

ALABAMA LEGISLATIVE COMMISSION ON GOVERNMENTAL REFORM

1985 HRLS SB 666 (HOUSING FILE) 985

o The Rural Housing Purchase (RHPP) Program uses state funds appropriated to the Homeownership Fund for the purchase of mortgage loans for owner occupied residences in rural Alaska.

o The Rural Nonowner-Occupied Mortgage Purchase program purchases mortgage loans for multifamily structures in rural Alaska with state appropriated funds appropriated to the Homeownership Fund.

Loan Terms

The major advantage of AHFC financing to the borrower is presently the lower-than-market interest rate. In this section, a discussion of interest rates as well as the general terms of AHFC loans is presented. Table 1 presents a summary of loan terms for AHFC's current programs.

Interest Rates. Borrowers are attracted to AHFC loan programs due to their below-market interest rates. When the State Assisted Mortgage (SAM) program was first created in 1980, the interest rates of 9 percent for veterans and 10 percent for other borrowers on the first \$90,000 of the mortgage loans were specified in the legislation. The interest rate on the balance of the loan was to be set according to AHFC's cost of funds.

In 1981, these statutory interest rates were reevaluated in light of the federal government's limiting of AHFC's authority to issue tax-exempt bonds and increasing national interest rates. The fixed mortgage interest rates were replaced with a formula which allowed interest rates on the first \$90,000 of loan balance to rise by the same number of percentage points as AHFC's borrowing cost. Ultimately, the goal of this formula, referred to as the Roger's Ratchet, is to establish mortgage interest rates on the first \$90,000 of a mortgage loan at a point three percentage points below AHFC's borrowing cost. Once this goal is achieved, mortgage rates will move in tandem with AHFC's borrowing costs. The Roger's Ratchet was implemented at a time when bond interest rates were skyrocketing. Between

TABLE 1. LOAN CHARACTERISTICS
OCTOBER 1981

	Special Mortgage Loan Purchase Program					Mobile Home Loan Purchase	Rural Housing Mortgage Purchase	Rural Nonowner- Occupied
	State Assisted Mortgage		Homeownership Assistance	Pledged Account	Mortgage Bond Subsidy			
	Conventional	Veterans						
Maximum Loan Amount								
Single Family	147,750	110,000	76,000	147,750	84,474 ^a	72,500	147,750	90,000
Duplex	189,000	110,000	NA	189,000	96,646	NA	189,000	130,000
Maximum Term (in years)	30	30	30	30	30	20	30	30
Minimum Down Payment								
Single Family	5%	VA Guarantee		Net Loan-to-	5%	5%	5%	5% up to 65,000
Duplex	5%	+ Down Pmt.		Value Ratio	5%	10%	10%	10% up to 90,000
Multifamily	NA	Must be 25%		not to	NA	NA	NA	20%
		or More of Value		Exceed 95%				
Interest Rate (as of October 31, 1981)								
First 90,000	12.375 ^b	12.375 ^b	Note Rate	12.375 ^b	10.00	12.375	8.75	9.50
Balance	19.411	19.411	Same as SAM	19.411	13.19			
Special Conditions			c		d			

SOURCE: AHFC Seller/Services Guide, June 1981

^aFor existing structure; 101,370 for new structure
^cIncome and asset limits

^b11.375 for State Certified Veteran
^dBorrower cannot have owned or had a financial interest in property for prior three years.

June and November 1981, AHFC's borrowing costs increased from 17.05 percent to 19.41 percent. The effect on AHFC's mortgage interest rates was to increase the rate on the first \$90,000 from 10 percent to 12.375 percent.

There were many complaints about these interest rate increases. As is always the case when interest rates increase dramatically, some borrowers with loan applications pending or builders with units under construction were negatively affected. Monthly payments on a \$90,000 loan increase from \$790 at 10 percent interest to \$952 at 12.375 percent, a 21 percent increase.

The uproar over the interest rate increases raises a very basic question regarding the State Assisted Mortgage Program. To what extent is the State of Alaska going to insulate the Alaska housing markets from market conditions? The State of Alaska has two options: (1) to provide a constant subsidy and allow the mortgage interest rate to fluctuate or (2) to provide a constant interest rate and allow the subsidy to fluctuate. The latter option was rejected by the State of Alaska when the Roger's Ratchet was approved. The effect of a constant rate policy would put great demand on the state's budgetary resources during periods of high interest rates and distort the market through artificial rates. While tying the AHFC mortgage rate to market rates was inevitable, the timing of implementation during a period of rapid interest rate increases raised the mortgage interest rate to borrowers faster and higher than had been anticipated.

