

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILE 8672
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on the lenders' approved appraiser list and are now being paid hundreds or even thousands more dollars to reappraise the same properties to settle deficiency judgment disputes.

There is an old saying that once a government program is put into place it can never be deleted. This aphorism has been solidified by recent experiences. In spite of the disastrous effect that the AHFC's mobile home financing program has had on the mobile home market and the devastation inflicted on the condo market by the HOAF program, both are still offered by the Alaska Housing Finance Corporation. Though these programs are not needed in today's market, they will be left on the books to recycle the same mayhem for our progeny.

We are also now aware that if a secondary lender's programs lead to an over built housing market, the lender can always find some university economist, for a fee, to attest that the lender's programs had no effect on the market. For an additional fee, the lender can even find some economist who will recommend that he convert condo's and sell them as low priced apartments, particularly if the lender does not hold mortgages on apartments, thus destroying someone else's portfolio while improving his own. The declaration, "It's every man for himself" becomes the lender's creed in a real estate recession.

In the early 1980's there was a loud public outcry for the state to spend money and create jobs, which of course is a laudable goal. Except, we created many of the wrong kinds of jobs. Many people that came to Alaska were attracted here to build the homes that they purchased and to work on short-term projects. Professional real estate analysts know that communities anticipating a volatile business cycle have options other than building new homes or building apartments to house transit employees.

One of the major causes of the housing market in Anchorage was the easy availability of money. We now know that if a secondary lender sets a upper-limit of \$80,000 on a subsidized mortgage program, all condos in the area which were previously priced at a lower amount instantly gravitates to the upper-limit. If financing is attractive enough during short-term employment peaks, real estate agents will go door to door convincing apartment renters to become condo owners, builders will make the buyer's down payment, and under-writing standards are forgotten. At the first sign of a decline in employment these condo's become the property of the lenders and then the real estate community will spend hundreds of hours in conferences trying figure out what happened.

On several occasions the author has recommended that the current housing market could be helped by converting

multiple-housing projects to low rent project and to take advantage of the recession by instituting urban renew programs and studying the mistakes of the past to establish policies for the future. One of the lessons learned during the past two years is that once a housing recession starts the term "cooperation" disappears from many peoples vocabulary. It is next to impossible to get mortgage insurers, lenders, and government officials to coordinate to the extent necessary to affect positive change. One of the reasons for this lack of coordination is everyone wants to be the "knight who slayed the housing dragon".

In Alaska we have also learned that real estate markets do not just fall, they ratchet down. Each level of market rents and prices takes from six to eight months to adjust, and each time the market reaches one of these ratchet plateaus, someone declares that we have finally bottomed-out. Each price/rent plateau devastates the previous level, causing more foreclosures. Defaults and foreclosures on property previously purchased at foreclosure sales are not uncommon. Each time the lenders foreclose on property they put it back on the market at a reduced rate which results in another ratcheting of the market and more foreclosures. Each time the market ratchets down the mortgage portfolios of the lending institutions are appropriately discounted.

We also know that lenders will resort to predatory actions when they have their backs to the wall. When the market for commercial real estate has been sufficiently devastated to the point that no market exists, the lenders will ask the court to sell property upon which has been defaulted, and then submit the only bid, after which they ask the court to award a deficiency judgment against the bank's own minimal offer.

The question most frequently asked the faculty in the real estate department at the University of Alaska Anchorage is "Has any city ever experienced a more severe real estate depression than the one being experienced in Anchorage today?" The answer is yes. These cities are known as ghost towns.

Another question that we frequently answer at the university for consumers, real estate agents, bankers, and economists is, "How low can the value of property drop? We now know that real estate can have a negative value. Take the example of rental property. When rents start falling, the first consequence is that cash flow to cover the return on equity is wiped out and the owner loses his/her equity. The second consequence is that cash flow to cover debt service is reduced or wiped out. The third consequence is that cash flow to cover operating costs and taxes is wiped out. The value of improvements to real estate can become

negative and land can have a negative value. The greater the liability of real estate ownership, the greater the negative value.

Real estate markets impacted by over inflating the economy and then followed by the sudden drop in oil prices are good reminders of sound cyclical investment principles: i.e. (1), concentrating on developing or purchasing quality real estate projects for retention, (2) fostering relations with strong tenants, (3) developing enough equity in retained properties to withstand cyclical price and rent declines and/or protect cash flows with long term rental contracts with strong clients, and (4) keeping an adequate amount of operating reserves or sources of cash flow through diversification to weather market downturns. One or more prime properties with a low mortgage-to-value ratio and strong tenants in the investor's portfolio can provide considerable stability for the long-term strategist.

The results of studies conducted at the University of Alaska Anchorage by the author suggest three possible operating strategies for the real estate investor operating in a market subject to economic volatility: (1) a short term strategy in which the investor plays the market swings, getting in and out at just the right time; (2) a long-term strategy where the investor concentrates on quality properties and accumulating cash reserves or a strong cash flow position through diversification to provide for continuity; or (3) a strategy which would include a combination of these two approaches. The investor could take advantage of the market swings, selling off some properties at the peak of the market, and keeping the best properties for long-term stability. This assumes that when the investor sells, he/she doesn't carry back financing or he/she may still be a long-term investor, getting the property back when the market turns down. The best strategy for lenders to protect themselves against sudden market swings is to forget the term, "If I don't make the loan someone else will."

Last, but certainly not least, we have also learned that the most frequently used real estate term in a severely depressed real estate market is "negative equity."

It is a timeless truth, not only in real estate concerns but in every area of life, that the events of the past are portents of the future. It, therefore, behooves Alaskan real estate practitioners to pay attention to past mistakes in order to divert similar occurrences in the future. This wisdom is no where more evident than in Harry Truman's assertion that "The only thing we don't know about the future is the history we haven't read."

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The Anchorage Housing Market

Problems and Solutions

Prepared for

The Governor's Conference on Housing

September 23, 1988

By

**Connie Yoshimura
President**

FORTUNE PROPERTIES

The Road To Recovery

With the average AHFC loss on a repossessed property now pegged at close to \$50,000 and with suspected continued loss of population in the Anchorage bowl, the Anchorage real estate market remains in the eye of the hurricane. Those who have endured the precipitous decline of the real estate market have simply gotten used to the problem and so many think we have passed the brink of disaster. Nothing could be further from the truth. With AHFC delinquencies of 120 days at 7%, that figure alone would indicate another 2,800 properties must be recycled, or double what the AHFC REO inventory already is. Given that the present economic conditions are not going to change in the immediate future, the work of the real estate profession is not done in forging a recovery plan.

The road to recovery has many detours and one such detour is the glitzy marketing campaigns put on by institutional sellers who believe that if you talk about it enough, advertise it enough and pay enough, you can sell property. Nothing could be further from the truth in the Anchorage real estate market and the quicker outside institutional sellers learn their lessons the faster our market can begin its real recovery. Financing, added value and limiting supply are the real roads to recovery.

Refinancing a Necessary Ingredient

The AHFC HOAP program is not the great white hope of Alaska's residential recovery, although it may help stem the tide of future foreclosures to a limited extent. Unfortunately, the vast majority of foreclosures are due to job loss as opposed to diminished cash flow. However, refinancing loans so that they are sustainable on the basis of personal cash flow is probably the best way of keeping people in their homes which have a negative equity.

Those homeowners with negative equity are willing to absorb the loss as long as their cash flow is not terribly adversely affected. The HOAP program, with 700 closed deals through the end of June, will keep a certain percentage of homeowners in their homes and in Alaska. However, it is not the final solution.

The continued availability of AHFC mortgage money is a crucial, key element in our recycling efforts. Without AHFC mortgage money, there would be no opportunity to recycle our properties, regardless of the value placed on them. So far, the bond market has responded well to the steps AHFC has taken to control its problems. As a first priority, all efforts should be maintained to sustain Alaska and AHFC's good relationship with the bond market. That element is crucial to any recovery that Anchorage hopes to experience in its near future.

Restoration and Renovation = Recovery

The average institutional seller, except for VA and HUD, is now spending about \$5,000 per property to make it more attractive for purchase. Restoration and renovation is a key ingredient for Anchorage's recovery. Adding value to a property is one major way to stimulate buyer demand and to improve the overall quality of life for Anchorage neighborhoods. Putting the property in market ready condition adds value to a property which results in a faster sale at a better price. Any institutional seller who refuses to participate in a restoration and renovation program is only contributing to a further decline in the value of property for the Anchorage marketplace, which will ultimately result in more foreclosures.

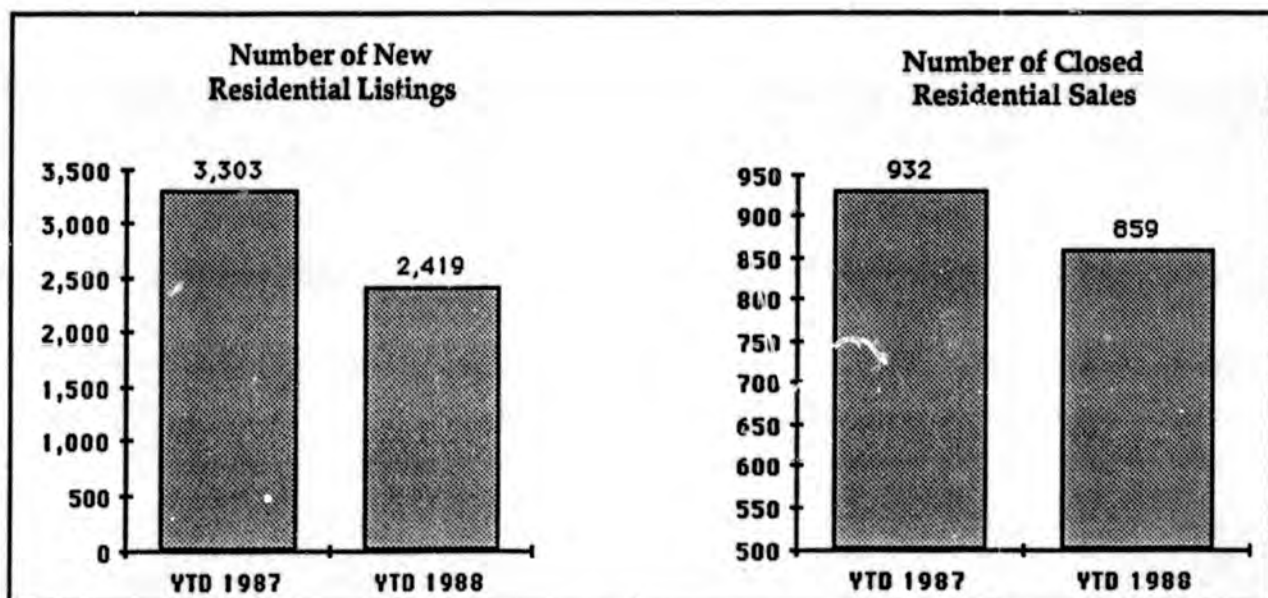
Limiting Supply

There are several ways to limit supply, or at least give the appearance of limiting supply. These ideas are discussed in greater detail in the condominium section of this report. Condos suffer the most from oversupply. Limiting supply includes the demolition of properties, the enactment of an apartment condominium conversion ban for 10 years and the requirement that all future condominiums have adequate car storage, be a minimum of 1,000 square feet and have increased landscaping.

Limiting supply also encompasses the renting of condominiums as apartments and the application of some condos for social service purposes.

A Look at the Market

The decline in residential inventory by almost 30% for single family and zero lot lines indicates that we have just begun to hit the bottom of this market. This 30% decline coupled with only an 8% decline in sales activity for the same time period indicates that the residential marketplace, with the exclusion of condos, is bounding along the bottom of the market.



Most real estate professionals are breathing a deep sigh of relief as the precipitous downward slide of values appears to be abating above \$100,000 as a result of continued sales activity and a growing lack of inventory.

As a result, it appears that the Anchorage residential market is going to experience a significant split based upon the availability of existing inventory. As is demonstrated by the accompanying chart, the vast majority of inventory lies below \$100,000. It is interesting to note in comparing inventory by price range from 1986, 1987 and 1988, that there has been a substantial downward price trend of inventory. In other words, the inventory has shifted from the mid-range to the low-range of under \$80,000.

The decline in inventory can be attributed in part to the lag time of a foreclosure, approximately six to nine months. AHFC reports a delinquency of 7% on their 120 day defaults. With 41,000 loans this is approximately 2,800 more properties which will eventually be placed on the market for recycling at a lower value. If you take that inventory which is in the pipeline and add it to the existing number of properties, you equal the inventory that we had of approximately 4,000 units going into this downward spiral. Coupled with a 10% loss of population, what the Anchorage marketplace is doing is recycling its better properties at a lower value, somewhere in the range of 20 to 40% less than what values were when this recycling began.

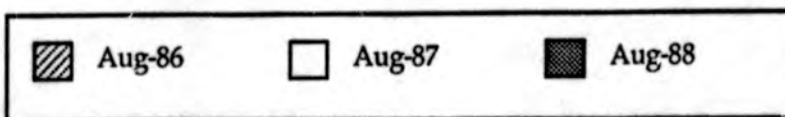
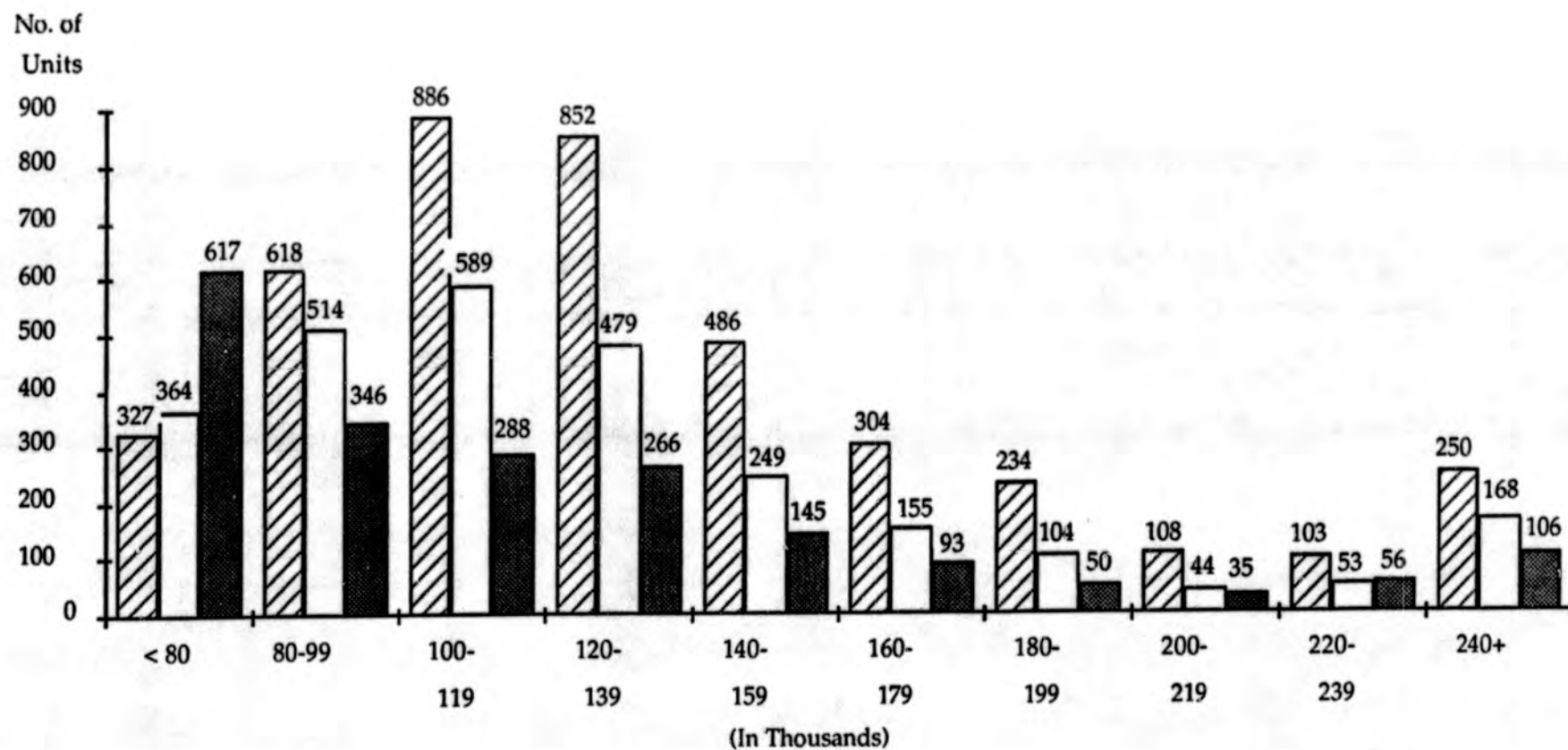
The market that has been created, through expensive marketing programs and lower interest rates, is one of first-time buyers who could not afford to purchase at the peak of the market and move-ups who see this as an opportunity to purchase a better home for less money. The move-up buyer requires the disposition of their existing home or the rental of it. Depending upon their financial situation, many move-up buyers are renting out their existing property at relatively high rates for single family residences.

The trend of the move-up buyer can be seen in the diminishing supply of inventory above the \$180,000 price range. In virtually all categories, inventory above \$180,000 has either stayed the same or diminished. It can be anticipated as a result of this move-up phenomenon that there will be some building activity in 1989 in this price range. The existing houses in this price range are much less subject to foreclosure and as the move-up demand increases, there should be an increase in prices.

This means that the market above \$150,000 will have completely different characteristics than the REO market, which will suffer from growing inventory and low prices. It is difficult for appraisers and marketing people to work in a market which has such separate characteristics. However, the upper end will have buyer demands on it long before any recovery can take place in the low end.

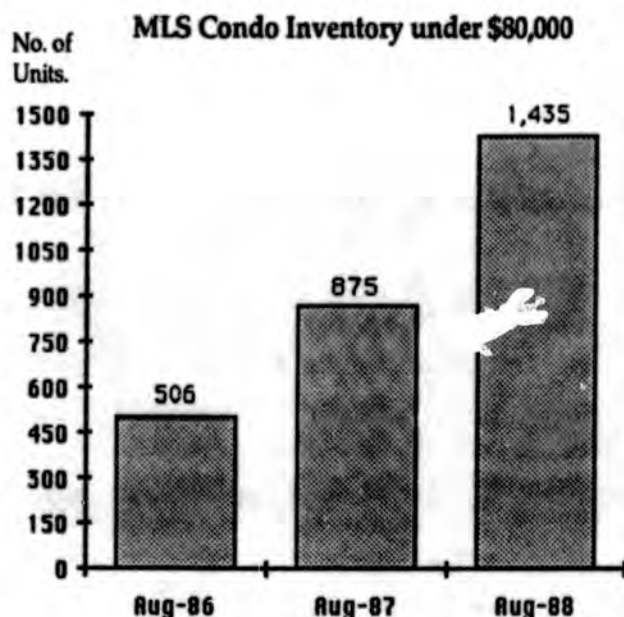
The low end is saturated with zero lot line properties which do not have adequate car storage. It is interesting to note that the zero lot line ordinance has sunsetted and no attempt was made to reactivate it. Hopefully that will remain the situation for at least five years.

Residential Active Units By Price Range



What's Happening With Condos

The number of condominiums priced under \$80,000 in the Anchorage real estate market has grown by 40% from August 1987 to August 1988. It is interesting to note that in August 1986, there were 1,099 condominiums on the market. The 1986 condominiums listed for sale had a much broader and higher range of value than today. In 1986 only 506 units were

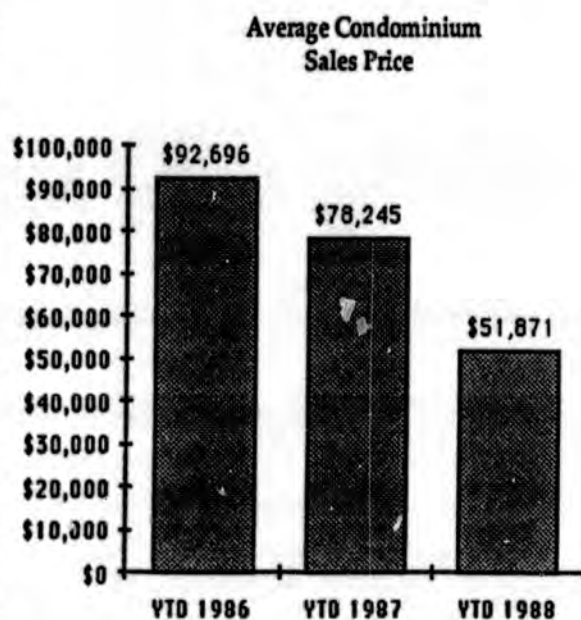


under \$80,000. In the \$80,000 to \$100,000 price range there were 293 units and between \$100,000 and \$120,000 there were 59 units listed for sale. The condominium inventory has dramatically shifted to the under \$80,000 category this year as the glut of inventory has created falling prices.

