Home Team	0											
20 Alaska Coastal	1	61,715	61,715	1,246	1,246	11,312	11,312	\$12,557	\$12,557	74,272	\$74,272	266
TOTAL DB MOBILES	77	\$4,126,369	\$53,589	\$299,946	\$3,895	\$947,489	\$12,305	\$1,247,435	\$16,200	\$5,373,804	\$69,790	403

UNSOLD MOBILES NOT LISTED OR LISTED WITH NON-DESIGNATED BROKERS ON 9/25/88

Broker	No. Units	Total Forec Bal	Avg Forec Bal	Total Expend	Avg Expend	Total Interest*	Avg Interest*	Total Costs	Avg Costs	Total Exposure	Avg Expos	Avg Hold
None Named	476	14,755,562	30,999	3,469,252	7,288	3,656,836	7,682	7,126,088	14,971	21,881,650	45,970	674
Leitch & Assoc.	3	84,150	28,050	5,215	1,738	9,502	3,167	14,717	4,906	98,867	32,956	169
Heritage Re	1	37,024	37,024	2,244	2,244	5,559	5,559	7,802	7,802	44,826	44,826	182
Nat. Bank of Ak.	3	62,819	20,940	1,460	487	7,906	2,635	9,366	3,122	72,185	24,062	145
Western Enter.	279	8,240,519	29,536	713,261	2,556	1,092,763	3,917	1,806,024	6,473	10,046,542	36,009	226
Summit Logistics	21	438,413	23,258	44,639	2,126	54,080	2,575	98,719	4,701	587,132	27,959	163
Cldwll/Joe Shaw	6	197,812	32,969	5,555	926	20,713	3,452	26,267	4,378	224,079	37,347	127
TOTAL NON-DB MOBILES	783	\$23,668,486	\$30,228	\$4,236,070	\$5,410	\$4,826,645	\$6,164	\$9,062,715	\$11,574	\$32,731,202	\$41,802	496
TOTAL MOBILES	860	\$27,794,855	\$32,320	\$4,536,016	\$5,274	\$5,774,134	\$6,714	\$10,310,150	\$11,989	\$38,105,006	\$44,308	488

* Computed through 9/30/88

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January 5, 1989

John Lucas
Office of the Governor
Office of Management and Budget
Division of Audit and Management Services
P. O. Box AM
Juneau, AK 99811-0199

Dear John:

The purpose of this letter is to respond to your division's draft audit entitled a "Management Review of Alaska Housing Finance Corporation's Designated Broker Program". In our response, we first provide an overview of the actions the Corporation is currently undertaking to evaluate our property disposal system. Given that context, we then provide responses to your recommendations.

I should note that from an overall perspective, we in general concur with both the analysis and the recommendations in your report. We believe the report fairly and accurately describes the situation, and is useful for shedding some light on this occasionally controversial topic.

At its December 9, 1988 meeting, the Board considered the status of the current designated broker contracts; and property disposition in general. With the recommendation of staff, the Board decided to review and reconsider the entire property disposition system. That is, rather than simply considering modifications to the present designated broker system, the Board concluded that it would be best to design a property disposition system that is the most appropriate for the current and expected future situations. No prejudgments were made with respect to using designated brokers, or a "HUD" system, or any particular method. Rather, the decision was made to adopt a very open process to design a new system, which may, of course, contain elements of the current system.

The process that is being utilized to design this new disposition system starts with a series of basic principles. Although we have not yet developed all of the principles that we expect to use, our initial thoughts are provided below.

1. The property marketing and property management functions should be segregated. The functions of marketing and management apparently do not mix. Excessive time is spent managing the property which takes away from effectively marketing it. A broker may not have the expertise in both areas. If a management fee was paid there may not be the incentive to market.
2. The selling representative should not have an inordinate amount of influence on the listing price. Their motivation is to sell properties. The Corporation's goal is to maximize property values. These may be cross-purposes.
3. The system should incorporate checks and balances. For example, the bidding process should be an arms length transaction and procedures should be established to assure this.
4. The system should be as equitable as practical. Services, where appropriate, should be compensated for. Listings and bid access should be broadly based.
5. Explicit and implicit incentives should be a part of the system as a means of furthering the goals of property disposition, i.e. a property manager may be paid a fee at the time a property is sold, therefore, they also have an incentive to see that the property is sold.
6. Performance criteria should be an aspect of the system. For a program to function effectively, measures of performance should be analyzed and corrective action taken or performance awarded accordingly.
7. The Corporation should have control and influence over the marketing function. For example, AHFC should be more visible and take a more active role in establishing listing values and negotiating sales.
8. All of the aforementioned 7 "shoulds" have to be integrated into a system with consideration being given as to their influence on the cost of the system. In otherwords, for the benefit received the costs must be appropriate.