The interest rate for the Homeownership Assistance and Pledged Account Programs are the same as the SAM rate. Interest rates for the Mobile Home Loan Purchase Program and Community and Regional Affairs' Nonconforming Loan Program are tied to the interest rates in the SAM program. The interest rates for the rural programs were established by AHFC: 8.75 percent for the Rural Housing Mortgage Purchase Program and 9.5 percent for the Rural Nonowner-occupied Program.

Table 2 summarizes the current interest rates by AHFC program.

TABLE 2. AHFC INTEREST RATES AND SOURCE OF FUNDS, OCTOBER 31, 1981

<u>Program</u>	<u>Interest Rate</u>		<u>Sources of Funds</u>
State-Assisted Mortgage Program	12.375/1st \$90,000 19.411/Balance	Formula based on AHFC borrowing cost	Bond Proceeds State Approp.
Mobile Home	12.375	Formula based on AHFC borrowing cost	State Approp.
Rural Owner-Occupied	8.75	AHFC	State Approp.
Rural Non-Owner-Occupied	9.50	AHFC	State Approp.

Maximum Loan Amounts. In compliance with statute, AHFC established maximum loan limits based upon the limits established by the Federal National Mortgage Association (FNMA). As of October 31, 1981, the maximum loan limit for conventional loans in both the SAM and Rural Housing Purchase programs is \$147,750 for single-family residences and \$189,000 for duplexes. Veteran Administration guaranteed loans are limited to \$110,000. Mobile home loans are limited to a maximum of \$72,500. Rural non-owner-occupied loans cannot exceed \$90,000 for single-family residences and \$130,000 for duplexes; for triplexes through eight-plexes, AHFC has established a formula for determining maximum loan amount based on the number of bedrooms in each unit. The maximum loan amount for the program is \$500,000. Participants in the Homeownership Assistance Program are limited to loans of \$76,000.

While AHFC won't lend more than \$147,750 on a single-family residence, it will purchase first mortgage loans which are subject to second mortgages. This allows borrowers to seek supplemental financing. AHFC requires that the sum of the first and all second mortgage balances not exceed 80 percent of the property value. Additionally, the second mortgage usually must be structured as a level payment fully amortizing loan (AHFC Seller/Service Guide, page 11). AHFC data indicate that ninety percent of all properties purchased

under the special mortgage purchase program as of October 31, 1981, had sales prices less than \$140,000.

Insurance. AHFC requires that mortgages with loan to value ratios exceeding 80 percent have mortgage insurance. The mortgage insurance "indemnifies mortgage lending institutions for the direct and consequential losses that these institutions incur because of nonpayment of first-mortgage loans" (Rapkin, page 730). This requirement can be satisfied through use of FHA insurance, Veterans Administration guarantees, or through private mortgage insurance. If private mortgage insurance is used, AHFC requires insurance coverage of 20 percent on loans with a loan-to-value ratio between 80 percent and 90 percent, and 25 percent for loans with a loan-to-value ratio greater than 90 percent. Private mortgage insurance may be cancelled when the unpaid principal balance is reduced to 80 percent or less of the original value (appraised or sale, whichever is less). This requirement is consistent with industry practice.

Length of Loan. AHFC loans generally have a maximum term of 30 years and a minimum allowable life of 20 years. The exception is the mobile home program which has a maximum term of 20 years or the remaining economic life of the property, whichever is less.

Down Payment. Down payment requirements vary by program. For conventional loans, a 5 percent minimum down payment is required with a 10 percent down for rural duplex buyers. A VA guaranteed loan does not require a down payment if the VA guarantee is 25 percent or more of the property value. For the pledged account program, the peak loan-to-value ratio may never exceed 95 percent.