Today, the average price of a condominium is \$51,871. There is no reason to think that this price will not continue to decline unless collective steps are taken by institutional sellers to address the issues facing the condominium market. In 1986, the average price of a condominium was \$92,696. This equates to an approximately 20% annual price drop. There is no reason, with Anchorage's loss of population and supply

exceeding demand, to think that the price of a condo will not continue to drop until it reaches zero unless steps are taken to shore up the market by the institutional sellers. The dip in inventory in 1987 is undoubtedly the result of the foreclosure process, during which the property was not listed for sale. The foreclosure process creates a lag time of up to one year before the property is recycled into the marketplace. That is also the reason why the August 1988 figure does not reflect the high inventory of AHFC condominiums which have already been repossessed.

There is no reason not to suspect that the condominium market is going to become further saturated with inventory. As this occurs, prices will continue to fall unless substantial steps are taken on a collective basis by institutional sellers to put a floor in the marketplace. Those steps could include the demolition of designated condominium projects which do not meet municipal code standards, the rental of certain condominium projects, in particular those that were apartment conversions, the lifting of the



70% owner-occupancy requirement so that private owners other than institutions could sell their homes and the initiation of an aggressive 'presale' policy which allows sellers to sell their property with a negative equity through a negotiated process with the investor, the seller/servicer and the private mortgage insurance company, saving the expensive process of foreclosure.

Abolish the 70% Rule

The private condo owner who wants to sell his condo is in an economic time freeze which prevents him from selling, regardless of his financial condition or intention. A major contributor to that problem is the required 70% owner-occupancy ratio for an association before AHFC will approve the project. This is a direct conflict of interest for AHFC since they allow the sale and financing of their own institutional properties in the same projects.

It is possible that a few of the private sellers in the project would be willing to make restitution to the private mortgage insurance company or pay cash at closing in order to save their credit rating. However, AHFC's continued policy of 70% occupancy only forces the private seller to go to foreclosure, thus exacerbating AHFC's own problem of rising REO inventory.

The average AHFC loss on a property is now almost \$50,000. The goal should be over the next year to reduce that loss by 20%. That possibility exists if AHFC would begin waiving the 70% occupancy rule in some of the better condominium projects in Anchorage, thus putting the private sector more in charge of its own fate.

A better condominium project is defined as one which is built to condominium specifications with washer/dryer facilities within the unit as opposed to the common areas. A garage, fireplace and at least 800 square feet are also common characteristics of better condominium projects.

Even within the burgeoning condominium market, there seems to be a sales differential between those projects which have the above described features and those that don't. A study completed in 1988 by the Municipality of Anchorage demonstrated that the vast majority of condominiums in foreclosure are smaller units, under 1,000 square feet.

Ban Condo Conversions

Another way to tighten up the public's perception of the glut of condominiums in Anchorage is for the Municipality to adopt some stricter building codes for future development. This might include a ten year ban on all apartment conversions to condominiums. It might also require that all future condominiums have adequate covered car storage. In addition, a minimum square footage could be required for a two bedroom condo, such as 1,000 square feet. This might indeed have a positive effect on the condo market if buyers knew that the product that they were looking at would not be available in the future because of its lack of car storage or small square footage. Although this alone does not solve the condominium problem it closes the gate so that the problem has an end in the future. Right now, there seems to be no end in sight so there is no impetus for a buyer to enter the condo market.

Add Value Through Landscaping

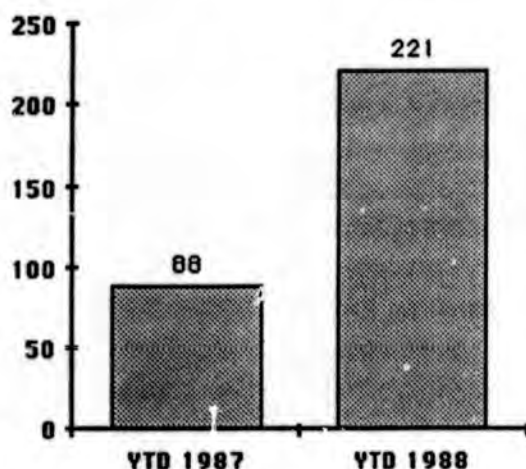
The Municipality of Anchorage could also impose stricter landscaping requirements for future condominium developments. Right now, landscaping requirements are based upon the type of zoning. In the future, condominium developments could have landscaping requirements based upon the number of units and their size, for example, four trees per unit. Landscaping goes a long way in creating perceived and added value. Added value is one of the main criterion for creating a resale market from REO inventory. It is difficult for the creation of added value in a condo project except in the interior of the unit where appliances, draperies, and upgraded carpeting can be added. However, creating added value in the common areas through landscaping would enhance the marketability of today's and tomorrow's projects.

Lopsided and Expensive Marketing

Through expensive and active marketing by the private mortgage insurance company, MGIC, condominium sales have taken a dramatic swing upward in 1988. In addition, Fannie Mae announced a lease/option program and increased sales commissions, 6% to the selling office, which also contributed to active sales increases. However, expensive marketing will not buy our way out of the Anchorage condominium market. Fur coats, cars, trips to the Caribbean and bonuses are not going to solve the condominium problem

in Anchorage. In fact, the rewards are short-lived and the cost of the promotion needs to be weighed against the declining value of the property itself.

Number of Condominium Sales



It would be a better strategy to set a minimum commission for the sale of all property which falls under \$60,000 which is where the market is most glutted both in single family, zero lot line, and condominiums. If all institutional sellers could agree upon this minimum commission to be divided equally between the listing agency and the selling agency, then a level playing field would be created for all institutions.

If this were to occur, then these same institutional sellers could direct their energy and funds to the real issues of the condominium market which is oversupply and undervaluing of property. The marketing mania which has accompanied Anchorage's growing REO inventory needs to be nipped in the bud so that the real issues can be addressed. Right now too much time and money is being spent on trying to outmarket the other institutional sellers.

At the same time, real estate brokers are not going to work to sell \$30,000 condominiums unless a minimum commission is established. Since values continue to decline and the vast majority of the inventory is in the low end, compensation needs to be substantive to the

agent in order to work that market. However, it should be consistent and industry wide, creating a level playing field for all.

Limiting Supply Through Demolition

It is estimated that there are approximately 200 to 300 units in Anchorage which presently do not meet municipal standards and which may pose a health or safety hazard to their occupants. Thus far to date, there has been no decision made to demolish these units. If these units were demolished, it would have a positive, psychological impact on the Anchorage real estate market. The obvious reason that the properties have not been demolished is that no one can agree who is responsible for the financial loss amongst the seller/servicer, the investor and the private mortgage insurance company. The financial entities which are involved in each one of the condo projects which have been targeted for demolition should be forced into negotiating a settlement as quickly as possible. Not enough emphasis has been placed upon this area of the condominium problem, but its speedy resolve would have a very positive impact on the Anchorage condo market.

Renting Creates Economic Life

Virtually all repossessed condos in Anchorage are sitting vacant at this time. How long institutional sellers are going to wait before wanting to create a cashflow for themselves by renting out their condos remains to be seen. However, the renting of the condos would have a beneficial impact in the marketplace and certain projects should be pulled off the FOR SALE market and placed in a rental pool. There are some projects today which will not sell at any price because they do not have the amenity package necessary to compete with other condos. Rather than leaving these condos on the market, which only further exacerbates the problem of oversupply and helps drive the market down to zero, these properties should become rentals. A two bedroom, one bath condo with a carport, small fireplace and 800 square feet may not make a great condo but it does make a great apartment, when compared to other rental property.

Most condos if they were rented would fall into the mid to high range of value for apartment rentals. Most of these same condos if left vacant and for sale only further deplete the value of other condos because they are non-competitive. A mediocre condo makes an excellent rental property when compared to what is available in the rental market. Why institutional sellers refuse to take this step and improve their cash position remains an unresolved issue. If they did nothing with the rents other than improve the common areas of the project they were renting, it would be a better addition to the market than leaving the condos vacant, without any economic life whatsoever.

Social Service Purposes

Finally, there are some limited number of social uses that unsold condominiums can fulfill. Low income housing needs exceed availability of federal coupons at this time. The State of Alaska or the Municipality should consider setting up their own coupon program which would enable some condos to be used for low-income housing. In addition, the University of Alaska-Anchorage should be encouraged to purchase more student housing units. The

precedent has already been set with the purchase of a limited number of units near the college campus. Other needs that could be met through the social service agencies are housing for the elderly and the retarded. These condos, when sold for social service purposes, to either the state or local agencies, should be done on a bulk sale basis, with discounts for cash. However, it is important that an established social service oriented sales program be fair and equitable to all organizations which might have a use for them. Therefore, a policy needs to be established which would include a social service discount based upon current, fair market value.

**WHY THE INCREASED MILITARY PRESENCE WILL NOT
SOLVE THE FAIRBANKS HOUSING MARKET GLUT**

**Hugh Richards
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**Community Research Center
&
Light Infantry Division Impact Steering Committee**

Fairbanks North Star Borough

August 23, 1988

WHY THE INCREASED MILITARY PRESENCE WILL NOT SOLVE THE FAIRBANKS HOUSING MARKET GLUT

When oil prices dropped in 1985, changes in the civilian housing market were some of the more apparent consequences of the economic downturn that hit Alaska and the Fairbanks North Star Borough. Following principles of supply and demand, as employment decreased, residential construction, rentals and sales all went into a severe slump.

At the same time expansion of the military at Fort Wainwright, with the buildup of the 6th Infantry Division (Light) (LID), had a positive effect on the economy in general and the housing market in particular. For reasons to be explored in this article, however, LID deployment has reduced but did not solve problems in the civilian housing market.

MAGNITUDE OF THE HOUSING PROBLEM IN FAIRBANKS

During the days of high oil prices throughout the early 1980's the housing market experienced significant expansion. Factors that contributed to this expansion were the highest population growth in the nation and state support of home ownership through programs such as Alaska Housing Finance Corporation subsidies of interest rates. Changes in the housing market during that period were reflected in the amount and type of new construction, the prices of dwellings, and the levels of rents.

As shown by Table 1 the number of new housing units authorized nearly tripled between 1980 and 1984, when there were 949 units authorized. Not only were single family dwellings constructed in large numbers, but the increased demand for rental units was also addressed by construction of 1,422 multi-family units. Paralleling the number of new housing units authorized, the dollar value of building permits increased dramatically from \$15.7 million in 1980 to \$58.3 million in 1984.

Table 1
NEW HOUSING UNITS AUTHORIZED
Fairbanks North Star Borough, 1980-87

	Number			Dollar Value (\$000's)		
	Single Family	Multi Family	Total	Single Family	Multi Family	Total
1980	345	32	377	\$13,592	\$ 2,077	\$15,669
1981	538	162	700	29,453	6,813	36,356
1982	462	165	627	25,159	10,350	35,509
1983	315	473	788	27,586	17,624	45,210
1984	327	622	949	24,236	34,029	58,265
1985	227	467	694	18,044	23,677	41,721
1986	112	166	278	8,263	22,858	31,121
1987	65	116	181	4,652	17,204	21,856

Meanwhile, rents for both single family dwellings and apartments increased. Between 1980 and the end of 1983 average rents increased more than 75%. As supply increased due to construction of multi-family units, rents dropped slightly and then remained relatively constant throughout 1984 and 1985. Purchase prices of houses followed a similar pattern to rents, although the change was less and the price increases and peak levels occurred later. For example the average purchase price of a three bedroom house rose by 53% between 1980 and early 1985, when it reached its maximum.

Partially in response to the large number of units brought on line in the early 1980's, construction started to fall off in 1985. What might have been a mild slump became severe when oil prices dropped beginning in December 1985. As the economy contracted, the civilian population grew smaller, and the housing market reflected the decrease in demand. The number of new housing units authorized declined nearly 30% between 1984 and 1985. By 1987 it was less than one-fifth of its 1984 level. The dollar value of building permits showed a similar pattern, decreasing from \$583 million in 1984 to \$21.9 million in 1987. In 1986 and 1987 activation of the 6th LID had its first impacts on the Fairbanks housing construction. Of the 459 units authorized during those two years, 400 were for a housing project on Fort Wainwright.

The existing housing market also reflected the economic downturn. Between 1985 and 1987 the number of vacant rentals advertised nearly doubled, and rents dropped by 20%. The number of houses listed for sale roughly doubled in 1986, and during the two-year period 1986-1987 house purchase prices decreased by about 20%. Another indication of the change in the housing market was that notices of default went from 97 in 1984 to 764 in 1987, and foreclosures increased from 179 in 1986 to 690 in 1987.

Not reflected in these figures was the personal loss all home owners incurred due to decrease of home equity. Furthermore, the difficulty in selling houses and the slump in prices created an additional burden on home owners by restricting their mobility.

Thus at the beginning of 1988 the Fairbanks housing market was bad for landlords and property owners, but good for renters, home buyers, and, it would appear, the military.

ACTIVATION OF THE LID AND HOUSING CONCERNS

Since inception of the plan to activate the 6th LID, an important consideration in the rate of deployment and possibly even its continued existence was the availability of housing. The army announced that any housing shortfalls would have to be corrected before troops were deployed. The mere size of the buildup made it certain that some construction of new units would take place, and there was one vital requirement for this construction. Since chances were high that funds would be appropriated by the U.S. Congress only during the period of buildup, army planners considered it absolutely necessary that housing construction occur during activation. Otherwise, the division would not be fully deployed.

From the beginning the housing situation in the greater Fairbanks area held many uncertainties for military planners. One consistent conclusion of all army analyses of housing needs, however, was that the local market would be incapable of meeting all of the army housing needs at the time of full deployment. Several factors accounted for these findings. First, on post housing was preferred for military readiness requirements. As it stands, even if new construction of government owned Military Construction Army (MCA) on post housing were funded at levels requested by the army, over 1,000 soldiers would live off post. Second, army policy dictated that military personnel were not to use too great a

percent of local housing. Third, a certain number of MCA units were considered necessary by the army to provide affordable housing for lower ranked personnel with large families. Finally, and of great importance to military planners, the Fairbanks history of booms and busts made them hesitant to rely too heavily on the local market which had experienced previous cycles of low rental availability and prices beyond the range soldiers could pay. The era of pipeline construction created severe hardships for army personnel living in the community.

Over time, however, some factors have changed. For example, by 1987 the number of rental vacancies had increased and rental rates had decreased. Further, it was initially assumed that the LID would be fully in place by the end of 1989 and that deployment would be too rapid for the local market to react. In reality the schedule was relaxed and extended to 1992. Thus it appeared that not only could the Fairbanks housing market meet immediate demands but that it also would have time for local developers to adjust to additional needs.

As part of a program to analyze available resources better, the Department of Defense initiated a new standardized procedure for annual review of the housing situation. The Segmented Housing Market Analysis (SHMA) was used at Fort Wainwright for the first time in early 1987. Similar to previous LID studies, the SHMA concluded that there would be a family housing shortfall which could potentially preclude activation of the 6th Infantry Division.

Several factors played major parts in this conclusion. Of prime importance was the fact that, although rental housing in Fairbanks had a sufficient supply of efficiencies and one- and two-bedroom units, there was a severe shortage of the three-bedroom and larger units needed by the army. Another important factor was that in the analysis military personnel were allowed to use no more than 54% of the community's vacancies. This was done to provide a buffer against future shortages of rental housing and to allow a significant number of units to be available for the civilian population. Although this seemed unnecessarily restrictive to some, the military felt the need for the precaution due to Fairbanks' history and the severe housing problems that have arisen in the area surrounding Fort Drum, the site of the other new light infantry division.

An early step taken to resolve the shortfall was FY 1985 authorization for construction of 400 units on Fort Wainwright. These were done under the Build-to-Lease Program, whereby units were constructed by private developers with contracts to lease to the military for up to 20 years. Because the program first appeared as Section 801 of the Military Construction Authorization Act of 1983, this became known as 801 housing. These 400 units, of which 304 were three bedrooms, 68 were four bedroom, and 28 were five bedrooms or more, were completed and occupied during 1987. The army estimated additional requirements of about 1,600 units, of which 1,200 would be supplied through construction of new units or long term lease of existing structures.

CHANGES THROUGH 1987

As a result of federal government reaction to the October 1987 stock market crash, the army was faced with the need to reduce its budget by \$1 billion. There was serious talk for a while of disbanding the 6th LID entirely, but a series of compromises resulted in its continued deployment although at a slower rate and with a reduction in final strength.

Numerous cost cutting measures were implemented, and a slight shift away from construction of new units and long term leases to greater use of individual rentals occurred.

One important housing project on Fort Wainwright was reduced from the 150 units which had been requested to 59 units considered vital for key and essential personnel. Although this would provide sufficient housing to allow relocation of the 6th LID headquarters from Fort Richardson to Fort Wainwright in September 1990, it represented a setback in army plans to provide housing for LID personnel.

Other developments, however, combined to offset the housing shortage facing the LID at Fort Wainwright. Funds that were originally designated for 801 leasing in Hawaii were transferred to Fort Wainwright, enabling construction of an additional 200 units to be planned for the summer of 1989. Furthermore, in response to continued high numbers of vacancies in the civilian housing market, the army gradually permitted the number of its personnel using civilian housing through individual lease or ownership to increase from approximately 430 in January 1986 to 690 at the beginning of 1988. This 60% increase in military usage of greater Fairbanks area housing was noticed by many landlords and obviously was important. Nevertheless, the total number of vacancies remained fairly constant. Thus greater military utilization of civilian housing merely offset decreases resulting from civilian outmigration.

THE 1988 SEGMENTED HOUSING MARKET ANALYSIS

The 1988 SHMA of the Fairbanks area reported similar concerns as those expressed in previous studies. Among these were the possibility of future booms in the Fairbanks economy with resultant increases in housing costs, the limited availability of larger units in the community, and the effect of too much military penetration of civilian units. Additionally, concern was expressed regarding the amount of housing allowance that Fort Wainwright soldiers might receive in the future. The Variable Housing Allowance (VHA) is currently sufficient, given the relatively low rents, for even the most junior soldier to afford off base housing. But if a sharp upturn in the area's economy were to occur, rents might again be driven too high for soldiers to secure housing affordable with their VHA. Furthermore, funding of the entire VHA program at current levels could be cut.

