

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILE 8672
1609 SCOMM 60. HOUSING FINANCE TASK FORCE, 1989

REPORT CONCLUSIONS

The results of our examination of the specific areas of concern addressed by the special audit request are as follows:

Unrestricted Assets and Their Availability for Appropriation to the General Fund

As of December 31, 1988, AHFC had approximately \$600 million in unrestricted assets of which about \$350 million is needed for loan purchases under its mortgage programs with the remaining amount committed to non-bondable mortgages and working capital based upon current operating practices and future bond sale assumptions. Since the level of projected loan purchases along with the required level of bonding and subsidies determines the amount of unrestricted assets necessary for operations, the need and extent of the mortgage programs must first be determined before monies can be reappropriated back to the State's General Fund. Also, the questions as to the legality of the legislature appropriating monies from AHFC, along with concerns relating to effects of such action on the Corporation's bonding, must be addressed before monies are reappropriated. See our Recommendation No. 1 regarding this matter.

In addition, AHFC should perform a reconciliation of amounts requested and received from legislative appropriations to the State Mortgage Insurance Fund to determine the disposition of \$9,835,000 in appropriations. Also, the legality should be determined for: the 1985 transfer by AHFC of approximately \$10.4 million in legislative appropriations from the State Mortgage Insurance Fund to its Revolving Fund for other corporate purposes; and a potential reappropriation to the General Fund of \$2.7 million which was originally appropriated for insurance on loans purchased under the Insured Rural Mortgage Program for which the need for such insurance may no longer exist. Refer to Recommendation No. 2 for further discussion of these issues.

Seller/servicer Agreements

The seller/servicer agreement documents have not been amended since about 1983. However, the duties and responsibilities of the seller/servicers have been clarified and modified through the issuance of memorandums and changes to the Servicer Guide. The most significant of these changes was the transferring of property management responsibilities to the designated brokers for real estate owned (REO) properties, except mobile homes, effective October 20, 1986 and to management contractors for the mobile home REO's effective September 1987. The seller/servicers continue to service the current loans,

perform collection efforts on delinquencies, and process foreclosures. See Recommendation No. 3 which discusses deficiencies in the seller/servicers' performance and the related financial effects on AHFC.

Designated Broker Program

In January 1989, the Office of Management and Budget, Division of Audit and Management (OMB) released a report on the designated broker program. Recommendations made in the report included: establishment of property disposition priorities and policies by the board; issuance of a new Request for Proposals (RFP) for designated brokers; development of performance criteria to evaluate the designated brokers; revision of the program to provide the broadest marketing of properties; improvement in the computer data for REOs and related transactions; and adequate staffing of the property disposition, insurance claims, and data processing divisions.

AHFC held public hearings in April on proposed changes to the designated broker program. Management is currently preparing an RFP along with written selection criteria and performance criteria. The revised designated program and the RFP is to be presented to the board members for approval in May 1989.*

During our audit, we reviewed a judgmentally selected sample of 30 REO files as previously described. A summary of the sample by property type with related total expenditures, sales proceeds and insurance receipts, along with the calculated gain or loss on the sale of the REO property after insurance reimbursements, is presented in Appendix A of this report. As shown in the summary schedule, much of the loss on the sale of the property is recovered through the receipt of insurance proceeds.

Public concerns have been expressed concerning what appears to be excessive repairs and restoration of certain properties owned by AHFC. Properties for which major repairs and restoration are completed generally have pool insurance coverage. As of March 31, 1989, approximately 65 percent of AHFC's real estate owned properties had pool insurance coverage.

In Appendix B a financial analysis is presented on two REO properties which had considerable restoration and repairs done to the houses prior to placing the properties on the market. Both properties had pool insurance coverage. As illustrated by the analysis, the decision by the AHFC staff to approve the repairs and restoration of the properties was

* Subsequent to our audit, the board adopted at its May 23, 1989 meeting a revised concept for the designated broker program and approved the issuance of an RFP.

reasonable, even though \$10,283 of restoration expenses in the one case and \$43,245 in the other would not be reimbursed by the pool insurer. However, we do recommend that AHFC staff perform an on-site inspection of properties in need of repairs and/or restoration and prepare written financial analyses of the options to the Corporation prior to approval of such repairs. See Recommendation No. 4 for discussion of this and other recommended improvements in the controls over REO expenditures. Also, Recommendation No. 5 discusses improvements needed in the accounting for REOs.

In addition, we noted during our audit of the REO files that the controls over direct loans issued to facilitate the sale of REO properties should be improved (see Recommendation No. 5).

Mortgage Insurance Collections

Primary mortgage insurance claims are to be filed by the seller/servicer on behalf of AHFC. The servicing agreements with the seller/servicers stipulate they will indemnify and hold AHFC harmless against any and all losses, forfeitures, and any other costs, fees, and expenses that AHFC may incur as a result of the seller/servicers' failure to perform in accordance with the agreement or Servicer Guide. However, AHFC has not adequately monitored the performance of the seller/servicers to prevent reductions in primary or pool insurance claims nor have they consistently sought reimbursement from the seller/servicers for such reductions.

The reductions in pool insurance claims for untimely performance of foreclosures, along with other reductions based on a more restrictive interpretation of the pool policies by the pool insurer, are currently being contested by AHFC. For further discussion of this and the above-mentioned concerns relating to the seller/servicers see Recommendation No. 3. Also, see Recommendation No. 6 regarding the establishment of an accounts receivable system to properly account for amounts due from seller/servicers, insurance claims and other miscellaneous receivables.

Legal Support

Prior to FY 89, the Reimbursable Services Agreement (RSA) between AHFC and the Department of Law (DOL) only provided for part-time legal assistance. According to DOL management, due to budget cuts over the past several years DOL has experienced a staff shortage. Therefore, unless an agency provides for a full-time attorney position through an RSA, DOL's services are limited to its available manpower.

In July 1988, AHFC signed an RSA with DOL for a full-time assistant attorney general which allowed DOL to add a position to its staff to provide the legal services.

However, the position was not filled until January 10, 1989. The person hired for the position did not actually start providing legal services to AHFC until March 1989 due to the lack of a replacement to take her caseload with another state agency.

In summary, AHFC has not received sufficient legal services from DOL due to AHFC not contracting for a full-time position prior to FY 89 and then the lengthy hiring process of DOL for the position provided through the FY 89 RSA.

Staff Turnover

Based on an analysis of employee terminations for the eighteen-month period from July 1, 1987 through December 31, 1988, we determined AHFC had the following employee turnover rates:

Permanent positions	21.9%
Temporary positions	175.0%

In January 1989, the legislature approved a Revised Program to add 74 permanent positions to its staff. As of the end of our audit, AHFC had filled 23 of those positions. The additional permanent positions should provide AHFC with more continuity in its staffing.

AHFC's administrative budget with the additional staffing is now over \$10 million. See Recommendation No. 6 which discusses the need for improved budgetary controls and more timely financial reporting.

Loan Declinations

Audit tests were performed on statistical samples of declinations for loans under AHFC's regular mortgage 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. We noted no material exceptions in our review.

FINDINGS AND RECOMMENDATIONS

Recommendation No. 1

The legislature should analyze the present need and structure of the State's residential financing programs and evaluate the potential legal and economic affects of any changes to such programs.

Finding there existed within the State a serious shortage of decent, safe, and sanitary residential/rental housing available at low or moderate prices, the legislature created AHFC in 1971. The act stressed the lack of federal, state, and private financing programs available to persons of lower or moderate incomes.

During its early years of operations, AHFC purchased only federally insured mortgage loans for low to moderate income borrowers. With the advent of economic prosperity in the State, the legislature removed income limitations of borrowers and increased loan amount limits in addition to expanding the mortgage programs to include mobile homes and rural homes. They appropriated over \$1 billion to AHFC throughout the years for various subsidy programs and allowed the annual earnings of the Corporation to be recycled back into its operations. Presently, AHFC offers eleven mortgage programs, many of which subsidize the borrower, regardless of income.

As a result, AHFC has evolved into a major secondary mortgage investor which, during the period 1980 through 1984, purchased about 90 percent of all qualified real estate and mobile home loans originated by financial institutions. In 1986, with the decline in the housing market and the diminishing difference between AHFC's interest rates and those of the other lenders, the market share of the Corporation decreased to approximately 50 percent. As of December 31, 1988, the Corporation owned approximately 45,000 loans, had assets of approximately \$5.8 million, and had bonds and notes outstanding of \$3.8 billion. Though it currently is experiencing high delinquency rates and is facing an unstable housing market, AHFC's financial stability remains unshaken because of their conservative practices of overcollateralizing bonds outstanding and the multiple layers of mortgage insurance and guarantees backing mortgages owned.

With oil revenues significantly reduced in recent years and the stark reality on the horizon that Alaska's major revenue source will begin to decline, coupled with the public's general perception that government is too large and expensive, the legislature continues to be confronted with

the task of reducing the state's budget or finding new revenue sources. In 1986, the legislature approved a sale of \$70 million of Department of Community and Regional Affairs, Housing Assistance Division (DCRA-HAD) loans to AHFC of which the proceeds from the sale were deposited in the State's General Fund. A subsequent year attempt was made to sell more DCRA-HAD loans to AHFC, but the governor vetoed the authorizing legislation. The legislature continues to eye the strong balance sheet of AHFC, which presently enjoys a \$1.5 billion fund equity of which approximately \$600 million is not pledged to outstanding bonds but is committed to non-bondable mortgages, loans in the process of being funded by a bond issue, or for working capital based upon current operating practices and future bond sale assumptions.

Alaska presently has an abundance of housing in many parts of the State which has resulted in a reduction of housing prices unlike the shortages and escalation of prices experienced during the economic expansion period. In addition, there are indications the mortgage program activities have peaked and are receding. With this in mind, we believe now is the time for the legislature to reconsider residential financing policies. There is evidence some legislators are already considering this by the introduction of Senate Bill 200, which essentially reduces the subsidy on some mortgage programs of AHFC.

However, due to the dynamic role AHFC plays in secondary mortgage financing in Alaska and the sensitivity of the bond market, it is recommended that a comprehensive review be made of all residential financing programs jointly, such as is proposed through introduction of Senate Concurrent Resolution No. 28, rather than using a piece-meal approach.* Not only should the mortgage programs of AHFC be scrutinized but all other state-sanctioned residential financing programs should be reviewed for continued need and duplicity. The Institute of Social and Economic Research, University of Alaska, Anchorage, which already has done extensive studies on housing and the related financing, could be called upon to perform such a study.

In addition, the legality of reappropriating funds from AHFC should be considered. The legislature obtained a memorandum in April 1985 from the attorney general's office which stated a direct appropriation from AHFC was legally defensible but that a statutory language change was advisable. At the same time, AHFC received an opinion from its bond counsel which questions the legality of the

* Senate Concurrent Resolution No. 28 passed the legislature in May 1989.

legislature's ability to appropriate from AHFC. Also, the opinion raises questions as to the effect of such appropriations on the Corporation's bonds which are typically issued as general obligation bonds, meaning all the Corporation's assets are available to satisfy the bondholders, if necessary.

Once state residential financing policies are revised, a study could then be performed to determine the extent of capitalization and reorganization necessary to administer the reestablished programs. This study should include having a financial expert review AHFC's methods of debt management, such as the practice of overcollateralization of bond issues and the use of bond fund monies or collateral in excess of debt service needs where options under the bond covenants exist.

Potential results of the study, subject to the disposition of the above mentioned legal issues, could include the merging of DCRA-HAD programs into AHFC and eliminating related administrative costs, redirecting all or portions of the net income flow from AHFC to the State's General Fund, and/or reduction of the working capital needed by AHFC (which presently approximates \$350 million) to operate its mortgage programs of which said reduction could be appropriated back to the State's General Fund.

Recommendation No. 2

The administration of the insurance funds should be legally clarified and performed in accordance with the statutes.

In 1975 the legislature created a special fund of the State to be known as the "State Mortgage Insurance Fund" which was established to provide insurance against losses suffered by AHFC on loans acquired under the Insured Mortgage Bond Program. In 1980 an additional account was added under the State Mortgage Insurance Fund (hereinafter referred to as the Insurance Fund) to provide insurance on loans acquired under the Insured Rural Mortgage Bond Program.

The Alaska Statute 18.56.095 states: "The Insurance Fund shall be held by the commissioner of revenue, subject to the power of the commissioner of commerce and economic development to enter into and perform agreements with respect to the use of money in the Insurance Fund." It further states: "The commissioner of commerce and economic development may enter into agreements with AHFC with respect to the exercise of any power or approval relating to the Insurance Fund under the statute." Based on that authority, the commissioner of the Department of Commerce and Economic Development entered into an agreement with AHFC on December 6, 1975, concerning the administration of the

Insurance Fund. The monies of the Insurance Fund are held in trust by a commercial lending institution pursuant to a custody agreement entered into by the State and administered by AHFC.

The legislature made the following appropriations to the Insurance Fund:

<u>Insured Mortgage Insurance Account</u>	
Chapter 211, SLA 1976	\$ 500,000
Chapter 14, SLA 1977	2,000,000
Chapter 43, SLA 1978	1,720,000
Chapter 67, SLA 1978	2,880,000
Chapter 80, SLA 1979	6,000,000
Chapter 120, SLA 1980	12,500,000
	<u>25,600,000</u>
<u>Insured Rural Mortgage Insurance Account</u>	
Chapter 67, SLA 1978	1,000,000
Chapter 80, SLA 1979	825,000
	<u>1,825,000</u>
<u>Total legislative appropriations</u>	<u>\$27,425,000</u>

According to the audited financial statements for the year ending June 30, 1984, the contributed capital in the Insurance Fund totalled \$19,190,000, of which \$17,590,000 was designated as contributions from the State and \$1,600,000 as contributions from AHFC. Therefore, it appears \$9,835,000 of the above-mentioned appropriations (\$8,835,000 for the insured mortgage insurance account and \$1,000,000 for the insured rural mortgage insurance account) were not deposited into the Insurance Fund. AHFC should perform a reconciliation of the amounts requested and received of the appropriations to determine the disposition of the \$9,835,000 difference.

In addition in September 1984, based on an analysis of the fund requirement which indicated an excess of funds in the insured mortgage insurance account at that time, AHFC transferred approximately \$12 million from the Insurance Fund to the general account of its Revolving Fund for other uses by the Corporation. The funds transferred consisted of \$1.6 million of capital contributed by AHFC and \$10.4 million of legislative appropriations.

The legality of the above was questioned by the deputy commissioner of the Department of Revenue who sent a memorandum dated January 2, 1985, to the attorney general requesting an opinion regarding these matters. To date a response has not been received from the Attorney General's Office. The request was assigned to an assistant attorney general on January 8, 1985. However, the file was closed on December 15, 1986 when he terminated his employment. Then

on September 24, 1987, the file was reopened and reassigned to another assistant attorney general. It currently has an assigned case number and is on the open case listing. The commissioner of the Department of Revenue should press for a response to the January 2, 1985 request for an opinion and the matter discussed below.

An additional legal issue should be clarified which relates to the disposition of appropriated capital contributions to the Insurance Fund when the bonds relating to the insured mortgages are redeemed and the loans are sold to other bond funds within AHFC's accounts. In 1988 the Insured Rural Mortgage Bonds were redeemed, the loans released were sold to other bond funds and are no longer designated by AHFC as loans insured by the Insurance Fund. The question arises then as to the disposition of the \$825,000 deposited to the insured rural mortgage insurance account for the Insured Rural Mortgage Bond Program. Also, the legislature appropriated \$630,000 to the Rural Housing Hazard Insurance Fund and the Rural Housing Title Insurance Fund which now may not be needed. The insured rural mortgage insurance account and the other two funds had fund equities as of December 31, 1988 totalling approximately \$2,700,000 which were held in investments. There were no liabilities outstanding nor were there any loan loss reserves against the account or funds. Subject to the outcome of the legal opinion, these monies could be reappropriated back to the General Fund.

Another issue noted during the audit concerning the Insurance Fund is the December 31, 1988, financial statements of AHFC indicate a shortage may exist in the insured mortgage insurance account to cover potential loan losses. AS 18.56.095(e)(1) states the fund requirement is calculated as two percent of the unpaid principal amount of purchased loans or a percentage the Corporation and the commissioner of the Department of Commerce and Economic Development determines is actuarially sound for the operation of the Insurance Fund. As of December 31, 1988, two percent of the unpaid principal balances of the Insured Mortgage Bond Fund totalled \$13 million while the insured mortgage insurance account equity only totalled \$8.1 million, indicating a shortage of approximately \$4.9 million.

In addition, the shortage may be increased through AHFC filing claims for losses against the insured mortgage insurance account. To date the losses recorded against the account have been based on estimates and AHFC has not filed any of the actual claims outstanding to determine the accuracy of those estimates. Also, AHFC is planning to purchase loans under the condominium stabilization program and sell those loans to the Insured Mortgage Bond Fund. These loans are to be insured by the insured mortgage insurance account which will increase the Insurance Fund requirement by approximately \$1 million.

The commissioner of the Department of Commerce and Economic Development is required under AS 18.56.095(f) to determine the amount on deposit in the Insurance Fund on December 1 of each year and compare that amount to the fund requirement to determine if there is a shortage in the Insurance Fund. If a shortage exists, the commissioner is to request AHFC to transfer from any available funds the amount necessary to restore the Insurance Fund to the fund requirement. If sufficient funds are not provided by AHFC, the commissioner shall, no later than January 2, certify to both the governor and the legislature the amount required to restore the Insurance Fund. The amount necessary may be appropriated and paid to the Insurance Fund. Under section 205(c) of the mortgage insurance agreement with AHFC, it states: "Both the commissioner of commerce and economic development and AHFC are to determine the fund requirement." In addition, section (203) of the agreement states. "At any time the capital of the account has been equal to or in excess of the fund requirement for the preceding two years, the Corporation may withdraw from the Insurance Fund the amount in excess of the fund requirement, only to the extent that such withdrawals represent reimbursement to the Corporation for contributions to the capital of the Insurance Fund."

The last determination of the fund requirement was dated August 31, 1984, which showed the insured mortgage insurance account had an excess of approximately \$12.7 million. It was after this analysis that AHFC, based on the criteria in section (203) as stated above, made the transfer of the \$12 million to its Revolving Fund as previously mentioned. It should be noted the state accountant has included the Insurance Fund in the State's annual financial report as a trust fund of the State and shows a receivable due from AHFC for the \$12 million. We believe it will be necessary for AHFC to transfer back to the insured mortgage insurance account all or a portion of those funds.

We also recommend AHFC file claims against the Rental Program Insurance Fund and prepare an analysis of the fund requirement in accordance with AS 18.56.093(f). The fund equity as of December 31, 1988 totalled a negative \$4.3 million. In accordance with the statute, AHFC is to determine the fund requirement as a percentage of the loans purchased under the Residential Mortgage Bond Fund which is actuarially sound for the operation of the Rental Program Insurance Fund. On December 1 each year the Corporation is to determine the amount on deposit and compare it to the established fund requirement. If a shortage exists, the Corporation must certify in writing, by January 2 of the following year, to the governor and the legislature the amount, if any, required to restore the Rental Program Insurance Fund to the fund requirement.