Eligibility

With the exception of the Non-owner Occupied Program, the AHFC programs are available to persons who can afford to purchase owner-occupied housing. There are no maximum income limits for borrowers

except in The Homeownership Assistance Program. The Special Mortgage Loan Purchase Program (SMLPP) and its component programs--Homeownership Assistance and Pledged Account--are available statewide as is the mobile home program. The two rural programs are limited to communities "which do not have access to Anchorage or Fairbanks by road or rail and that have a population of 4,500 or less" (Alaska Statute 18.55).

A borrower is allowed to have only one AHFC loan outstanding at a time. This prevents the use of AHFC funds strictly for investment purposes. Furthermore, the potential borrower, in all but the rural non-owner-occupied program, must demonstrate that the property to be financed is intended for use as the primary residence (AHFC Seller/ Servicer Guide, page 11).

Credit Underwriting

AHFC operates as a business. As a business, AHFC must use underwriting standards sufficiently strict to meet its financial obligations. The underwriting standards are intended to ensure that borrowers have the financial ability to meet the proposed obligation and that the property is of sufficient quality to adequately secure the loan.

Borrowers. AHFC income guidelines are that a borrower's monthly mortgage payment (including secondary mortgage insurance, property taxes, secondary financing, and Owners Association Charges, if applicable) should not exceed 28 percent of allowable gross income. Additionally, the borrower's total monthly obligation (defined to mean total monthly first mortgage payment plus any monthly installment obligations which extend beyond nine months) should not exceed 36 percent of allowable gross income.

The AHFC Seller/Servicers Guide states that allowable gross income includes current base income plus any secondary sources such as

overtime, commissions, bonuses, income from part-time jobs, investments, trust funds, child support, etc. Verification of all income sources is required. When calculating gross income, AHFC underwriters take into account the stability of the income source. Therefore, some income sources listed above may not be used if they do not show stability over time. In cases where there are two or more applicants who plan to take joint title, the effective incomes of the applicants are summed.

AHFC states that its underwriting standards are flexible for persons who have higher debt-to-income ratios than allowed by the standards but who have demonstrated a past ability to make the higher level of payments. A review of loans purchased by AHFC through the State Assisted Mortgage Program as of October 31, 1981, shows that 3.7 percent of loans have principal and interest payments which exceed the 28 percent of gross income standard (AHFC data base). Since the standard requires inclusion of taxes and insurance, a higher portion of borrowers exceeded the standard. The data show that 10 percent of the loans had principal and interest payments between 25 and 28 percent of gross income.

In addition to the income requirements, borrowers must show they have sufficient funds to meet down payment, closing costs, and prepayment requirements for taxes and insurance.

Property. AHFC requires that a structure purchased with AHFC financing meet the minimum construction standard acceptable in the community in which the structure is located. Deviations from the minimum construction standards may be acceptable if an engineer will certify that the deviation will not impair the health or safety of occupants and that they will not reduce the useful life of the residence below the term of the proposed mortgage loan. The property must be connected to public utilities if the utilities are available in the community in which the property is located. Use of the community standard rule is of major importance in rural communities where many

properties could not meet absolute construction standards established for urban areas.

Before units in condominium or planned unit developments can be purchased, AHFC must approve the development. In the approval process, AHFC examines the characteristics and quality of the structure and the financial ability of the condominium association to meet its responsibilities.

Special Program Eligibility

In addition to the general program requirements, the Home Ownership Assistance (HOF), Pledged Account Mortgage (PAM), and the Mortgage Bond Subsidy Tax Act loan programs have additional program and/or eligibility requirements.⁴

Home Ownership Assistance. The Home Ownership Assistance Program (HOF) provides monthly subsidies to aid qualified low- and moderate-income SAM borrowers meet their monthly housing payments.

In addition to guidelines required by the SAM program, the HOF program has income, asset, and property value limits. The limits defining low and moderate income in the HOF program are more restrictive than the income limits which existed in the Insured Mortgage Program, the program for low- and moderate-income buyers which preceded the Special Mortgage Loan Purchase program. According to AHFC, the HOF income limits were extrapolated from income data obtained from the U.S. Department of Housing and Urban Development. Table I.3 lists the current statewide HOF income limits as well as the last set of

⁴AHFC is currently developing a rehabilitation second mortgage program which will allow existing homeowners to keep their current first mortgage loan and borrow the funds required for rehabilitation from AHFC in the form of a second mortgage.

income limits from the insured mortgage program for Anchorage and Fairbanks.