The second step is to develop specific options that need to be considered, e.g., a designated broker-based system, open listings, and so forth. Third, extensive public hearings will be held to solicit input on these options, and obtain other suggestions that may be provided. Finally, the information so obtained will be used to present a series of options to the Board for their consideration and decision. The target date to present this information to the Board is March 1.

It appears that the process that has been adopted, along with the principles driving this process, is essentially what you have recommended in your report. This convergence of opinion regarding what needs to be done is reflected in our responses to your specific recommendations.

Recommendation No. 1

The AHFC Board of Directors should give clear direction to AHFC property disposition staff and the public regarding the Corporation's priorities for REO disposition.

We concur with this recommendation. The specific policies adopted by the Board in this regard will shape the property disposition system, as well as influencing the execution of the system. We expect that the Board will consider these questions and other related ones as part of its deliberations on the new property disposition system.

Recommendation No. 2

AHFC should issue a new Request for Proposals for all needed brokers in its Designated Broker Program. It should develop the RFP to reflect policies and priorities defined by the Board (see Recommendation No. 1) and sign standard contracts for services with the selected brokers.

We concur with this recommendation, as explained above. That is, any new property disposal system will have standard contractual relations with all participants.

Recommendation No. 3

AHFC should develop specific performance criteria from which to evaluate the performance of designated brokers on a regular basis. This criteria should be included in Request for Proposals soliciting interest from brokers, and incorporated into ensuing contracts. At a minimum, the criteria should reflect regional differences, and address:

- maximum time from assignment to listing with MLS;
- maximum repair and maintenance expenses per unit;
- pricing methodology;
- percentage of own listings sold by broker;
- percentage of all AHFC listings sold by broker;
- sales price as a percent of foreclosure balance and appraisal;
- average market time;
- average overall gross loss per unit;
- percentage of gross loss recovered by insurance (when the property is covered by pool insurance); and
- a review of the marketing strategy on all properties that are REO for 300 days or more.

AHFC should adjust its information gathering and management system to ensure needed data is consistently available for use in evaluations.

We concur with this recommendation, in that any disposal system should have performance criteria as an integral element. Furthermore, continuation of a contract should be based upon these criteria.

Recommendation No. 4

A revised property disposition system should ensure the broadest marketing effort possible.

We concur with this recommendation.

Recommendation No. 5

AHFC should ensure that its property disposition insurance claims, and data processing divisions are staffed with adequate professional personnel to manage the REO activities

We concur with this recommendation, and obviously have been doing our best to achieve this result.

Recommendation No. 6

AHFC should code its REO expenses and receipts by category and consistently enter other necessary REO-related data.

We concur with this recommendation. The REO database system for Claims Administration has been emerging based upon the needs and human resources allocated to manage the growing problem of foreclosed properties. AHFC has changed its recording method on REO properties and expenses effective January 11, 1989. From this date forward, expenses will be classified and recorded by type when they occur. This will enable the Corporation to extract, isolate and analyze expenses by category for further review.

Recommendation No. 7

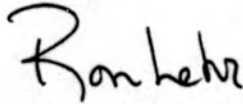
AHFC should develop a Request for Proposals to solicit contractors for property management functions.

We concur with this recommendation, as detailed above. Actually, we are optimistic that our Condominium Stabilization Program will be successful in strengthening the market for condos and significantly increasing sales. Hence, condos should be able to be actively marketed, rather than warehoused.

Mr. John Lucas
January 5, 1989
Page 5

As noted at the outset, our overall agreement with the report is reflected in our agreement with specific recommendations. We believe the report will be useful to us, and others. Finally, it must be mentioned that the report was done in the professional manner that we have come to expect from your division.