Recommendation No. 3

AHFC should monitor the performance of its financial institutions and mortgage companies (hereinafter seller/servicers) and enforce the provisions of the related servicing agreements.

AHFC does not have adequate procedures in place to monitor the seller/servicers' performance relating to delinquencies and foreclosures. This is evidenced both by an analysis of AHFC's computer loan database performed by the Office of Management and Budget, Division of Audit and Management Services (OMB) and the results of a review of real estate owned (REO) files performed by us.

The sample of REO files selected for review consisted of the following:

<u>No. of Seller/Servicers Represented in Sample</u>	<u>No. of Loans</u>	<u>Total Foreclosed Loan Balances</u>
10	30	\$3,037,263

Audit procedures included analysis of the timeliness of the tasks performed by the seller/servicers. In addition, the related primary mortgage insurance and pool insurance claims were reviewed for reductions designated by the insurer as being a result of inadequate performance by the seller/servicers. It should be noted, some of the audit procedures were not applicable to all the REO files. Also, in some instances, the procedure could not be performed due to insufficient documentation in the file. The results of our review of the REO files and OMB's analysis are discussed below.

Seller/Servicers' Responsibilities

AHFC contracts with seller/servicers to provide loan management services for the loans purchased by the Corporation. The contracts, referred to as servicing agreements, provide for a fee to the seller/servicers for their services which include: administering the collection and accounting of all loan payments and delinquencies; processing loan foreclosures; and filing primary mortgage insurance claims on behalf of AHFC for losses incurred due to foreclosures.

In connection with delinquencies and foreclosures, there are procedures which must be performed by the seller/servicers within specified time frames. These time frames are established by the AHFC Servicer Guide and the primary mortgage insurance policy, if the loan is insured. The timing requirements of the major procedures reviewed in our audit are as follows:

No later than the 95th day of delinquency, the seller/servicer is to submit form #SER-71 to AHFC requesting permission to accept a forbearance agreement, a liquidation plan, a deed-in-lieu, or to foreclose. (Servicer Guide, section 9002.03 (C))

Prior to April 1, 1988, AHFC was to respond to the #SER-71 request, within 5 business days of the receipt of the completed form. (Servicer Guide, section 9002.04) Effective on that same date, AHFC extended their response time to 15 days. (Seller/servicer memorandum #88-7)

A Notice of Default is to be filed with the district recording office by the seller/servicer within 120 days of delinquency, according to the Servicer Guide, section 9002.03(B). The time requirement of the primary mortgage insurance policies varies with each insurer but generally ranges from 90 to 180 days of delinquency.

Foreclosure sale of the property generally occurs 100 days after the filing of the Notice of Default. (AS 34.20.070)

The seller/servicer must file a primary mortgage insurance (PMI) claim on behalf of AHFC, which is usually required to be filed under the policies within 60 days of the date of the foreclosure sale.

Payment on the PMI claim should be received within 60 days of the filing of such claim. (Servicer Guide, section 9004.02 (D))

Seller/Servicer's Performance

Permission Requested and Given for Foreclosure:

OMB only analyzed the date AHFC gave permission to foreclose as, until recently, the receipt date of the form #SER-71 was not recorded in the loan database by AHFC. Their analysis of the time elapsed between the loan delinquency and the date AHFC gave permission to foreclose resulted in the following:

<u>Period</u>	<u>No. of Loans Analyzed</u>	<u>Average Number of Days from Loan Delinquency to Date Permission Given</u>
FY 1986	971	150
FY 1987	2,419	155
FY 1988	2,648	170
FY 1989	<u>13</u>	<u>273</u>
Total Loans	<u>6,051</u>	Average <u>161</u> Days

The average of 161 days compares to the 102-day time frame (95 days plus a maximum of 7 actual days to respond) prior to April 1, 1988 and the 110-day timeframe (95 days plus 15 days to respond) effective on that same date as previously stated. This comparison indicates a delay in receiving permission to foreclose on an average of between 51 and 59 days.

Legislative Audit was able to determine the time elapsed between the loan delinquency and the date of the receipt of the #SER-71 request form and, then, the time elapsed before AHFC responded to the request. The results of our review of the REO files are as follow:

<u>No. of Loans</u>	<u>Average Number of Days from Loan Delinquency to Date Permission Requested/between Request & Given Dates</u>	
28	164	/ 13

Based on the results of the review of the files, the seller/servicers on average were 69 days delinquent in submitting the form #SER-71 to AHFC. All the request forms within the sample were received prior to April 1, 1988. Therefore, AHFC was not meeting the 5 business day guideline, but it appears they should be able to stay within the revised 15-day guideline.

Filing Notice of Default:

AHFC does not record in its loan database the date the seller/servicer files the Notice of Default. Therefore, OMB did not analyze the performance of this individual procedure, but rather determined the average time elapsed from the loan delinquency to the date of the foreclosure sale. The results were as follows:

<u>Period</u>	<u>No. of Loans Analyzed</u>	<u>Average Number of Days from Loan Delinquency to Foreclosure Sale Date</u>
FY 1986	554	283
FY 1987	1,817	312
FY 1988	2,813	348
FY 1989	<u>1,167</u>	<u>377</u>
Total Loans	<u>6,351</u>	Average <u>337</u> Days

The average compares to the 190 to 280-day time frame (the 90 to 180 days required by the PMI policies for the filing of the Notice of Default, plus the 100 days after the filing to the foreclosure sale) which indicates seller/servicers have been on an average of 57 to 147 days in excess of the time frame. The results of our review of the 30 REO files were very similar as the average time elapsed from the loan delinquency to the foreclosure sale was 342 days.

Filing of the primary mortgage insurance claim:

As stated previously, the seller/servicer is required by the PMI policies to file a claim within 60 days after the date of the foreclosure sale. The insurer is to remit payment on the claim within 60 days of its filing. OMB determined the average time elapsed from the foreclosure date to the filing of the PMI claim was 36 days and the average time elapsed to the payment receipt date was 78 days. They did express some concern with a few of the seller/servicers' individual averages which exceeded the 78-day average. One possible explanation could be those seller/servicers had a disproportionate share of loans in foreclosure which were insured through a Veterans Administration (VA) guaranty, rather than a private mortgage insurance policy. The VA is not timely in paying claims, which is evidenced with our analysis of the REO files below:

<u>PMI Insurer</u>	<u>No. of Loans</u>	<u>Average Number of Days from Foreclosure Sale to Date of Filing/Payment</u>	
VA	8	33	210
other	<u>16</u>	27	77
Total Loans	<u>24</u>		

Effects of Seller/Servicers' Performance

The servicing agreements stipulate the seller/servicers will indemnify and hold AHFC harmless against any and all losses, forfeitures, and any other costs, fees, and expenses that AHFC may sustain as a result of any failure on the part of the seller/servicer to perform its services and duties as stated in the agreement or Servicer Guide. The Servicer Guide at section 9004.02 states it is expected the seller/servicer will reimburse AHFC if the primary mortgage insurer will not allow certain costs in the claim or if they cut off the amount of interest they will pay solely because the seller/servicer did not follow the required procedures.

According to AHFC management, it is policy to bill the seller/servicer for any reductions in either the primary mortgage insurance or pool insurance claims which are due to the seller/servicers' noncompliance with the PMI insurance policy requirements. A review of the claim documentation indicated the PMI insurers made the following reductions in insurance claims due to noncompliance with the policy requirements. The amount AHFC billed the seller/servicer for reimbursement is also noted.

<u>No. of Loans</u>	<u>Amount of Reductions</u>	<u>Amount Billed to Seller/servicer by AHFC</u>
18	\$53,796	\$4,778

In addition, the related pool insurance claims were reduced for the payment of interest and expenses related to the delays under the PMI policy requirements. Those reductions were as follows:

<u>No. of Loans</u>	<u>Amount of Reductions</u>	<u>Amount billed to Seller/servicer by AHFC</u>
11	\$27,212	\$5,036

A listing of amounts due from the seller/servicers dated January 17, 1989 totalled \$1,271,639. However, based on the above differences in the amount of reductions identified by the insurers as being due to seller/servicers' untimely performance and the amount billed, the listing does not appear to be accurate. In part, this understatement of amounts due from the seller/servicers may be due to:

AHFC not having a system to properly track the billing and receipt of receivables other than loans (see Recommendation No. 6);

inconsistent policies among management staff relating to whether the seller/servicer should be billed for the pool insurance reductions which are being contested by AHFC, in view of the possible recovery of those funds from the pool insurer;

procedures for review of PMI and pool claims relating to reductions in determining the amount due from seller/servicers are not in writing to provide for consistency; and

the laxity of collections efforts which AHFC management attributes to a shortage in personnel.

As stated above AHFC is contesting the reductions on the pool insurance claims. A conflict exists between AHFC and the pool insurer as to whether the pool policy provides the insurer the ability to make reductions in claims for untimely foreclosures under the PMI policy requirements or their interpretation of the pool policy requirements. In addition, other claim reductions, such as property restoration costs, based on the pool insurer's interpretation of the policy are also being contested.

AHFC has sought legal advice and is presently negotiating with the pool insurer to recover all or a portion of the

reductions attributed to untimely foreclosures and other disputed interpretations of the pool policies. The pool insurer has generally applied more restrictive time requirements for initiating foreclosure proceedings than the PMI policies by requiring that proceedings be started by the 90th day of delinquency. The total contested reductions as of April 24, 1989 was \$8,782,208. However, according to AHFC management the collection of these monies from the pool insurer has been impeded by the cashing of the claim proceeds checks which had a restrictive endorsement stating acceptance of the proceeds was settlement in full for the claim.

Recommended Improvements in Monitoring Seller/Servicers

A recommendation was made in the October 12, 1988 audit report on the mobile home loan program to improve the monitoring of seller/servicers by providing management reports of AHFC loan data to allow staff to review seller/servicers timeliness in performing critical tasks relating to foreclosure and to perform on-site audits of the seller/servicers who are in noncompliance with the time guidelines. In addition, OMB in a draft management letter dated February 28, 1989, also recommended use of automated reports to monitor the seller/servicers.

AHFC has recently developed a management report which will track loans beginning with the request for permission to foreclose through the date the PMI claim proceeds are received. The two seller/servicer auditor positions have been recently filled. On-site audits coupled with the regular review of the above-mentioned management reports should assist AHFC in reducing its losses in insurance proceeds due to seller/servicer performance.

In addition, we recommend AHFC management implement procedures to ensure the following:

- The date the seller/servicer files the Notice of Default should be added to AHFC's loan database since this is the critical date under the insurance policies for documenting timely initiation of foreclosure proceedings;
- A master set of PMI policies should be available for use by the AHFC loan servicing staff to determine the various policy requirements for comparison with the seller/servicers' performance.
- Written policies and procedures should be established relating to the insurance claim reductions to be reimbursed by seller/servicers, to provide for consistency.

- Collection efforts by AHFC staff for amounts due from seller/servicers should be enhanced and consistently applied.
- AHFC management should consider requiring the seller/servicer to meet the pool insurer's time frame for initiation of foreclosure when it is apparent the borrower is not able or is unwilling to comply with a forbearance agreement or liquidation plan to prevent foreclosure.
- AHFC should continue to pursue all legal rights to pool insurance proceeds under the policies.

In summary, AHFC's acceptance of responsibility to provide more effective monitoring of the seller/servicers' performance under the servicing agreements would help diminish the losses incurred by the Corporation.

Recommendation No. 4

AHFC should improve its controls over REO expenditures.

Additional audit procedures were performed on the 30 REO files selected for review to determine the adequacy of controls over the expenditures relating to the REO properties. The following exceptions were noted. Albeit somewhat individually immaterial as to dollar significance, but when considered in conjunction with discussions with staff and management, they indicate improvement is needed in the controls relating to the approval and processing of REO expenditures.

- Thirteen transactions totalling \$29,129 in ten of the REO files required a total of thirty-two bids, but only ten bids had been documented in the files.
- Eighteen Maintenance and Repair Work Authorizations (WAs), which are used by the designated brokers to submit expenses for approval and payment, did not have the required written approval of the pool insurer. The expenses, which were paid between January and June 1988, totalled \$16,769.
- Five WA's dated between February and June 1988 did not have written approval by the AHFC property disposition staff.
- Seven expenditure transactions recorded in the accounting system between December 1987 and November 1988, which totalled \$2,278, did not have supporting documentation in the REO files.

- Three Claims for Reimbursement forms dated between March and June 1988 included expenses for property repairs. The inclusion of repair expenses on these forms rather than a WA does not allow for a review and approval by the property disposition staff who are familiar with the REO property, nor does it provide for approval by the pool insurer, if required.
- Two duplicate payments were noted totalling \$1,223.
- The eight REO properties, which had restoration expenses totalling \$14,690 that the pool insurer required AHFC to pay, had not been inspected by the AHFC property disposition staff.
- AHFC does not prepare a financial analysis of the options available where the pool insurer is requiring the Corporation to pay the restoration expenses on a REO property.
- Two of thirty-seven REO files requested for review could not be located. In addition, one file reviewed was a duplicated file as the original file had been lost.

The related policies and procedures to the above instances and our recommendations are discussed below.

In accordance with AHFC policy, a designated broker is to solicit from potential subcontractors: two bid proposals if the repairs are \$500 but less than \$2500 and three bids if the repairs total \$2500 or more. Once the bids are obtained they are submitted to AHFC or the pool insurer for approval of the best bid (usually the lowest). However, as indicated above, the proper number of bids are not being evidenced in the file. Two possible explanations for this are: (1) the property disposition specialist for either AHFC or the pool insurer or both are approving repairs to be completed without the proper number of bids being obtained; or (2) the bids are not being properly filed or have been misplaced.

We recommend the copy of the WA submitted for payment after repairs are completed not only have the original invoice attached but also all bid proposals. This will serve a dual purpose by providing for a second verification for the proper number of bids and for a comparison of the invoice from the selected subcontractor to the bid amount prior to payment.

In January 1989, the REO payables staff developed written procedures for the processing of REO expenditures which require the written approval of an AHFC property disposition specialist and the pool insurer, if applicable, prior to

issuance of payment. Any invoice not properly approved is to be returned to the property disposition staff for review, and no payment is to be issued. In addition on February 9, 1989, a memorandum was sent to the designated brokers informing them all repair and maintenance expenses must be reported on a WA. A WA form is also being developed for use by the seller/servicers. Exclusive use of the WA forms for repair and maintenance expenses will ensure review and approval of these expenses prior to payment. The pool insurer has denied expenses on the insurance claims for not obtaining proper approval.

Of the \$8,782,208 in insurance claim reductions being contested by AHFC as previously discussed, \$972,071 were reductions due to the expense not being approved by the pool insurer. Adherence to the above-mentioned revised review and approval procedures should assist in preventing these type of claim reductions.

A computerized edit report was developed in November 1988 which compares specific criteria to assist in identifying duplicate payments. In addition, the Claim for Reimbursement form utilized by the seller/servicers and designated brokers for foreclosure and routine expenses, such as utilities and snow removal has been redesigned to allow for the input of individual expenses versus the entering of the total expenses on each form. Both of these changes should provide greater assurance that duplicate payments are not made for REO expenses.

A records retention system was established by AHFC in early 1989. Prior to this any staff member could pull files. An out card system was to be utilized but the cards were not always completed, leaving no record as to the location of the file. AHFC has performed file inventories and established controls over the access of the files which should diminish the loss of documents and/or files. An additional control over documents could be provided by establishing routine random file audits to ensure documents are being obtained and properly filed. Without supporting documents, AHFC is unable to submit expenses to its PMI and pool insurers for reimbursement.

We recommend AHFC property disposition specialists perform an on-site inspection of REO properties, especially those properties where the Corporation will incur the expense of repairs or restoration to the property. In addition, a financial analysis of the options, such as completing and paying for restoration costs versus loss of the pool insurance due to refusal by AHFC to pay such costs, should be performed and documented prior to a decision being made relating to major repairs of a property. AHFC property disposition management is in agreement and is presently developing an inspection form and financial analysis worksheet to be utilized by its staff.

The approval and processing of REO expenditures has been inconsistent due to unwritten agreements with the pool insurer and unwritten internal policies and procedures for AHFC. Steps have been taken by current AHFC management to correct this problem. In November 1987, AHFC began requiring the pool insurer's written approval for expenses relating to pool insured properties and a list of routine expenses was agreed upon in writing which would not require such approval. A Property Marketing and Management Guide was drafted by the property disposition staff in June 1988. However, it was not fully utilized due to the problems related to revision of the designated broker program. In addition, in January 1989 a REO Disbursement Procedures Manual was drafted to provide consistency in processing REO expenses.

AHFC should continue to develop written policies and procedures relating to REO expenditures and make necessary revisions in a timely manner. Accountability by the pool insurer, seller/servicers, designated brokers and AHFC will be improved through this process.

Recommendation No. 5

AHFC should improve its controls over direct loans.

During 1986 and 1987, the AHFC staff approved and issued approximately \$4 million in direct loans to facilitate the sale of single-family and multi-family residences in AHFC's real estate owned inventory. The board nor the executive management of AHFC had approved such a direct lending program. The only approved direct lending program is for the sale of repossessed mobile homes. In April 1987, the board approved the program and written program criteria and procedures were established, which included a review process of the buyer/borrower's loan application by AHFC's underwriting staff.

The unauthorized loans were approved and the closing documents were signed by the previous property disposition manager. According to staff, some loans were also approved and signed by a prior controller. The practice of issuing these direct loans for sale of REO properties, other than for repossessed mobile homes, was stopped once the executive management of AHFC became aware of the problem.

The staff and management are currently issuing only direct loans to facilitate the sales of repossessed mobile homes in accordance with the established policies and procedures. However, as an additional control, we recommend the loan closing documents be signed by a member of the executive management, such as the Servicing Operations Director or Chief Operations Officer. This will provide a review by a management person who is not also directly involved with the approval of the sale of the REO property.

In addition to the above, we noted financial disclosures were not being provided to the borrowers who are obtaining a direct loan to facilitate the sale of REO property as required by the federal truth-in-lending regulation.

In general, the federal regulation applies to each individual or business that offers or extends credit when four conditions are met: (1) the credit is offered or extended to consumers; (2) the offering or extension of credit is done regularly; (3) the credit is subject to a finance charge or is payable by a written agreement in more than four installments; and (4) the credit is primarily for personal, family, or household purposes.

The direct loans are closed by various title companies and payments by the borrowers are made to an escrow department of a local commercial financial institution. Neither of which are acting in the capacity of a lender and, therefore, do not prepare the necessary financial disclosures. The AHFC loan closers should prepare and provide to the borrowers the financial disclosures as required by the federal regulation.

Legislative Audit in an audit report dated October 12, 1988 on the mobile home loan program recommended AHFC expedite the contracting with a single servicing agent to service loans made to facilitate the sale of repossessed mobile homes. Depending on the scope of services and responsibilities provided under the contract, the servicer may provide the financial disclosures. However, an RFP has not yet been issued to solicit bids for the servicing of these loans. According to management, they have not had the time to complete the project.

Recommendation No. 6

AHFC should implement necessary changes to its accounting and loan data systems to allow for proper accountability.