TABLE 3. INCOME LIMITS FOR HOMEOWNERSHIP PROGRAM

<u>Family Size</u>	<u>Statewide HOF</u>	<u>Insured Program</u>	
		<u>Anchorage</u>	<u>Fairbanks</u>
1	25,650	28,800	33,300
2	26,650	32,900	38,100
3	27,650	37,100	42,800
4	28,650	41,100	47,700
5	29,650	43,700	50,600
6	30,650	46,300	53,600
7	31,650	48,800	56,600
8 or more	32,650		

In addition to the income limits, a borrower's assets at the time of application cannot exceed two times the maximum income limits. A borrower over 65 years of age is allowed assets up to three times maximum income. Neither the sales price nor appraised value of the subject property may exceed \$80,000, and the maximum loan balance is \$76,000.

Under current AHFC regulations, eligibility of borrowers under the HOF program is reviewed annually. Subsidy payment levels are adjusted on the basis of updated income information. Participation in the HOF program is limited to once per mortgage. Once a borrower is eliminated from the program due to loss of eligibility, he may not reapply, even if subsequent income meets eligibility requirements.

The subsidy payment is determined by one of two formulas; the formula is selected on the basis of the lesser amount:

1. The sum necessary to reduce the borrower's payment of principal and interest on the loan to 20 percent of gross monthly income, provided the subsidy does not reduce the total monthly mortgage payment to less than 25 percent of gross monthly income; or
2. The sum necessary to reduce monthly payments of principal and interest on the loan to the amount payable as if the mortgage were bearing an interest rate of 6 percent per annum (Seller/Service Guide, p. 100).

Table 4 illustrates a subsidy calculation. This calculation is based on a \$65,000 loan and the current 12.375 percent interest rate.⁵ The monthly principal and interest payments at the current interest rates for this loan are \$687.42. Both formulas are used to determine the ultimate subsidy available. Under formula 1, the potential subsidy depends upon the income of the applicant. The subsidies available if formula 1 was used range from \$520 for a household with \$10,000 per year annual income to \$270 for a household with a \$25,000 income. Under formula 2, the subsidy is fixed at \$297.71. Table I.5 shows that formula 2 is selected for all applicants except those with annual incomes of \$25,000. Further analysis shows the households with \$10,000 and \$15,000 annual incomes would not qualify for loans due to excessive payment-to-income ratios. Table I.4 shows that even with the subsidy provided by the HOF program, very low income households cannot qualify for AHFC loans.

As with any subsidy program which has maximum income limits, the HOF program excludes borrowers on the upper side of the income limits but who may have very similar characteristics to the HOF borrowers. For example, a two-person household with an income of \$25,000 annually qualifies for HOF participation. Using the \$65,000 loan value at current AHFC SAM interest rates, this HOF participant is required to make a monthly payment of \$417.42, with AHFC subsidizing the remaining

⁵The mean loan balance for HOF borrowers between the start of the program and October 31, 1981, was \$63,363.

TABLE 4. EXAMPLE OF HOMEOWNERSHIP ASSISTANCE PROGRAM SUBSIDY CALCULATION

ASSUMPTIONS:

Loan	\$65,000
Market Interest Rate	12.375%
Monthly Principal and Interest Payment at Market Interest Rate	\$687.42

SUBSIDY OPTIONS:

	<u>Annual Income</u>			
	<u>\$10,000</u>	<u>\$15,000</u>	<u>\$20,000</u>	<u>\$25,000</u>
FORMULA 1: Principal and Interest Payment Reduced to 20% of Income				
Payment at 20% of Monthly Income	\$167	\$250	\$333	\$417
Monthly Subsidy Required if Formula 1 Used	\$520	\$437	\$354	\$270
FORMULA 2: Principal and Interest Payment Calculated at 6% Interest Rate				
Payment at 6% Interest Rate	\$389.71			
Monthly Subsidy Required if Formula 2 Used	\$297.71			
<u>SUBSIDY CALCULATION:</u>				
Monthly Payment at Market Rate	\$687.42	\$687.42	\$687.42	\$687.42
Subsidy (Lesser of Formula 1 or Formula 2)	<u>297.71</u>	<u>297.71</u>	<u>297.71</u>	<u>270.00</u>
Monthly Payment After Subsidy	\$389.71	\$389.71	\$389.71	\$417.42
<u>STATUS OF LOAN:</u>				
Payment to Income Ratio	46.7%	51.1%	23.3%	20.0%
Loan Status	Rejected	Rejected	Approved	Approved

\$270.00. A two-person household with an annual income of \$27,000, however, does not qualify for a HOF. If they attempted to obtain the same \$65,000 loan, their payments would be \$667.42. This loan would not be approved, however, since the mortgage payment-to-income ratio would be 30.5 percent. Based on the 28 percent mortgage payment-to-income rule, the maximum loan this household could receive is \$59,570.