The 1988 SHMA determined that the total rental market of units adequate for army standards was 1123 in early 1988. Adjusting these figures to account for a moderate 2% growth rate of new civilian units, for a reduction in the vacancy rate expected as the local economy recovers from the current recession, and for increased military occupancy as additional troops arrive, the SHMA projected that 910 adequate rental units would be available by 1993 when the LID is fully deployed. However, virtually no five bedroom or larger units were found currently available nor were any expected to be available in the future. The breakdown of available units projected for 1993 was as follows:

98	Efficiencies
377	One-bedroom units
360	Two-bedroom units
70	Three-bedroom units
6	Four-bedroom units
910	TOTAL

1993 ARMY HOUSING NEEDS AND STRATEGY

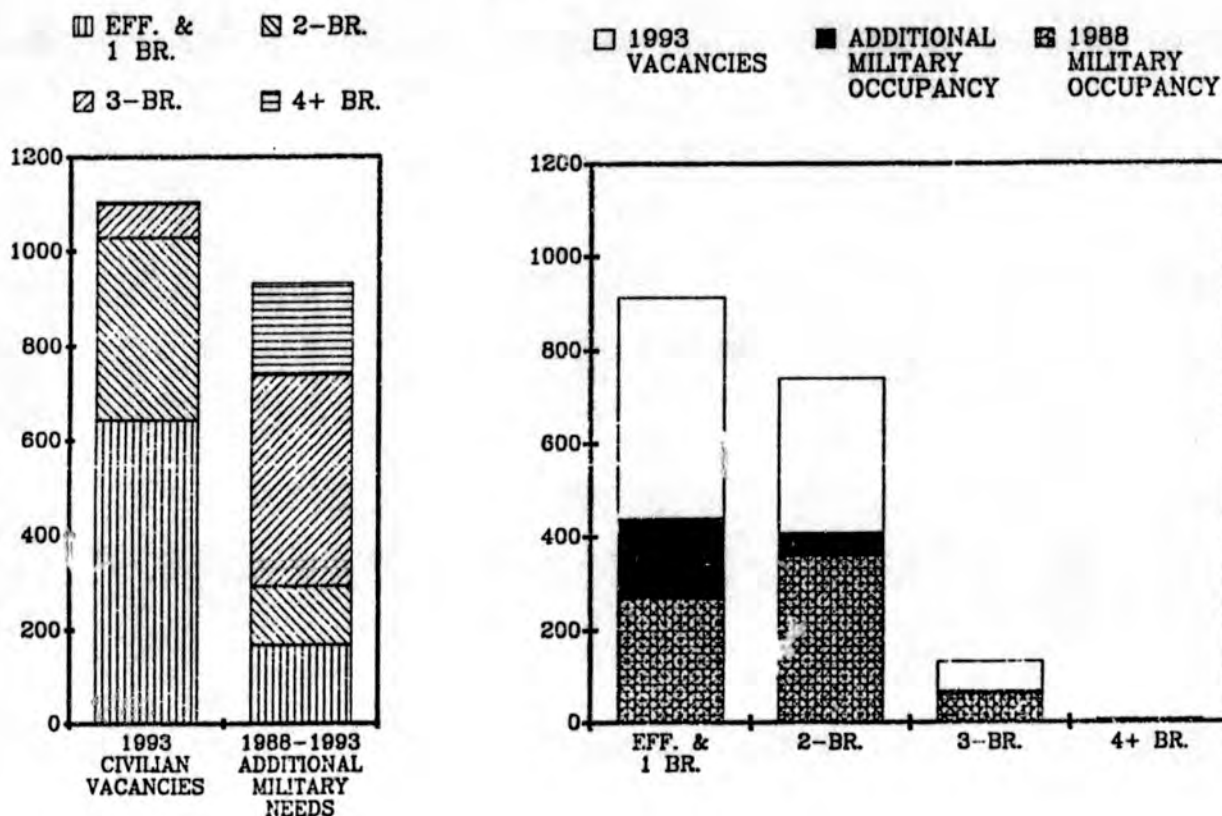
In developing its strategy for attaining adequate housing, the army estimated that an additional 170 efficiencies and one-bedroom units would be required to meet the needs of bachelors and voluntarily separated soldiers. Their penetration of these units would be so large that the army considered none of the remaining efficiencies or one-bedrooms to be

available for family use. Community assets of the larger sized units were projected not to be adequate to meet the needs of army families being stationed at Fort Wainwright by 1993.

Figure 1 compares the projected number of community rental vacancies in January 1993 with the increase in army housing needs between 1988 and 1993. The left graph shows that although the total number of expected vacancies would be more than the total increase in army housing needs, shortfalls exist in several types of units. Although the civilian housing market would be able to satisfy army needs for two-bedroom units if a high percentage of projected vacancies were occupied by military families, severe shortages would occur in units of three-bedrooms and larger.

The right graph depicts the projected number of vacancies in the community in 1993 plus units occupied by the military. Military occupancy is the sum of units currently being rented by LID households plus expected additional military use as the division attains full deployment. This graph shows the proportion of LID use of otherwise vacant civilian housing units. The extent of occupancy approximates the 54% maximum penetration of the vacant civilian housing market as called for by army policy.

Figure 1
FAIRBANKS NORTH STAR BOROUGH VACANCIES AND LID HOUSING NEEDS
1988-1993



The strategy for attaining the amount of housing needed combines individual leasing in the community with additional construction of 801 units and army controlled (MCA) units on post. Table 2 shows actions taken already and those projected for the future to meet the total housing needs.

Table 2
LID HOUSING ACTIONS AND STRATEGY
Fort Wainwright
1985-93

	Army Controlled On Post	Army Controlled Off Post	Individual Rentals in Community	Status
January 1986	1418		430	Existing housing
January 1988				
FY 85 801 Units	400			Completed in 1987
			<u>260</u>	Civilian units
SUBTOTAL	1818		690	
January 1993				Projections at time of full activation
FY 87 801 Units		150		Bid has been awarded
FY 87 801 Units		200		Land options being considered
				(Funding transferred from Hawaii)
FY 88 MCA	59			Bid to be awarded early FY 89
				(Funding originally requested for 150 units
				but only 59 Key and Essential approved)
FY 88 801 Units		150		Bid release pending
				(May be long term lease)
FY 89 MCA	150			Appropriation pending
			<u>225</u>	Civilian units
SUBTOTAL	<u>2027</u>	<u>500</u>	915	
TOTAL OF ALL UNITS			3442	

All of the construction and long term lease is projected to be for two-bedroom and larger units. Construction of two-bedroom units is scheduled to account for only 10% of the total, three-bedroom units for slightly over 60% and four- and five-bedroom units for the remainder. Table 3 shows the planned construction program.

Table 3
LID FAMILY HOUSING CONSTRUCTION AND LONG TERM LEASE
Fairbanks North Star Borough, FY 1987-89

Type of Program	Number of Units	Number of Bedrooms			
		Two	Three	Four	Five
FY 87 801 Phase I	150	0	69	69	12
FY 87 801 Phase II	200	0	200	0	0
FY 88 MCA	59	0	23	36	0
FY 88 801 Long Term Lease	150	0	150	0	0
FY 89 MCA	<u>150</u>	<u>74</u>	<u>0</u>	<u>66</u>	<u>10</u>
TOTAL	709	74	442	171	22

Of course uncertainties remain in several areas. Primary is the fact that the total deployment number is not assured and may be lower than the army desires. Secondly, funding for the FY 89 projects is still in the congressional process and may not survive at the levels sought by the LID. And finally, although the army is lobbying for new construction to meet the final 150 units of 801 housing, this housing need might be met by long term leasing of existing structures.

CONCLUSION

The army will not absorb the entire Fairbanks housing glut for several reasons. Army requirements for types of housing, control of troops, affordability under long range uncertainties about possible repeats of large price increases, and policies that limit total allowable percentage use of vacancies by army personnel are all cited in the LID analysis as reasons that Fairbanks will not be able to satisfy the army's housing needs. Additional structural factors in the Fairbanks housing market limit its use by the army. Prime among these is the extreme shortage of larger rental units.

Although the Light Infantry Division at Fort Wainwright can not be expected to reduce the civilian housing glut completely, its benefit to the Fairbanks economy remains substantial. Current military construction allows some of the local construction industry to survive through an otherwise depressed time. In addition, the Division provides a necessary element of long term economic diversity and stability. In contributing to the general economic health of the region it adds to employment for people in Fairbanks, who will then help absorb some of the current housing glut.

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COUNSELING ASSISTANCE CAN REDUCE FORECLOSURE RATES IN
ALASKA

Sherry Hassan
Consumer Credit Counseling Service
of Alaska

August 25, 1988

The average consumer, regardless of income or education level, lacks the information crucial to making decisions as irreversible and far-reaching as those facing homeowners in this economy. Coupled with the lack of information is the confusion generated by dealing with the array of entities involved in Alaskan mortgages and exacerbated by the spread of misconceptions. Providing free advice, by a disinterested third party, to individuals facing financial difficulties could reduce the number of foreclosures.

Most homeowners have a variety of financial commitments other than their mortgage. When faced with a reduction in income, the average family fails to set priorities and make choices to accommodate the loss. More common is the family who tries to juggle and struggle their way through the "temporary" situation only to find themselves jeopardizing those things they value most.

Mortgage loan collectors comment "the house must not be very important to this family because they are current on their credit card accounts and delinquent on their mortgage." Some times families receive shut-off notices on their utilities or eviction notices from trailer park owners before they realize that there is more to saving their home than just paying the mortgage.

Many of these families lack the ability to set priorities within their existing resources and to stick with their choices when facing the inevitable pressure from those at the bottom of the list. Most often, the "squeaky wheel gets the grease" because the family is unprepared for the consequences of the choices they make and unskilled in the nuances of dealing with secured versus non-secured creditors.

Offering advice to these families on the necessity of making choices, on options available with the various types of creditors, on the consequences of the choices they make and on the reaction to expect from the parties involved would supply them with the means to make sound decisions.

The array of entities involved in mortgages, including the servicer, the investor and the insurer, is confusing and often discouraging to many homeowners trying to save their house. It is possible for a homeowner to be told by his servicer that unless he makes a payment and a half toward his delinquency that his home will be foreclosed upon. He could then call Alaska Housing only to hear that he must deal directly with his servicer, or wait for a HOAP package from MGIC. If determined enough to hold on until he gets his HOAP package and returns it, he could conceivably receive a letter from his servicer informing him that foreclosure proceeding will begin in 10 days unless he brings the full amount of the delinquency current. Unable to do so and having been told that his HOAP package will take up to six weeks to process, he is likely to give up on his house and prepare to provide alternative housing for his family.

Acquainting families with the terminology and procedures involved with resolving delinquencies on their mortgage would eliminate those foreclosures that are the result of confusion and despair with the process.

Adding to the confusion of homeowners are the misconceptions spread by word-of mouth. A surprising number of mortgagees base decisions on information received from friends, relatives, co-workers etc. Remarks like "my neighbor let his house go back and he still has great credit" or "what can they do to me if I walk away" abound.

To be making the type of irreversible decisions these homeowners face, they need and deserve more accurate and thorough information. Furthermore, it should be provided at no cost to avoid the loss to those who feel they cannot afford another burden to an already strained budget.

The luke-warm reception of the HOAP I program by the general public was in part due to their naivete, confusion and frustration as discussed above. In order for any new plan or program designed to reduce foreclosures to be effective, information and guidance must be provided to the public. It must be done free of charge and by a party who has no stake in the results. Until such service is employed, unnecessary and unwanted foreclosures will continue.



Alaska Housing Finance Corporation's

Home Owners' Assistance Program:

New Hope for Alaskan Homeowners

By: Margaret Nelson

August 19, 1988

Prepared for Governor's Housing Conference

September 23, 1988

Thousands of Alaskan homeowners now have the opportunity to make their house payments more affordable, and in some instances avoid foreclosure of their homes, under a unique program developed by the Alaska Housing Finance Corporation (AHFC) with the cooperation of companies which insure or secure Alaskan mortgages.

The Home Owners' Assistance Program, known as HOAP (pronounced hope), offers Alaskan mortgagors the opportunity to refinance their loans to longer terms and lower interest rates as well as apply for short-term assistance, or loans, to meet temporary financial difficulties. All of this was an effort by AHFC to help mortgagors make their house payments more easily during Alaska's current recession.

Today, just eight months into the program, more than 4,000 Alaskans have been approved to receive refinances or mortgage assistance and another 1,000 are currently being reviewed for approval. Due to the response, it is possible that nearly 10,000 Alaskan homeowners will benefit from this program.

ALASKA'S BOOMING ECONOMY BEGINS TO DECLINE

In the first half of the 1980 decade, Alaska experienced tremendous growth in all sectors of the economy, particularly in the oil industry due to the development of the Prudhoe Bay oil fields in the 1970s.

Before development of oil fields on the North Slope, Alaska's economic base consisted of military and federal government spending and a few resource industries such as fishing, mining and logging.

But in the 1970s, Prudhoe Bay was developed and Alaska's oil pipeline was built resulting in a bonanza for the Alaska economy. In his report titled "Alaska's Economy: What's Ahead," prepared for the Alaska Institute of Social and Economic Research, Oliver Scott Goldsmith states that three things together contributed to Alaska's boom at that time: state government owned the oil fields and received tremendous royalties; the fields produced very large amounts of oil, and; the world price of oil tripled in 1979 to around \$30 a barrel and stayed high for several years.

"Taken together," Goldsmith said, "those circumstances meant that the state government came into billions of dollars in petroleum revenues in the early 1980s.

"But as a consequence, the state became extremely vulnerable to changes in the price of oil: Throughout the 1980s, petroleum revenues made up 80 percent or more of the state's unrestricted general fund revenues."

State spending, then, was responsible for most of the growth in the early 1980s in jobs, population and incomes in Alaska. The state spent that new found wealth on new roads, community centers, harbors and hundreds of other capital projects fueling a great construction boom and services to support it.

But in 1985, things began to slow. This year is considered the beginning of Alaska's current recession, said Edward Eboch in the Alaska Department of Labor's March 1987 publication, "Alaska Economic Trends," because it was then the economy as a whole began losing more jobs than it was creating, particularly in the areas of construction and air transportation.²

Big government spending had created the Alaska boom, Goldsmith said, by pumping billions of dollars into the economy in a short time. Construction in the state burgeoned overnight. Businesses overextended themselves, because they expected to keep growing and keep stimulating the economy.³

But the high oil prices that had propped up state spending in the early 1980s began to drift down and by early 1986 prices had dropped to \$10 per barrel bringing further declines in the economy. Alaskan businesses found that the level of economic activity they had anticipated wasn't there.⁴

EFFECT ON THE HOUSING MARKET

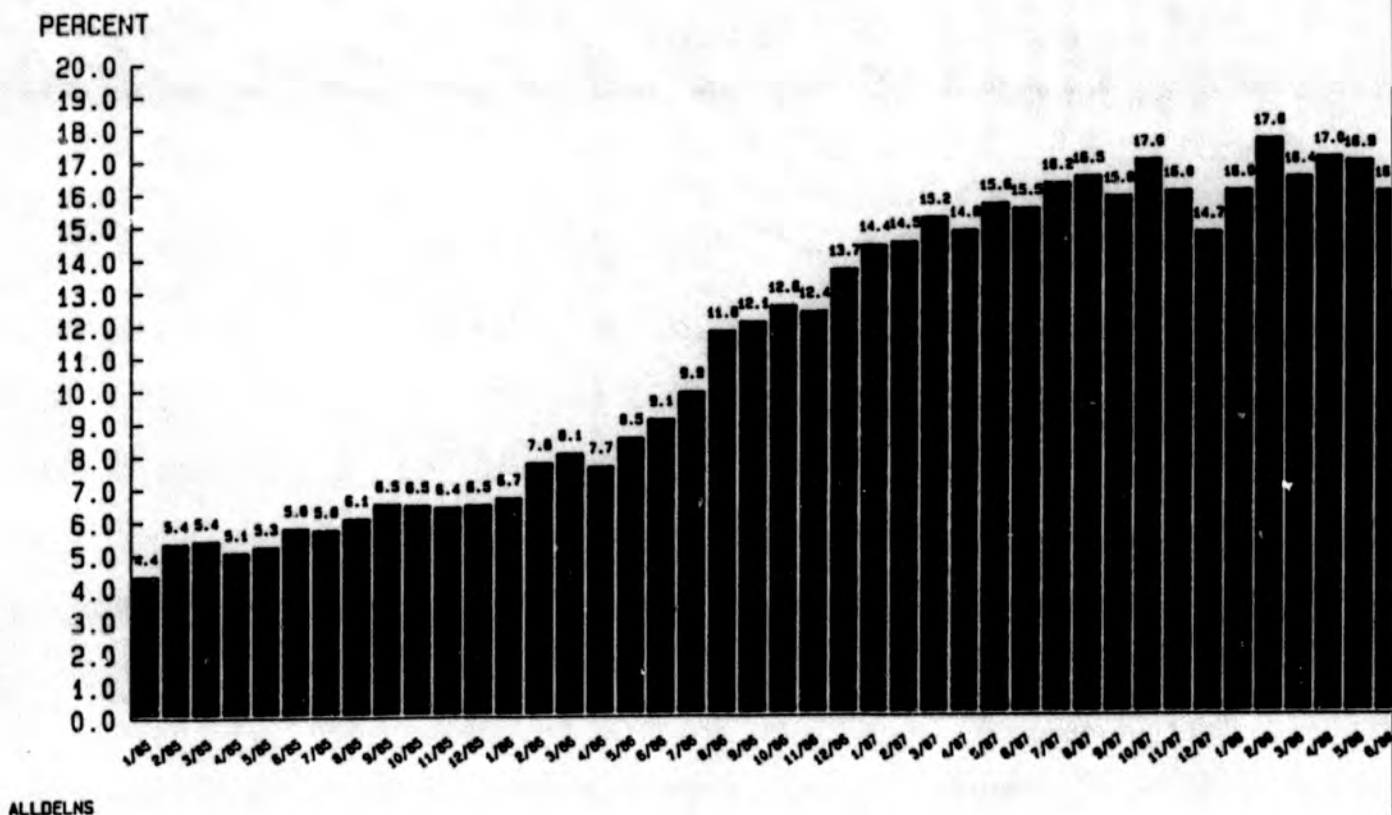
The Alaska Housing Finance Corporation was created in 1971 by the State of Alaska to provide all Alaskans with low-cost mortgage financing. AHFC, a self-supporting public corporation, is a secondary purchaser of mortgages. This means AHFC does not lend funds directly, rather it purchases mortgages made by private financial institutions or mortgage companies operating in Alaska. The majority of funds used to purchase the mortgages are generated through the issuance of taxable and tax-exempt bonds.

By the end of fiscal year 1985, AHFC owned more than 52,000 mortgages across the state totaling \$4.3 billion. This accounted for nearly 80 percent of the mortgages in Alaska. The majority of these loans were Alaska Building Equity or ABE-structured mortgages. Under the ABE structure, the mortgage was amortized on a 30-year basis, but five percent principal and interest increases were scheduled each year of the mortgage in years four through nine. This resulted in a loan

maturity of about 17 years. At the time, these loans were attractive to Alaskan mortgagors since incomes were going up and homes could be purchased quickly.

AHFC began to feel the effects of the decline in the economy in late 1985. See Table I. Delinquency rates on all loans went from below four percent in 1983 and 1984 to 6.7 percent in January of 1986. All economic indicators available at that time indicated that the delinquency was on the upswing.

ALASKA HOUSING FINANCE CORPORATION TOTAL DELINQUENCIES TABLE I



And while delinquency rates were rising, house values were falling, as much as one to two percent per month. This caused many mortgagors to have negative equity, or mortgages which exceeded the value of their homes. It was not uncommon then or today to see loan-to-value ratios of 120 percent or more.

AHFC TAKES ACTION

By early 1986, it became evident to AHFC officials that something had to be done to ease the effect of the economy on Alaskan homeowners.

The first hint of what now is known as HOAP came out in mid-1986 when AHFC executive staff began brainstorming on the concept of a hardship loan assistance program. The proposed Hardship Loan Modification Program focused on the concept of providing help for those AHFC borrowers who had experienced an involuntary decrease in income such that their mortgage payments exceeded 28 percent of their total household income. Also, it was hoped that a program could be developed to help those homeowners who needed a refinance but could not afford one because they did not have enough money to buy down the loan to value ratios to 90 percent or less. (Mortgage insurance is not generally available on mortgages with loan-to-value ratios greater than 90 percent.)

By late summer 1986, AHFC proceeded with public hearings and program development. However, based upon comments from the public at three separate meetings held in Anchorage, Fairbanks and Juneau on the proposed hardship program, AHFC staff realized that any program offered must be expanded to allow for a simplified refinance for all AHFC homeowners, regardless of financial hardship.

Because of this, AHFC began to develop a simplified refinance program and sought legislative authorization to offer such a program. Under this program AHFC homeowners would be able to refinance their mortgages for lower interest rates and longer terms without having to worry about loan-to-value ratios or appraisals. In essence, the refinance process was simplified. In developing the Simplified Refinance Program, AHFC stated that before such a program can be offered, several events had to occur. The ten primary mortgage insurance companies insuring AHFC mortgages had to agree to continue insuring the new mortgages. The major pool insurer of loans from 1982 to 1984, the Mortgage Guaranty Insurance Corporation (MGIC), and the Federal National Mortgage Association (Fannie Mae) which secured loans from 1984 forward, also had to agree to continue insurance. The state legislature had to authorize such a refinance, and the appropriate financing had to be obtained.

Within a very short time--less than 2 months--these events were accomplished. MGIC and Fannie Mae fully embraced the program and agreed to dedicate all the resources necessary to make the program work. Subsequently all 10 mortgage insurance companies approved the program and streamlined their existing procedures so that loans could be modified or refinanced quickly. The response from all insuring companies was overwhelmingly favorable and unprecedented in mortgage lending history.