During the course of our audit, we noted several areas in which AHFC's accounting and loan data systems could be improved. The areas in need of improvement are discussed below along with our recommendations as well as recommendations from other auditors.

Accounting for REOs

The following problem areas relating to the accounting for REOs have been noted by us and other auditors:

- REO expenses, gains, and losses on sales of REOs, loan loss provision expenses, and loan/REO write-offs and write-downs have been commingled into a single general ledger account.

- REO loss write-downs have not been specifically identified with the individual REOs.
- Insurance proceeds are first applied to the REO balance, then to the related accrued interest receivable, and finally to the gain or loss on sale of the REO property. However, the accrued interest amount the accounting staff has been satisfying with the insurance proceeds is not the amount actually being accrued into income by the computer system. The data field which the accounting staff was utilizing was created to only provide management information and does not provide accurate totals of the accrued interest receivable on the REO.
- Currently, AHFC accrues interest on 75 percent of the loan/REO balance from the date interest was paid to the sale date of the foreclosed property to a third party, if the loan has pool insurance. If the loan does not have pool insurance, interest accrual is based on 100 percent of the loan/REO balance and ceases after 60 days from the paid-to interest date of the loan. The method of accrual should more closely reflect the interest income expected to be collected.

In the independent auditor's management letters for fiscal years 1987 and 1988, it was recommended AHFC establish separate general ledger accounts for each category of REO transactions, such as REO repairs and maintenance expenses, gains and losses on property disposals, REO write-offs/downs, and insurance reimbursements for expenses. Legislative Audit also recommended this in its audit report dated October 12, 1988 concerning the mobile home loan program. OMB further recommended, in its report on the designated broker program dated January 1989, AHFC utilize separate transaction codes for the various types of REO receipts and expenses, i.e., receipts from seller/servicers for reimbursement of insurance proceed reductions, legal expenses, maintenance and utility expenses, repair expenses, etc.

Since January 1989, AHFC has been properly tracking the REO write-downs with the specific REO and those write-downs have been recorded in a separate general ledger account. In addition, individual transaction codes have been assigned to the various types of REO expenses. These changes, in part, will improve the accountability of REO transactions. However, we recommend AHFC further segregate the categories of REO transactions as recommended by its independent auditors and review and revise its interest accrual on loans/REO's.

Accounts Receivable System

The independent auditors of AHFC, in their management letters for fiscal years 1987 and 1988, recommended the Corporation develop an accounts receivable system for reimbursable expenses under the insurance policies and for amounts due from the seller/servicers.

AHFC has developed a schedule of receivables due from the seller/servicers on its micro-computer. However, as stated in Recommendation No. 3, the listing is not accurate and a system is needed to properly track the receivables. Insurance receivables are still estimated based on REO expense transaction activity, which does not provide for identification of the amount of non-reimbursable expenses nor the difference between the amount of the insurance claim and the amount received.

AHFC should develop an accounts receivable system as has been previously recommended.

Controls Over Computer Data

OMB noted in its report on the designated broker program that data 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 into the computer system.

We noted in our review of the 30 REO files that 25 files had an incorrect date entered for permission to foreclose from AHFC. This problem, in part, may have been resolved with the addition of a field to provide the date permission to foreclose was requested by the seller/servicer.

AHFC should provide for proper controls over data entered into its computer system. These controls could include batch controls and/or additional output/edit reports provided to the originator of the information. In addition, written computer user manuals with descriptions of data fields would help provide consistency as to the information entered into each data field.

Budgeted Expenditures

AHFC is required by AS 37.07 to submit a budget for its administrative operating expenditures. The legislature appropriates the funds to be expended for such expenses from AHFC's unrestricted receipts. Expenditures or obligations may not exceed the amount appropriated.

In order to ensure expenditures do not exceed the budgeted/appropriated amounts, it is necessary to compare the amount actually expended to the budgeted amounts. This not only is prudent in view of the legislative requirements but is necessary for proper management of any business operation. However, we noted the actual expenditures were not compared to the budgeted amounts for FY 89 until January 1989, almost halfway into the fiscal year. This was due to miscommunications between the accounting staff and the person responsible for the budget.

In addition, the accounting system and method for preparation of the budget does not provide for accountability by the departmental management. The budgeted categories are not broken down to the department level but rather only reflects the amount to be expended in total by the Corporation.

We recommend AHFC implement a budgeting system that provides for departmental accountability of administrative operating expenditures, the monitoring and preparation of the budget be transferred back to the controller, departmental management be included in the budget preparation process, and monthly budgeted versus actual expense reports be provided for review.

Financial Reporting

Currently, monthly financial reports/statements are not completed until six weeks or more after the month end. This is largely due to the delay in obtaining financial activity relating to the various bond funds from the trustees.

However, the Finance Director stated it is possible to receive this financial activity through a down loading process of accounting information from the trustees. We recommend AHFC pursue the possibility of this method of obtaining the necessary monthly financial accounting activity to provide the management and the board more timely financial information.

APPENDIXES

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APPENDIX A
DEPARTMENT OF REVENUE
ALASKA HOUSING FINANCE CORPORATION
SUMMARY OF REO FILE SAMPLE

	<u>Single-Family Residence</u>	<u>Planned Unit Development</u>	<u>Condominium</u>	<u>Duplex</u>	<u>Four-plex</u>	<u>Totals</u>
No. of Units	20	4	4	1	1	30
Loan Balance @ Foreclosure	\$1,997,515	\$397,474	\$321,037	\$65,097	\$252,931	\$3,034,054
Foreclosure Costs	66,174	13,734	8,857	4,545	7,175	100,485
Holding Expenses	101,413	27,164	21,559	3,859	2,757	156,752
Restoration Costs	11,789	1,241	-0-	1,660	-0-	\$14,690
Accrued Interest	<u>217,056</u>	<u>60,330</u>	<u>35,239</u>	<u>8,631</u>	<u>4,374</u>	<u>325,630</u>
Total Balance	<u>\$2,393,947</u>	<u>\$499,943</u>	<u>\$386,692</u>	<u>\$83,792</u>	<u>\$267,237</u>	<u>\$3,631,611</u>
Sales Price	\$1,366,000	\$314,000	\$164,500	\$40,000	\$129,000	\$2,013,500
Selling Costs	<u>157,555</u>	<u>45,972</u>	<u>23,743</u>	<u>5,837</u>	<u>8,519</u>	<u>\$241,576</u>
Net Sales Proceeds	<u>1,208,445</u>	<u>268,078</u>	<u>140,757</u>	<u>34,163</u>	<u>120,481</u>	<u>1,771,924</u>
PMI Claim Receipts	489,125	104,315	90,472	-0-	57,439	741,351
Pool Ins. Claim Receipts	<u>421,097</u>	<u>119,676</u>	<u>106,403</u>	<u>50,712</u>	<u>-0-</u>	<u>697,888</u>
Total Receipts	<u>\$2,118,667</u>	<u>\$492,069</u>	<u>\$337,632</u>	<u>\$84,875</u>	<u>\$177,920</u>	<u>\$3,211,163</u>
Net (Gain) or Loss	<u>\$275,280</u>	<u>\$7,874</u>	<u>\$49,060</u>	<u>(\$1,082)</u>	<u>\$89,317</u>	<u>\$420,448</u>

APPENDIX B
DEPARTMENT OF REVENUE
ALASKA HOUSING FINANCE CORPORATION
FINANCIAL ANALYSIS FOR RESTORATION COSTS

	<u>Case # 1</u>		<u>Case # 2</u>	
	<u>Assumption # 1</u>	<u>Assumption # 2</u>	<u>Assumption #</u>	<u>Assumption # 2</u>
Paid-to-Interest Date	January 1, 1987	January 1, 1987	May 5, 1986	May 5, 1986
Loan Balance @ Foreclosure	\$161,637	\$161,637	\$101,827	\$101,827
Foreclosure Costs	5,118	5,118	-0-	-0-
Holding Expenses	13,065	2,640	14,109	12,039
Restoration Costs	10,283	-0-	43,245	-0-
Accrued Interest	<u>29,554</u>	<u>3,031</u>	<u>22,450</u>	<u>1,761</u>
<u>Total Balance</u>	<u>\$219,657</u>	<u>\$172,426</u>	<u>\$181,631</u>	<u>\$115,627</u>
Potential Net Sale Proceeds	\$125,474	\$115,700	\$ 78,177	\$33,600
Est. PMI Receivable	-0-	-0-	28,082	-0-
Est. Pool Ins. Receivable	<u>72,483</u>	<u>-0-</u>	<u>26,434</u>	<u>13,000</u>
<u>Total Est. Receipts</u>	<u>\$197,957</u>	<u>\$115,700</u>	<u>\$132,693</u>	<u>\$46,600</u>
Estimated Loss	<u>\$21,701</u>	<u>\$56,726</u>	<u>\$48,938</u>	<u>\$69,027</u>

Explanation of Assumptions

- Case # 1 - Assumption # 1 shows the estimated loss if AHFC approves and pays the restoration costs. This loan does not have primary insurance coverage as the loan-to-value ratio was 80% at the loan origination.
- Assumption # 2 shows the estimated loss if AHFC refuses to approve and pay for restoration costs and the pool insurer denies the entire pool insurance claim due to AHFC's refusal to restore the property.
- Case # 2 - Assumption # 1 shows the estimated loss if AHFC approves and pays for restoration costs.
- Assumption # 2 shows the estimated loss if AHFC refuses to approve and pay for the restoration costs, the house is razed, the property lot is sold, and AHFC accepts a negotiated settlement from the pool insurer.

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AUDIT**

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

P.O. Box 101020
Anchorage, AK 99510

August 21, 1989

MEMORANDUM

TO: Mr. Robert Mintz
Chairman, AHFC

FROM: Larry Pedersen
Chief Operating Officer

RE: Response to Legislative Budget and Audit
August 1, 1989 Special Report



Attached is our response to the individual recommendations in the above-mentioned audit. If you have any questions regarding these responses please do not hesitate to let me know and I will try to assist you in whatever way I can. Thank you.

cc: Tom Behan

RECOMMENDATION NO. 1

Recommendation No. 1 states that the Legislature should analyze the present need and structure of the State's residential financing programs and evaluate the potential legal and economic effects of any changes to such programs.

Basically we agree with the need to analyze and study the structure of the State's residential financing programs and the potential legal and economic effects of any changes to such programs. We feel the auditor's comments is a good attempt at understanding the many complexities that affect the Corporation. We would take exception to comments like "reducing working capital" and "reappropriating funds" back to the State's general fund until all legal and operational issues had been thoroughly analyzed and thought through. The mere statement of reducing working capital is easy enough to verbalize, but monumental to accomplish in a responsible fashion. To reduce working capital at AHFC is to no longer operate at the same level of operations as is being done at present. The Legislative Task Force, SCR28 has as its charge the responsibility to review and recommend changes to publicly-assisted residential finance programs. We feel this is the first step acting in a prudent fashion in any effort to redirect AHFC's funds and/or activities. The Legislative Task Force has been given a timeframe to be complete by the first legislative session. We expect that their efforts can be accomplished in that time period and we look forward to the results of their analysis.

RECOMMENDATION NO. 2

Recommendation No. 2 states that the administration of the insurance funds should be legally clarified and performed in accordance with the Statutes. Deficiencies in the required reporting and analysis of certain insurance funds outlined in the report are valid criticisms. The Corporation is in concurrence that additional attention needs to be given to this important area, particularly with respect to analyzing the exposure of the state mortgage insurance and rental program insurance funds and the filing of loan loss claims against those funds.

The auditor in charge, in her report of examination, states that AHFC indicated a shortage may exist in the insured mortgage insurance account to cover potential loan losses. She cited that Alaska Statute 18.56.095 (a)(1) states that the fund requirement is calculated as 2% of the unpaid principal amount of purchased loans or a percentage the Corporation and the Commissioner of the Department of Commerce and Economic Development determines is actuarially sound for the operation

of the insurance fund. She also states that as of December 31st, 2% of the unpaid principal balance of the insured mortgage bond fund totalled \$13 million. The auditor also states that the insured mortgage insurance account equity only totalled \$8.1 million, indicating a shortage of approximately \$4.9 million. We take exception to the auditor's interpretation of the amount needed, or whether or not any amount is needed. Or whether or not a shortage, in fact, does exist.

Through December 31st, 1988, the Corporation had satisfactorily maintained the fund as required. The 2% requirement cited by Alaska Statutes 18.56.095 is 2% of the unpaid principal amount of those mortgage loans pledged to the insurance mortgage program bonds. The requirement, therefore, is as the auditor has stated, \$13 million. Although the phrase "the amount in the mortgage insurance fund" may be subject to interpretation. Staff believes that the requirement is met by the amount in the mortgage insurance fund which is detailed on Schedule 2 of the Corporation's December 31, 1988 combining Balance Sheet. The Schedule 2 indicates that total fund equity equals \$8.959 million and the insurance fund reserve for loan losses equals \$6.043 million. The sums of which exceed the required \$13 million. In addition to these amounts in the fund, the fund also holds \$14.1 million due to other funds. Disbursement from the fund for amounts due to other funds have been held pending staff review of the disbursements and the need for compliance to fund requirements subsequent to any disbursements. Prior to any future disbursements, the Corporation will review such potential disbursements with Commissioner of Commerce and Economic Development.

Two position were created in the new organizational structure to accommodate the increased burden of administering the Corporation's self-insurance funds. These positions have not been filled, pending a departmental review by the claims administration officer. These positions would be assigned responsibility for monitoring and analyzing the various self-insurance funds, as well as filing related reports. They would also file claims with the insurance funds and deal with the Corporation's servicers and designated brokers in much the same manner that other third party loan insurer's currently do. The Corporation will perform a reconciliation on amounts appropriated for the State to various insurance funds and accounts. The results of the review are expected to indicate that less than the full amounts of the appropriations have been requested to be disbursed. In connection with this reconciliation the payment status of the appropriations will be verified.

Regarding the withdrawal of the \$12 million from State mortgage insurance funds it remains the Corporation's position that retention of these funds by AHFC is appropriate. The amounts received from the State were appropriated to the Alaska Housing Finance Corporation with the designation that they be used for contributions to the insurance fund. This is no different from the language which accompanied other

amounts appropriated to the Corporation from the State. There would appear to be little to differentiate the appropriations to the Corporation for use in capitalizing an insurance fund from other substantial amounts received from the State. Additionally, if the funds withdrawn were not treated as having originally been contributed by the Corporation we would not have been permitted, under the terms of the insurance agreement, to withdraw them from the fund. Other legal questions raised in the report regarding capitalization of insurance funds involves those funds established for the rural loan programs. The legal issue is virtually identical to that involving the State mortgage insurance fund and basically gets down to the question of whether the appropriations lapse when the original purpose for which they were made has been fulfilled. The question also ties into matters discussed in Recommendation No. 1, involving the legality of reappropriation and the real ownership of assets which the Corporation is currently calling its own.

RECOMMENDATION NO. 3

Recommendation No. 3 states that AHFC should monitor the performance of its financial institutions and mortgage companies, i.e. seller services, and force the provisions of the related servicing agreements.

Alaska Housing Finance Corporation understands the importance of monitoring the performance of its seller services and, as pointed out in the audit, has developed management reports for tracking the timeliness of foreclosures. Additionally, monitoring procedures have also been incorporated into the revised Servicing Guide. The monitoring process has been further expanded to include adding the date the seller servicer files the notice of default to AHFC's loan database. This in turn will allow AHFC to monitor the timeliness of the initiation of foreclosure in accordance with the requirements of the insurance policy. The process has been further developed to assure that the initiation of foreclosure is within the shortest timeframe possible, if it is apparent that the borrower is not able, or is unwilling to, comply with programs to prevent foreclosure.

On-site visits, although previously delayed due to other priorities, i.e. the transfer of servicing of Alliance Bank and Alaska State Bank portfolios, have commenced. Home Savings Bank and First Federal Bank were audited in August.

Regarding insurance claim reductions, policies and procedures have been established relating to the reductions which are to be reimbursed by the seller servicers. Collection efforts by AHFC staff for amounts due from seller servicers will be enhanced and consistently applied as the accounts receivable system is developed and utilized as a tracking vehicle. I would recommend that you look at Recommendation No. 6.

AHFC is continuing to pursue all legal rights to pool insurance proceeds under its policies. The Board of Directors at their July 28, 1989 meeting authorized the filing of a law suit if negotiations were not making satisfactory progress by September 1st.

RECOMMENDATION NO. 4

Significant changes have recently been implemented in this area as noted in the comment. Additional changes are in process and will be incorporated as system changes can be developed. The report details a number of suggestions, many of which have been incorporated in the draft of a new Property Marketing and Management Guide. The report urges the Corporation to implement the suggested revisions in a timely manner as accountability by the pool insurer, seller servicer, designated broker, and AHFC will improve. We wholeheartedly concur. However, we have been advised that changes requested are significant enough to warrant their implementation in connection with executing new agreements with the designated brokers. We have been further advised that the new agreements with applicable guides, should be imposed in connection with the addition of new designated brokers and only after going through a formal solicitation process in compliance with the State Procurement Code. We have been working with the Attorney General's office for several months on legal issues related to the solicitation process and resultant contract terms, with many related and significant issues yet to be resolved.

The changes incorporated in the new agreement include requiring that a copy of the work authorization submitted for payment, after repairs are completed, have the original invoice and all bid proposals attached. Formalization of policies and procedures applicable to the repair, maintenance and disposition of foreclosed properties through the creation of guides, which will be incorporated in any agreement, with designated brokers or repair/maintenance contractors. The agreements will permit revisions to the guides as needed, and appropriate, so that they may be kept up-to-date for changing circumstances.

With the majority of new personnel additions behind us, and as existing staff completes their training, the approval and processing of REO expenses should become more consistent. Also, part of the efforts in the dealings with MGIC, as mortgage pool insurer, involve agreement as to policy provisions so that claims can be filed on a basis agreeable to both parties, thereby reducing the confusion over the claimable items.

Inspection of REO properties is expected to increase with the addition of new staff and their relocation to new quarters. The inspections will concentrate on those properties where AHFC has increased financial exposure; either through lack of pool insurance, or repair items contended to be of a restoration nature.

The file retention system has been improved substantially over the last year. Included in the plan for this area is a periodic file audit performed in a manner suggested in the report.

RECOMMENDATION NO. 5.

The audit correctly noted that in 1986 and 1987 AHFC staff had approved and issued approximately \$4 million in direct loans to facilitate the sale of single- and multi-family residences of AHFC's real estate owned inventory. Neither the Board or executive management had approved such action. When it came to their attention it was stopped. AHFC is currently issuing direct loans for the sale of repossessed mobile homes under an approved direct lending program. It is anticipated that this program will continue. In conjunction, it should be noted that AHFC is exploring the need for the direct financing of some of its properties when no other financing is available. AHFC will seek Board approval of any such program prior to its implementation. The recommendation also addresses the fact that many of the direct loans were closed without the truth in lending disclosure statement. Where appropriate, the necessary policy and procedures will be implemented to assure that the proper financial disclosure required by Federal regulation is complied with.