The two analyses regarding income presented above are based on an assumed \$65,000 loan. This points to a third area of concern involving the homeownership assistance program, the supply of acceptably priced housing. Through October 31, 1981, 33 percent of properties purchased through the Special Mortgage Purchase Program had prices less than the \$80,000 HOF limit; 19 percent had sales prices less than \$70,000. The analysis shows that lower-priced properties are required if HOF is to aid the lower-income buyer (less than \$20,000 annual income) and the buyer who doesn't qualify for HOF due to income only slightly over the income maximums. As inflation takes its toll on the lower-priced units, the HOF program will be less able to serve the intended borrowers. Any expansion of the program, however, will require an increase in funding levels.

Pledged Account Mortgage Program. The Pledged Account Mortgage (PAM) provides a mechanism for a graduated payment mortgage. A graduated payment mortgage allows the monthly payment to increase over the life of the mortgage. This allows a borrower to qualify for a more valuable property than would be possible under an even-payment mortgage and meet the increasing payments over time with expected increases in income.

The AHFC graduated mortgage program utilizes the even-payment mortgage as its base. Payments are reduced in early years of the mortgage by utilizing funds deposited by the borrower at the time of purchase in a pledged account. Under this program, increases in

payments cannot exceed 7.5 percent per year, and the full payments must be reached no later than the fifth year of the mortgage (AHFC Seller/Service Guide, pages 84-85).

The Mortgage Bond Subsidy Tax Act Program. Under the Mortgage Bond Subsidy Tax Act of 1980, tax-exempt bonds may be used to finance residential mortgages if certain conditions are met. These conditions are that the borrower may not have owned or had interest in a home for three years, that the property be the principal residence of the buyer, and that the sales price may not exceed 90 percent of the average area sales price (AHFC, Select Corporation and Program Information, November 1981). AHFC has established maximum purchase prices of \$82,474 for existing single-family structures, \$101,370 for new single-family, and \$96,646 for existing duplexes.

Summary

AHFC offers several loan programs. Each program is designed to serve different segments of the Alaska housing market. All potential home buyers in the state are eligible to apply to the Special Mortgage Purchase program. Low- and moderate-income home buyers may apply for additional subsidies through the Home Ownership Assistance program. Mobile home and rural purchasers are served through separate programs. The interest rates on AHFC loan programs vary according to the source of funds and statutory requirements. The other terms of the loans are designed to match the market segment served. Many of the loan terms such as requiring mortgage insurance or federal insurance, maximum value of loan, and maximum life of loan are based on industry practices. Because AHFC operates as a business, the credit and property underwriting standards are designed to limit the risk of purchasing problem loans.

AHFC Operations

Since AHFC operates as a secondary purchaser of mortgages, not as a direct lender, the financial institutions retain a role as the originators and servicers of loans. As of November 1981, twenty-nine financial institutions and six regional housing authorities were authorized to originate loans for AHFC programs.

Seller/Servicers

Loan Origination. The role of the direct lender (seller) is illustrated by reviewing the loan origination process as practiced by AHFC. AHFC does not deal directly with the potential borrower. The borrower applies for the mortgage loan from a financial institution participating in the AHFC program as a seller. The seller's duties, as stated in AHFC's Seller/Servicer Guide, include:

- o Helping the borrower complete a loan application.
- o Acquainting the borrower with terms of mortgage and rights and responsibilities.
- o Inspecting the property offered as security.
- o Selecting an appraiser.
- o Ordering and receiving the necessary borrowers' credit documentation directly from the original source.
- o Making an underwriter's determination of the entire credit and property package prior to recommending the mortgage to AHFC for purchase.