HOAP BECOMES A REALITY

With enough progress on the program complete, on November 13, 1987, Governor Steve Cowper held a press conference and announced that a conceptual agreement had been reached among AHFC, Fannie Mae and MGIC on the Home Owners' Assistance Program. The program would begin in December.

To allow all homeowners who were experiencing financial difficulties the opportunity to apply for the program, all the institutions agreed to postpone all foreclosure sales from that date until January 1, 1988.

"The state's current economic problems have left many Alaskans unable to meet their monthly financial obligations," the Governor said at that conference. "We're trying to do what we can to help and this housing program is a major step in the right direction.

"This program may eventually keep thousands of Alaskans in their homes," Cowper said, "prevent further foreclosures and steady the state's real estate industry."

In early December 1987, meetings with top AHFC and state officials were held with mortgage industry leaders to gain support for HOAP. Mortgage lenders agreed to support HOAP and said that this program could help the state's borrowers during this economic recession.

With all program details completed and final agreements signed with MGIC, Fannie Mae and many primary mortgage insurance companies, Governor Cowper on December 23, 1987 announced the start-up of HOAP. On December 24, the first HOAP packets were mailed to delinquent homeowners.

The original HOAP would:

- *Eliminate the ABE increases in mortgage payment by refinancing the loan to a 30-year fixed rate;
- *Lower the interest rate to 10 percent, if possible, or allow the mortgagor to keep a lower interest rate if the current rate was less than 10 percent;
- *Provide advances to bring the loan current; and,
- *Provide monthly payments for up to two years to eligible homeowners. Any assistance provided to the borrowers must be repaid.

These new HOAP loans were assumable and the property had to be owner-occupied.

At this time only those AHFC homeowners with financial hardships were eligible for the program. Hardship was defined as an involuntary decrease in income such as that the mortgage payment exceeded 28 percent of the total household income. Borrowers were expected to prove that a hardship existed as well as prove that they would be able to repay any assistance and resume making full monthly mortgage payments, including homeowners dues, if any, taxes, insurance and other such expenses, at the end of the assistance period. The maximum assistance period was for 24 months.

Considered as eligible hardships were a long-term layoff, involuntary loss of job, mandatory reduction in pay, disability or illness which resulted in a reduced income, death of a wage earner or reduction in self-employed earnings.

Situations not considered hardships were normal seasonal layoffs, voluntary job loss or reduction in hours, or loss of income to return to school.

The application process was purposely designed to be quick and easy for the borrower. The borrowers received HOAP packets in the mail. The packets contained detailed information on the program, applications and instructions. Borrowers simply followed the easy instructions, filled out the forms and provided any necessary back-up documentation.

If the loan was insured by MGIC, borrowers mailed the information to an Anchorage office. Workers there collected further information from the mortgage loan servicer before forwarding a complete packet to MGIC's central office in Milwaukee, Wis., for underwriting.

If the loan was secured by Fannie Mae, borrowers called Fannie Mae's local office for an interview and brought the completed packets in.

Once approved, borrowers would close the new loan at a title company designated by MGIC or Fannie Mae.

On January 7, 1988, AHFC closed the first bond issue to fund HOAP loans in the amount of \$100 million.

The expanded HOAP in operation today was adopted by the Board of Directors on April 14, 1988. While the initial focus of helping delinquent borrowers remained in place, HOAP was expanded to offer the simplified refinance to all AHFC borrowers.

Under the expanded HOAP, refinance of an existing AHFC loan is offered to all AHFC borrowers (except those few in the Rental Refinance Program), whether they are current or delinquent in meeting their monthly payments and without regard to whether they meet the hardship criteria established under the original program. Essentially this is offering a simple, streamlined refinance program designed to lower monthly payments by lowering the interest rate on the loan and/or

eliminating the graduated payment feature or ABE that is included in many existing AHFC loans. In addition to this simplified refinance program, a borrower also can receive additional assistance if he or she qualifies. To qualify for further assistance, the borrower would have to meet hardship criteria as outlined in the original program.

Or looking at it another way, there would be no advances under the simplified refinance aspect of the expanded HOAP, although eligible closing costs could be included in the loan amount. However, if the borrower demonstrated that he or she was in a hardship situation, then advances could be made under the same terms as the original HOAP.

Another major change in the expanded program is the elimination of the requirement that the properties be owner-occupied. The loans still remain assumable as defined under AHFC guidelines.

With the newly expanded program, AHFC in April issued a second bond for \$75 million to fund the new loans.

With the newly expanded criteria, several thousand packets were mailed to the remaining AHFC borrowers in April through June of 1988.

HOAP RECAPPED

To summarize, today HOAP offers a refinance to a longer loan term with a lower interest rate, if applicable. If the borrower is experiencing a temporary hardship, the program offers assistance, or advances, for a short period. Specifically:

- *For Alaskan homeowners who have financed their homes through AHFC and who are not in a hardship, HOAP can eliminate the currently scheduled increases in monthly principal and interest payments. Also, depending on the homeowner's current interest rate, the rate on the future HOAP loan may be lower (it will never be higher), which may result in lower monthly payments.

- *For AHFC homeowners experiencing a hardship as defined below, HOAP can eliminate the currently scheduled increases in monthly principal and interest payments. Also, it may decrease the interest rate depending on the current interest rate. In addition, financial assistance is available to homeowners experiencing a hardship.

- *Hardship is defined as an involuntary decrease in income such that the mortgage payment exceeds 28 percent of the total gross household income. Hardships that qualify for assistance include: long-term layoff, involuntary loss of job, mandatory reduction in income, disability or illness which results in a reduced income, death of a borrower or co-borrower or a reduction in self-employed earnings.

Certain situations, while they may create financial problems, are not considered involuntary hardships and will not qualify for assistance. They are: normal seasonal layoffs, voluntary job loss or reduction in hours and/or income and loss of income to return to school.

*To qualify for assistance, the borrower must:

- a) Provide evidence that a hardship exists and that an involuntary decrease in income has occurred,
 - b) Provide reasonable assurance that after the assistance period the borrower can make full monthly payments, including any assistance given;
 - c) Provide reasonable assurance that the mortgagor can pay taxes, insurance, home owner's association dues and other such expenses due after the assistance agreement is signed.
- If the borrower is eligible to receive assistance, AHFC may advance funds to bring the loan current and/or pay a portion of the monthly mortgage payment for up to two years. This type of assistance helps the borrower bring his or her loan current with no immediate out-of-pocket expenses and makes the mortgage payment more affordable until the borrower can resume full payments.

If advances are necessary, the total funds advanced is limited to 10 percent of the outstanding loan balance as of the date on which the homeowner applies to participate in the program. The funds advanced will be added to the outstanding loan balance and subsequently repaid, with interest, by the borrower.

*Homeowners are expected to pay at least 28 percent of their gross monthly income toward the mortgage.

*To apply, homeowners fill out the application following instructions as mailed to them by Fannie Mae or MGIC.

HOAP IS A SUCCESS

Now, eight months into the program, Alaskans can feel good about the results. This program may not have been as successful without the unprecedented cooperation and participation of all institutions involved, especially Fannie Mae and MGIC. The unprecedented cooperation has helped many Alaskans and thousands will see a savings each month when they make their mortgage payments. Furthermore, many Alaskans within days of foreclosure have been able to remain in their homes.

As of August 12, 1988, more than 46,000 HOAP packets had been mailed to AHFC borrowers. Nearly 3,800 of those borrowers have been approved to participate in the program and 658 loans have closed. Many more borrowers, hundreds each week, are applying for HOAP.

See Table II below for a complete description of activity to date.

ALASKA HOUSING FINANCE CORPORATION

Combined HOAP Programs Status Report AHFC Run Date 8/12/88 Table II

	<u>FNMA*</u>	<u>MGIC**</u>	Non-Pool <u>MGIC**</u>	<u>TOTAL</u>
(M) Mailed, no repsonse	6,926	9,798	17,173	33,897
(I) Pending	1,168			1,168
(A) Approved	1,175	1,797	826	3,798
(C) Closed	281	313	84	678
(D) Declined	227	388	221	836
(R) Rejected telephonically	422			422
(W) Withdrawn by client	263			263
(X) Returned, undeliverable	—	<u>1,784</u>	<u>2,571</u>	<u>4,355</u>
TOTAL	10,462	14,080	20,875	45,417

*FNMA Data Current as of 8/6/88

**MGIC Data Current as of 8/7/88

Code	FNMA	MGIC
M	Mailed, no response	Mailed, no response
I	Pending	Not tracking
A	Approved	Approved
C	Closed	Closed
D	Declined	Declined
R	Rejected telephonically	Returned, undeliverable
W	Withdrawn	Not tracking

Of the 658 loans closed to date:

- *Borrowers have saved an average of \$150 per month, some up to \$900 per month;
- *Lenders have collected more than \$20,000 per month in servicing fees on previous delinquent loans;
- *Fannie Mae and MGIC may save as much as \$32,900,000 in claims if these loans continue to perform (using their estimate of \$50,000 claim loss per loan), and;
- *AHFC is receiving \$600,000 per month in principal and interest on previously unperforming loans.

It is too early in the program to see complete results. However, in referring back to Table I, delinquency rates have declined somewhat and have stabilized.

Also, AHFC borrowers have been expressing their satisfaction with the program.

"This will be a great help to us in being able to afford to retain the home we built three years ago," one borrower said in a letter to Fannie Mae.

Another borrower, who received some assistance with her mortgage, was extremely happy with the program.

The program shouldn't be spelled h-o-a-p, she said. It should be spelled h-o-p-e.

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**THE SALE OF MORTGAGE LOAN SERVICING RIGHTS:
ALASKA TRENDS**

**By
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President
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INTRODUCTION

The typical mortgage loan, when originated, is underwritten to the standards of the investor, insurer and/or guarantor, where applicable. Once the loan documents are signed and the loan closed, the loan is sold to an investor. The servicing rights to a loan may be sold to the same investor, to another servicer or retained by the servicing department of the originating lender.

The purpose of this paper is to explain the reasons why servicing rights are bought and sold, the trends that are occurring and suggest a change in strategy for some servicers. As Alaska Housing Finance Corporation loans dominate the Alaska market, the trends which are occurring with AHFC servicing will be used.

WHY BUY SERVICING RIGHTS?

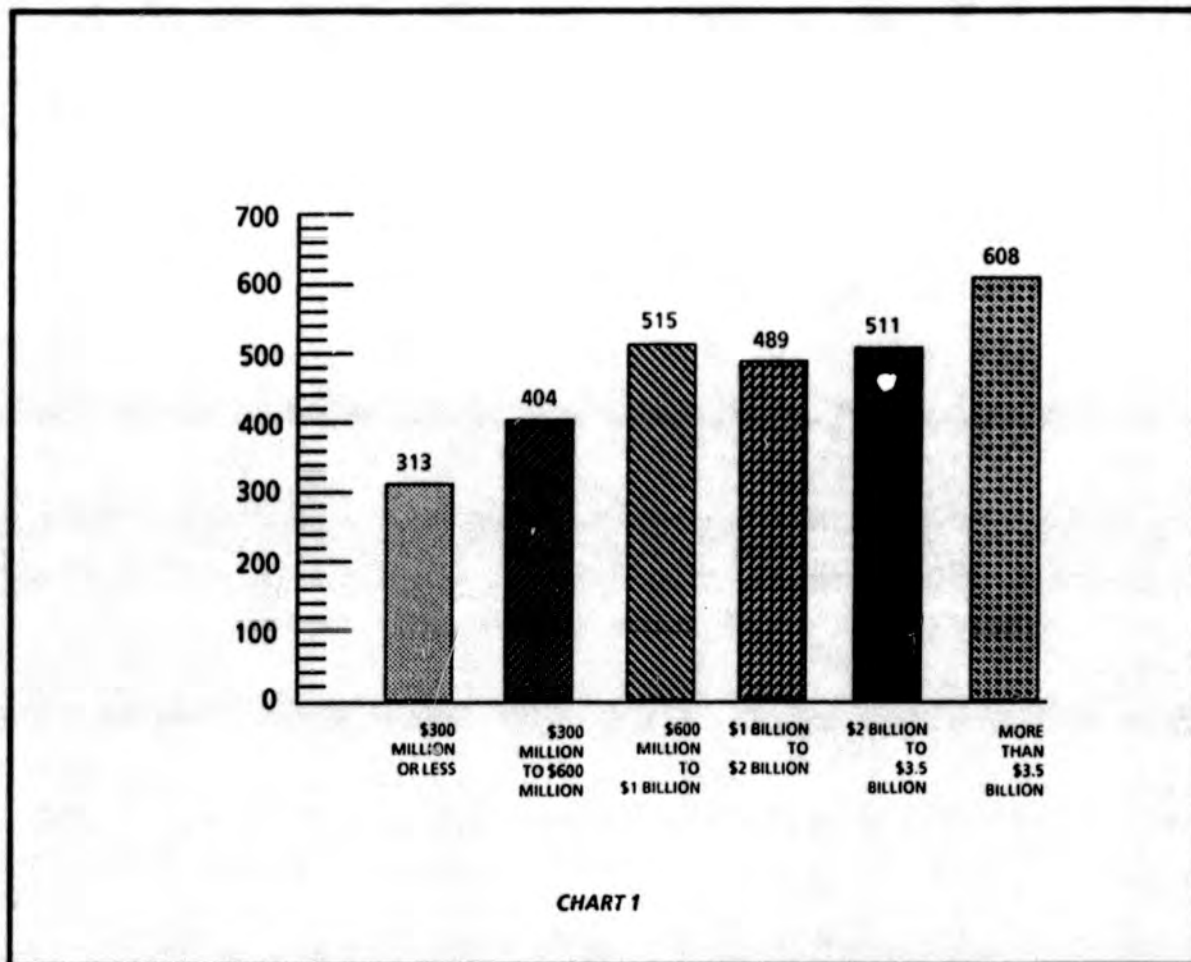
The investor allows the servicer to earn a fee for "managing" or servicing the loan, which includes collecting and accounting for each monthly payment, paying taxes and various insurance premiums and communication with the borrower. In return the servicer retains a portion of the interest part of the payment or servicing fee, which normally approximates three eighths of 1 percent or about \$380 per year per \$100,000 loan. This fee is a steady annuity-like income stream which continues over the life of the loan, even through periods when origination fee income dries up.

A second reason which motivates buyers to purchase servicing is the yield. A firm may use capital to buy servicing to maximize its rate of return on capital. While the value of servicing may go up or down as a function of supply and demand, the monthly servicing fee cash flow will continue so long as the borrower's monthly payment is made. Alaska has experienced a significant drop in demand for servicing, due in large part to the increase in servicer costs caused by increased delinquency and foreclosures in the state. As a result, the price a firm is willing to pay for servicing drops, which raises the yield, so long as costs associated with delinquency do not rise at a corresponding rate.

A third reason a firm would purchase servicing is to diversify -- either corporate assets or an existing servicing portfolio. A portfolio can be diversified, or the characteristics which make up the portfolio varied which lessens the risks pertaining to portfolio age, loan maturity, interest rate or geographic makeup. Servicers with loans spread across the state are less susceptible to a drop in economic activity in a particular geographic area. As another example, a portfolio dominated by high interest rates is more susceptible to a large run off if interest rates dropped quickly, which occurred in the spring, 1986.

A fourth reason to purchase servicing is due to economies of scale which can be recognized in an expanding portfolio. The economies are different for each servicer, whether on the same automated data system or a manual system. The loan acquisition cost, personnel expenses, operations and overhead all play a role in determining cost per loan. Further, each facet of servicing, such as payment of property taxes, hazard insurance renewal or customer service all have different levels where efficiencies can be achieved. Therefore, when making a purchase decision, the benefits from individual economies of scale are recognized and blended into one general average. While servicing expenses have not been studied among servicers as an Alaskan group, individual Alaskan servicers should calculate their particular cost of servicing annually. Nationally, the number of loans per servicing employee for 1986, the latest figures available, demonstrates the economies at work. Chart 1 shows a small servicing operation with less than \$300 million in loans carries the least number of loans per employee. A servicing operation that carries more than \$3.5 billion has a loans per employee ratio twice the rate of the smallest category. It should be noted that the changes in size are not necessarily perfectly lineal in

nature. The area within \$1 billion to \$2 billion are less efficient than the next smallest grouping, as an example.



A fifth reason for buying servicing, though not as important as the first four, recognizes the stable, relatively inexpensive deposit base that escrow accounts which accompany a mortgage loan generate. Typically averaging \$500 to \$1,000, these funds are collected monthly to fund tax and insurance payments. Servicers do not normally pay interest on these funds due to the administrative expenses involved in administering the payment of these bills. In addition, servicers frequently advance funds to keep taxes and insurance current if escrow funds are not sufficient.

A sixth reason to buy servicing is to gain the opportunity to cross sell other services available from the firm. A borrower is more likely to utilize a servicer's other primary services such as a checking, savings or loan service, if available, if the institution also processes the monthly mortgage payment.

WHY SELL SERVICING RIGHTS?

The most common reason for selling servicing during recent times in Alaska is due to the liquidation or merger of the servicing institution. Normally the servicing rights revert back to the individual investor if a liquidation has occurred. In this situation, the investor markets the servicing rights to those remaining in the area who have previously shown an interest in

purchasing servicing. If a merger of two or more institutions occurs, more than likely the servicing rights will flow to the surviving firm.

A second reason for selling servicing is to raise capital for reasons such as meeting regulatory requirements, covering anticipated loan losses or to fund an anticipated major expenditure such as a branch expansion or a computer system.

A third reason a seller would be motivated to sell are due to the inefficiencies involved in their particular servicing operation, whether it be size; a particularly expensive loan type, such as mobile homes; geographic location of property and its distance from the servicers nearest office; or an inefficient servicing data system. A servicer is faced with the choice of restructuring a portfolio by selling off loans which do not fit into its overall strategy -- or by buying loans which fit better.

The fourth reason why a servicer would choose to sell their servicing is because of the complexities involved in the profession. Each year new and varied loan products are designed to meet certain objectives of the borrower, investor or bond holder. The IRS requirements continually increase. As the complexity expands the only solution is further automation. A servicer reaches the point where a major investment must be made in conversion or upgrade to a more automated system. The servicer is faced with the choice of either investing funds to optimize efficiency or selling the servicing to avoid the expense, or some middle ground. A new servicing system can easily cost \$100,000 for an average size Alaskan servicer.

The fifth reason a servicer may wish to sell their servicing is due to a newly emerging problem in Alaska and the nation. Servicers are finding that investors and insurers are holding them liable for their errors which sometimes are very costly to resolve. Failure to obtain a certificate of adequacy for a septic system, failure to provide certain notices consistent with the terms of the insurance policy or permitting winter freeze up when a property is vacated have all cost servicers unanticipated expenses. The experienced personnel needed to avoid these types of mistakes are expensive to retain.