RECOMMENDATION NO. 6

Enhanced recording procedures have been implemented to the accounting for REO expenses. Additional changes, consistent with the recommendations included in this report and others from independent auditors and the Office of Management and Budget are to be incorporated in conjunction with changes being implemented in the accounting for claims receivable. These changes will include the further segregation of REO expenses. The treatment of accrued interest and insurance claim accretion on mortgage loans and REO's is being reviewed in connection with the preparation of the Corporation's year-end financial statements.

With respect to the Accounts Receivable portion of Recommendation No. 6, the development of a comprehensive system for accounting for the various receivables generated in connection with loan foreclosures and property dispositions has had numerous starts. Due to the complexity of its structure, the need to tie the system into a variety of other departments affected, staff turnover, staff reallocation to special projects, the development of the claims receivable system has not been completed.

Recognizing the critical need for the Receivable system a renewed effort has been initiated. The Claims Receivable functions have been transferred to the Accounting Department, which will also be responsible for developing, implementing, and maintaining the Receivable system. The Controllers position has recently been filled with the development of a Receivable system for a time.

implementation and a high priority. Peat Marwick Main has been retained to assist in the design, documentation, and development of the system. The basic information needed for management and accounting purposes will be captured, initially, with enhancements to the system added as time permits.

With respect to controls over computer data, AHFC concurs with LB & A's recommendations or observations, regarding the need for increased controls over data input in the computer. As the Corporation has grown, it has been increasingly difficult to maintain the integrity of the data bases. The current distributed data entry functions may need to be restructured. A centralized data input department may be appropriate, with information provided for other areas in the organization in detail paper form, or by batched electronic means.

Alternatively, a detailed and formalized exception reporting system building on current procedures for edits of changes made to live files, may be necessary. A manual documenting file, specifications and screen input has been evolved. A position was recently created to work primarily on developing documentation for the Corporation's data processing functions. This position has been filled and written user manuals will be developed beginning with the most critical areas.

With respect to budget expenditures, as the Corporation has expanded, it has become more difficult for management to become comfortable with with level of expenditures as compared to the amount budgeted. A persistent lag in authorized budgetary level compared to the needs of the Corporation has brought more attention to this area. AHFC concurs that the development of more timely budgetary information prepared on a departmental level, will facilitate maximum utilization of resources and enhance accountability for expenditures. The Controller has become more involved in the budgetary process and a system detailing authorized amounts and expenditures, by department, is well under way. With respect to financial reporting efforts to enhance the timeliness of financial reporting, and increase the frequency with which such reports are provided have been initiated. As indicated in the report, the transmission of detailed account activity by the Corporation's three bond trustees via electronic media, is a prerequisite for this improved reporting. Systems changes are expected to be necessary in order to prevent or minimize the need for additional accounting staff.

STATE OF ALASKA

DEPARTMENT OF REVENUE

TREASURY DIVISION

STEVE COWPER, GOVERNOR

ELEVENTH FLOOR
STATE OFFICE BUILDING
P.O. BOX 58
JUNEAU, ALASKA 99811-0400

August 14, 1989

RECEIVED

AUG 18 1989

**LEGISLATIVE
AUDIT**

Randy S. Welker, CPA
Legislative Auditor
Division of Legislative Audit
P. O. Box W
Juneau, Alaska 99811-3300

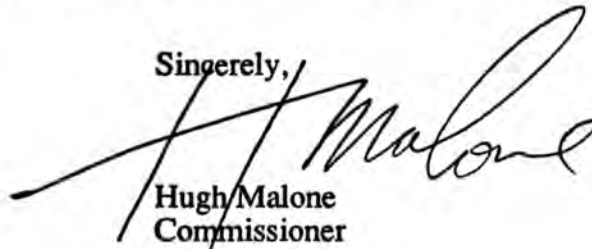
Dear Mr. Welker:

I have reviewed the Division of Legislative Audit's preliminary report, "A Special Report on the Department of Revenue Alaska Housing Finance Corporation".

I offer the following comments in response to portions of the report relating directly to the Department of Revenue. Alaska Housing Finance Corporation will respond directly in regard to portions of the report that concern them.

I concur with Recommendation No. 2. The Department recently reiterated its request in a memorandum of July 19, 1989 to the Attorney General for a response to the January 2, 1985 opinion request. Upon approval of the final version of this report, the Department will again request a response to the 1985 memo, if necessary, as well as the Attorney General's opinion regarding disposition of amounts in certain accounts in the State Mortgage Insurance Fund which no longer have any loans insured under the accounts.

Sincerely,



Hugh Malone
Commissioner

HM/MBB/ph

STATE OF ALASKA
**DEPARTMENT OF COMMERCE &
ECONOMIC DEVELOPMENT**

OFFICE OF THE COMMISSIONER

STEVE COWPER, GOVERNOR

P.O. BOX D
JUNEAU, ALASKA 99811-0800
PHONE: (907) 465-2500

August 23, 1989

RECEIVED

AUG 24 1989

**LEGISLATIVE
AUDIT**

Mr. Randy Welker, Legislative Auditor
Division of Legislative Audit
P.O. Box W
Juneau, AK 99811

Dear Mr. Welker:

Re: A Special Report on the Department of Revenue
Alaska Housing Finance Corporation - April 14, 1989

Thank you for the opportunity to review and comment on the preliminary audit report on the Alaska Housing Finance Corporation (AHFC). The department will limit its comments to Recommendation No. 2 regarding the Mortgage Insurance Fund.

Recommendation No. 2

The administration of the insurance funds should be legally clarified and performed in accordance with statutes.

We agree that a legal clarification of AHFC's mortgage insurance funds is necessary. In addition, with respect to the Mortgage Insurance Fund established under AS 18.56.095, the department has been working with AHFC to determine if the fund requirement had been met as of December 31, 1988. Based on an analysis recently completed by AHFC staff, it appears that the fund requirement of \$13 million was met on December 31, 1988, through the combination of the reserve for loan losses of \$6.043 million and the fund equity of \$8.959 million.

It is the intention of the department to be more diligent in complying with AS 18.56.095 in the future, and to address the fund requirement again this December.

Sincerely,



Larry Merculieff
Commissioner

LM/v10816p
062389A

**Analysis Of
Alaska Housing Finance Corporation's
Loan Servicer Timeliness**

Letter No. 04-21

May, 1989
Division of Audit and Management Services

OMB

STATE OF ALASKA

STAFF PAPERS AND REPORTS

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STATE OF ALASKA

OFFICE OF THE GOVERNOR

OFFICE OF MANAGEMENT AND BUDGET
DIVISION OF AUDIT & MANAGEMENT SERVICES

STEVE COWPER, GOVERNOR

P.O. BOX AM
JUNEAU, ALASKA 99811-0199
PHONE: (907) 465-3568

May 5, 1989

The Honorable Steve Cowper
Governor
Pouch A
Juneau, Alaska 99811

Dear Governor Cowper:

This report summarizes our analysis of loan servicers doing business with the Alaska Housing Finance Corporation (AHFC) and their performance in meeting AHFC's timing criteria for key actions they must accomplish during the loan foreclosure process.

The report recommends the AHFC should review its time guidelines and adjust accordingly, monitor servicers for compliance, and develop additional aging reports for monitoring delinquent loans.

AHFC agrees with our recommendations, as indicated in their response which is included in the report. This report has been reviewed and approved by the Governor's Audit Committee.

Sincerely,



John L. Lucas, Director

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EXECUTIVE SUMMARY

The purpose of the review was to determine if loan servicers were meeting AHFC's timing criteria for key actions they must accomplish during the loan foreclosure process. Servicers need to take timely actions because delay can increase AHFC's foreclosure costs.

There is substantial variation among loan servicers in the amount of time taken to accomplish tasks associated with loan foreclosure. Servicers often do not meet AHFC's timeliness criteria. AHFC needs to review its time guidelines and adjust accordingly, monitor servicers for compliance, and develop additional aging reports for monitoring delinquent loans. Aging reports designed specifically to monitor loans after permission to foreclose is given will help AHFC by highlighting cases where foreclosure time appears unreasonably long. This information will also facilitate timely follow-up by staff and provide overview information for management.

Response from management indicating their agreement with our conclusions and outlining current actions being taken is provided at the end of this report.

MEMORANDUM

State of Alaska

Division of Audit and Management Services
465-3568

February 24, 1989

TO: Robert Mintz, Chairman
Board of Directors
Alaska Housing Finance Corporation

FROM:  John Lucas, Director

SUBJECT: Seller/Service Timeliness

SUMMARY

Our analysis of AHFC's foreclosed loans data shows there was great variation among servicers in the amount of time taken to accomplish tasks associated with loan foreclosure. Servicers often did not meet AHFC's timeliness criteria. This variation is an indication that AHFC should review its time guidelines and adjust accordingly, monitor servicers for compliance, and develop additional aging reports for monitoring delinquent loans.

PURPOSE AND SCOPE

The purpose of our review was to determine if loan servicers were meeting AHFC's timing criteria for key actions they must accomplish during the loan foreclosure process. Servicers need to take timely actions because delay can increase AHFC's foreclosure costs.

In summary, our analysis included:

- interviews with AHFC staff;
- review of AHFC's current and proposed foreclosure processing policies and procedures; and
- analysis of date information in AHFC's computerized mortgage information system (MIS) database of foreclosed property as of November 9, 1989.

We analyzed the length of time between certain key events that occur in foreclosures. These events are illustrated on the following timeline:

Loan Delinquency	Permission To Foreclose	Loan Foreclosure	Primary Mortgage Insurance Claim	Primary Mortgage Insurance Payment
---------------------	----------------------------	---------------------	---	---

Δ.....Δ.....Δ.....Δ.....Δ

We found that processing time could not be determined from the mortgage loan system data for each loan for each segment of the timeline. This was because valid dates did not always exist in the database for each point, or the dates were not usable.

Examples of instances where data did not exist or was not usable are:

- AHFC added certain date fields to master files at various times but did not require these new elements to be updated for all old loans;
- computerized edit checks of dates were implemented at some time, but erroneous dates previously entered were never corrected;
- aging could not always be computed because some dates were not in logical sequence; and
- sometimes aging could not be calculated because both dates needed for aging analysis were not recorded.

Because of the conditions noted above, we computed processing times for individual timeframes as well as for combined timeframes for actions required from delinquency to foreclosure. This allowed us to analyze timeliness for the maximum number of loans. As an example, if a usable foreclosure permission date did not exist for a loan, we computed timeliness for that loan based on the period between loan delinquency and loan foreclosure.

Although the data conditions described above prevented timeliness calculations for all loans for each segment of the process, sufficient usable data was available for analysis. Tables presented in the Appendix to this report show the number of loans considered for each servicer. Since all loans are not included in each table, the reader is cautioned that each table stands alone and servicer data cannot be added from one table to another.

We analyzed processing timeliness for individual timespans between:

- dates of loan delinquency and foreclosure permission dates;

- dates AHFC gave permission to foreclose loans and loan foreclosures dates;
- dates of loan foreclosures and the dates servicers filed primary mortgage insurance claims; and
- dates of primary mortgage insurance filings and receipt dates for primary mortgage insurance payments.

We also measured processing timeliness in combined timespans between:

- dates of loan delinquency and the dates loan foreclosures occurred;
- dates of loan foreclosures and dates primary mortgage insurance payments were received; and
- dates of loan delinquency and dates primary mortgage insurance payments were received.

Non-mobile home loans comprise the great majority of AHFC loans. We therefore performed an aging analysis of non-mobile home loans which had usable dates in AHFC's MIS data files.

Servicers with less than 25 loans were excluded from the analysis since their inclusion would have had an immaterial influence on the results.

Our analysis did not include actions associated with pool insurance.

BACKGROUND

AHFC's role is primarily to facilitate housing development by providing funds to purchase home loans originated by private lending institutions. Rather than servicing the loans it purchases, AHFC enters into fee-for-service contracts with these institutions to provide loan management services. Institutions providing those services are referred to as "seller/servicers" or "servicers." Servicers perform such standard loan management activities as loan collection, accounting, and reporting to AHFC.

If loans become delinquent, servicers have additional responsibilities that must be completed within prescribed timeframes. For example, servicers are expected to make timely efforts to encourage borrowers to bring their loan payments current. When loans are judged uncollectible, servicers must take timely action to foreclose loans and perform other foreclosure-related activities in a timely manner. These actions include such things as sending late notices, attempts to contact borrowers by phone, personal interviews, property inspections, demand letters, and issuing notices of default.

In cases where servicers are unable to bring loans current within a prescribed period, they must provide AHFC with information about the delinquent loans and recommend a course of action. The recommendation is presented in a standard AHFC form (#SER-71). Recommended actions may be development of a liquidation plan, granting temporary payment forbearance, acquisition of a deed-in-lieu of foreclosure, or foreclosure.

When AHFC concludes that foreclosure is necessary, it authorizes servicers to initiate foreclosure proceedings and servicers start the necessary legal actions. When foreclosure has been accomplished, servicers file insurance claims for primary mortgage insurance. When the insurance payments are received, the servicers transmit them to AHFC.

AHFC servicer requirements are contained in a document titled "AHFC Servicer Guide." The guide specifies AHFC's expectations for the timing of some major servicer actions related to foreclosure. For example, servicers must:

- identify delinquent loans within 16 days of delinquency;
- issue late notices within two days of delinquency identification;
- attempt to contact borrowers within five days of the late notice;
- conduct a face-to-face interview before the loan is 45 days delinquent;
- issue a demand letter before the loan is 50 days delinquent;
- conduct a property inspection before the loan is 60 days delinquent;
- issue a notice of default within 20 days of the demand letter expiration;
- request authorization from AHFC to foreclose or modify the loan within 95 days of delinquency (AHFC is considering reducing this to 75 days); and
- file primary mortgage insurance claims within 60 days of foreclosure.

AHFC does not monitor all of these performance requirements in a structured manner. Although it would not be cost effective to monitor every requirement, the ability to monitor selected activities is important because it can ultimately reduce AHFC's costs.

TIMING ANALYSIS

The amount of time it takes servicers to complete the various phases of loan foreclosure will not be identical for every loan. Factors that can affect foreclosure processing are numerous. They include such things as whether servicers adequately staff their loan collection functions, the complexity of issues related to particular foreclosures, and the time attorneys take to complete their work.

AHFC's own timing requirements for servicers are the basis of the servicer performance analysis that follows. Our approach was to measure elapsed times between events and compare the results to AHFC's published requirements. When published requirements did not exist, we projected a timeframe based on AHFC internal criteria.

The following analysis first shows performance in individual segments of the foreclosure process and then shows performance for combined segments.

In summary, we found that the average foreclosed loan never met AHFC's timing criteria, and that the average time from delinquency to foreclosure is steadily increasing.

INDIVIDUAL TIMESPAN: LOAN DELINQUENCY UNTIL PERMISSION TO FORECLOSE

According to "AHFC Servicer Guide", the maximum allowable time between loan delinquency and foreclosure permission is 110 days. This includes 95 days for the servicer to request permission to foreclose, and 15 days for AHFC to process the request.

AHFC's Servicer Guide states, "if on day 95 of the delinquency an AHFC Form #SER-71 has not previously been submitted to AHFC, then the form must be submitted immediately." Form #SER-71 is titled "Recommendation of Foreclosure, Request for Deed-in-Lieu, Forbearance, or a Liquidating Plan." This is the document that contains the servicer's recommendation on the disposition of a delinquent loan and may also contain a request for permission to foreclose.

AHFC's policy is that it will respond to these requests within 15 business days of their receipt. A recent internal AHFC report on processing time for #SER-71 forms showed that, on average, AHFC meets its own 15-day requirement.

TABLE 1

SUMMARY OF AVERAGE TIMESPANS
BETWEEN DATE OF DELINQUENCY AND PERMISSION TO FORECLOSE

<u>Period</u>	<u># Loans Analyzed</u>	<u>Average Number of Days Before Permission Given</u>
FY 1986	971	150
FY 1987	2,419	155
FY 1988	2,648	170
FY 1989	<u>13</u>	<u>273</u>
TOTAL LOANS	<u>6,051</u>	AVERAGE <u>161</u> DAYS

Loan counts for FY 1989 include only those loans for which both dates were available, and for which the foreclosure process was complete, and for which permission to foreclose was given in FY 1989. Therefore we analyzed only those loans for which foreclosure had been completed by November 9, 1989. Because it is taking an average of 178 days to foreclose after permission is given (see Table 2) the number of loans in this category for FY 1989 is low.

Since these 13 loans reflect only a small percentage of all loans for which permission to foreclose was given in 1989, their average number of 273 days for this timespan is probably not representative.

Table 1 summarizes the data in Appendix A, which shows average processing times ranging from 122 days to 247 days. Since the average time AHFC takes to grant permission to foreclose is relatively brief and consistent, we conclude that the variance from AHFC's 110 day guideline is primarily attributable to servicers.

INDIVIDUAL TIMESPAN:
PERMISSION TO FORECLOSE UNTIL
LOAN FORECLOSURE

AHFC does not have a written policy specifying the maximum time allowed to complete foreclosure after foreclosure permission. AHFC staff said, however, that this period can reasonably range between 40 and 150 days.

As shown in Appendix B, processing time to foreclose loans after AHFC gives its permission has been increasing steadily for some servicers. This is reflected in the Table 2, below, which shows average elapsed days for this portion of the foreclosure process. The table shows that average processing time has continued to increase and substantially exceeds 150 days.

INDIVIDUAL TIMESPAN:

PRIMARY MORTGAGE INSURANCE CLAIM FILING
UNTIL PRIMARY MORTGAGE INSURANCE PAYMENT

AHFC requires primary mortgage insurers to pay claims within 60 days after claims are received. Table 4 shows the average elapsed time from the primary mortgage insurance claim filing date until the date the claim was paid. As shown, the average insurance claim was not paid within the 60 day timeframe.

Timeliness for this portion of the foreclosure process is mainly the responsibility of the primary mortgage insurer. It is included in our analysis because the servicer can influence payment timeliness by preparing adequately documented claims and following up in cases where payment is not timely.

TABLE 4

SUMMARY OF AVERAGE TIMESPANS
BETWEEN PRIMARY INSURANCE CLAIM
AND RECEIPT OF INSURANCE PAYMENT

<u>Period</u>	<u># Loans Analyzed</u>	<u>Average Number of Days Before Insurance Claim Payment</u>
FY 1986	3	81
FY 1987	17	115
FY 1988	995	80
FY 1989	<u>627</u>	<u>72</u>
TOTAL LOANS	<u>1,642</u>	AVERAGE <u>78</u> DAYS

There are few loans in this timespan for 1986 and 1987 because the mortgage insurance filing date is a relatively new date field in the mortgage loan system.

FY 1989 loans include those for which both dates were available and for which the insurance claim was paid in FY 1989 by November 9, 1988. The foreclosure process may have begun in prior years.

Table 4 summarizes the data in Appendix D, which shows average timespans ranging from 48 days to 609 days, and noncompliance for most loans.