The AHFC secondary purchase process requires that AHFC personnel underwrite each loan. Completed applications and accompanying documentation are forwarded to AHFC for prior approval of the borrower and property. Prior approval by AHFC is required before the mortgage loan can be made by the seller.

This step in the origination process has been a point of criticism by some members of the financial community. Comments about the prior approval system include that it transforms the sellers into paper processors and that it causes undue delay in the loan origination process. During July 1981, the average prior approval turnaround time at AHFC was approximately 15 days. In January 1982, the turnaround time was one day (AHFC).

A suggested alternative to the total use of prior approval is delegated underwriting. In delegated underwriting, the secondary purchaser authorizes certified underwriters who work for sellers to decide whether or not a loan is acceptable to the secondary purchaser. If the delegated underwriter approves the loan, the secondary purchaser is committed to purchase the loan. If subsequently the loan does not meet the secondary purchaser's standards or the loan becomes delinquent, the seller is required to buy the loan back from the secondary purchaser.

The major benefit of delegated underwriting is that it reduces loan processing time by reducing underwriting duplication. Delegated underwriting, therefore, can reduce the underwriting costs of the secondary purchaser. The secondary purchaser then audits loans purchased under delegated underwriting.

The use of delegated underwriting does not preclude the use of prior approval. The Federal National Mortgage Association (FNMA), a major secondary market purchaser, utilizes both systems in its operations. Not all sellers employ certified delegated underwriters, and on questionable loans, the seller may want to receive a prior approval to limit the risk of making the loan.

AHFC considered using a delegated underwriting system in 1981 in order to reduce loan processing time (Goldbar, January 8, 1982). The system was not put into place, however, due to possible conflicts with

the bond resolutions under which available funds were obtained. Bond offerings made through 1981 specify that AHFC underwrite each loan it purchases. While this precludes the use of delegated underwriting under current bond issues, AHFC has no plans to implement delegated underwriting in the future when procedures could be changed. The principal reason is that AHFC does not want to risk a potentially adverse reaction by the bond rating agencies to such a procedure. A reduction in bond rating would increase AHFC's cost of borrowing.

When the completed loan application is forwarded to AHFC for prior approval of the borrower and property, AHFC underwriters can approve the loan as is, approve the loan with conditions, or deny the application. When AHFC underwriters approve a loan application, AHFC is committed to purchase the mortgage loan after it closes. Once AHFC grants prior approval, the seller proceeds with the loan process. After the loan is closed (the sales transaction completed and funds dispersed), the seller packages the loan for sale to AHFC. AHFC purchases loans from sellers twice monthly, on the 10th and the 25th of each month.

AHFC dispenses funds at the time of closing for rural loans made through the regional housing authorities. This is necessary because the regional housing authorities are not financial institutions with the ability to make and warehouse loans. The transfer of funds is made to a title company operating as a trustee.

For their role in the loan origination process, sellers are allowed to charge the borrower an origination fee, commonly one percent of the loan amount.

Loan Servicing. After AHFC purchases the loan, the seller retains the function of the loan servicer. The primary responsibilities of the servicer are to:

- o Collect principal and interest payments.
- o Forward payments, minus servicing fee, to AHFC.
- o Complete monthly reporting requirements as required by AHFC.
- o Report delinquent accounts to AHFC.
- o Initiate foreclosure proceedings as necessary.

The servicer receives a fee for servicing the loan. This fee, which varies by AHFC program, is deducted from the payments the servicers collect for AHFC. These collection fees are one component of the interest rate AHFC charges the borrower. The servicing fees are based on the unpaid balance of the mortgage loan. The servicing fees are 3/8 of one percent for the SMPP, one percent for the mobile home program, and 1/2 of one percent for the rural owner-occupied program.

Fund Allocation to Sellers. AHFC operates under a fund reservation system that allows sellers to request AHFC to set aside funds for the loans originated by the seller. The reservation holds funds for a three-month period at a specific interest rate. AHFC requires that sellers pay a half-of-one-percent fee at the time the funds are reserved, a fee ultimately charged to the borrower.