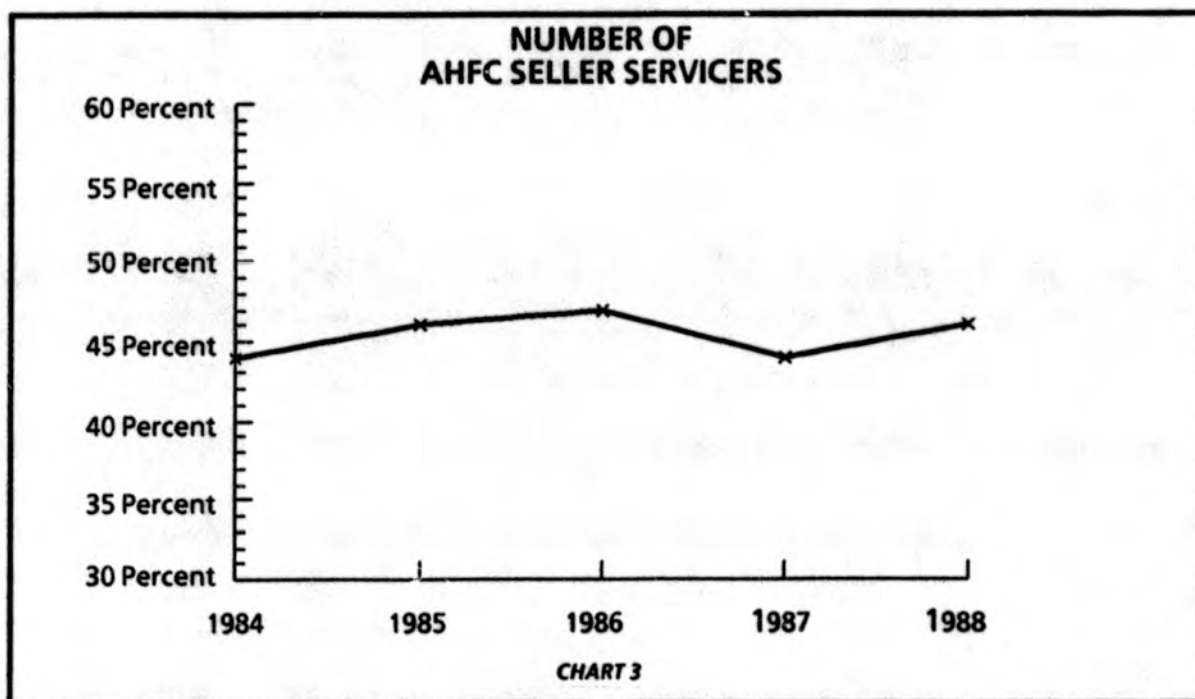
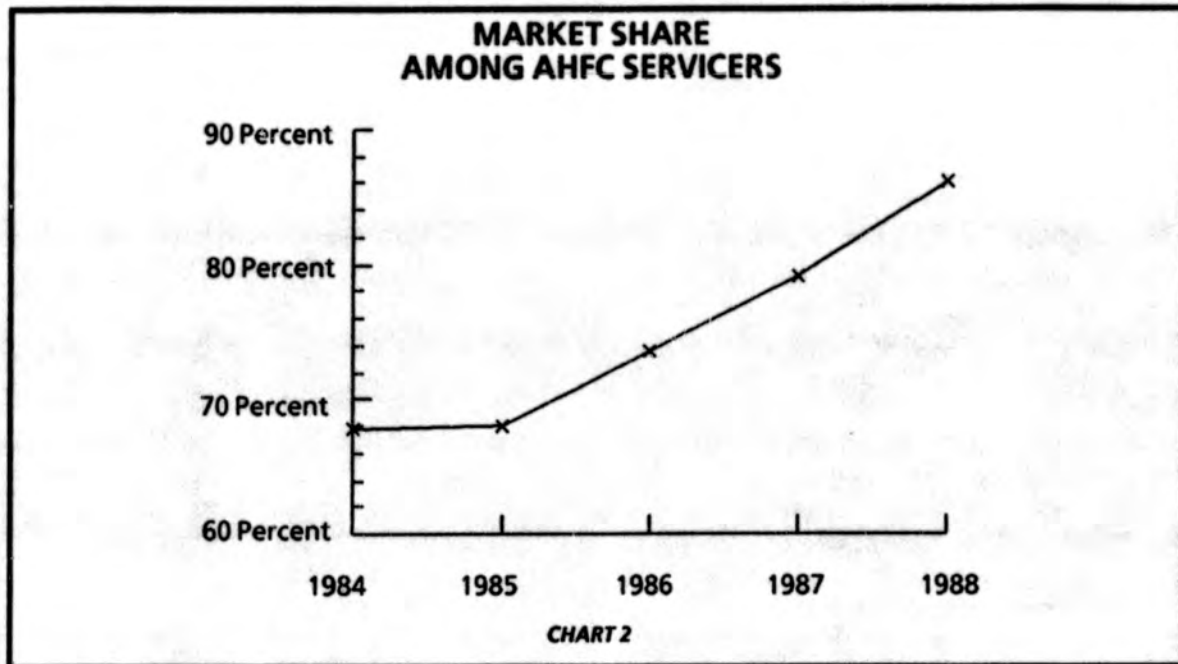
The last reason a servicer may sell is due to the loan product. An FHA insured loan not sold to AHFC must be sold to the investor creating the Ginnie Mae pool who will retain the servicing rights. This sale of servicing is normally on an individual loan basis and occurs within days after closing.

ALASKA TRENDS

Alaska servicers are currently experiencing change in a number of areas. Five years ago, outside lenders were acquiring or originating a large amount of AHFC servicing. Some Alaska mortgage lenders sold their entire existing AHFC portfolios to these national companies, then continued making additional loans for their own portfolio. Another practice was to sell the servicing rights on a continual or flow basis, as each individual loan was closed and sold to AHFC. These practices have slowed in recent years due in part to the higher than average delinquencies, by national standards, experienced by these same outside servicers dealing in Alaska servicing. Additionally, in March 1987, when AHFC restricted the movement of servicing by requiring that servicing facilities, other than data processing plants, be located within the state of Alaska, any remaining momentum in the flow to out of state services was stopped.

Individual AHFC servicing portfolios continue to be consolidated through mergers and liquidations, causing the market share held by the ten largest AHFC servicers to continually rise over the last three years, while AHFC maintains the same approximate number of approved servicers. Chart 2 shows that during the years 1984 and 1985 the top ten servicers maintained

approximately 67 percent of the AHFC servicing market. In 1986 a dramatic increase started, raising the share to 74 percent, then 79 percent in 1987 and 86 percent in June 1988. On the other hand, the number of AHFC servicers remained very stable between 44 and 47 as shown on Chart 3. As servicers leave the market, others enter. Additionally, if a portfolio is sold, frequently the terms are such that only the current loans change hands, leaving the selling servicer still in business to manage the remaining delinquent loans through foreclosure or back into current payment status.



Servicing expenses continue to rise, both nationally and in Alaska. These increased expenses in Alaska, as previously noted, are due in large part to our delinquency and foreclosure experience. Also, as property values drop and new sales occur, smaller loan balances are created with a corresponding decrease in the servicing fees and less income for the servicer.

The Federal Home Loan Mortgage Corporation, in its July 1988 issue of Freddie Mac Reports, noted that 78 percent of all Mortgage Bankers Association of America members now service no loans. That article went on to quote American Banker's most recent survey which noted that the nation's top 100 mortgage companies increased their servicing portfolios by 23 percent in 1987.

The trend nationally is one of consolidation. That trend has also been occurring in Alaska among mortgage lenders.

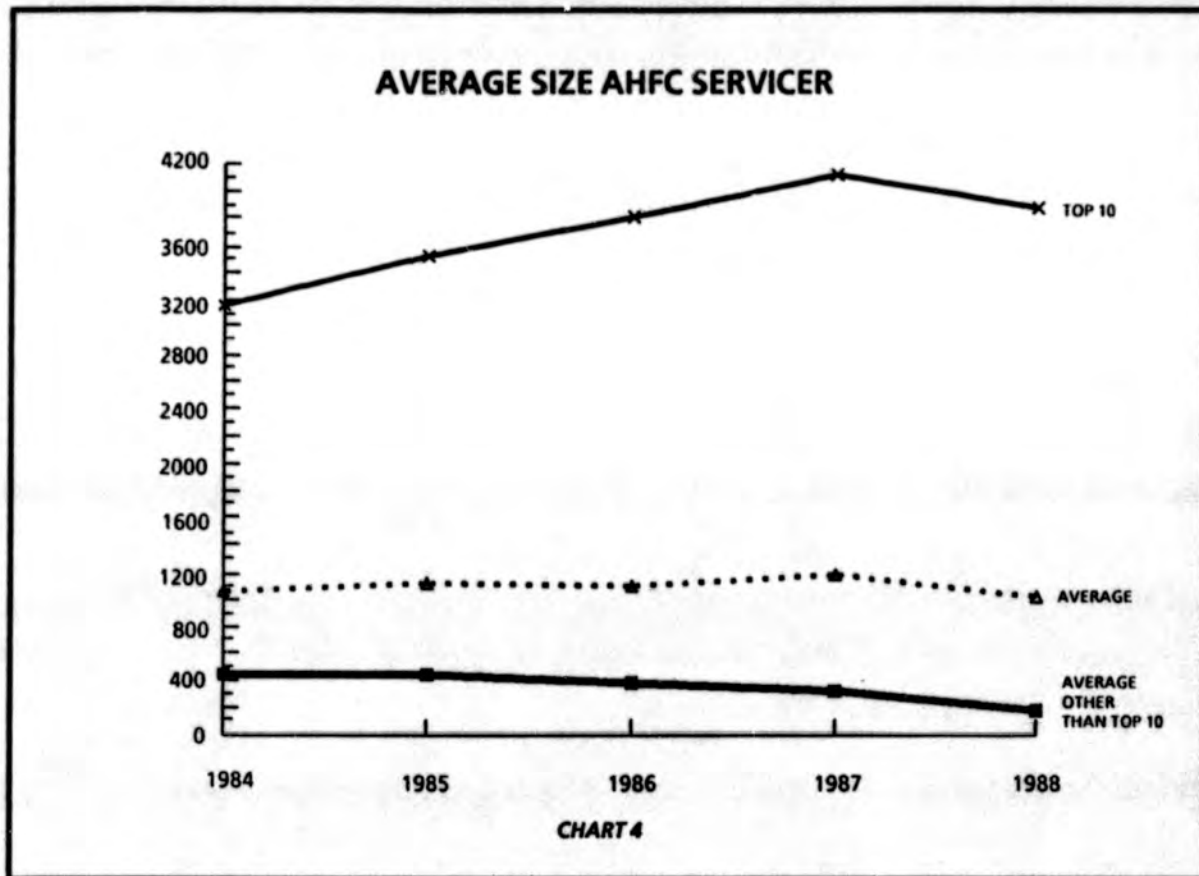
THE FUTURE FOR MORTGAGE BANKING IN ALASKA

The function of mortgage banking in Alaska for the vast majority of firms has included both origination of loans and their servicing. Generally a firm has been prepared or found it necessary to service whatever product they originated, unless the loan was eventually being sold to a Ginnie Mae pool on a servicing released basis.

Smaller firms are more likely to remain profitable in the short term by concentrating on just one facet of the origination/servicing process. The origination process can only be profitable standing alone if the rights to the servicing are sold on a servicing released basis. Originating on a servicing released basis allows a firm to recognize the present value of a future servicing fee cash flow, discounted to market conditions, without the investment in an expensive servicing system. Originations and servicing are two very different, specialist occupations. It is therefore uncommon for a company to employ an individual who is current and competent as both a servicer and an originator. This specialization then eliminates the need for a second set of unique employees who specialize in servicing tasks. On the other hand, if the firm is intent on originating and servicing, the servicing income must be recognized as a partial subsidy of the origination function.

If resources are limited, or if a firm cannot be efficient at both originations and servicing, a choice should be made. Should the firm continue to struggle with the servicing tasks at stagnant loan levels? Or should they originate for sale, realizing the servicing release income immediately, while leaving the actual servicing to a larger, and theoretically more efficient servicing firm.

Chart 4 illustrates the historical data as it is related to the average number of loans by AHFC servicers over the last five years. While the overall number of active AHFC loans has decreased by about 10,000 loans during that period, the average number of loans by the ten largest servicers has increased from 3,152 in 1984 to 3,865 in mid 1988 after peaking at 4,111 in 1987. On the other hand, the average number of loans per servicer not within the top ten has dropped steadily from 441 in 1984 to 172 in 1988. On average, the largest Alaska servicers continue to grow, while the smallest continue to shrink.



The exchange of servicing which has occurred in Alaska during the last five years has happened with some regulatory and statutory intervention. AHFC's restriction on the transfer of servicing outside the state was in responses to some concerns regarding the service home owners were receiving from their outside servicers. Another was a bill passed during the last legislature which contained certain sale notice and response requirements, which for the majority of servicers were ongoing common sense business practices. Barring additional intervention by AHFC or the legislature, the sale of servicing will continue. The Alaska Mortgage Bankers Association supports the continued practice of buying and/or selling servicing rights to AHFC loans. The Mortgage Bankers Association of America has developed and published a set of recommended standards that the buyers and sellers of servicing should subscribe to in the interest of minimizing inconvenience to the home owner affected by a servicing sale. The standards, which have been followed by the vast majority of mortgage lenders in Alaska, are a model of normal, good business practices for our industry.

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**THE THRIFT INDUSTRY
AND MORTGAGE CREDIT IN ALASKA**

by

Judith C. Chaney, Housing Director

Federal Home Loan Bank of Seattle



**ALASKA COMMUNITIES SERVED BY
FEDERAL HOME LOAN BANK MEMBER BRANCHES**

August 1988

THE THRIFT INDUSTRY AND MORTGAGE CREDIT IN ALASKA

Judith C. Chaney

Federal Home Loan Bank of Seattle

The Thrift Industry in Alaska

As I write this paper during the summer of 1988 there is an intense debate in Alaska on the future of the state's housing industry. As part of this debate, a fundamental public policy question must be addressed: Does thrift industry still play a critical and necessary role as a provider of home mortgage credit in Alaska?

In Alaska the issue of survival of a community-based thrift industry is especially relevant since the number of all locally-owned financial institutions, both healthy and troubled, continues to decline. In the past four years, for example, KeyCorp of Albany, New York, purchased Alaska Pacific Bank and First National Bank of Fairbanks and Rainier Bank of Seattle bought Security National Bank, while Alliance Bank was created when the Hallwood Group, from New York, merged Alaska Mutual and Alaska Bancorporation with FDIC assistance. And, just this past month, First Interstate of California purchased Alaska Continental Bank.

Even though many economists believe that the state's recession has touched bottom, it is no secret that some banks and thrifts in Alaska are still facing problems of capital adequacy. In fact, less than five months ago, a Joint Resolution was introduced in the Alaska State Legislature "urging the Federal Home Loan Bank Board to consider extension of assistance to Alaska financial institutions similar to the Board's 'Southwest Plan'." The resolution focused on the need to infuse new capital into thrifts in states hard hit by local economic problems.

The mechanism used in the Southwest Plan, however, was the consolidation of financial institutions in a region where archaic unit banking laws created a large number of independent banks and thrifts, each serving a very limited market area.

The structure of the financial services industry in Alaska is quite different. Even though the number of Federal Home Loan Bank (FHLB) members is lower than it has been since 1975, the number of communities served and total assets held have grown steadily. As Table 1 shows, the five members of the Federal Home Loan Bank (FHLB) System have 29 branches in 12 communities. In the larger cities (Anchorage, Fairbanks, Juneau, Kenai, Ketchikan, and Wasilla), consumers may choose among two or three competing thrift institutions.

Table 1:

FHLB Member Associations Serving Alaska*

<u>Year</u>	<u>Associations</u>	<u>Branches</u>	<u>Cities</u>	<u>Assets**</u>
1975	6	17	8	\$ 281.1
1976	6	19	10	\$ 367.2
1978	6	21	12	\$ 487.4
1979	6	22	12	\$ 506.9
1980	7	23	13	\$ 567.7
1981	7	21	12	\$ 700.3
1982	6	19	11	\$ 829.1
1983	7	22	12	\$ 1,029.8
1984	7	23	12	\$ 1,069.3
1985	7	27	12	\$ 1,266.8
1986	7	29	12	\$ 1,466.8
1987	6	24	12	\$ 1,372.8
1988	5	29	15	\$ 1,944.1

* Data as of beginning of the year.

** Millions of dollars.

Source: Federal Home Loan Bank of Seattle.

This paper discusses the role the thrift industry has played in Alaska's housing market and raises questions that must be faced in the next two years.

Structure of the Thrift Industry

Congress created the Federal Home Loan Bank System in 1932 to solve the liquidity problems faced by lenders and home owners alike during the Depression. Individual community-based savings associations simply did not have enough market presence to provide mortgage credit under all economic conditions.

The system has three parts: a presidentially-appointed, three-member Federal Home Loan Bank Board; 12 District Banks; and more than 3,000 member thrift associations. The District Banks are very successful financial institutions. The Federal Home Loan Bank of Seattle, whose district includes Alaska, is one of the smallest (in number of members) but most profitable in the system. With assets of over \$10.6 billion, it returned a 11.0% dividend to our 114 member stockholders last year.

Most of the financial associations that are members of the Federal Home Loan Bank System are Federal Savings and Loan Insurance Corporation (FSLIC) insured. Many savings banks insured by the Federal Deposit Insurance Corporation (FDIC) have chosen to join the system, however, because of the low-cost advances, member services, and excellent dividends. The following discussion of the Alaska thrift industry will include both FSLIC and FDIC members of the Federal Home Loan Bank of Seattle.

As Table 2 shows, there are five FHLB member associations in Alaska, two of which are FDIC insured. Together they have assets of almost \$2 billion.

Table 2:**Alaska Members, 1988**

<u>Institution</u>	<u>Headquarters</u>	<u>Insurance</u>	<u>Assets*</u>
Alliance Bank	Anchorage	FDIC	\$ 1,276.0
First Federal Bank of Alaska	Anchorage	FSLIC	\$ 351.9
Home Savings Bank	Anchorage	FSLIC	\$ 85.0
Mt. McKinley Mutual S.B.	Fairbanks	FDIC	\$ 97.0
Alaska Federal S&LA of Juneau	Juneau	FSLIC	\$ 134.2
Total Assets			\$ 1,944.1

* Millions of dollars as of the beginning of 1988.

Source: Federal Home Loan Bank of Seattle.

The FHLB System and Mortgage Credit

The District Banks' charter is to ensure the financial viability of local thrift institutions so that they may provide home mortgage financing to individual borrowers. To ensure member viability the Banks provide a wide array of complex services: advances to members, acceptance of deposits, correspondent banking services, and provision of services to assist examinations. The most direct role the Banks play in availability of mortgage credit is through member advances (loans).

Residential mortgage originations by thrifts are funded by deposits, FHLB advances, repayments, sales of loans into the secondary market, and a scattering of other capital-raising vehicles. Nationally, deposits as a percent of member assets dropped from 84 percent in 1977 to 74 percent in 1987. In Alaska deposits were 78 percent of total assets at year end 1987, down slightly from 79 percent the previous year. As deposits drop, thrifts must rely more heavily on other non-deposit sources of funds.

Until recently, the District Banks were the only reliable, cost-effective source of non-deposit fixed-rate funds for home mortgages. Today, qualifying thrifts can raise long-term funds (one-year plus) through such instruments as mortgage-backed bonds, collateralized mortgage obligations, medium-term notes, and senior and subordinated debt. While the use of these sources of funds has increased as the financial markets have evolved, specific member use varies widely depending on size, financial condition, and location.

The District Banks offer both fixed-rate and adjustable-rate advances to members with terms ranging to twenty years. Approximately 60% of outstanding advances consist of fixed-rate funds with remaining terms of one year or more. Compared to the least cost alternatives sources of term financing that are available to most thrifts, term advances provide the thrift industry an annual reduction in borrowing costs of approximately \$1.381 trillion, according to the FHLB of San Francisco (August 1988).

In Alaska, however, by offering below-market rates, the Alaska Housing Finance Corporation (AHFC) in recent years has been the major source of mortgage financing. According to the Institution of Social and Economic Research (ISER, October 1987), AHFC bought 80% of new mortgages originated between 1980 and 1985. With the drop in market interest rates since 1985, AHFC's market share has declined as home owners shop for mortgage terms and conditions. Thrifts, by offering both AHFC and conventional mortgage programs funded to varying degrees by FHLB advances, help home owners choose mortgages that best meet their individual needs.

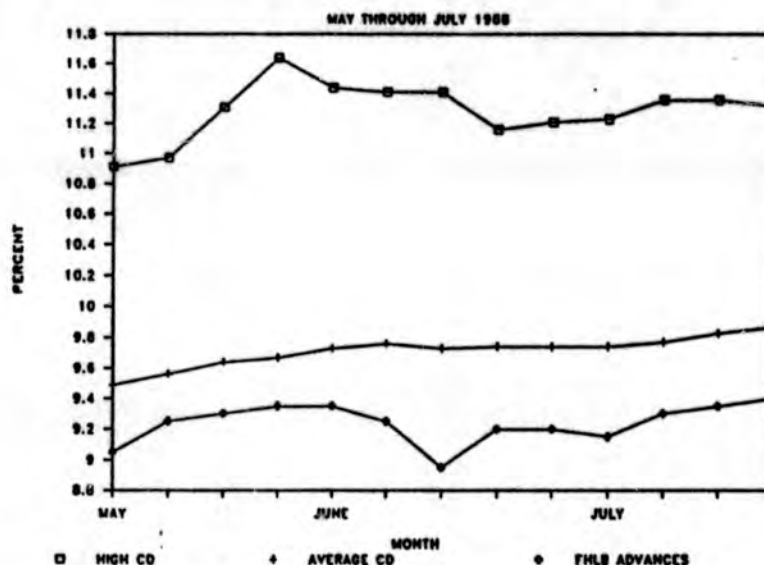
These Alaska home owners benefit directly from FHLB advances that lower thrifts' costs of funds, as the following comparison demonstrates. If FHLB advances were no longer available, given the size of

Alaska thrifts, certificates of deposits (CDs) would be the most likely alternative source of mortgage funds.