COMBINED TIMESPANS:
LOAN DELINQUENCY
UNTIL LOAN FORECLOSURE

AHFC has not defined a maximum standard timeframe from loan delinquency until loan foreclosure in written policy. Allowable maximum time can be inferred to be approximately 260 days. This consists of 110 days between the delinquency date and the date AHFC gives permission to foreclose, and 150 days between the permission to foreclose date and foreclosure.

Table 5 shows that the period to foreclose loans has increased steadily between FY 1986 and FY 1989. The FY 1989 foreclosed loan took more than 100 days longer than the inferred 260 maximum. Although there is no absolute standard for evaluating servicer timeliness between delinquency and foreclosure, the derived 260 benchmark is useful for comparative purposes.

TABLE 5
SUMMARY OF AVERAGE TIMESPANS
BETWEEN LOAN DELINQUENCY AND LOAN FORECLOSURE

<u>Period</u>	<u># Loans Analyzed</u>	<u>Average Number of Days Before Foreclosure</u>
FY 1986	554	283
FY 1987	1,817	312
FY 1988	2,813	348
FY 1989	<u>1,167</u>	<u>377</u>
TOTAL LOANS	<u>6,351</u>	AVERAGE <u>337</u> DAYS

For this timespan, 1989 loans include those for which both dates were available and for which foreclosure was completed in FY 1989 by November 9, 1988.

Average processing time from loan delinquency until loan foreclosure for FY 1986-1989 is shown by servicer in Appendix E. This table, as have others, shows that average processing time has increased steadily for some servicers and that most servicers did not complete their foreclosures within 260 days of delinquency.

COMBINED TIMESPANS:
LOAN FORECLOSURE
UNTIL PRIMARY INSURANCE PAYMENT

Combined timespans that cover servicer responsibility to file primary mortgage insurance claims (60 days) and the insurer's responsibility to pay claims (60 days) are shown in Appendix F, and summarized in Table 6, below. This shows improvement in

FY 1989, and overall performance that has not deviated significantly from AHFC's 120 standard for this timespan.

TABLE 6

SUMMARY OF AVERAGE TIMESPANS
BETWEEN LOAN FORECLOSURE AND PRIMARY INSURANCE PAYMENT

<u>Period</u>	<u># Loans Analyzed</u>	<u>Average Number of Days Before Payment Receipt</u>
FY 1986	249	142
FY 1987	1,103	148
FY 1988	2,828	162
FY 1989	<u>789</u>	<u>125</u>
TOTAL LOANS	<u>4,969</u>	AVERAGE <u>152</u> DAYS

This includes foreclosed loans for which both dates were available and for which primary mortgage insurance payment was received in FY 1989 by November 9, 1988.

COMBINED TIMESPANS:

LOAN DELINQUENCY

UNTIL PRIMARY INSURANCE PAYMENT

Finally we present a view of the entire period from loan delinquency to primary mortgage insurance claim recovery.

Table 7 shows a steady and substantial increase in the length of time it takes to move an uncollectible loan through the foreclosure process and ultimately to collect primary mortgage insurance payments.

TABLE 7

SUMMARY OF AVERAGE TIMESPANS
BETWEEN LOAN DELINQUENCY AND PRIMARY INSURANCE PAYMENT

<u>Period</u>	<u># Loans Analyzed</u>	<u>Average Number of Days Before Payment Receipt</u>
FY 1986	225	333
FY 1987	1,061	385
FY 1988	2,837	460
FY 1989	<u>789</u>	<u>482</u>
TOTAL LOANS	<u>4,912</u>	AVERAGE <u>441</u> DAYS

FY 1989 loans include foreclosed loans for which both dates were available and for which primary mortgage insurance payment was received in FY 1989 by November 9, 1988.

AHFC has not formally defined its maximum requirements for this overall timeframe. Allowable maximum time can be inferred as 380 days (approximately 13 months). This consists of 110 days between delinquency and permission to foreclose, 150 days between the permission date and foreclosure, and 120 days from foreclosure to receipt of primary mortgage insurance claim payment.

Appendix G illustrates the average processing time for this combined timespan by servicer. This table shows that processing time increased steadily for some servicers more than others.

CONCLUSIONS AND RECOMMENDATIONS

The downturn of Alaska's economy and subsequent increase in foreclosures played a major role in increasing servicer processing times for foreclosures. Regardless of the causes, AHFC must increase its own efficiencies and servicer monitoring efforts to help offset the effect of external events.

Considering the large number of loans in its portfolio, AHFC needs the efficiency of additional automated reports that bring attention to loans which are delinquent or remain in key phases of foreclosure for lengthy periods. For example, aging reports are needed to disclose elapsed days for:

- loans more than 95 days delinquent (or 75 days if time requirements change) for which no form #SER-71 has been received; and
- loans where more than 150 days have passed since AHFC gave permission to foreclose but foreclosure has not yet occurred.

Automated date arithmetic performed on each loan can highlight loans most needing AHFC and servicer attention. Aging reports should go beyond simply categorizing loans in the usual ranges of delinquency (30, 60, 90, and more than 120 days). Actual time lags should be computed and displayed.

AHFC already captures data on magnetic media which can be used to produce monthly aging reports with summary and detail information.

Our analysis shows that some loans are not foreclosed for a long time after permission is given to foreclose. Quick foreclosures are not always the best course of action, however. An aging report designed specifically to monitor loans after permission to foreclose is given will help AHFC by highlighting cases where foreclosure time appears unreasonably long. This information will facilitate timely follow-up by AHFC staff and also provide overview information for management.

ALASKA HOUSING FINANCE CORPORATION
ANALYSIS OF AVERAGE TIMESPANS
BETWEEN DATE OF DELINQUENCY
AND PERMISSION TO FORECLOSE

SERVICER *	FY 86		FY 87		FY 88		FY 89		SUMMARY	
	AVERAGE DAYS	# OF LOANS	AVERAGE DAYS	# OF LOANS	AVERAGE DAYS	# OF LOANS	AVERAGE DAYS	# OF LOANS	AVERAGE DAYS	# OF LOANS
ALASKA FEDERAL SAVINGS AND LOAN	148	7	108	22	127	26			122	55
FIRST NATIONAL BANK OF ANCHORAGE	126	125	134	376	137	341	216	2	134	844
FRONTIER ALASKA STATE CREDIT UNION	105	5	128	14	160	10			135	29
SPOKANE MORTGAGE COMPANY	128	14	169	3					135	17
MT. MCKINLEY MUTUAL SAVINGS			128	8	141	17	188	1	139	26
WESTERN MORTGAGE LOAN CORPORATION	138	2	172	19	119	24			142	45
ALASKA USA FEDERAL CREDIT UNION	201	20	130	71	141	112	72	1	143	204
G.M.A.C. MORTGAGE CORPORATION	120	21	112	26	188	33			145	80
NATIONAL BANK OF ALASKA	142	85	146	293	148	362	13	1	146	741
DEVALI FEDERAL CREDIT UNION	128	6	115	15	203	11			148	32
ALLIANCE BANK	125	277	135	611	168	670	618	1	148	1559
COMMONWEALTH WESTERN MORTGAGE CORPORATION	134	19	141	40	177	38			154	97
GOLDOME REALTY CREDIT CORPORATION	195	63	179	64	142	208			159	335
SEAFIRST MORTGAGE COMPANY	143	12	173	32	169	30			167	74
B.M. BEHREND'S BANK	205	2	199	31	122	24			167	57
RAINIER BANK ALASKA	167	83	175	219	162	67	305	3	172	372
FIREMAN'S FUND MORTGAGE COMPANY	165	64	177	321	197	346	247	1	186	732
FIRST GUARANTY MORTGAGE COMPANY OF ALASKA	176	41	158	26	262	19	249	1	190	87
HOME SAVINGS & LOAN	164	37	190	56	199	117			190	210
FIRST FEDERAL BANK OF ALASKA	193	7	154	6	202	19			191	32
ALASKA STATEBANK	143	30	211	24	274	17			197	71
FIRST NATIONAL BANK OF FAIRBANKS	240	33	233	84	259	87	540	1	247	205
KEY PACIFIC MORTGAGE COMPANY	202	18	221	58	279	70	280	1	247	147
TOTAL LOANS		971		2,419		2,648		13		6,051
AVERAGE DAYS - ALL SERVICERS	150		155		170		273		161	

* Servicers are listed in ascending order based on the overall average number of days.

ALASKA HOUSING FINANCE CORPORATION
ANALYSIS OF AVERAGE TIMESPANS
BETWEEN PERMISSION TO FORECLOSE
AND LOAN FORECLOSURE

SERVICER *	FY 86		FY 87		FY 88		FY 89		SUMMARY	
	AVERAGE DAYS	# OF LOANS	AVERAGE DAYS	# OF LOANS	AVERAGE DAYS	# OF LOANS	AVERAGE DAYS	# OF LOANS	AVERAGE DAYS	# OF LOANS
SPOKANE MORTGAGE COMPANY	106	13	142	10					122	23
MT. MCKINLEY MUTUAL SAVINGS	114	1	109	10	150	17	146	4	136	32
ALASKA FEDERAL SAVINGS AND LOAN	163	7	140	20	130	33	170	6	140	66
FIRST NATIONAL BANK OF ANCHORAGE	119	103	135	345	154	381	171	138	146	967
RAINIER BANK ALASKA	124	45	170	193	138	158	163	26	153	422
ALASKA STATEBANK	127	58	156	27	218	30	138	5	157	120
NATIONAL BANK OF ALASKA	127	70	144	245	161	373	185	158	158	846
FIRST FEDERAL BANK OF ALASKA	153	10	141	12	164	15	198	9	162	46
HOME SAVINGS & LOAN	115	29	173	67	176	94	170	53	167	243
GOLDOME REALTY CREDIT CORPORATION	104	37	174	80	165	157	208	90	171	364
ALLIANCE BANK	129	197	162	540	193	833	226	244	181	1814
WESTERN MORTGAGE LOAN CORPORATION			183	11	209	32	171	16	194	59
ALASKA USA FEDERAL CREDIT UNION	98	10	179	47	199	92	214	68	195	217
FIRST NATIONAL BANK OF FAIRBANKS	146	25	167	56	212	97	242	53	201	231
SEAFIRST MORTGAGE COMPANY	204	7	259	27	176	44	150	8	202	86
KEY PACIFIC MORTGAGE COMPANY	137	5	189	39	199	73	230	44	203	161
FIRST GUARANTY MORTGAGE COMPANY OF ALASKA	182	16	207	53	201	29	249	13	207	111
DENALI FEDERAL CREDIT UNION	131	4	178	8	235	14	230	7	208	33
G.M.A.C. MORTGAGE CORPORATION	168	12	219	26	228	33	188	23	208	94
B.M. BEHREND'S BANK	164	3	174	9	218	50	337	5	219	67
FREMAN'S FUND MORTGAGE COMPANY	191	25	200	187	229	401	229	169	221	782
FRONTIER ALASKA STATE CREDIT UNION	188	3	176	10	234	17	347	3	223	33
COMMONWEALTH WESTERN MORTGAGE CORPORATION	235	19	231	30	244	46	226	24	236	119
TOTAL LOANS		699		2052		3019		1166		6,936
AVERAGE DAYS - ALL SERVICERS	134		165		186		207		178	

* Servicers are listed in ascending order based on the overall average number of days.

ALASKA HOUSING FINANCE CORPORATION
ANALYSIS OF AVERAGE TIMESPANS
BETWEEN LOAN FORECLOSURE AND
PRIMARY MORTGAGE INSURANCE CLAIM FILING

SERVICER *	FY 86		FY 87		FY 88		FY 89		SUMMARY	
	AVERAGE DAYS	# OF LOANS	AVERAGE DAYS	# OF LOANS	AVERAGE DAYS	# OF LOANS	AVERAGE DAYS	# OF LOANS	AVERAGE DAYS	# OF LOANS
FRONTIER ALASKA STATE CREDIT UNION					9	5	9	1	9	6
GOLDOME REALTY CREDIT CORPORATION			15	6	8	96	14	64	11	166
MT. MCKINLEY MUTUAL SAVINGS					12	7			12	7
ALASKA USA FEDERAL CREDIT UNION					12	50	16	37	14	87
SPOKANE MORTGAGE COMPANY			16	1					16	1
DENALI FEDERAL CREDIT UNION					14	7	18	8	16	15
RAINIER BANK ALASKA	19	1	11	11	21	70	21	12	20	94
ALASKA STATEBANK					20	11			20	11
FIRST NATIONAL BANK OF ANCHORAGE			18	8	21	199	20	93	21	300
FIRST GUARANTY MORTGAGE COMPANY OF ALASKA			64	1	26	11	16	3	27	15
G.M.A.C. MORTGAGE CORPORATION					25	14	44	4	29	18
HOME SAVINGS & LOAN			27	3	31	32	22	3	30	38
FIRST FEDERAL BANK OF ALASKA					24	4	40	3	31	7
ALASKA FEDERAL SAVINGS AND LOAN					35	21	6	3	31	24
WESTERN MORTGAGE LOAN CORPORATION			14	2	8	10	100	4	32	16
FIREMAN'S FUND MORTGAGE COMPANY	42	1	74	14	34	232	25	42	35	289
NATIONAL BANK OF ALASKA			29	4	33	147	52	98	40	249
B.M. BEHREND'S BANK					39	19	54	9	44	28
ALLIANCE BANK	8	1	42	15	47	451	37	174	44	641
FIRST NATIONAL BANK OF FAIRBANKS	50	3	62	7	55	39	56	47	56	96
KEY PACIFIC MORTGAGE COMPANY			89	3	84	43	61	19	78	65
SEAFIRST MORTGAGE COMPANY	28	1	153	1	89	13	54	6	79	21
COMMONWEALTH WESTERN MORTGAGE CORPORATION			16	1	99	25	39	9	81	35
TOTAL LOANS		7		77		1506		639		2,229
AVERAGE DAYS - ALL SERVICERS	35		42		36		35		36	

* Servicers are listed in ascending order based on the overall average number of days.

ALASKA HOUSING FINANCE CORPORATION
ANALYSIS OF AVERAGE TIMESPANS
BETWEEN PRIMARY MORTGAGE INSURANCE CLAIM
AND RECEIPT OF INSURANCE PAYMENT

SERVICER *	FY 86		FY 87		FY 88		FY 89		SUMMARY	
	AVERAGE DAYS	# OF LOANS	AVERAGE DAYS	# OF LOANS	AVERAGE DAYS	# OF LOANS	AVERAGE DAYS	# OF LOANS	AVERAGE DAYS	# OF LOANS
B.M. BEHREND'S BANK					52	16	39	8	48	24
FIRST FEDERAL BANK OF ALASKA					46	3	59	2	51	5
DENALI FEDERAL CREDIT UNION					44	6	64	4	52	10
M.T. MCKINLEY MUTUAL SAVINGS					66	5	42	1	62	6
NATIONAL BANK OF ALASKA			94	1	71	89	66	60	69	150
ALLIANCE BANK			126	3	70	252	69	215	70	470
FIRST NATIONAL BANK OF ANCHORAGE			60	1	73	136	67	94	71	231
ALASKA USA FEDERAL CREDIT UNION					71	35	74	34	72	69
FRONTIER ALASKA STATE CREDIT UNION					74	3	70	1	73	4
GOLDOME REALTY CREDIT CORPORATION					90	66	62	56	77	122
FIREMAN'S FUND MORTGAGE COMPANY	126	1	101	2	84	162	88	74	86	239
FIRST GUARANTY MORTGAGE COMPANY OF ALASKA					91	9	72	3	86	12
HOME SAVINGS & LOAN			35	1	89	28	106	4	89	33
ALASKA FEDERAL SAVINGS AND LOAN					72	11	110	10	90	21
RAINIER BANK ALASKA	56	1	127	3	93	71	62	10	90	85
COMMONWEALTH WESTERN MORTGAGE CORPORATION					87	15	116	4	93	19
ALASKA STATEBANK					109	6	62	2	97	8
WESTERN MORTGAGE LOAN CORPORATION					110	4	79	2	100	6
FIRST NATIONAL BANK OF FAIRBANKS	62	1	154	5	113	32	69	20	100	58
SEAFIRST MORTGAGE COMPANY					162	7	50	8	102	15
KEY PACIFIC MORTGAGE COMPANY			29	1	114	34	76	11	103	46
G.M.A.C. MORTGAGE CORPORATION					127	5	91	3	114	8
SPOKANE MORTGAGE COMPANY							609	1	609	1
TOTAL LOANS		3		17		995		627		1,642
AVERAGE DAYS - ALL SERVICERS	81		115		80		72		78	

* Servicers are listed in ascending order based on the overall average number of days.

ALASKA HOUSING FINANCE CORPORATION
ANALYSIS OF AVERAGE TIMESPANS
BETWEEN DATE OF DELINQUENCY
AND LOAN FORECLOSURE

SERVICER *	FY 86		FY 87		FY 88		FY 89		SUMMARY	
	AVERAGE DAYS	# OF LOANS	AVERAGE DAYS	# OF LOANS	AVERAGE DAYS	# OF LOANS	AVERAGE DAYS	# OF LOANS	AVERAGE DAYS	# OF LOANS
ALASKA FEDERAL SAVINGS AND LOAN	327	6	239	17	250	32	286	6	258	61
SPOKANE MORTGAGE COMPANY	257	10	261	7					259	17
MT. MCKINLEY MUTUAL SAVINGS			216	8	291	15	294	4	269	27
FIRST NATIONAL BANK OF ANCHORAGE	223	67	264	304	288	360	316	138	279	869
NATIONAL BANK OF ALASKA	252	49	281	210	312	347	330	158	303	764
RAINIER BANK ALASKA	294	39	335	173	312	144	327	26	322	382
ALLIANCE BANK	264	165	289	467	348	772	375	244	327	1648
GOLDOME REALTY CREDIT CORPORATION	321	30	355	75	308	146	351	90	331	341
WESTERN MORTGAGE LOAN CORPORATION			328	6	372	24	283	16	335	46
ALASKA USA FEDERAL CREDIT UNION	300	10	336	39	327	90	352	68	336	207
ALASKA STATEBANK	268	41	311	22	452	26	447	5	338	94
SEAFIRST MORTGAGE COMPANY	361	7	369	27	348	37	299	8	351	79
G.M.A.C. MORTGAGE CORPORATION	272	9	337	19	375	32	371	23	354	83
HOME SAVINGS & LOAN	284	22	348	58	375	89	359	53	355	222
DENALI FEDERAL CREDIT UNION	241	4	294	7	371	14	451	7	355	32
FRONTIER ALASKA STATE CREDIT UNION	288	2	276	9	403	15	485	3	364	29
FIRST GUARANTY MORTGAGE COMPANY OF ALASKA	367	16	353	50	367	22	457	13	372	101
FIRST FEDERAL BANK OF ALASKA	358	8	404	3	364	14	397	9	375	34
B.M. BEHREND'S BANK	282	3	363	6	377	49	434	5	376	63
COMMONWEALTH WESTERN MORTGAGE CORPORATION	368	16	351	28	315	45	409	24	383	113
FIREMAN'S FUND MORTGAGE COMPANY	356	24	375	193	406	387	425	170	401	774
FIRST NATIONAL BANK OF FAIRBANKS	379	22	381	50	460	88	509	53	445	213
KEY PACIFIC MORTGAGE COMPANY	314	4	378	39	435	65	540	44	448	152
TOTAL LOANS		554		1817		2813		1167		6,351
AVERAGE DAYS - ALL SERVICERS	283		312		348		377		337	

* Servicers are listed in ascending order based on the overall average number of days.