Under the special mortgage purchase program, AHFC has maintained sufficient cash flow to meet the request for funds by the sellers. In the event that sufficient funds were not available to meet all sellers' requests for funds, AHFC has established a fund allocation policy. In the case of a shortage of funds to meet reservations, funds will be allocated on the "basis of recent and future anticipated lending activities of the financial institution (seller/servicers) as well as upon the potential need for mortgage loans in each judicial district of the state as it determines is required based on the most current research reasonably available to it" (AHFC regulations, 15 AAC

118.315(6)). The Seller/Servicers Guide further states that AHFC may reduce the amount of reservation based on seller/servicer performance (AHFC Seller/Servicer Guide, p. 12).

Under the fund reservation system, sellers lose their fund reservation fee if the reservation period expires before the funds are committed. Sellers can, with AHFC approval, however, assign reserved funds to another seller (AHFC Seller/Servicer Guide, p. 13).

Summary

As a secondary purchaser of mortgages, AHFC does not deal directly with the borrowers. Participating financial institutions and regional housing authorities act as the seller/servicer of AHFC loans. For most types of financial institutions, AHFC has replaced other secondary purchasers. Savings and loan institutions are more directly affected since they have traditionally made some loans for their own portfolios.

Seller/servicers' responsibilities range from taking applications from borrowers, disbursing funds, and collecting monthly payments to determining whether foreclosure proceedings are in order. For their services, seller/servicers are allowed to charge the borrower a loan origination fee of one percent and deduct a service fee, which varies by AHFC program, from payment collections.

AHFC Program Activity

By all measures of program activity, AHFC has operated at record levels since July 1980. The reasons for this activity are the attractive terms provided by the Special Mortgage Loan Purchase Program and the record-high mortgage interest rates available from the alternative mortgage sources.

The increase in activity is illustrated by examining the historical levels of mortgage commitments and purchases between 1974 and 1981 (Table 5). The data for both AHFC commitments (loans which have been approved but not yet purchased from seller) and purchases skyrocketed as a result of implementation of the Special Mortgage Loan Purchase program. In calendar year 1979, the last full year before the SMLP, AHFC committed to purchase \$185.5 million in loans and purchased \$189.4 million in loans. The 1979 monthly average was approximately \$15.5 million of mortgage activity. In the last six months of 1980, after the SMLPP began, AHFC committed to purchase \$329.9 million in loans and purchased \$242.1 million. Activity in the first nine months of 1981 was \$696.4 million in commitments and \$582.2 million in purchases. AHFC monthly average purchases rose from \$15.8 million in 1979 to \$64.9 million in the first nine months of 1981, a quadrupling of the 1979 level.

AHFC Applications and Denials

During the period July 1, 1980, to June 30, 1981, AHFC received 11,348 applications for all of its programs, a monthly average of 945. Table 6 shows the number of applications by month and program for 1981. In June 1981, the receipt of applications peaked at 1,540; these applications requested \$127.8 million in mortgage funds. The volume of applications declined slightly in August, September, and October 1981 before falling sharply in November. There are two reasons for this drop. First, there is usually a seasonal drop in mortgage activity during winter. Second, the rise in AHFC interest rates reached their current peak in November.

The Special Mortgage Loan Purchase program is the dominant AHFC program receiving 90 percent of applications representing 96 percent of mortgage funds requested for the period July 1, 1980, through November 30, 1981.

TABLE 5. AHFC MORTGAGE COMMITMENTS AND PURCHASES
BY CALENDAR YEAR

<u>Year</u>	<u>Commitments</u>		<u>Purchases</u>	
	<u>Annual</u>	<u>Monthly Average</u>	<u>Annual</u>	<u>Monthly Average</u>
1974			\$36,118,202	\$3,009,850
1975	35,237,435	2,936,453	35,177,076	2,931,423
1976	71,171,942	5,930,995	53,985,643	4,498,803
1977	139,891,225	11,657,602	126,007,384	10,500,615
1978	140,254,330	11,687,860	126,814,826	10,567,902
1979	185,484,600	15,457,050	189,356,994	15,779,749
1980 ^a	72,685,550	12,114,258	74,427,975	12,404,663
1980 ^b	329,943,850	54,990,642	242,105,044	40,350,840
1981 ^c	696,393,150	77,377,016	582,191,710	64,687,968