As a funding source, however, CDs have a number of drawbacks: limited availability of longer maturities, difficulty of gathering large sums in a short period of time, and interest rate risk because the funds can be withdrawn. Further, in the absence of advances, heavier reliance on term CDs could create price wars driving up the cost. Given these limitations, term CDs would be a costly and inefficient replacement for long-term advances.

In this District, ignoring the other costs of marketing retail CDs, between May and July 1988 the average yield on five-year CDs was 31 to 78 basis points higher than five-year fixed-rate advances from the FHLB of Seattle. For the 100 highest yield five-year CDs, the spread over advances was 186 to 246 basis points. As pointed out above, if thrifts relied more heavily on CDs for funds, the average yield would probably be above the highest yields found in the market today. Figure 1 shows these spreads for the past three months.

Figure 1: Sources of Long-Term Mortgage Funds



Sources: 100 Highest Yields, Federal Home Loan Bank Board.

A difference of 31 to 246 basis points in mortgage rates is significant to the consumer. With a 30-year fixed-rate mortgage of \$150,000, for example, a mortgage at 10.31% would cost the consumer \$413 more per year than one at 10.00%, while a mortgage at 12.46% costs the consumer \$3,346 more. When these amounts are multiplied by the total state loan origination volume (over \$760 million in 1987, a low year), the impact of even slightly lower cost of funds on Alaska home buyers can be substantial.

Total end of year advances to Alaska members from the Federal Home Loan Bank of Seattle are shown on Table 3. As of July 1988, the FHLB of Seattle has \$193.6 million invested in Alaska. Not every dollar has gone directly into residential lending, of course, but these advances, as well as AHFC programs, have helped to make affordable mortgage credit available in Alaska despite the volatile economy.

Table 3:

FHLB Advances to Alaska Members*

<u>Year</u>	<u>FHLB Advances</u>	<u>All Member Loans</u>	<u>Advances/Loans</u>
1987	\$ 197,570,000	\$ 451,431,000	43.8%
1986	\$ 199,390,000	\$1,268,864,000	15.7%
1985	\$ 208,450,000	\$1,039,929,000	20.0%
1984	\$ 133,944,000	\$ 786,774,000	17.0%
1983	\$ 125,279,000	\$ 889,783,000	14.1%

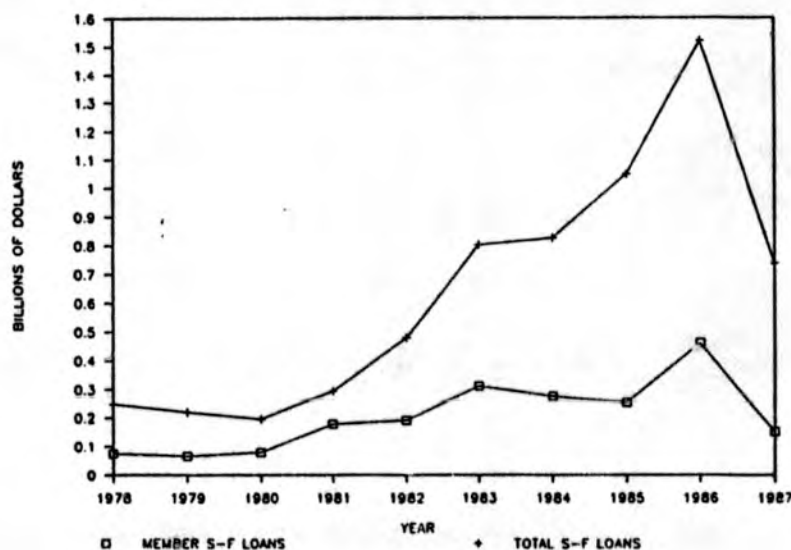
* End of year.

Source: Federal Home Loan Bank of Seattle.

The Thrift Industry and Mortgage Lending In Alaska

Figure 2 compares total single-family mortgage originations in Alaska (HUD, August 1988) with those made by thrift institutions. During the early years before the oil boom, local thrifts originated a third to a half of all residential loans. After 1983 the spread between thrift originations and total originations widened significantly. In 1986 some of the difference between total loan volume and member originations was due to refinancing which AHFC was newly authorized to undertake. Even without refinances, however, the thrift industry lost market share in Alaska as the housing market heated up attracting many Outside lenders.

Figure 2:

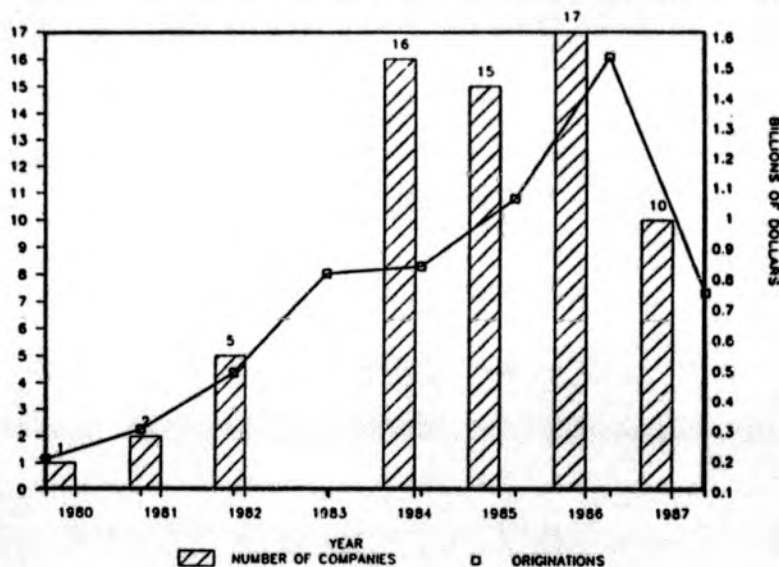
Residential Lending in Alaska

Sources: HUD, Federal Home Loan Bank of Seattle.

It is difficult to track mortgage lenders who are not depository institutions because they are not subject to federal regulation. As a proxy, Figure 3 compares the number of mortgage companies that advertised in the Anchorage Yellow Pages between 1980 and 1988 with billions of dollars of loan originations. It is clear, even from this unscientific analysis, that the number of non-depository lenders fluctuates rapidly with local economic conditions.

Figure 3:

Mortgage Bankers in Anchorage



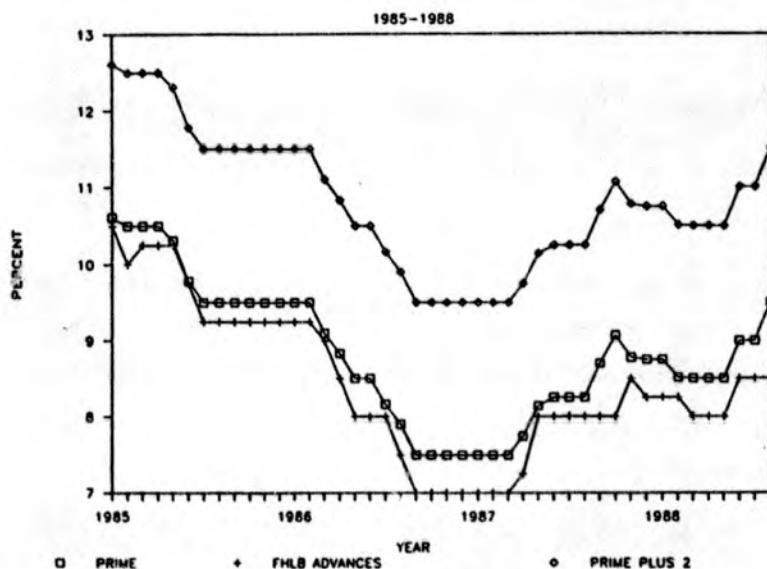
Source: GTE Yellow Pages.

Commercial banks were another group that entered the booming residential market in large numbers after 1983, functioning as mortgage bankers rather than as portfolio lenders. The current low level of mortgage lending has forced many of these bankers to withdraw from the residential market, too.

Mortgage lenders who do not have access to FHLB advances use other sources of funds including borrowings, forward sales into the secondary markets, and other capital market vehicles. Since they are not portfolio lenders, they tend to operate with short-term borrowings. According to industry sources, the best rate to approximate their cost of funds is the prime rate charged by New York banks. The spread over prime can vary from 1.5 to 2.0 points over prime to 1.0 points under, if the mortgage banker has substantial escrow accounts on deposit. All mortgage banking companies in Alaska would pay prime plus. Figure 4 compares this rate range with FHLB short-term advances.

Figure 4:

Prime Rate vs. FHLB of Seattle One-Year Variable Advances



Sources: *The Wall Street Journal*, Federal Home Loan Bank of Seattle.

The spread between FHLB advance rates and the prime rate suggests why nonthrift mortgage bankers are more sensitive to changes in local mortgage markets. With their very narrow spread between their cost of funds and the mortgage rates consumers will accept, they may not be able to survive in a declining market.

This year mortgage originations in Alaska have plummeted—down even from last year's low levels. Mortgage lending among FHLB members dropped 40 percent during the first quarter of 1988. Lending in Anchorage in the first half of 1988, as measured by recorded deeds of trust, was 61 percent of the previous year's volume for that period. Table 4 gives some indication of the declines individual lenders have faced. Unfortunately these figures include both residential and commercial mortgages, so they indicate the trend rather than strictly residential mortgage volume.

Table 4: Mortgage Market Share, Anchorage Recorded Deeds of Trust

<u>Lender</u>	<u>1987</u>	<u>1988*</u>
	<u>Dollar Volume</u>	<u>Dollar Volume</u>
Alliance Bank**	47,544,510	13,024,678
Key Bank of Alaska	46,142,787	8,500,723
Home Savings Bank	44,970,898	22,885,162
Centrust Mortgage	42,424,089	10,772,597
Nat'l. Bank of Alaska	39,429,937	20,782,746
First Interstate Bank	36,949,480	N/A
First National Bank	36,119,232	11,185,073
AK USA Federal CU	34,998,577	10,962,859
Rainier Bank of Alaska	30,609,999	8,670,748
GMAC Mortgage Co.	28,614,930	13,410,935
Commonwealth Mortgage	28,569,465	12,979,015
Key Pacific Mortgage	25,669,975	9,162,465
Northland Mortgage	24,835,914	8,022,320
City Mortgage	18,361,200	9,274,229
FNMA (Fannie Mae)	N/A	17,260,005
Total Recorded Deeds	\$763,695,970	\$260,134,803

* First 6 months only.

** Alaska Mutual Bank and United Bancorporation merged in 1987.

Source: Security Title & Trust Agency of Alaska, Inc.

The Future of the Thrift Industry in Alaska

At the beginning I mentioned the public policy debate on the importance of the thrift industry in Alaska. As the Appendix demonstrates, in the past three years the composition of the state's thrift industry has changed rapidly and the next several years will probably see more change. The guiding principle for the regulators in resolving troubled FDIC- and FSLIC-insured associations is to protect the insurance funds by finding the lowest-cost solution.

No matter what option is used, however, the FHLB of Seattle is committed to preserving a locally-owned, community-based thrift industry in Alaska.

What the Thrift Industry Offers Alaska

This paper has discussed in depth how the thrift industry has contributed to the availability of mortgage credit in Alaska. Although in this decade the Alaska Housing Finance Corporation has been the most significant source of credit for Alaska's families, the Federal Home Loan Bank System has played a part. Beyond the financial savings the FHLB System can offer home owners, there are some other, less tangible benefits.

- Preservation of a competitive environment for both mortgage and deposit products. Because they are not totally dependent on either state or federal agency programs to fund their mortgages, thrifts can give home owners a choice.
- Flexibility and stability in the face of significant market changes. Alaska's economy has changed enormously since Alaska Federal S&LA of Juneau was chartered in 1935 and thrift institutions have changed to keep pace.
- Long-term commitment to local communities. This commitment extends beyond offering loans and deposit products to supporting community-improvement programs as Anchorage Neighborhood Housing Services, Inc.

In testimony before the Congress this past month, Jay Janis emphasized that there is "an unwritten compact between the (federal) government and its people for decent, affordable housing for everyone." This compact recognizes that it would be impossible for the individual home buyer to compete directly for credit with other larger and more powerful entities. There is a need in American for a specialized system devoted solely to mortgage finance, and since 1935 the thrift industry in Alaska has help fill that need.

Appendix:

FHLB of Seattle Alaska Members 1976-1988

Alaska Federal S&LA of Juneau: FSLIC insured mutual association. State chartered 1935. Headquartered in Juneau. 1988 assets: \$134,194,000.

Alaska Mutual Savings Bank: FDIC insured stock association. Chartered 1961. Headquartered in Anchorage. Changed name to Alaska Mutual Bank in 1980. Merged with United Bancorporation to form Alliance Bank in 1987.

Alliance Bank: FDIC insured stock association. State chartered. Formed in 1987 from merger of Alaska Mutual Bank and United Bancorporation. Headquartered in Anchorage. 1988 assets: \$1,276,000,000.

Arctic First Federal S&LA: FSLIC insured. Headquartered in Fairbanks. \$41 million in assets when acquired by First Federal S&LA of Anchorage in 1981.

First Federal S&LA of Anchorage: FSLIC insured mutual association. Federally chartered 1955. Headquartered in Anchorage. Acquired Arctic First Federal S&LA in 1981. Changed name to First Federal Bank of Alaska, S.B. 1983. Acquired insured deposits from Peninsula S&LA in 1986 and from Frontier S&LA in 1987. 1988 assets: \$351,890,000.

Frontier S&LA: FSLIC insured stock association. Chartered 1982. Headquartered in Fairbanks. Liquidated in 1987 and insured deposits transferred to First Federal Bank of Alaska, S.B.

Home Federal S&LA: FSLIC insured stock association. Federally chartered 1973. Headquartered in Anchorage. 1982 converted to state charter and changed name to Home Savings and Loan Association. 1988 changed name to Home Savings Bank. 1988 assets: \$84,973,000.

Mt. McKinley Mutual Savings Bank: FDIC insured mutual association. State chartered 1965. Headquartered in Fairbanks. 1988 assets: \$97,047,000.

Peninsula S&LA: FSLIC insured stock association. State chartered 1979. Headquartered in Soldotna. Liquidated in 1986 and insured deposits transferred to First Federal Bank of Alaska, S.B.

Source: Federal Home Loan Bank of Seattle.

**ENERGY CONSERVATION STANDARD
FOR NEW RESIDENTIAL BUILDINGS**

by

Stuart D. Brooks

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Department of Community and Regional Affairs**

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ENERGY CONSERVATION STANDARD FOR NEW RESIDENTIAL BUILDINGS

How The Standard Was Developed

The Alaska Legislature enacted a law, AS 46.11.040, in 1980 that mandated statewide lighting and thermal efficiency standards for all residential buildings which receive state financial assistance. The responsibility for developing this standard was transferred to the Department of Community and Regional Affairs (DCRA) in 1983.

In late 1983 a sixteen member advisory committee representing all facets of the building industry was established by DCRA to review and guide the development of the standard. Their first action was to reject a draft standard done by a consultant. This draft incorporated both commercial and residential standards into a single document. This made the standard difficult to understand for those persons only interested in the residential requirements.

In July 1984 DCRA staff began the process of developing a standard geared solely toward residential use. The state was divided into 15 regions and data was gathered specific to each. This data included: weather, construction costs, solar energy, fuel costs, insurance, taxes, maintenance, mortgage rates, discount rate, mortgage term, fuel and general inflation rates, and an appropriate time period of analysis. Additionally, construction costs were estimated for 2 door types, 2 window types, 3 ceiling types, 11 wall types, 3 floor over crawlspace types, 3 elevated floor (piling or post and pad foundations) types, and 2 heating system types.

A computer model to analyze all this data was developed by the University of Alaska's Institute of Social and Economic Research (ISER). The model used a life-cycle-cost technique and a period of analysis of 30 years. The model "constructed" houses by combining the various building assemblies in every possible combination. This technique allowed ISER to construct 330 houses in each of six regions for Southeast and Southcentral Alaska, and 198 houses in each of the remaining nine regions.

From this analysis the advisory committee chose two levels of thermal efficiency. The first was a mandatory minimum level and the second was a higher recommended level (which eventually became the Alaska Craftsman Home Program). It was found that many of the thermal efficiency levels chosen for the 15 regions matched or was nearly identical to levels for other nearby regions. Thus, the initial 15 regions could be consolidated down to only 5 regions for the entire state.

The minimum standard was then drafted incorporating the recommendations of the advisory committee. State staff next conducted nineteen community meetings across the state to explain how the standard was developed and to give the public an opportunity to respond to the draft standard. The standard was then revised and public hearings were held in fourteen communities around the state. The standard was finally adopted into law in 1987.

The Office of Energy Programs within DCRA conducted workshops in twenty-one communities around the state this past Spring to explain the specific requirements of the standard. The standard is slated to go into effect on October 1, 1988.

Scope of The Standard

The standard is required only for new residential construction and only if state financing will be involved in the mortgage process. Construction that begins before October 1 is not required to comply with the standard.

The standard applies to residential buildings measuring three stories or less in height. Additions need to comply only if habitable space 50% or greater in floor area than the existing dwelling is made - and then only the addition need comply.

The standard does not apply to transient housing such as hotels and motels etc.; manufactured homes; or lighting considerations.

If a local government develops an energy standard that meets or exceeds the state standard, the law allows the local government's standard to take precedent.

The Commissioner for DCRA has the authority to exempt an area of the state where the standard is not justified because of the high cost of implementation.

How To Comply

The standard provides for three methods of showing compliance: Prescriptive, Performance, and Building Budget. Builders may use any one of these three methods. Additionally, there are mandatory measures that must be met regardless of which of the above three compliance methods the builder chooses to follow.

Each of the state's financing agencies have developed a compliance process appropriate to their scope of business. Builders should contact the appropriate agency (AHFC or DCRA's Housing Assistance Section for example) for specifics.

Portions of the standard's requirements are shown on this and the next page. Readers should obtain a full copy of the standard to ensure a complete understanding of all requirements contained therein. Write to the Alaska Office of Energy Programs, 949 E. 36th Ave., Suite 403, Anchorage, AK 99508. Copies are \$4.00 each which includes postage and handling.

Mandatory Measures

These measures encompass insulation practices, vapor retarders, air infiltration control, ventilation requirements, window performance testing, conservation of hot water, plumbing, air ducts, and heating system testing.

Prescriptive Requirements

Window Area	Minimum R-value Required			
	Regions 1&2	Region 3	Region 4	Region 5
up to 8%	2.10	2.30	2.80	2.80
greater than 8% and up to 11%	2.80	2.80	2.80	2.80
greater than 11% and up to 15%	4.00	4.00	4.00	4.00

Window area greater than 15% not allowed in any region. If more than 15% window area is desired, the builder must use the Performance or Building Budget methods.

Five percent of the allowable window area is exempted from the above requirements to permit special architectural windows.

Skylights must be double glazed as a minimum and skylight area may not exceed one percent of the total insulated ceiling area.

PRESCRIPTIVE ENVELOPE R-VALUE REQUIREMENTS

This table lists minimum prescribed insulation requirements for the building envelope. The builder may use any method of constructing the building envelope provided clear compliance with the listed R-values can be shown and is acceptable to approving officials. The builder may exceed these minimums if so desired.

CAUTION: Permafrost areas require engineering analysis for proper application of insulation in contact with the ground.