ALASKA HOUSING FINANCE CORPORATION
ANALYSIS OF AVERAGE TIMESPANS
BETWEEN LOAN FORECLOSURE
AND PRIMARY MORTGAGE INSURANCE PAYMENT

SERVICER *	FY 86		FY 87		FY 88		FY 89		SUMMARY	
	AVERAGE DAYS	# OF LOANS	AVERAGE DAYS	# OF LOANS	AVERAGE DAYS	# OF LOANS	AVERAGE DAYS	# OF LOANS	AVERAGE DAYS	# OF LOANS
DENALI FEDERAL CREDIT UNION	65	2	58	7	80	11	80	4	72	24
MT. MCKINLEY MUTUAL SAVINGS			79	7	83	11	65	2	80	20
B.M. BEHREND'S BANK	228	1	127	7	105	30	154	10	121	48
FRONTIER ALASKA STATE CREDIT UNION	106	1	152	4	127	8	82	2	126	15
RAINIER BANK ALASKA	103	14	111	102	143	234	128	18	132	368
ALASKA FEDERAL SAVINGS AND LOAN	185	2	173	16	98	26	147	11	133	55
FIRST NATIONAL BANK OF ANCHORAGE	146	39	144	193	142	415	110	104	138	751
ALASKA USA FEDERAL CREDIT UNION	117	6	135	17	163	88	91	41	139	152
NATIONAL BANK OF ALASKA	154	25	135	146	145	319	127	74	140	564
WESTERN MORTGAGE LOAN CORPORATION			173	1	162	20	98	6	148	27
ALLIANCE BANK	124	72	140	313	162	736	131	231	150	1352
GOLDOME REALTY CREDIT CORPORATION	160	15	165	40	166	149	98	62	150	266
FIREMAN'S FUND MORTGAGE COMPANY	227	5	144	62	166	349	128	120	156	536
FIRST GUARANTY MORTGAGE COMPANY OF ALASKA	178	7	150	37	164	44	86	4	156	92
SEAFIRST MORTGAGE COMPANY			184	14	187	43	117	17	170	74
HOME SAVINGS & LOAN	126	8	204	26	186	75	124	24	175	133
FIRST FEDERAL BANK OF ALASKA	170	5	204	7	177	11	107	2	178	25
KEY PACIFIC MORTGAGE COMPANY	131	3	135	8	213	71	190	18	200	100
ALASKA STATEBANK	147	25	219	26	237	32	148	3	202	86
COMMONWEALTH WESTERN MORTGAGE CORPORATION	155	8	218	19	224	42	162	6	210	75
FIRST NATIONAL BANK OF FAIRBANKS	193	5	217	26	233	83	166	25	217	139
G.M.A.C. MORTGAGE CORPORATION	266	2	233	11	232	28	163	4	228	45
SPOKANE MORTGAGE COMPANY	114	4	212	14	375	3	625	1	235	22
TOTAL LOANS		249		1103		2828		789		4,969
AVERAGE DAYS - ALL SERVICERS	142		148		162		125		152	

* Servicers are listed in ascending order based on the overall average number of days.

ALASKA HOUSING FINANCE CORPORATION
ANALYSIS OF AVERAGE TIMESPANS
BETWEEN DATE OF DELINQUENCY
AND PRIMARY MORTGAGE INSURANCE PAYMENT

SERVICER *	FY 86		FY 87		FY 88		FY 89		SUMMARY	
	AVERAGE DAYS	# OF LOANS	AVERAGE DAYS	# OF LOANS	AVERAGE DAYS	# OF LOANS	AVERAGE DAYS	# OF LOANS	AVERAGE DAYS	# OF LOANS
MT. MCKINLEY MUTUAL SAVINGS			215	6	300	11	332	2	277	19
ALASKA FEDERAL SAVINGS AND LOAN	455	2	430	15	308	28	309	11	366	54
FIRST NATIONAL BANK OF ANCHORAGE	259	33	353	185	392	417	429	104	382	739
DENALI FEDERAL CREDIT UNION	264	2	309	7	397	11	555	4	387	24
NATIONAL BANK OF ALASKA	248	23	358	143	407	319	447	74	393	559
RAINIER BANK ALASKA	371	14	362	100	446	235	456	18	421	367
ALLIANCE BANK	333	67	348	299	447	743	486	231	426	1340
FIRST FEDERAL BANK OF ALASKA	500	5	349	8	446	11	486	2	436	24
FRONTIER ALASKA STATE CREDIT UNION	324	1	442	4	462	9	400	2	441	18
ALASKA USA FEDERAL CREDIT UNION	406	6	381	17	463	88	432	41	443	152
GOLDOME REALTY CREDIT CORPORATION	257	13	493	36	465	150	405	62	444	261
WESTERN MORTGAGE LOAN CORPORATION			516	1	437	19	489	6	452	26
SPOKANE MORTGAGE COMPANY	247	2	433	13	626	3	588	1	452	19
B.M. BEHREND'S BANK	570	1	291	7	488	30	475	10	458	48
FIRST GUARANTY MORTGAGE COMPANY OF ALASKA	346	7	501	37	448	43	553	4	466	91
ALASKA STATEBANK	341	19	417	25	560	32	758	3	470	79
SEAFIRST MORTGAGE COMPANY			486	14	502	42	451	17	487	73
HOME SAVINGS & LOAN	405	8	412	23	528	75	477	24	490	130
G.M.A.C. MORTGAGE CORPORATION	690	2	402	8	540	28	552	4	522	42
FIREMAN'S FUND MORTGAGE COMPANY	468	5	491	62	536	350	547	120	533	537
COMMONWEALTH WESTERN MORTGATE CORPORATION	465	7	524	19	549	42	605	6	539	74
FIRST NATIONAL BANK OF FAIRBANKS	468	5	509	26	591	82	625	25	577	138
KEY PACIFIC MORTGAGE COMPANY	238	3	479	8	589	71	644	18	580	100
TOTAL LOANS		225		1061		2837		789		4,912
AVERAGE DAYS - ALL SERVICERS	333		385		460		482		441	

* Servicers are listed in ascending order based on the overall average number of days.

**OFFICE OF
MANAGEMENT & BUDGET**

April 28, 1989

MAY 3 1989

Mr. John Lucas
State of Alaska
Office of the Governor
Office of Management & Budget
Division of Audit & Management Services
P. O. Box AM
Juneau, AK 99811

**AUDIT AND MANAGEMENT
SERVICES**

Dear Mr. Lucas:

First let me apologize on behalf of the Corporation for not responding earlier with respect to the audit in question outlined in your April 26, 1989 letter. Somewhere in the process of the management change of our Corporation, the responsibility for responding to the above mentioned audit was overlooked. Both Tom And myself, as well as pertinent staff members, have found the contents to be extremely accurate as well as extremely helpful. Currently we are in the middle of negotiations with one of our pool insurers that addresses the very issues brought out in the audit of February, 1989.

It is my understanding that in the past AHFC had recognized the need to monitor seller/servicers. In late 1987, as part of a continuing monitoring effort, an audit department was established. It was established to coordinate and direct the seller/servicer monitoring function. At the beginning it was intended to staff the department with two auditors. Their primary function was to plan, execute and follow-up on off-site audits. Evaluations of the seller/servicers' performance would result from audit findings as well as management reports. One position was filled and the department began to function as planned. Several audits were performed and management reports were developed.

The audit and monitoring functions began to deteriorate as other organizational priorities arose and decisions had to be made concerning the deployment of limited personnel resources. The department also spent considerable time auditing seller/servicers concerning whether they had primary mortgage insurance in force on all required loans. The nature of this was critical to the Corporation, in that, if primary was lost AHFC may have significant loss exposure in the event the servicer did not have the ability or desire to repurchase the loan.



1988 Annual Report

The Corporation

The Alaska Housing Finance Corporation (AHFC) was created in 1971 by the State of Alaska to provide Alaskans with affordable mortgage financing.

AHFC, a self-supporting public corporation and government instrumentality, is a secondary purchaser of mortgages. AHFC purchases mortgage loans from private financial institutions operating in Alaska. The Corporation's activities currently constitute a major portion of the Alaskan residential housing market.

The majority of funds used to purchase mortgage loans are generated through the issuance of taxable and tax-exempt bonds and notes. By developing innovative financing structures, which are at the forefront of those utilized in capital markets, AHFC has been able to offer eligible Alaskans interest rates that are among the lowest in the country.

Since making its first loan in 1972, AHFC has stimulated the investment of more than \$6.9 billion in housing in communities across Alaska.

Contents

- 1 Corporation Profile
- 2 Letter to the Governor
- 3 Board of Directors
- 4 Alaska's Economy and the Housing Market in FY 1988
- 5 Mortgage Loan Portfolio by Geographic Area
- 6 Fiscal Year 1988 Activities
- 8 Fiscal Year 1988 Financing Activities
- 13 Programs
- 15 Fiscal Year 1988 Property Sales

Letter to the Governor

Dear Governor Cowper,

Fiscal Year 1988 was a year of transition for the Alaska Housing Finance Corporation and many AHFC borrowers.

AHFC continued to provide low-cost mortgage financing to Alaskans in FY 1988. During the year AHFC purchased 2,382 loans totaling \$238.2 million. On June 30, 1988, the Corporation's portfolio contained 44,813 loans totaling \$3.76 billion. In the last 16 years, AHFC has issued approximately \$6.64 billion in taxable and tax-exempt bonds and notes to assist Alaskans in purchasing homes.

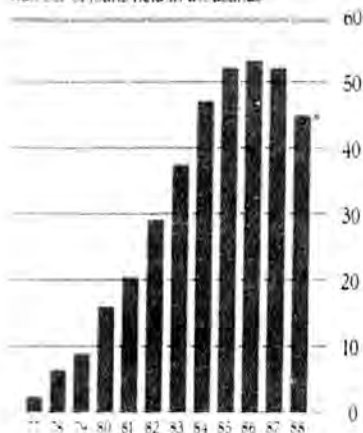
Fiscal Year 1988 proved to be another difficult year for the Alaskan housing market. Delinquencies remained in double digits and foreclosures continued at record rates. At the end of FY 1988, AHFC owned over 4,000 properties. In managing these properties, AHFC developed an extensive marketing plan and continued its efforts to mitigate losses associated with holding these properties.

In response to the troubled economy, AHFC continued its diligent efforts in developing forbearance and workout plans. These programs were implemented on an individual basis and more significantly on a general basis through the Home Owners' Assistance Program, or HOAP (pronounced hope).

In late December 1987, AHFC, with the unprecedented cooperation of many mortgage insurers and servicers, instituted an expansive mortgage refinance and assistance program. The HOAP made mortgages more affordable, thus saving the loss of homes by many Alaskans.

Through its various programs and its resources, the Corporation in FY 1988 worked towards minimizing the effects of the current economic slowdown both on the Corporation and homeowners. The AHFC Board of Directors and staff pledges to continue working with the Governor and legislature to help homeowners and potential homebuyers in meeting their housing needs.

Number of Mortgage Loans Held
number of loans held in thousands



Sincerely,

I. Anthony Smith
I. Anthony Smith
Chairman of the Board

Ronald D. Lehr
Dr. Ronald D. Lehr
Executive Director

Board of Directors

A five-member Board of Directors governs the Alaska Housing Finance Corporation. The Board of Directors consists of: the Commissioners of the State Departments of Revenue and Commerce & Economic Development, another member who is head of a principal department of the executive branch of State Government appointed by the Governor, and two public members also appointed by the Governor. The Board elects a chairman annually.



J. Anthony Smith
Chairman

Commissioner of Commerce
and Economic Development
State of Alaska, Juneau



Gordon J. Severson
First Vice-Chairman

Retired Right of Way
Negotiations Supervisor
Department of Transportation
and Public Facilities
State of Alaska, Anchorage



Hugh Malone
Commissioner of Revenue
State of Alaska, Anchorage



Jim Sampson
Commissioner of Labor
State of Alaska, Juneau

Lance W. Anderson

Vice President, Finance
Cook Inlet Region, Inc.
Anchorage

Staff

AHFC has 80 permanent employees. The principal officers are:

Executive Director
Dr. Ronald D. Lehr

Finance Director
Mark Cameron

Mortgage Operations Director
Betty M. Cook

Servicing Operations Director
Paul Kapansky

Administrative Officer
Judith DeSpain

Controller
C.J. McCarty

Special Assistant/ Public Information Officer
Margaret Nelson

Alaska's Economy and the Housing Market in FY 1988

Fiscal Year 1988 was another difficult year for the Alaska economy and the Alaska housing market. Both population and employment continued to decline. On a statewide basis, population and employment dropped by an estimated 2-3% during FY 1988. In Anchorage, the decline was more pronounced, with decreases in the 4-5% range. In terms of absolute numbers, these represented population losses of about 10,000 people, and employment losses of approximately 5,000 jobs.

The housing market was a reflection of the economy. Delinquencies continued to be in double-digit levels, and foreclosures were at disturbingly high rates. By the end of the fiscal year, delinquencies exceeded 15%, foreclosures for the year exceeded 6% of AHFC's portfolio and housing values continued to decrease.

The cumulative effect of all of these factors caused the Corporation to have a net loss for the first time in its history. This net loss was not an operating loss, but rather resulted from a substantial increase in the Loan Loss Reserve, a decrease in the value of Real Estate Owned (REO) and a decrease in the estimated collectible value of receivables involving REOs and insurance claims for REOs. The total change of all of the REO-related values from FY 1987 to FY 1988 resulted in a charge against net income of \$71.5 million, so that the final value for net income was a net loss of \$12.6 million.

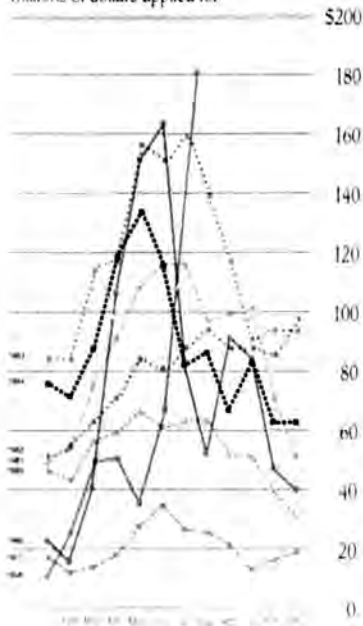
Despite all of the above, FY 1988 had many positive trends. First, although population and employment did drop during FY 1988, the decrease was only half as much as during FY 1987. Furthermore, monthly employment figures indicate that the rate of decrease has declined to the extent that the economy appears to have "bottomed out" during the summer of 1988. This trend is in accordance with the prediction of economic analysts at the University of Alaska during the previous year. Their projections for the near future are for a slow growth trend of both population and employment in the neighborhood of 1-2% per year into the early 1990s. Other economic trends also show some improvement; unemployment rate has dropped by more than 1%; personal income has increased during the year, and the Consumer Price Index has shown no change.

Also, positive movements affected the housing front. Although delinquencies remained high, they did not significantly worsen during the year. Prices for certain types of housing stabilized. Selected portions of the state exhibited definite signs of recovery; institutionally owned housing inventories dramatically decreased, and market values started to show slight increases.

The major positive news for the Alaska housing market was the implementation of the Home Owners' Assistance Program or HOAP (pronounced hope). HOAP was designed to make mortgage payments more affordable for AHFC borrowers. HOAP is a refinance/modification program that can lower mortgage payments for many borrowers, and can provide additional assistance for borrowers experiencing an involuntary economic hardship. For this latter group of borrowers, HOAP can bring a loan current, if it is delinquent, and help keep the loan current by supplementing mortgage payments for a short time. All assistance provided to borrowers must be repaid over the remaining life of the loan.

HOAP has proved to be an extremely popular program, and it is estimated that about 7,500 AHFC borrowers will eventually use the program. The program was initiated mid-way through FY 1988, hence by the end of the fiscal year only a small portion of all expected loans had actually gone through the necessary steps and been closed. It is expected that the main benefits of HOAP will be reflected in FY 1989 figures.

Monthly Applications - Amount Received All First Mortgages
millions of dollars applied for



Another significant positive development occurred when the Corporation signed a \$200 million Master Commitment Contract with the Federal Home Loan Mortgage Corporation (Freddie Mac). This contract allows AHFC to convert its conventional loans to Freddie Mac securities (Participation Certificates) prior to using these securities as collateral for bond issues. Prior to these agreements, all securitization of conventional loans had been done with the Federal National Mortgage Association (Fannie Mae).

The Corporation is continuing the development of a number of programs designed to mitigate the effects of the current economic situation. It is expected that a major market stabilization effort, particularly with respect to condominiums, will be launched during FY 1989.

The Corporation has gone through a major expansion in personnel, which necessitated a move to a new location. In the past two years, the Corporation has more than doubled in size and further expansions are contemplated. The intent of these expansions is to allow the Corporation to deal with the additional responsibilities associated with significant numbers of foreclosures and REOs.

Although the past few years have been troublesome ones for Alaska and AHFC, there are reasons for some positive views of the future. As noted, the economy seems to have bottomed out, as predicted. AHFC has initiated programs, and is working on others, that are expected to have significant positive effects on the market. And finally, a policy decision was made to be quite conservative on estimating the various components of loan losses/REO recoverable values. Management expects that FY 1989 will show a return to positive net incomes. Despite the difficult times aforementioned, the Corporation believes that a statement from the FY 1986 (and FY 1987) annual report still applies; that is, because of the extensive resources of the Corporation and the various levels of insurance on loans, AHFC is confident that it can handle any problems which occur during this slow economic period.

Mortgage Loan Portfolio by Geographic Area



	# of Loans	% of Portfolio
Anchorage	24,759	55.2
Mat-Su	3,743	8.4
Kenai Peninsula	2,869	6.4
Other South Central	1,539	3.4
Total South Central	32,910	73.4
Fairbanks	6,299	14.1
Other North	422	.9
Total North	6,721	15.0
Juneau	3,098	6.9
Sitka	685	1.5
Ketchikan	336	.7
Other Southeast	1,064	2.4
Total Southeast	5,183	11.6
Other	1	0
Total Other	1	.0
GRAND TOTAL	44,815	100.0

Fiscal Year 1988 Activities

Fiscal Year 1988 provided many diverse challenges to the Corporation as Alaska's economy continued to be in recession. The most significant activities centered on making mortgage payments more affordable and, in as many instances as possible, helping homeowners experiencing financial difficulties to keep their homes.

The Corporation's History

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

AHFC has been in operation for more than 17 years. From 1971 to 1975, AHFC purchased only federally insured mortgage loans for low- to moderate-income borrowers. Then state legislation passed in 1975 established a State Mortgage Insurance Fund which allowed the Corporation to purchase loans not federally insured; and while income limits and maximum loan amounts remained in effect, the number of eligible borrowers increased. As a result, AHFC grew to be about 25% of the statewide market.