Sincerely,

A handwritten signature in cursive script, appearing to read "Ron Lehr".

Dr. Ronald D. Lehr
Executive Director

ec

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

AUDIT DIVISION
PO. BOX W
JUNEAU, ALASKA 99811-3300

April 14, 1989

Members of the Legislative Budget
and Audit Committee:

In accordance with a Legislative Budget and Audit Committee special request and the provisions of Title 24 of the Alaska Statutes, the attached report is submitted for your review.

A SPECIAL REPORT ON THE DEPARTMENT OF REVENUE ALASKA HOUSING FINANCE CORPORATION

April 14, 1989

Audit Control Number

04-4331-89-S

The objectives of this audit were to examine specific activities of the Alaska Housing Finance Corporation including the availability of unrestricted assets; relationships with seller/services; their designated broker activities; mortgage insurance collections; legal support; staff turnover; and loan declination policies and procedures.

The audit was conducted in accordance with generally accepted governmental performance auditing standards. Audit scope and methodology are discussed in the Objectives, Scope, and Methodology section of this report. Audit results may be found in the Report Conclusions and the Findings and Recommendations sections of this report.

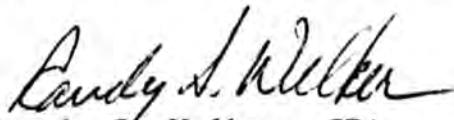

Randy S. Welker, CPA
Legislative Auditor
Division of Legislative Audit

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OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with a Legislative Budget and Audit Committee request and Title 24 of the Alaska Statutes, we have examined specific activities of the Alaska Housing Finance Corporation (Corporation or AHFC).

Objectives

The following are the areas of concern addressed by the special audit request:

1. The amount of unrestricted assets and their availability for appropriation to the State's General Fund.
2. Seller/Service agreements with AHFC including related amendments, disputes, and settlements.
3. Designated broker program including restoration costs on the properties managed under the program.
4. Mortgage insurance collections.
5. Legal support.
6. Staff turnover.
7. Loan declination policies and procedures.

Scope and Methodology

Policies and procedures were reviewed which included: pertinent sections of Alaska Statute 18.56; regulations; minutes and recordings of public hearings, meetings, and executive sessions of the board; the Seller/Service Guide; memorandums to seller/servicers; draft of the Real Estate Owned Payables Manual; draft of the Property Marketing and Management Guide; and various outside and interoffice correspondence.

Audit tests were performed on a judgmentally selected sample of real estate owned files, excluding mobile homes, where the foreclosed properties had been sold between July 14, 1987 and September 30, 1988. The selection was made in this manner to provide a sample of files for which the loan had completed the entire process: loan delinquency to foreclosure of the property and then the subsequent property sale. In addition, audit tests were performed on statistically selected samples of declinations for loans under AHFC's regular programs during the period April 1988 through October 1988 and declinations for applications under the Home Owners' Assistance Programs between April 1988 and September 1988.

Reports from the Division of Audit and Management Services under the Office of Management and Budget in the Office of the Governor, and the Institute of Social and Economic Research, University of Alaska, Anchorage were also reviewed.

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ORGANIZATION AND FUNCTION

The Alaska Housing Finance Corporation was created in 1971 by an act (AS 18.56) of the Alaska State Legislature. The Corporation was established to assist in the financing, development, and sale of dwelling units within Alaska. Generally, AHFC accomplishes its objectives by functioning as a secondary market for qualified real estate and mobile home loans originated by financial institutions. In addition, the Corporation has special programs which are specifically designed to meet the housing needs of low and moderate income borrowers.

Due to the slowdown in the Alaskan economy since 1986 and the related decline in the housing market, AHFC has experienced high delinquency rates and foreclosures. In the past twelve-month period ending March 31, 1989, AHFC has foreclosed on 3,573 loans or \$321,829,574, excluding mobile home loans. As of March 31, 1989, AHFC had an inventory of 3,957 real estate owned properties with the exclusion of mobile home type II properties, which compares to 3,751 properties as of September 1988.

AHFC had a net loss of \$12,600,000 for FY 88. According to a report by AHFC, the net loss for FY 89 through February totalled \$7,485,000.

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