		Prescriptive Envelope R-Value Requirements						
Region Number	Region Name	Ceiling ¹		Above-grade		Below-grade	Slab-on-grade	
	Heating Fuel	#1	#2	Wall	Floor	Wall	grade Floor	Door ²
Region 1								
Southeast								
	All Fuels	38	48	21	30	15	15	2.5, 7
Region 2								
Southcentral, Aleutian, Kodiak								
	Natural Gas	38	45	18	19	10	10	2.5, 7
	All Other Fuels	38	48	25	30	15	15	2.5, 7
Region 3								
Interior, Southwest								
	All Fuels	38	48	25	38	19	15	7
Region 4								
Northwest								
	All Fuels		48	30	38	19	15	7
Region 5								
Arctic Slope								
	All Fuels	52	NA ³	35	43	--	--	7

Notes:

1. Ceiling #1: R-values listed are for ceilings with no skylights.
Ceiling #2: R-values listed are for ceilings with skylights. See paragraph 3.7b.
2. One exterior door in Region 1 may have an R-value less than 7 but no less than 2.5.
3. Not allowed.

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ENERGY RATED HOMES OF ALASKA

by

**Geoff Feiler, President
Heat Loss Analysis, Inc.**

19 August 1988

prepared for the

**Alaska Housing Market Council
Governor's Conference on Housing
23 September 1988**

INTRODUCTION

Since the mid-1970's energy has been an increasingly important issue in the residential shelter industry. The increases in the cost of heating and providing power to homes that began with the Arab Oil Embargo of 1973 have spawned a multitude of innovative techniques designed to improve the efficiency of our housing stock.

As a result of these changes, the potential homebuyer has been faced with a multitude of energy related choices. The task has been made difficult because there was not a uniform method for evaluating combinations of features. In addition, the impetus to build or buy with energy wisdom has been alternatively supported and roadblocked by the fluctuating presence or absence of financial incentives beyond the promise of lower operating costs.

Enter Energy Rated Homes of Alaska, a voluntary shelter industry program designed to allow comparison of dissimilar homes on an energy basis and to provide the means by which the efficient homebuyer could be rewarded.

PURPOSE

The Energy Rated Homes program is designed to provide benefits to the full spectrum of the shelter industry. Its basic concept of a uniform system by which homes can be rated based on their energy using features is a primary key. Its intent to be voluntary and member oriented, rather than regulatory and government controlled, will also help it reach its goal. The benefits to some of the industry segments are as follows:

For the homebuyer it provides a uniform energy rating by which homes can be compared. The rating is based on a point system (1-100) that translates into a highly visible "Star Rating" (one to five stars). The homebuyer merely needs to compare the number of Stars to see how opposing homes stack up on energy. The greater the number of Stars, the more efficient the home.

In addition, choosing an energy efficient home can mean more flexibility in the mortgage lending process since the number of Stars can translate to a greater allowable debt to income ratio - a primary measure used by lenders in determining eligibility for a loan. For example, the Alaska Housing Finance Corporation will allow the following adjustments to the ratio based on the rating received in the program:

*	no increase (28%)
**	no increase (28%)
***	one additional point on ratio (29%)
****	one additional point on ratio (29%)
*****	two additional points on ratio (30%)

FannieMae, FreddieMac, and other secondary lenders working with the program may use different allowances both for the debt to income ratio and the energy rating allowances.

To carry the example further, consider a home with a purchase price of \$100,000 and 90% financing. Current interest rates might result in a payment of about \$870 per month and a required income over \$3100 per month. A five star rating would reduce the required income level to about \$2900 per month. Conversely, with an unrated home, a \$3000 per month salary would qualify a potential buyer for a \$95,000 home. If the home received a five star rating, that buyer's potential would increase to about \$105,000.

For the homeowner, the Energy Rating includes a list of improvements that are feasible for that particular home and that will, if performed, raise the energy point value. It also lets him know where he stands in the myriad of properties surrounding him. This can be valuable if energy related remodeling funds are available or if the homeowner is considering becoming a homeseller.

For the realtor or speculative builder, the energy rating of an efficient home is a selling tool. During periods of high energy costs, the operating costs of a home will become a consideration in the same class as size, appearance, and neighborhood. Other aspects being roughly equal, the smart homebuyer will certainly prefer the more energy efficient home. Realtors wanting to sell these homes will be able to use a good Star Rating to their advantage.

For the mortgage lender, the energy rating of the efficient home is the backup needed to adjust a potential buyer's debt to income ratio. Here the lender recognizes that energy efficiency means lower home operating costs and, therefore, more funds available for mortgage payments.

For the builder, an energy rating can be used to show compliance with the new State of Alaska Energy Conservation Standard for New Residential Buildings. It can also be used to show compliance with some of the requirements of the Alaska Craftsman Home Program.

PARTICIPANTS AND ORGANIZATION

As mentioned earlier, the Energy Rated Homes program is a shelter industry program. The participants include primary and secondary mortgage lenders, utilities, realtors, appraisers, builders, and public officials. Although funding and support for program startup has been primarily provided by the State of Alaska, the State Homebuilders Association, and railbelt utilities, program oversight is performed by a volunteer advisory committee made up of representatives from each of the industry segments. The committee also includes the program 'local operators' from the Southcentral and Interior regions of the State.

These local operators are responsible for the daily operation of the program. They supervise the performance of ratings, provide training to members, maintain records, and report back to both the advisory committee and the national organization - Energy Rated Homes of America.

The intent of the program is also to have a broad based, dues paying membership base including not only those industry members mentioned above but also entities such as building material suppliers. Participation and benefits would vary with the type of service provided.

PROCESS

Energy ratings are performed either by trained appraisers who are members of the Energy Rated Homes system or by trained energy raters under the direction of a local operator. A request for a rating can come from a builder, a realtor, a lender, a homebuyer, or a homeowner.

When a request is made by a lender it would usually go to an authorized appraiser who would complete the inspection as a part of his appraisal. Requests made by other parties would go directly to the local operator who have the rating performed by a contract rater.

The site visit consists of an inspection of the energy consuming aspects of the home including insulation levels, doors and windows, caulking and weatherstripping, and the heating system. An evaluation of solar access is also performed.

The data collected goes either directly onto an Energy Rating sheet or onto a temporary sheet from which the information is fed into the ERHS computer. The Energy Rating sheets are primarily used by appraisers who evaluate the points on site. The results are delivered directly to the lender or buyer along with the appraisal. A copy is also submitted to the local operator who is responsible for maintaining the records, for issuing the "Star Certificates", and for reporting back to the national organization.

Along with the final rating and 'Star Certificate' the homebuyer receives a voucher for an Improvements Worksheet. This is the process whereby an evaluation is made of energy saving home improvements and their effect on the current rating. There is no additional charge for the improvements worksheet over and above the \$165 cost of the energy rating. However, there is an additional charge for an upgraded rating once work has been performed.

HISTORY

The Energy Rated Homes program was started in the early 1980's by Western Resources, Inc. under the direction of Jay Luboff. Initial work was done under a grant provided by the University of Washington and was focused at developing a rating system for Washington State. This work include technical support, procedural systems, and marketing and training programs. A national board of directors was organized and included representatives from major national shelter industry organizations.

At the end of 1982, with the program active in Washington and Oregon, Energy Rated Homes was introduced to Alaska. An energy mortgage valuation process was already under consideration at that time, but Energy Rated Homes seemed to be the most advanced of the systems that were available.

With industry support, the State of Alaska granted funds to tailor the program for our unique conditions. A volunteer technical committee was put together to oversee that aspect of the work being done by Western Resources (now Energy Rated Homes of America). They reviewed data including demographics on existing housing stock, utility rate information, and aggregate residential energy use patterns. The work of Western Resources and the technical committee resulted in the forms, a computer program, and processes that are now used in urban Alaska.

Two other facets of the program were also funded by the State and by some of the larger utility companies. They included training workshops for realtors (developed by C.A.R.E - Conservation And Renewable Energy, a non-profit organization) and appraisers and a \$90,000 marketing effort (developed by The Aadland Group) designed to increase program recognition through television and print media.

During this period an advisory group chaired by Randy Boyd of Key Bank was organized. It included representatives from realtor associations, builder associations, utilities, lenders, program operators from Anchorage and Fairbanks, and the State. Their mission was to promote the program by soliciting memberships from their various groups and to oversee the local operators.

After several years of technical, organizational, procedural, educational, and promotional preparation, Energy Rated Homes of Alaska was ready to makes its debut in the spring of 1987. Unfortunately, this coincided with the severe changes in State's economy - changes which were drastically felt in the residential shelter industry. The energy efficiency of a potential home purchase - earlier a top priority of homebuyers - took a back seat to the wealth of bargain foreclosures coming on the market. The debut sparked interest among realtors, but failed to have a significant impact on the buying public.

CURRENT STATUS

Currently Energy Rated Homes of Alaska is waiting in the wings for an improvement in market conditions while it continues to streamline its organization and procedures and to also develop the tools needed for applications in rural Alaska. It is possible that operation of the program may come under the auspices of the Alaska Craftsman Home Program - an education and incentive program that promotes the construction of super efficient residential buildings. The association with the national organization is still incomplete due to funding shortages and the consideration that the relationship may not be essential to our operation.

Regardless of who runs it or whether or not it seeks national recognition, the Energy Rated Homes of Alaska program will be ready to act when energy again becomes a primary issue in the purchase of a home.

UNDERSTANDING YOUR HOME'S UNIFORM ENERGY RATING

The Uniform Energy Rating scores the major energy saving features of houses, and converts that score to a five level rating. The levels are shown as stars - from the lowest rating of 1 star to the highest rating of 5 stars. Houses at the high end of each category have a plus (+) added to their rating.

The rating takes into account the design of the house, it's airtightness, the amount and location of its insulation, the type of windows, and the efficiency of the heating system, among other factors.

RATING:

- ★ Generally built before 1962, when no insulation was required. One-Star houses have little insulation and little potential for gaining heat from the sun. Have original heating system without upgrades. It is unusual to find a home in Fairbanks without some insulation or weatherstripping added to bring it up to a 2 Star rating.
- ★★ Generally built before 1975, 2 Star homes have approximately R-19 ceilings and R-11 walls and floors. Typically have double pane windows and older heating system.
- ★★★ Houses built to code between 1975 and 1982 fall into this category. Typically, 3 Star houses have 9 inches of ceiling insulation, 6 inches of wall and floor insulation. Often have insulation-wrapped water heater and double pane windows. Houses built prior to 1975 will fall in this category if they have added insulation and double pane windows, or if they have upgraded the heating system with an especially efficient unit. The majority of houses in Fairbanks fall into the 3 Star category.
- ★★★★ Most houses of standard construction built after 1982 fall into this category. Typically have R-38 ceiling insulation and at least R-25 walls and floors. Have triple pane windows, efficient heating system, good weatherstripping and vapor barrier. Four Stars is the maximum rating a house of standard 2x6 stud wall construction would normally receive unless it has a heat pump or other unusually efficient heating system.
- ★★★★★ Five Stars indicates especially efficient construction found in highly insulated houses. Usually have R-60 ceilings and R-49 walls and floors.
- ★★★★★+ 5+ Stars indicate unusual and especially efficient construction as found in solar or super insulated houses. Have over 18 inches of ceiling insulation and 18 inches of wall and floor insulation. Generally requires double wall construction and a continuous vapor barrier.

Most houses which rate in the 1 to 3 Star category can be upgraded at least one level by uncomplicated measures such as insulating, caulking, wrapping the water heater or heating system renovations. The Uniform Energy Rating can be used, like a car mileage rating, to compare the relative energy efficiency of houses. Your energy bills will differ with your individual lifestyle, as well as your home's size.

RATING SHEET

FOR USE ONLY AS ENERGY ADDENDUM
TO STANDARD APPRAISAL REPORT
(FHLBC / FNMA)

The Uniform System of Evaluating and Rating Home Energy Efficiency.

© 1985 Western Resources Institute

The potential energy efficiency of this house is evaluated and rated as follows:		Applicability: Western Washington																																																									
1 ONE STORY with HEATED BASEMENT General Description: One story above ground Full, finished and heated basement Attached garage		Year Built: _____ File No: _____ Local No: _____ Surveyor: _____ Address: _____ City: _____ State: _____ Zip: _____ Current Value: _____ Map Reference: _____ Tax parcel no: _____ Landowner: _____ Previous Serial Number: _____ Date: _____ Energy Rater: _____ Date: _____ Appraiser: _____ Date: _____																																																									
2 HEATED FLOOR AREA _____ SQUARE FEET Includes basement when basement is heated and lived in.		SCORE																																																									
3 ENVELOPE EFFICIENCY or how well the living space keeps heat in. <table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr> <th></th> <th>LEVEL 1</th> <th>LEVEL 2</th> <th>LEVEL 3</th> <th>LEVEL 4</th> <th>LEVEL 5</th> </tr> </thead> <tbody> <tr> <td>CEILING</td> <td>0.0</td> <td>17.5</td> <td>19.5</td> <td>21.0</td> <td>21.5</td> </tr> <tr> <td>WALLS, EXTD</td> <td>0.0</td> <td>6.0</td> <td>7.0</td> <td>9.5</td> <td>10.0</td> </tr> <tr> <td>WALLS, CLNC.</td> <td>0.0</td> <td>0.0</td> <td>4.0</td> <td>5.0</td> <td>6.0</td> </tr> <tr> <td>FLOOR</td> <td>0.0</td> <td>0.0</td> <td>0.0</td> <td>0.0</td> <td>0.0</td> </tr> <tr> <td>WINDOWS</td> <td>0.0</td> <td>1.5</td> <td>4.0</td> <td>5.0</td> <td>6.5</td> </tr> <tr> <td>AIR LEAKAGE</td> <td>0.0</td> <td>5.0</td> <td>0.5</td> <td>13.0</td> <td>18.5</td> </tr> </tbody> </table> Use E in Step 4 TOTAL _____ ENVELOPE E					LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 4	LEVEL 5	CEILING	0.0	17.5	19.5	21.0	21.5	WALLS, EXTD	0.0	6.0	7.0	9.5	10.0	WALLS, CLNC.	0.0	0.0	4.0	5.0	6.0	FLOOR	0.0	0.0	0.0	0.0	0.0	WINDOWS	0.0	1.5	4.0	5.0	6.5	AIR LEAKAGE	0.0	5.0	0.5	13.0	18.5														
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4 SOLAR GAIN or how well the living space is heated by sunlight <table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr> <th></th> <th>South Window Area</th> <th>Heat For Heat Storage</th> <th>23.</th> <th>30.</th> <th>43.</th> <th>54.</th> </tr> </thead> <tbody> <tr> <td>50 sq. ft.</td> <td>NO</td> <td>3.0</td> <td>2.5</td> <td>2.5</td> <td>2.5</td> <td>2.5</td> </tr> <tr> <td>100 sq. ft.</td> <td>NO</td> <td>6.0</td> <td>5.0</td> <td>4.5</td> <td>4.5</td> <td>4.0</td> </tr> <tr> <td>200 sq. ft.</td> <td>NO</td> <td>11.0</td> <td>8.5</td> <td>7.5</td> <td>6.5</td> <td>5.5</td> </tr> <tr> <td>50 sq. ft.</td> <td>YES</td> <td>0.0</td> <td>3.0</td> <td>3.0</td> <td>3.0</td> <td>3.0</td> </tr> <tr> <td>100 sq. ft.</td> <td>YES</td> <td>0.0</td> <td>5.5</td> <td>5.5</td> <td>5.0</td> <td>5.0</td> </tr> <tr> <td>200 sq. ft.</td> <td>YES</td> <td>0.0</td> <td>10.0</td> <td>9.5</td> <td>8.5</td> <td>8.0</td> </tr> <tr> <td>300 sq. ft.</td> <td>YES</td> <td>0.0</td> <td>13.5</td> <td>12.0</td> <td>11.0</td> <td>10.0</td> </tr> </tbody> </table> SCORE is zero for no solar gain Use E + S for Step 7 & 9 with Energy Use Table in Appendix D E + S _____ SOLAR S			South Window Area	Heat For Heat Storage	23.	30.	43.	54.	50 sq. ft.	NO	3.0	2.5	2.5	2.5	2.5	100 sq. ft.	NO	6.0	5.0	4.5	4.5	4.0	200 sq. ft.	NO	11.0	8.5	7.5	6.5	5.5	50 sq. ft.	YES	0.0	3.0	3.0	3.0	3.0	100 sq. ft.	YES	0.0	5.5	5.5	5.0	5.0	200 sq. ft.	YES	0.0	10.0	9.5	8.5	8.0	300 sq. ft.	YES	0.0	13.5	12.0	11.0	10.0	5 COOLING ENERGY Not included in rating for this region Prevention of Overheating ☐ Overheating not a problem ☐ Overheating possibly a problem ☐ Overheating is a problem Prevention Measures ☐ Window shading or roof overhangs ☐ Ventilation through opening windows ☐ Mechanical ventilation or cooling device N/A C	
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6 WATER HEATER Location of water heater: ☐ inside ☐ unheated basement, crawl space or garage ☐ outside <table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr> <th>LEVEL 1</th> <th>LEVEL 2</th> <th>LEVEL 3</th> <th>LEVEL 4</th> <th>LEVEL 5</th> </tr> </thead> <tbody> <tr> <td>0.0</td> <td>1.5</td> <td>6.0</td> <td>7.0</td> <td>13.0</td> </tr> </tbody> </table> Fuel Type: ☐ electric ☐ gas WATER W		LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 4	LEVEL 5	0.0	1.5	6.0	7.0	13.0	7 SPACE HEATING/COOLING EFFICIENCY E + S less than 6.5 <table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr> <th></th> <th>LOW</th> <th>MID</th> <th>HIGH</th> </tr> </thead> <tbody> <tr> <td>WOOD</td> <td>0.0</td> <td>16.0</td> <td>20.0</td> </tr> <tr> <td>PRIMARY FUEL (no other heating system, see Appendix E)</td> <td>0.0</td> <td>19.0</td> <td>32.0</td> </tr> <tr> <td>SECONDARY</td> <td>0.0</td> <td>19.0</td> <td>41.0</td> </tr> <tr> <td>OTHER</td> <td>0.0</td> <td>23.5</td> <td>39.5</td> </tr> </tbody> </table> E + S greater than 6.5 <table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr> <th></th> <th>LOW</th> <th>MID</th> <th>HIGH</th> </tr> </thead> <tbody> <tr> <td>OIL</td> <td>0.0</td> <td>5.5</td> <td>9.5</td> </tr> <tr> <td>GAS</td> <td>0.0</td> <td>6.5</td> <td>11.0</td> </tr> <tr> <td>ELECTRICITY</td> <td>0.0</td> <td>6.5</td> <td>14.0</td> </tr> <tr> <td>WOOD</td> <td>0.0</td> <td>0.0</td> <td>13.5</td> </tr> <tr> <td>COOLING</td> <td>0.0</td> <td>0.0</td> <td>0.0</td> </tr> </tbody> </table> Energy Efficient Devices ☐ Automatic setback thermostat ☐ Zoned thermostat control ☐ Other energy-saving devices Gas utility (name): _____ Electric utility (name): _____ SPACE HEATER/COOLER H			LOW	MID	HIGH	WOOD	0.0	16.0	20.0	PRIMARY FUEL (no other heating system, see Appendix E)	0.0	19.0	32.0	SECONDARY	0.0	19.0	41.0	OTHER	0.0	23.5	39.5		LOW	MID	HIGH	OIL	0.0	5.5	9.5	GAS	0.0	6.5	11.0	ELECTRICITY	0.0	6.5	14.0	WOOD	0.0	0.0	13.5	COOLING	0.0	0.0	0.0		
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Serial # _____

ENERGY RATED HOMES™

certifies that the home located at:

Address_____
City_____
State_____
Zip

*has been rated using the Uniform Energy Rating System
and receives, on a scale of 1 Star to 5 Stars*



(HIGHEST RATING)

Director, Local Energy Rated Homes Operations_____
Date of Rating

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THE ALASKA CRAFTSMAN HOME PROGRAM

by
Donald R. Markle
Executive Director
and
Randall Lofstrom
Chairman

Alaska Craftsman Home Program

ECONOMIC MOTIVATION

In most Alaskan communities, the demand for energy is placing a serious strain on the local economy. This is particularly true in rural communities which are subsistence based. The cost of energy is a constant drain on the local economy with money being sent out to petroleum suppliers rather than being circulated within the community. In fact money circulates 3 times less frequently in Alaska than in communities in the lower 48 according to the Alaska Department of Labor.