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

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

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

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

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

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

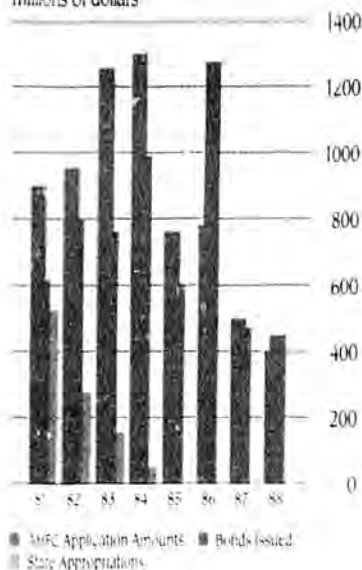
In FY 1984, an agreement was signed with the Federal National Mortgage Association (Fannie Mae) to swap Alaskan mortgages for Mortgage Backed Securities which raised the Corporation's bond rating to AAA on taxable issues. The agreement also eliminated the need for mortgage pool and special hazard insurance.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

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

Due to the overall slowing in the state economy, FY 1986 offered new and different challenges to the Corporation. The price of oil started a dramatic decline in December, 1985, slowing economic activity, and national tax reform dramatically changed the way mortgages could be financed. AHFC responded to these changes by making loans assumable, establishing two refinancing programs and providing lower interest rates.

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

State Appropriation, Bonding
and Mortgage Levels
millions of dollars



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

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

Fiscal Year 1988

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

Home Owners' Assistance Program

The most significant activity in FY 1988 was the implementation of the Home Owners' Assistance Program known as HOAP (pronounced hope). Under this unique and unprecedented program thousands of Alaskan homeowners have the opportunity to make their house payments more affordable and in some instances avoid foreclosure.

By the end of FY 1988, AHFC had purchased 363 HOAP loans and several hundred applications had been approved. It is expected that by the time the program is complete, sometime in FY 1989, some 7,500 borrowers will have taken advantage of the program.

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

Under HOAP, all AHFC borrowers can refinance their loans even if no hardship exists and the property is no longer owner/occupied. Depending on the original loan type and interest rate, the new HOAP loan can eliminate scheduled increases in principal and interest (the Alaska

Building Equity feature) and the interest rate may be lower resulting in lower monthly payments.

For AHFC homeowners experiencing a hardship HOAP could (again depending on the original loan) eliminate the scheduled principal and interest increases, lower the interest rate, provide funds to bring the loan current, if delinquent, and help with monthly payments. Funds used to assist borrowers are limited and must be repaid after two years.

Other Activities

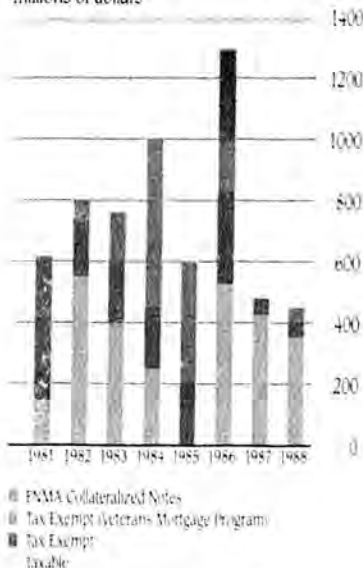
In an effort to continue financing new mortgages in FY 1988, AHFC signed a new contract with the Federal Home Loan Mortgage Corporation (Freddie Mac) for \$200 million. This contract helps to continue the availability of new financing for low-cost mortgages for Alaskans. In conjunction with this change,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

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

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

Finally, in FY 1988 AHFC began many discussions with other mortgage market participants on efforts to help stabilize the Alaskan housing market. Those discussions are continuing and it is expected those concepts will be turned into programs in FY 1989.

Summary of Bonds Issued by Type
millions of dollars



Fiscal Year 1988 Financing Activities

Continuation of a slow economy and increasing interest rates resulted in a lower level of debt financings in FY 1987 than the Corporation has experienced since its lending programs were expanded in 1980. While financing activity was relatively low for the year, that which did occur was diverse. In addition to each of the basic three first mortgage financing programs (Taxable, Tax-Exempt and Veterans), the Corporation increased the activity in its taxable Euro-Commercial Paper Program financed the purchase of certain loans originated by the State under an urban non-conforming loan program and sold two issues to provide funding for its newly created Home Owners' Assistance Program, or HOAP (pronounced hope).

The Corporation's loan swap programs continued throughout the year with loans acquired from participating originating institutions combined into loan pools. The loan pools are then exchanged for Federal National Mortgage Association Mortgage Backed Securities (Fannie Mae MBSs) or Federal Home Loan Mortgage Corporation Participation Certificates (Freddie Mac PCs) in the case of conventional mortgage loans or used to create certificates insured by the Government National Mortgage Association (GNMA Certificates) for those loans which are insured by the Federal Housing Administration or guaranteed by the Veterans Administration. By using this mortgage loan swap process, the Corporation is able to attain the highest possible ratings on the debt it issues resulting in an overall reduction in its financing costs.

Consistent with global financing trends for U.S. dollar denominated securities, the Corporation issued most of its debt during FY 1988 in the domestic market.

Taxable Mortgage Program Financing

The Corporation sold its single issue for its Taxable Mortgage Program in October, 1987. This transaction combined the issuance of \$72,500,000 medium-term notes with maturities of 2 to 9 years, \$8,000,000 floating rate notes maturing in 10 years, and \$19,500,000 Z-Bonds which resemble a zero coupon security but convert to current interest payments when all of the floating rate notes and medium term notes have been paid off or effectively decreased. Anticipation of mortgage loan prepayments also assisted in scheduling more of the debt into the shorter-term medium-term notes.

The Z-Bonds have the advantages of enhanced call flexibility and deferred debt service, the latter of which increases the principal amounts which can be scheduled into the lower-coupon medium-term notes. The floating rate notes have liberal call terms providing a cushion against the negative effects of excessive mortgage loan prepayments.

A letter of credit in the amount of \$20 million was provided by Swiss Bank Corporation which is rated AAA by Standard & Poors and Aaa by Moody's Investor Services. The letter of credit assures bondholders that sufficient funds will be available to meet debt service payments if certain factors, primarily reduced levels of mortgage loan prepayments, cause a temporary inadequacy of cash flow.

While the transaction permits the funding of Fannie Mae MBSs, conventional mortgage loans are expected to be converted to Freddie Mac PCs pursuant to the terms of the Corporation's new agreement with Freddie Mac.

Tax Exempt Mortgage Program Financing

The Corporation sold its Collateralized Home Mortgage Bonds, 1987 Series B in November, 1988 in the amount of \$50 million. Proceeds from this series of Bonds will be used to continue funding for the Corporation's Tax Exempt Program for first-time homebuyers. This issue represented a refunding of Collateralized Home Mortgage Bonds, 1986 Series B which was sold in an initial floating rate mode expected to be converted to long-term status when the demand under the program necessitated availability of the funds. Unfortunately, the 1986 issue did not have the necessary flexibility to accommodate 30 year loans converted to Freddie Mac PCs. The refunding mechanism utilized preserved the pre-1986 federal mortgage loan eligibility requirements while allowing the restructuring of the debt.

Borrower and Program Comparison for Fiscal Year 1988

	Taxable Program ^a	HOF Program	Mobile Home Program	Veterans Program	Tax Exempt
Averages					
Sales Price	126,448	78,582	45,850	115,936	83,863
Loan Amount	112,797	78,990	49,189	108,738	82,622
Ratio—					
Loan to Sales Price	88.28%	98.08%	88.78%	94.42%	96.21%
Interest Rate	9.21%	8.94%	8.61%	8.73%	8.88%
Principal & Interest Payment	926	632	475	855	657
Monthly Income	5,321	2,197	4,090	4,724	2,572
Age-Borrower	39.3	29.4	34.1	39.1	32.0

Program Profile for Fiscal Year 1988

Breakdown by Programs of 2,382 Loans Purchased in FY 1988

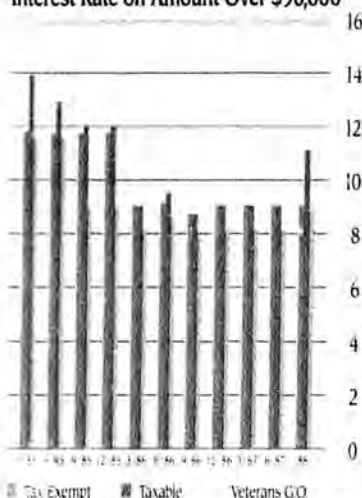
Program	Number of Loans	Percent Total	Dollar Amount (Millions)	Percent Total Dollars
Taxable ^a	1,018	42.7%	110.2	46.2%
Veterans	340	14.3%	37.0	15.5%
Tax-Exempt	645	27.1%	53.3	22.4%
Mobile Home	9	.4%	.4	.2%
Second	7	.3%	.4	.2%
HOAP	363	15.2%	36.9	15.5%
TOTAL	2,382	100.0%	238.2	100.0%

Note: 109 of the loans are Refinanced Loans. 4 of the loans are Pledged Account Mortgages. 48 of the loans are Home Owner's Assistance Program Loans.

^a Including MGIC Special Financing of 58, \$2.7 million and Non-conforming, 13, \$7 million.

^b Exclusive of MGIC Special Financing and Non-conforming Program.

**Interest Rate Trend —
End of Quarter Cost of Funds
Interest Rate on Amount Over \$90,000**



Interest Rate Comparison — Compares the cost of funds at the end of each quarter for three types of bonds AHFC issued in FY 84, FY 85 and FY 86.

The schedule of serial bonds for the 1987 Series B issue anticipated the receipt of mortgage loan prepayments at an annual level roughly equal to 6% of the portfolio. The anticipation of prepayments enabled more of the principal amount of the issue to be scheduled into the shorter term serial bonds with interest rates substantially below those applicable to the term bonds with longer maturities. To cover the risk to the bondholders that prepayments did not materialize at levels adequate to meet the required debt service, a \$10 million letter of credit was obtained from Swiss Bank Corporation. Mortgage loans originated under the program will be converted to Freddie Mac PCs or GNMA Certificates prior to their funding from bond proceeds. This loan swap procedure combined with the letter of credit from Swiss Bank Corporation and other financing criteria resulted in the Bonds achieving ratings of AAA from Standard & Poors and Aaa from Moody's Investor Services.

Veterans Mortgage Program Financing

The sole financing for the Veterans Mortgage Program occurred in March 1988, through a competitive bid process with Dean Witter the successful bidder. The Veterans Mortgage Program is funded through the issuance of tax-exempt bonds, the proceeds of which are restricted to the purchase of mortgage loans made to individuals meeting the federal definition of veteran. Veteran borrowers generally receive a 1% decrease in the interest rate on the first \$90,000 of their mortgage loan.

The issuance of Collateralized Bonds 1988 First Series (Veterans Mortgage Program) was in the amount of \$50 million. Using "current refunding" rules under the Internal Revenue Code the bonds were not subject to the Alternative Minimum Tax, resulting in a reduced yield. A lack of available authorization under the Corporation's Fannie Mae Pool Purchase Contract which accommodated Alaska Building Equity (ABE) mortgages resulted in the need to call from unused proceeds in excess of \$50 million of the Corporation's Collateralized Bonds 1983 First Series. The redemption of the 1985 bonds permitted the "current refunding" status.

The conventional loans originated under the program are expected to be converted to Freddie Mac PCs while VA guaranteed and FHA insured loans will be used to secure GNMA certificates. As a result of the loan swap arrangements and other financing criteria the bonds were rated AAA by Standard & Poors and Aaa by Moodys.

Home Owners' Assistance Program Financings

The Corporation inaugurated its Home Owners' Assistance Program (HOAP) in December, 1987, with the issuance of a \$110 million multiple series transaction. The structure combined \$43 million of medium-term notes maturing in years 2 through 9, \$12 million of floating rate notes, a 15 year term bond with 5 years of call protection, a 30 year term bond callable after 7 years and a \$10 million Z-bond which does not pay interest until the rest of the bonds are paid off and which was initially purchased by the Corporation.

Loans supporting this first HOAP financing will have been substantially restructured as to interest rate, maturity, and payments and will generally be subject to mortgage pool insurance policies or a Fannie Mae Pool Purchase Contract.

The issue was insured by Financial Securities Assurance which resulted in the achievement of the highest possible ratings from Standard & Poors Corporation and Moodys Investor Services. The issue permitted the inclusion of loans under the HOAP Part I as well as those refinanced pursuant to the requirements of HOAP Part II.

The second financing for HOAP was sold in April 1988. This issue in the amount of \$75 million represented the first transaction of the Corporation structured as a true collateralized mortgage obligation (CMO). CMOs are multi-class pay-through bonds with cash flows generated from a common pledged pool of mortgages linked to the cash flows on the various classes of bonds. With a CMO, revenues beyond that necessary to pay current interest on the bonds are used to retire bonds generally on a sequential basis. The issuer of a CMO usually does not protect the bondholders from excess revenue calls, rather the investor concerned with receiving their principal back too early will buy one of the later classes.

Mortgage Investment, State Appropriation and Financing Levels – All Programs

Year Ending June 30, 1989

(In Millions)

Loan Commitments – Proposed	\$ 890.00
Loan Purchases – Proposed	875.00
State Appropriations	-0-
Bonds – Authorized	1,500.00
– Issued (Estimated)	650.00

Year Ending June 30, 1988

(In Millions)

Loan Commitments – Actual	\$ 254.26
Loan Purchases – Actual (Excluding accrued interest)*	238.24
– Estimated previous year	565.00
State Appropriations	-0-
Net transfers representing loan subsidies and/or debt collateralization	101.00
Bonds – Authorized	1,500.00
– Issued	447.00
– Estimated previous year	675.00

*Includes loans modified pursuant to the Home Owners' Assistance Program

The Corporation's CMO issue was unique to the market in that it represented the first such transaction where the issuer did not have the underlying mortgage collateral immediately available. It was also somewhat unusual in that the collateral was to consist of part whole loans and part Fannie Mae MBSs.

As with the first HOAP issue the CMO was insured by Financial Securities Assurance and achieved the highest possible ratings from both Standard & Poors and Moodys Investor Services.

Mortgage Backed Bonds

In September 1987, the Corporation sold \$62 million of Mortgage-Backed Bonds. This financing consisted of \$22 million of floating rate bonds and \$40 million fixed rate securities. The Mortgage-Backed Bond issue was unique to the Corporation in that it represented the first transaction where the mortgage loans to be pledged as security for the bonds were already held in portfolio. The majority of the mortgage collateral consisted of loans purchased from the State of Alaska in 1986. These loans were originated under programs administered by the Housing Assistance Division of Community and Regional Affairs, principally their Urban Non-Conforming Program. In addition to these loans, the Corporation pledged certain mortgage loans originated under its Rural and Rural Non-Owner Occupied Programs.

The Mortgage-Backed Bonds, interest on which is subject to federal income tax, were sold as a private placement through Salomon Brothers Inc to predominantly institutional investors. The bonds were subject to a letter of credit provided by Mitsui Bank, Limited. Ratings were not requested on the Bonds.

Short-Term Financing Facilities

Reverse Repurchase Agreements

The Corporation continued its practice of managing its liquidity position through the sale of a portion of its portfolio of Fannie Mae MBSs and GNMA Certificates under agreements to repurchase the securities on a specific date. This type of financing activity is referred to as a Reverse Repurchase Agreement and is the flip side to a Repurchase Agreement (REPO) investment. Since the Corporation has effectively collateralized its obligation to make payment to the investor with securities of AAA quality, Reverse Repurchase Agreements are among the lowest cost source of short-term funds available.

Since it is generally preferable to fund mortgage securities into the appropriate bond issue as infrequently as possible, the Reverse Repurchase Agreements are a convenient, low-cost method of warehousing the mortgage loans acquired by the Corporation which have been converted to a mortgage-backed security or certificate.

Euro Commercial Paper Program

To supplement its Reverse Repurchase Agreement and short-term financing activities, the Corporation implemented in April 1987, a Euro Commercial Paper (ECP) Program. This Program is used interchangeably with Reverse REPOs and assists in assuring available liquidity for mortgage loan purchases pending their delivery under the appropriate bond issue. Merrill Lynch International & Co. and Swiss Bank Corporation International Ltd. are dealers in the Program which is administered out of their London offices. During FY 1988 the Corporation issued an aggregate of \$284 million of Euro Commercial Paper with an average maturity of 3 months and interest rate of 7.40%. Borrowings under the ECP Program represent a general obligation of the Corporation, backed by its full faith and credit. In connection with this Program, certain representations were made concerning the amount of unrestricted assets which the Corporation must maintain.

Euro Revolving Facility Agreement

Simultaneous with the implementation of the ECP Program, the Corporation entered into a Euro Revolving Facility Agreement (the Revolving Facility) with a number of international banking institutions. The Revolving Facility, initially in the amount of \$150 million with provisions which permit an increase to \$200 million, provides the Corporation with the certainty of access to short-term financing were the ECP Program or access to the Reverse REPO markets to prove unavailable or undesirable. While acting somewhat as a "backstop" facility, it provides for a variety of funding methods which may at times prove attractive to the Corporation. The lead bank in the Revolving Facility is Swiss Bank Corporation, other participating banks are from Japan, France, Italy and England.

Programs

The Alaska Housing Finance Corporation offered nineteen mortgage programs in Fiscal Year 1988 to meet the financing and refinancing needs of Alaskan homebuyers.

AHFC purchased 2,382 loans made in FY 1988 totaling \$238.2 million.

Home Owners' Assistance Program

In FY 1988 AHFC implemented the Home Owners' Assistance Program, known as HOAP (pronounced hope). HOAP was designed to make mortgage payments more affordable for AHFC borrowers, as well as offer assistance to eligible homeowners who were experiencing serious, but temporary, financial difficulties.

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

In FY 1988, AHFC purchased 363 HOAP loans.

Taxable Mortgage Program

This program is used by the largest number of Alaskan borrowers, 1,018 in FY 1988 representing 42.7% total loans purchased.

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

Tax-Exempt Mortgage Program

In the Mortgage Subsidy Bond Tax Act of 1980, Congress established a program under which individual states could issue tax-exempt bonds and use the proceeds to make loans to first-time homebuyers. Under this program, borrowers must meet criteria established by the federal government to be eligible for the funds, including average area purchase price limits for the residence and not having an ownership interest in a principal residence in the last three years. The limits for FY 1988 were \$102,740 for an existing single-family residence and \$115,685 for a duplex.

This program was used by 645 homeowners in FY 1988.

Home Ownership Assistance Program

By providing an additional subsidy, the Home Ownership Assistance Program (HOF) reduces the monthly mortgage payment that borrowers pay. Although the mortgage loan is written at the current interest rate, borrowers receive a subsidy. The subsidy is based on their income in an amount that would reduce the monthly payment to 28% of their income or a 6% interest rate loan, whichever is greater. Since an additional subsidy is provided, there are criteria for the program including the amount of total assets based on family size and sales price limits. The limits insure use of the funds by families who could not afford to purchase a home without this assistance.

The HOF Program was used by 48 homeowners in FY 1988.

Federal Housing Administration

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

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

In FY 1988, AHFC purchased 861 loans under this program.

Mobile Home Loan Program

AHFC offers one of the most liberal Mobile Home Loan Programs in the United States with a choice of a 10% down payment with a 20-year loan term or a 5% down payment with a 10-year loan term. The maximum loan amount is \$75,000.

Nine borrowers used this the program during FY 1988.

Triplex/Four-Plex Program

A total of 6 Alaskans took advantage of this program during the FY 1988 where an owner-occupant can borrow up to \$308,900 for a triplex or up to \$384,000 for a four-plex. There is a minimum of 15% down payment. For the Taxable Mortgage Program, the Corporation offers a subsidized interest rate on the first \$90,000 of the loan if AHFC's interest rate is above 10%. The interest rate on amounts over \$90,000 are at the Corporation's cost of funds.

Pledged Account Mortgage Program

A graduated payment mortgage is available through the Corporation's Pledged Account Mortgage Program (PAM). With a PAM mortgage, the borrower places a portion of the down payment in an interest-bearing savings account which is pledged as additional security.

Money is drawn out of the account each month to pay a portion of the borrower's monthly mortgage payment. Since the borrower is qualifying on a lower first year payment, borrowers can purchase a larger home in anticipation of their income increasing.

A total of 4 families took advantage of the PAM program in FY 1988.

Second Mortgage Program

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

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

A total of 7 borrowers used this program in FY 1988.

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

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

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

A total of 349 veterans utilized the tax-exempt funds during FY 1988 for mortgage loans. Loans under the program may be for single-family through four-plex residences, with loan limits and down payment requirements the same as under the Taxable Mortgage Program and the Triplex/Four-plex Mortgage program.

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

As a result of new federal restrictions on the Veterans Mortgage Program, many veterans who entered service after January 1, 1977, and who have been out of service for more than 30 years, will find this state program an option in the future. The lower interest rate may be applied to any of the programs of the Corporation except the Veterans Mortgage Program.

Also available to veterans is a loan guarantee by the Federal Veterans Administration which allows for a lower down payment when purchasing a home. This federal loan guarantee program was utilized by 340 veterans during FY 1988. The guarantee may be applied to all of the Corporation's loan programs except the PAM.

Refinance Program

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

There were 109 borrowers who took advantage of the program in FY 1988.

Rental Program

The Rental Loan Program was limited to the refinancing of loans already owned by the Corporation that required continued owner/occupancy. The new loan allowed the borrower to rent the property on a long-term basis. The interest rate on the new loan is not subsidized by the state and adjusts every five years to the Corporation's cost of funds.

The Corporation has refinanced 137 loans under this program in FY 1988.

This program was discontinued towards the end of FY 1988.

Non-Conforming Property Program

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

During FY 1988 the Corporation purchased 13 loans on non-conforming properties.

Condominium Projects

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

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

Mobile Home Parks

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

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

Fiscal Year 1988 Property Sales

Without exception in Fiscal Year 1988 sales of all property types increased. The marketplace in certain segments became increasingly competitive with sales directly related to property condition.

AHFC's policy of selling homes in a market ready condition contributed to increased sales. Time and effort were spent on repairs and renovations to properties which resulted in the sale of a better product, at a higher value and in a shorter period of time. The policy assisted brokers in marketing properties and ultimately resulted in a high level of satisfied purchasers. A very important side effect of this policy was that the repair and renovation process diversely injected substantial funds into the Alaskan economy. These funds paid for wages, materials and services, thus adding positive stimulus to an ailing economy.

Although sales generally increased over 1987 levels, real estate owned inventory continued to significantly increase as foreclosures continued to exceed sales.

REO Inventory by Property Type

At June 30, 1988

	Anchorage Eagle River	Fbx	Mat Su	Kenai	Southeast	Total
SFR	462	433	175	108	56	1,234
Condo	1,302	2	59	0	60	1,423
PUD	100	58	14	1	0	173
Multi-Family	67	9	36	6	7	125
Mobile Home						
w/Lot	2	2	5	1	0	10
O-Lot	309	0	6	1	73	389
TOTAL	2,242	504	295	117	196	3,354

SFR: single family residence

PUB: planned unit development

Sales by Property Type for FY 1988

	Anchorage Eagle River	Fbx	Mat Su	Kenai	Southeast	Total
SFR	272	55	101	25	30	483
Condo	101	5	0	1	8	115
PUD	42	3	8	1	0	54
Multi-Family	11	4	1	1	5	22
O-Lot	76	3	0	0	22	101
TOTAL	502	70	110	28	65	775

Condominiums

In general, the condominium market continued to experience great difficulty. Sales increased 300% over 1987 but on a relative basis this had little significance or impact. Major efforts were undertaken to develop an

overall stabilization program with the intent to reduce inventory, strengthen homeowners associations and improve overall housing quality. The effect of these efforts if implemented, should be seen in FY 1989.

Mobile Homes

In 1988 mobile home sales significantly increased. Beginning in March 1988, monthly sales began to exceed incoming repossessions. Signs of stabilization appeared in the mobile home market. Values, although continuing to decline, declined at a significantly lesser rate than in 1987.

The increased sales were due in part to AHFC concentrating its efforts on a marketing plan. The units were centrally managed, and aggressively marketed with over 60 AHFC-approved agents selling the inventory.

AHFC also targeted a previously untapped area of using the units for recreational purposes. A model was set up in a highly visible and convenient area in Anchorage for the summer to show prospective recreational users what a little imagination could accomplish with a mobile home. The unit was staffed daily by AHFC-approved mobile home agents.

A sales/storage lot was also opened and resulted in additional sales as well as reducing AHFC's space rent holding costs.

While individual unit sales made up a majority of the sales, bulk sales also contributed to the overall reduction of inventory. Bulk sales were made to mobile home park owners, individuals and mining camps. Many units stayed in the Anchorage area whereas some were moved from the area, which contributed towards stabilizing the market.

In another area, major progress was made on a program to reduce the carrying costs of mobile homes. In addition to reducing its inventory, a storage lot was established and strategies were established for negotiating reduced space rents.

Statewide Inventory of AHFC Owned Mobile Homes for FY 1988

Beginning Inventory	957
Repossessions	646
*Closed Sales	588
Units Destroyed	45
TOTAL	970

*Bulk sales = 20 units

Summary

The growing real estate owned problem will continue into FY 1989. In addition to its repair and restoration policy and aggressive marketing strategies, AHFC will continue to explore opportunities to stabilize property values and reduce foreclosures.

Approved AHFC Seller/Serviceers

Alaska Continental Bank
Alaska Federal Savings & Loan
Alaska Statebank
Alaska USA Federal Credit Union
Alliance Bank
AVCP Housing Authority
B. M. Behrends Bank
Centrust Mortgage Corporation
City Mortgage Corporation
Columbia Mortgage Corporation
Commonwealth Western Mortgage Corporation
Denali Federal Credit Union
Denali State Bank
FedAlaska Federal Credit Union
Fireman's Fund Mortgage Corporation
First Bank
First Federal Bank-City
First Federal Bank of Alaska
First Federal DVA Only
First Guaranty Mortgage Company of Alaska
First National Bank of Anchorage
First National Bank of Fairbanks
Frontier Alaska State Credit Union
G.M.A.C. Mortgage Corporation of PA
Goldome Realty Credit Corporation
Home Savings & Loan
Intercontinental Mortgage Corporation
Interior Regional Housing Authority
Key Pacific Mortgage Corporation
Kodiak Island Housing Authority
Mortgage Company of Alaska
Mount McKinley Mutual Savings
NANA Regional Housing Authority
National Bank of Alaska
Rainier Bank Alaska, N.A.
Seafirst Mortgage Corporation
Tlingit-Haida Regional Housing Authority
Washington Mortgage Company, Inc.
Western Mortgage Loan Corporation

Independent Auditors' Report

The Board of Directors

Alaska Housing Finance Corporation:

We have audited the combined balance sheets of Alaska Housing Finance Corporation as of June 30, 1988 and 1987, and the related combined statements of revenues, expenses, retained earnings, and combined changes in financial position for the years then ended. These combined financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Alaska Housing Finance Corporation at June 30, 1988 and 1987, and the results of its operations and its changes in financial position for the years then ended in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the combined financial statements taken as a whole. The combining information (Schedules 1 through 27) are presented for purposes of additional analysis of the combined financial statements rather than to present the financial position, results of operation, and changes in the financial position of the individual Funds. The combining information has been subjected to the auditing procedures applied in the audits of the combined financial statements and, in our opinion, is fairly presented in all material respects in relation to the combined financial statements taken as a whole.

October 11, 1988

Peat Marwick Main & Co.

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Combined Balance Sheets

	June 30	
	1988	1987
	(in thousands)	
Assets		
Cash	\$ 5,304	10,056
Investments	1,528,154	1,256,983
Securities purchased from other funds under agreements to resell	6,000	-
Mortgage loans and mortgage backed securities <u>net of discounts and allowances for loan losses</u>	3,671,840	3,958,578
Mobile home loans <u>net of allowance for loan losses</u>	73,958	100,819
Accrued interest receivable	55,308	54,413
Claims receivable	80,198	28,920
Due from other funds	158,029	113,122
Real estate owned	221,327	146,840
Mobile homes owned	10,500	18,306
Other assets - ? what are other?	29,587	20,732
	\$ 5,840,205	5,708,769
Liabilities and Fund Equity		
Liabilities:		
Bonds and notes payable, net of discounts:		
Mortgage bonds and notes	\$ 4,009,699	3,991,067
Notes payable to State of Alaska	-	10,894
Commercial paper	69,257	4,973
Securities sold to other funds under agreements to repurchase	6,000	-
Accrued interest payable	57,490	51,578
Insurance fund reserve for loan losses	11,738	5,585
Due to other funds	158,029	113,122
Accrued expenses and other liabilities	19,456	10,414
Total liabilities	4,331,669	4,187,633
Fund Equity:		
Contributed capital		
Security for outstanding obligations	829,740	728,742
Legislative appropriations not subject to pledge	204,131	305,129
Total contributed capital	1,033,871	1,033,871
Retained earnings:		
Designated as security for outstanding obligations or other purposes allowed within the respective fund	407,769	421,125
Undesignated	66,896	66,140
Total retained earnings	474,665	487,265
Total fund equity	1,508,536	1,521,136
Commitments		
	\$ 5,840,205	5,708,769

See accompanying notes to combined financial statements.

Combined Statements of Revenues, Expenses, and Retained Earnings

	Year Ended June 30	
	1988	1987
	(in thousands)	
Revenues:		
Interest income:		
Mortgages and loans <i># made on</i>	\$ 353,922	397,421
<u>Investments</u>	117,918	135,925
	471,840	533,346
Loan fees and other	25,206	21,179
Total revenues	497,046	554,525
Expenses:		
Interest	402,050	460,062
Mortgage service fees	14,052	14,975
General and administrative	6,105	3,805
Trustee fees, insurance and financing costs	13,850	16,053
Mortgage payment assistance subsidies	2,101	3,234
<u>Provision for loan losses</u>	36,620	12,528
Insurance fund losses	9,506	6,272
Write-down and net operating expenses associated with real estate and mobile homes owned	25,362	8,534
Total expenses	509,646	525,463
Net income (loss) before extraordinary item	(12,600)	29,062
Extraordinary item - loss on early extinguishment of debt	-	(8,134)
Net income (loss)	(12,600)	20,928
Retained earnings at beginning of year	487,265	466,337
Retained earnings at end of year	\$474,665	487,265

See accompanying notes to combined financial statements.

Assets = Liabilities + Equity =

270 mil - unrestricted assets > 5%

5.8 bil. in Assets

You could take 100 mil. from unrestricted assets and only diminish their total assets by 2%.

Assets to which there is no legal claim - has no restriction on it.

18% of Total Equity

5% of Total Assets

Combined Statements of Changes in Financial Position

	Year Ended June 30	
	1988	1987
	(in thousands)	
Sources of financial resources:		
Operations:		
Net income (loss) before extraordinary item	\$ (12,600)	29,062
Extraordinary item - loss on early extinguishment of debt	-	(8,134)
Net income (loss)	(12,600)	20,928
Items which do not use (provide) cash:		
Net amortization of discounts, premiums and bond issuance costs	16,795	21,043
Depreciation	80	80
Increase in accrued interest receivable	(895)	(1,174)
Increase in claims receivable	(51,278)	(28,920)
Increase in accrued interest payable	5,912	6,028
Net increase in accrued expenses and other assets	(6,408)	(2,299)
Net increase for allowance for loan losses and write-down of real estate and mobile homes owned	54,691	18,213
Financial resources provided by operations	6,297	33,899
Loan principal repayments	448,448	809,817
Increase (decrease) in commercial paper and securities sold to other funds under agreements to repurchase	70,284	(202,573)
Net proceeds from sale of mortgage bonds	435,468	480,118
Decrease in cash	4,752	-
Total sources of financial resources	\$ 965,249	1,121,261
Uses of financial resources:		
Increase (decrease) in investments and securities purchased from other funds under agreements to resell	277,171	(774,424)
Acquisition of loans	249,890	733,004
Payment of mortgage bonds and notes	427,117	1,149,338
Purchase of office equipment and improvements	177	131
Payment of State of Alaska notes	10,894	12,141
Increase in cash	-	1,071
Total uses of financial resources	\$ 965,249	1,121,261

See accompanying notes to combined financial statements.

Notes to Combined Financial Statements

June 30, 1988 and 1987

1. Authorizing Legislation and Funds

The Alaska Housing Finance Corporation (Corporation) was created in 1971 by an act of the State of Alaska Legislature (Legislature). The Corporation was established to assist in the financing, development and sale of dwelling units within Alaska. Generally, the Corporation 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.

The Corporation is authorized, as approved by the Legislature, to issue its own bonds, bond anticipation notes and other obligations in such principal amounts as, in the opinion of the Corporation, will be necessary to provide sufficient funds for carrying out its purpose. Certain bonds issued to finance residences for qualified veterans are guaranteed by the full faith and credit of the State of Alaska. All other obligations so issued shall not be deemed to constitute a debt of the State.

2. Summary of Significant Accounting Policies

Fund Accounting

The financial activities of the Corporation, which are restricted by the Corporation's Bond Resolutions and requirements from the Legislature, are recorded in various specific purpose funds and accounts as specified in such instruments or necessitated by appropriation requirements. Financial activities and resulting account balances which are not so restricted are recorded in the Corporation's Operating Fund. The Corporation's funds are considered to be enterprise funds for financial reporting purposes with revenues recognized when earned and expenses when incurred.

Investments

Investments purchased for long-term purposes and investments of a short-term nature are stated at cost, as adjusted for amortization of premium and accretion of discount. Gains or losses from the sale of investments are recognized upon realization. All investments are generally expected to be held to maturity and, therefore, fully realized.

Loans

Loans are carried at their unpaid principal balances, less net unamortized discount. Mortgage loans and mortgage backed securities (MBS) include Federal National Mortgage Association and Government National Mortgage Association and Federal Home Loan Mortgage Corporation mortgage backed securities of \$1,353,732,000 and \$1,328,011,000 at June 30, 1988 and 1987, respectively. The Corporation had agreements to repurchase individual mortgages if they become 90 days past due which secure approximately \$539,000,000 of the MBSs at June 30, 1988 and \$367,000,000 at June 30, 1987.

Real Estate Owned

Real estate and mobile homes owned consist principally of properties acquired through foreclosure and are carried at the lower of cost or estimated net realizable value. At the time the property is acquired, if the estimated net realizable value is less than the amounts outstanding on the loan, any difference is charged against the allowance for loan losses. Subsequent declines, if any, in estimated net realizable value are charged to expense. Upon final disposition of the property, resulting gains or losses are charged to operations in the current period. In determining the net realizable value of the property, the Corporation considers coverages available under mortgage and credit insurance and loan guarantees.

Allowance for Loan Losses

The Corporation maintains an allowance for potential loan losses. The level of this allowance is periodically reviewed by management, based upon an evaluation of the loan portfolio. The allowance is increased, as necessary, by a provision for loan losses and charged to expenses in the period that the loss exposure becomes known. Management believes that no significant losses in addition to those provided in the allowance for loan losses will occur due to the coverage provided by private mortgage or credit insurance, the Corporation's insurance funds, or various loan guarantee programs.

Reserve for Loan Losses

The Corporation maintains a reserve for loan losses in the insurance funds. The level of this reserve is periodically reviewed by management based upon an evaluation of the loan portfolio in the insured funds. The reserve is increased, as necessary, by a charge to expenses in the period the loss exposure becomes known.

Amortization and Depreciation

Mortgage discounts are amortized over the lives of the related mortgages on a method which approximates yield. The net unamortized discount on mortgages outstanding at June 30, 1988 and 1987 was approximately \$374,000, and \$373,000, respectively.

Discount and issuance expenses on debt are deferred and amortized on a method which approximates yield over the terms of the related issue.

Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets. Estimated useful lives are 5 to 20 years. Accumulated depreciation at June 30, 1988 and 1987 was approximately \$414,000 and \$423,000, respectively.

Notes to Combined Financial Statements

Accrued Interest Receivable on Loans and Properties

Interest is accrued based upon the principal amount outstanding. Accrual of interest income is discontinued on loans when, in the opinion of management, collection of such interest income becomes doubtful. When payment of interest is provided for pursuant to the terms of mortgage and loan insurance or guarantees, accrual of interest on delinquent loans and real estate owned is continued.

Commitment Fees

Loan commitment fees are recognized as revenue upon issuance of each specific mortgage commitment contract.

Pension Plan

Substantially all full-time employees of the Corporation participate in the State of Alaska Public Employees' Retirement System. The State's policy is to fund pension costs accrued.

Legislative Appropriations Not Subject to Pledge

Legislative appropriations consist of that portion of capital contributions from the State of Alaska which is not pledged as security for outstanding obligations and are composed of the following (in thousands of dollars):

	June 30	
	1988	1987
General Account of Revolving Fund	\$ 88,992	\$189,990
Home Ownership Fund	103,381	103,381
Combined Insurance Fund	11,758	11,758
	<u>\$204,131</u>	<u>\$305,129</u>

3. Investments

A summary of investments at June 30, 1988 and 1987 follows (in thousands of dollars):

	June 30	
	1988	1987
U.S. Treasury securities	\$ 129,382	\$ 143,161
Securities of U.S. Government agencies and corporations	166,975	100,230
Mortgage backed securities (purchased on open market)	179,252	199,570
Certificates of deposit	460,159	241,430
Investment agreements	223,744	384,495
Commercial paper	265,267	17,287
Repurchase agreements	84,092	84,450
Money market funds	19,283	86,360
	<u>\$1,528,154</u>	<u>\$1,256,983</u>

At June 30, 1988, the Corporation held investments with maturities in excess of one year with a book value of \$296,658,000 and a market value of approximately \$310,766,000. These investments consisted of direct obligations of the United States, direct obligations of federal agencies, and bank investment securities.

Included in the General Account of the Revolving Fund is an investment in the net amount of \$7,000,000 in debt securities of the Corporation which may not be pledged, sold, assigned, or otherwise transferred without the written consent of a stock insurance company unless provided otherwise in the indenture.