The burden that energy cost places upon the family is illustrated by the fact that rural Alaskans (off the natural gas line) spend between 16% and 37% of their incomes on energy bills. This is after State subsidy of utility and energy delivery costs. In general terms it costs on average between \$1,200 to \$1,500 annually to heat a home in Alaska. It is clear that conservation, which can save up to 80% of energy costs to our citizens, has a key role to play in the State's economic development strategy as well as energy policy.

This last year the Department of Community and Regional Affairs contracted for a study on rural housing. The following is a quote from the executive summary of that report. "Although conditions vary widely, the inescapable conclusion apparent from the survey results is that housing in rural Alaska has dramatically poor housing conditions in terms of space per resident and state of repair." The report also indicates that 36% of all rural homes surveyed can not maintain 70 degrees during the heating season. This is a damning statement on the quality of housing in rural Alaska much of which is low income government housing. Foreclosed properties in urban areas suggests that a significant percentage of housing there also can be considered inadequate. Since most of the poor housing is inhabited by low income people, our housing policy is trapping people in poverty. The minimal quality approach to housing is committing the low income to an endless cycle of high fuel and maintenance costs, subsidy, and low self esteem and related social ills.

No sector of Alaska's economy has been devastated as severely as the home construction industry during the present recession. Housing starts have nearly ceased, dropping to a handful from the thousands built per year several years ago. The vast majority of homebuilders have left the state, leaving only a few dedicated quality builders. These people are the core of the Alaska Craftsman Home Program. The Alaska Craftsman Home Program is also the catalyst they are using to markedly change and rebuilt the home building industry in Alaska.

Health and Safety Motivation:

There is motivation for achieving the Alaska Craftsman Home Program standard other than economic. The motivation is health and safety. The Consumer Alliance estimates that poor indoor air pollution costs this country \$100 Billion dollars annually. The more conservative Bonneville Power Administration puts the estimate at \$30 Billion dollars.

Radon gas kills between 5,000 and 30,000 people a year with lung cancer according to Environmental experts, much of which is related to indoor air pollution. If we put 30,000 into perspective that is three times more than are murdered in this country and 3/4 as many as are killed in car accidents. Consider the efforts put into police protection and car safety attempting to reduce those deaths, then consider if prevention of radon deaths is a valuable product of our educational system. Indoor air contamination by radon and at least a 126 other identified toxic indoor air contaminants can be reduced through mechanical ventilation, which is a requirement of the voluntary Alaska Craftsman Home Standards.

Most Alaskans are de-sensitized to cancer risk and other factors, because it seems to be everywhere. Perhaps we should consider the Indoor Air Quality facts on a financial basis. Recent analysis indicates that 40% of the clinic visits in the Barrow area were upper respiratory related calls. Consider the fact that we Alaskan spend over 90% of our time indoors, and that indoor air quality is suspect in the majority of those calls. Now consider who pays for the calls? Who pays for the lost days at work? Who pays for the hospitals, doctors, and for the medicine? Who pays for the \$30 Billion to \$100 Billion loss related to indoor air quality and could it be spent better on something else?

Energy and Environmental Policy Motivation:

The Alaska Craftsman Home Program addresses energy planning from the demand side. From the perspective of energy planning, a barrel of oil saved is as good as finding a new barrel of oil. Finding a way to eliminate a recurring need for oil, gas or electricity without reducing comfort, or the standard of living of the user is as high a priority as finding new reserves of oil, gas or developing new methods of producing electricity. After all, energy producers are merely supplying a commodity that keeps people warm, provides light, moves people about and does work for them. If the tasks that require energy can be satisfactorily accomplished using less fuel and electricity, it benefits the consumer who pays for the commodity. Reducing consumption is what demand side planning is all about, and is obviously as valid as looking for new energy resources.

It is important to note that energy producers are spending more resources and time finding less and less conventional forms of energy. Conventional fossil fuel resources are finite and the need for warmth, transportation, light, and work are not. In the long term, conventional fossil fuel energy resources are running low. The United States domestic oil industry has not discovered a giant oil field since Prudhoe

Bay in 1968. Consumers have used 2/3 of those reserves since production began in the mid 1970's. It is interesting to note that the United States is now importing more oil than at the time of the 1973 Arab Oil embargo. The United States is also predicted to require imported oil equivalent to one Prudhoe Bay every three years by the turn of the century. It is also predicted that we will import nearly half of our oil by the mid-1990's and primarily from the Middle East. Recently the United States Geological Survey cut in half the estimate of domestic reserves. The conventional wisdom is that as consumers reduce the available world supply of fossil fuels, the cost will increase.

The reduced individual use of energy as the Alaska Craftsman Home does reaps environmental benefits. These benefits range from reduced extraction impacts to reduced atmospheric emissions. The ozone layer in the upper atmosphere that protects us from ultraviolet radiation is thinning. The very temperature of the earth appears to be rising, posing a threat of unknown dimensions to virtually all the life-support systems on which humanity depends.

The context in which we find ourselves is that Acid Rain, the Greenhouse Effect and other global environmental issues are becoming critical. The global warming is having devastating effects and they will increase in intensity for the foreseeable future with dramatic effects in all aspects of our lives. These issues will be the primary issues of the remainder of the 20th century. All human activities affect the earth's physical condition, but two are disproportionately important: energy use and population growth. Heavy dependence on fossil fuels has caused a buildup of carbon dioxide in the atmosphere that threatens to warm the earth. Pollutants from fossil fuel burning have also led to acidification and the death of lakes and forests. Superinsulation is part of the equation in mitigation of the destructive results of these byproducts of fuel consumption. With so much potential at such bargain prices, improving energy efficiency deserves to be the cornerstone of environmental policy.

Energy conservation in housing has the curious effect of bringing together consumer, business, and environmental interests because it is cost effective, makes money available for products other than energy and is environmentally better for the owner and his neighbor.

Implementing the Alaska Craftsman Home Program will achieve energy savings as significant as discovering an oil field. If, because of this program 2,500 homes save an average of 500 gallons of oil a year, then implementing this program would be equivalent to discovering 75,000,000 gallons of refined heating oil. This would be a conservative estimate to be sure. If all Alaskan builders start building Alaska Craftsman Homes as a standard practice, the savings would be truly monumental. Another energy crisis will be made or avoided by individual decisions made around the world, like whether to invest in an energy efficient home or not.

The significance of the Alaska Craftsman Home Program is that it provides a model of how strategic international planning can be accomplished with minimal government intervention, expense and disruption of the private enterprise system. In fact, the Alaska governmental contribution to energy conservation is being done with the cooperation of private enterprise in the housing market through the Alaska Craftsman Home Program. The state is influencing the individual decisions of home buyers through education and building science.

How Does The Alaska Craftsman Home Program Work?

Research and development around the world has changed the way homes are being built in northern climates. So many technical changes have taken place that an educational network is needed to keep the building industry informed of the advancements. With such a network, the building industry can stay abreast of advancements in other parts of the world, as well as other parts of the state. The Alaska Craftsman Home Program is that educational network in Alaska.

The energy savings that can be achieved is only one benefit of an education network allowing research and field application experience to be systematically exchanged within the Alaska housing industry. The program is designed to provide:

- . technical information for the industry
- . a forum for the building industry to help determine objectives for the State financial Institutions and University research community.
- . a non threatening environment where builders can discuss building science.

As a result of the Alaska Craftsman Home Program the shelter industry will build better homes. The information network will be in place to improve the shelter industry as new technologies are developed in the future. Alaskans will live in a more durable, comfortable and safer environment, and will benefit economically from the changes that have and will take place in the shelter industry as a result of the Alaska Craftsman Home Program.

Goals:

The immediate goal of the Alaska Craftsman Home Program is to build thermal efficiency into the shelter industry in Alaska through education. This will save nearly 80% of the energy consumed in a typical home.

The long range goal of the program is to assist the Alaska shelter industry in providing the best, most appropriate and affordable shelter available.

In order to achieve these goals and to make the Alaska Craftsman Home Program work the effort must be a continuing effort for the next several years to firmly establish the educational network.

The Alaska Craftsman Home Program is voluntary. To manage this educational effort a joint stewardship of government, the university and shelter industry associations has been established. An ad hoc Board of Directors composed of the Cooperative Extension Service, Alaska State Homebuilders Association, Energy Rated Homes Program and the State Office of Energy Programs has been formed. A protocol agreement has been signed between the organizations to establish the board of directors. This board will guide the program through the initial three years of formation. Policy decisions will be made by the Board of Directors and carried out by the staffs of various organizations as appropriate. The primary address and staff contact for the organization is the Anchorage office of the Cooperative Extension Service.

The Alaska Craftsman home program will have completed five phases by the time it reaches maturity.

Phase 1

The Cooperative Extension Service and State Office of Energy Programs jointly initiated the program in 1986. A pilot series of building seminars were held March of 1986 in Juneau, Anchorage, and Fairbanks. One hundred three shelter industry people were introduced to the "superinsulation" building techniques through the Super Energy Efficient Home Workshop Series taught by internationally acclaimed experts Oliver Drerup and Ned Nisson. The reviews from the industry were very favorable.

Phase 2

The second phase of the Alaska Craftsman Home Program began with the development of the first edition of the Alaska Craftsman Home Building Manual. The Cooperative Extension Service engaged 24 Alaskans to take part in the educational effort. These people have since become the backbone of the Alaska Craftsman Building Program and are the industry educators for Alaska. These 24 people represent all regions of the State and are divided into 12 training teams. They came to the program with a vast amount of expertise on building homes in Alaska. They left the training workshop and immediately put on 14 two day workshops. These people were volunteers.

Phase 3

Phase three activities have continued the educational effort through field workshops introducing the Alaska Craftsman techniques to the builders and interested people throughout Alaska. These workshops have been taught independently by the 12 Alaska training teams. Over

350 people have now attend the 22 workshops held around the State and several homes are now being registered into the program.

The program is new and as such has undergone extensive internal and external review in the first year. The program has been evaluated internationally by people from Canada, Japan, Norway the National Association of Homebuilders, National Center for Appropriate Technology, Minnesota Cold Weather Housing Institute, 6 National Laboratories, and the Department of Energy as well as 64 Alaskans.

A marketing campaign has been developed and initiated during the phase three activities. The marketing campaign will focus on six primary benefits:

- . significantly reduced energy bills
- . increased comfort
- . reduced noise from outside sources
- . improved indoor air quality
- . Improved durability
- . improved resale value

The goal is to establish the Alaska Craftsman Home as the recognized standard of excellence for home building in Alaska. This, in turn, will help establish a market for those homes for the homebuilders who have taken the training.

Phase 4

The future of the program is now being developed. The goal is to establish an educational network that feeds new technology and research information to the builders in Alaska. The network also feeds practical application experience and field needs to the research and product development community. Legislation was recently passed and signed into law to officially start the programs incentive plan.

This phase of the program consists of four prime elements.

- 1.) Education
- 2.) Incentives
- 3.) Promotion
- 4.) Research

Education

The first elements have already been initiated with the Alaska Craftsman Home Program workshops. A manual, audiovisuals, an achievable standard, and a series of workshops have been developed and implemented to allow Alaskans to build to what present technology will allow. New educational items that will be completed now are: A complete review of the existing manual and an update of audio visuals is scheduled every three years; The development of Alaskan specific energy budget computer program from existing international public domain program is planned; Support of existing education network and management will continue, this will include communication links and full time workshop coordinator.

Incentives:

The State has committed to making approximately 12 homes newly built or retrofit to Alaska Craftsman standards as demonstrations this year. That commitment would require approximately \$6,000 investment in each new house and nearly \$12,000 per house for a retrofit including radon mitigation. In return for the money the home owner must commit to a two-week open house and the ability for the program to monitor the home.

Promotion:

There will be two efforts in the promotion of the Alaska Craftsman Home Program. The first effort would be to educate and thereby convince Alaskans of the advantages of the Alaska Craftsman Home. The second promotional effort is to export the technology and Alaskan products developed through the program. The public education program would be at a level of sophistication and commitment to achieve a 50% new start market penetration of the technology in 3 years.

Research:

The research element will include the monitoring of the initial round of Alaska Craftsman Homes. This monitoring of the improved Alaska Craftsman Homes compared with control groups will help establish research objectives. Documentation of success will help sell the program here in Alaska.

Phase 5

Once the program has been well advertised and the market penetration of energy efficient homes achieved, then the mature phase of the program will occur. The educational network and cooperative research efforts will be institutionalized in some form.

The engine behind the change will be research and a major effort will be initiated in this field. This will include instrumentation and new product development. Research will also define the direction in which the housing industry will proceed. The Alaska Craftsman Home Program has initiated contacts with the Yukon Territory and the R-2000 program to establish joint research activities. Future ties are envisioned with all polar countries. This future effort will be closely tied to the new Science and Technology Foundation it is anticipated.

Alaska is one of the world's best natural torture chambers for product development. If a product survives in Alaska, it can survive anywhere. Because of Alaska's small market and remote location product failures are not catastrophic for manufacturers. The state of Alaska has made a commitment to new technology development and cooperation with private enterprise. In essence Alaska is a perfect test

bed for new products in the housing industry and the program will help develop this concept through research activities.

New objectives will then be pursued to suit Alaska's and the world's demands in housing. The technical committee has already developed chapters on independent power use and water and waste water systems.

The Alaska Craftsman Home:

The Alaska Craftsman Home Program sets a design and performance standard. Generally speaking the Alaska Craftsman Home has six elements:

- 1) The first element of the Alaska Craftsman Home is meeting a thermal requirement for the building envelope. These thermal standards vary for different regions of the state and are based on life cycle cost analysis. A budget approach is used to determine the overall efficiency of the home, so insulation levels may change depending on the configuration. However, the envelope R value will be about twice standard construction or in the R-40 range with R -3 or more windows.
- 2) A second requirement is providing for minimal natural air leakage. A blower door test is required to assure that the standard is met. The house must achieve 1.5 air changes at 50 pascals or better performance.
- 3) The third element of the Alaska Craftsman Home is an adequately controlled ventilation system to assure proper air quality. This system must be capable of producing 1/2 air change per hour of continuous ventilation.
- 4) The fourth element is to assure that builder supplied lighting and appliances are efficient.
- 5) The fifth element is that safety standards are met.

The program is designed to encourage builder innovation and creativity so the program remains flexible through the energy budget approach.

Alaska thermal standards:

The Alaska Craftsman Home Program educational effort is being initiated at the same time the State of Alaska enacts new minimum thermal efficiency building standards for homes that use State finance programs. These standards are the result of two years of intensive research and will be implemented in October of 1988.

The thermal standards are the prescriptive approach to the home building industry.

Energy Rated Homes of America:

The Alaska Craftsman Home Program is being coordinated with a new financing program offered through state sponsored loan programs such as Alaska Housing Finance Corporation. That program is the Energy Rated Homes Program. The Energy Rated Homes Program qualifies home buyers for a greater percentage of their income for mortgages on an energy efficient home.

The Energy Rated Home Program is a uniform system of evaluating and rating the energy efficiency of homes. The system was established so that homes everywhere can be rated according to the same energy standards or criteria. Thus, for the first time in Alaska, there's a common energy language that can be used by everyone to compare—on a uniform basis—the energy efficiency of one home with another.

The system was developed through the cooperative efforts of lending institutions, appraisers, Realtors, builders, utilities, and others in related industries. It can be used to great advantage by all, but most especially by, home buyer, sellers and builders.

Participation:

The Alaska Craftsman Home Program will be voluntary and will rely on prestige marketing as the main stimulus for acceptance by builders. As now envisioned, the Alaska Craftsman Home Program will instill the craftsman ideal into the builders who take the training. Marketing and financial incentives will make the program attractive to both builders and consumers. Alaska builders and contractors who complete the course will be able to use a registered trademark in their marketing efforts. Homes built to the Alaska Craftsman standard will be certified and registered as an Alaska Craftsman Home and with the Energy Rated Home Program if financial incentives are pursued. Certification that a home meets the Alaska Craftsman standards will be done by Alaska Craftsman certified inspectors.

Institutional roles:

The University of Alaska, Cooperative Extension Service will assume the role of keeping the manual and the training teams technically current and assume initial management of the program.

The Building Industry Association will coordinate the Alaska Craftsman Home Program Policy. They will issue certificates, pins, awards, and shape publicity. The national and state technical assistance networks available will be used to help find solutions to field problems. Eventually, more program management will be assumed by the building industry, once the capability exists.

The State Office of Energy Programs will be the primary funding agency to start up the program and will manage the incentive program. They will also provide staff time and monitoring of the project. They will coordinate the program with all the other state programs and assure that all Alaskans benefit from the Alaska Craftsman Home Program.

Energy Rated Home Program will help maintain the registry of homes built to the Alaska Craftsman Standard and assist in evaluation of homes.

Conclusion:

It is the expectation of the Board of Directors that within a relatively short three year period, the shelter industry of Alaska is going to be transformed into an industry that is state of the art and craftsman oriented because of the Alaska Craftsman Home Program. The independent builder is going to be able to tap into an easy to use, responsive, and technical information network. The builder will be able to remain independent while voluntarily participating in this program.

The Alaska Craftsman Home Program receives clear direction from the private sector aided by government and higher education. As such, innovation can come very rapidly and on a voluntary basis. The results of initiating the Alaska Craftsman Program will be to propel Alaska into a world leadership role in housing within the next three years and cooperatively achieve state and national energy efficiency and environmental goals.

All Alaskans will benefit from the improvement in the quality of homes because of the Alaska Craftsman Home Program. The improvement in home quality will ultimately be more important to the Citizens of this State than any of the short term concerns with supply and demand now the focus of so much debate. State policy should reflect this fact.

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A PAPER ON

IDENTIFICATION, ANALYSIS AND CURE OF PROBLEMS IN
EXISTING HOUSING

BY

BRYAN F. BORJESSON MCE PE

August 15th, 1988

IDENTIFICATION, ANALYSIS AND CURE OF PROBLEMS IN EXISTING HOUSING.

Recent increasing awareness of construction problems in housing has resulted in considerable inspection activity by the engineering community for the purpose of assuring that houses being sold are in good condition.

The requirements for these inspections have come from several sources. There is a growing awareness by buyers as well as sellers of the need for determining the quality of housing that is either being sold or purchased. There have been numerous cases in the recent past of house sales to unwary buyers, who then have to spend thousands of dollars to repair or save the structure. Both realtors and appraisers have been gaining knowledge of the housing they are selling or appraising and are recommending to buyers as well as sellers that they should be aware of potential problems of housing transactions. In addition, an increasing number of court cases dealing with defective housing is placing an emphasis on improving the quality of the construction as well as making sellers and realtors more aware of representing housing that is free of major defects to avoid later legal entanglements.

The increasing number of problems found in housing in the last several years would lead one to the conclusion that current construction problems in the housing market were due to unqualified contractors, low quality materials or lack of inspection.

When ample monies were available for new construction and the demand was great, an influx of out of state along with new local builders occurred. These contractors were to various extents, unfamiliar with Arctic construction problems. This can be seen by recent inspections of houses wherein it is uniformly seen that the same poor construction

techniques were utilized in every dwelling by the same contractor. With the downturn in the economy, these builders were the first to stop construction and in most cases are no longer in the area. Only the better contractors who were willing to stand behind their product have remained and are continuing to build a quality product.

Hand in hand with the growth of contractors without adequate knowledge of good construction techniques, went the lack of quality control and the available demand on the market wherein buyers were willing to purchase a product without caring about its quality because they could easily remarket it. Outside the city limits of Fairbanks, code enforcement is lacking. Along with this is the problems of a partially adopted code.

Along with the lack of code provisions and the enforcement of those adopted, was the lack of the requirement of professional services to do inspections. This allowed the builder to virtually do anything he wanted, as long as the finished product was attractive and saleable.

The current problems have led to a form of self policing activities by the construction industry. Realtors, appraisers, lending institutions, and the builders themselves are requiring professional services from the engineering community to assure that housing being constructed at least meets minimum requirements for quality.

SOILS AND FOUNDATIONS

The importance of the knowledge of soils and the foundations which can be constructed on them is of paramount concern to the builder. Unfortunately, most builders who otherwise perform quality construction do not have the availability of technical expertise to assure them of the types of soils upon which they are constructing or whether or not the foundation system which they desire to employ will function on the types of soils on which they are building.

The gap on this particular problem is now closing wherein most builders are using professional engineering services whenever they are in doubt as to the particular soils upon which they are constructing.

The foundation system of a house is the singular most important part of the structure. Without a good foundation all of the other excellent features of an otherwise well constructed house are meaningless.