^a January-June 1980

^b July-December 1980

^c January-September 1981

SOURCE: AHFC, Selected Corporation and Program Information, November 1981

TABLE 6. AHFC APPLICATIONS BY PROGRAM

Period	Special Mortgage Loan Purchase		Mobile Home Loan Purchase		Rural Housing Mortgage Purchase		Rural Nonowner-Occupied	
	Number	Volume	Number	Volume	Number	Volume	Number	Volume
July-December 1980 (monthly avg.)	4,582 764	381,566,625 63,594,438	396 66	9,570,650 1,595,108	NA		NA	
January 1981	610	52,024,400	61	1,375,400	9	607,850		
February 1981	682	57,504,100	56	1,439,900	9	678,700		
March 1981	915	78,285,200	29	730,200		1,360,750		
April 1981	1,073	94,650,800	52	1,129,650	15	1,192,950		
May 1981	1,198	111,978,200	89	2,090,300	11	846,050	2	585,000
June 1981	1,354	121,331,800	160	4,134,350	22	1,859,650	4	507,200
July 1981	1,344	119,810,150	146	3,831,150	25	1,761,200	2	872,400
August 1981	1,103	101,056,100	129	3,416,900	15	1,326,400	2	108,300
September 1981	1,129	103,031,870	122	3,208,650	21	1,738,200	1	82,500
October 1981	1,137	103,080,550	139	3,842,750	20	1,759,100	4	320,750
November 1981	<u>807</u>	<u>73,720,050</u>	<u>138</u>	<u>3,675,700</u>	<u>21</u>	<u>1,873,500</u>	<u>3</u>	<u>493,600</u>
TOTAL	15,934	1,395,978,015	1,517	38,445,600	186	15,004,500	18	2,969,750

SOURCE: AHFC Selected Corporation and Program Information, November 1981.

Of the 11,348 applications received between July 1, 1980, and June 30, 1981, 2,211, or 19.5 percent, were denied. AHFC defines as a denial any application which is not ultimately purchased by the Corporation, regardless of reason. The 19.5 percent rate, therefore, is not actually denials, but rather applications which for some reason did not complete the full cycle of processing. These figures also do not take into account loans which are denied and then subsequently approved. Table 7 lists the reasons for denials.

Income- and wealth-related factors were responsible for approximately 43 percent of AHFC denials during this period. The reasons include insufficient income for mortgage payments (17.6 percent), insufficient income for total obligation (6.1 percent), insufficient income stability (6.9 percent), unacceptable credit (3.2 percent), insufficient equity (2.1 percent), and income too high for participation in the Homeownership Assistance program. Also during this period, 10 percent of applications were denied for insufficient data.

While some denials are expected, the level of denials for income-related reasons and insufficient data--53 percent of all denials and 5.7 percent of all applications--raises questions as to why the denial rate is as high as it is. There are several reasons, often conflicting, cited for the level of income related denials. First, AHFC and the seller/servicers were dealing with a new and greatly expanded program. It takes time for all participants to become familiar with the program's guidelines and operations. Second, while seller/servicers are supposed to forward only those loans which they recommend for purchase, there is no penalty for submitting loans which don't qualify. This may lead some financial institutions to submit loans which should not be submitted. Third, some seller/servicers contacted during this study expressed disagreement with AHFC underwriting criteria; especially definition of income, and asserted that the criteria are often inconsistently applied. Finally, underwriting decisions are often complex with judgments required on a case-by-case

TABLE 7. AHFC DENIALS, JULY 1, 1980,
TO JUNE 30, 1981
(All Programs)

<u>Reason for Denial</u>	<u>Number Denied</u>	<u>Percent of Denials</u>
Insufficient Income for Mortgage Payments	390	17.63%
Insufficient Income for Total Obligations	134	6.06
Insufficient Stability	153	6.92
Unacceptable Credit	70	3.16
Lack of Required Equity	46	2.08
Unacceptable Property	159	7.19
Insufficient Data Presented	222	10.04
Unacceptable Terms and Conditions	14	.63
Return on Request of Lender	206	9.31
Applicant Over Income for Homeownership Assistance	155	7.01
Lack of Funds Reserved	2	.09
Other	192	8.68
Change in Program	56	2.53
Cancellation of Commitment	<u>412</u>	<u>18.63</u>
Total Denials	2,211	100.0%
Total Applications	17,656	
Denial Rate	19.5%	

SOURCE: AHFC Data Base

basis. It is often possible for there to be different judgments made by the seller/servicer and AHFC. AHFC recognizes the problem with denial rates and meets regularly with seller/servicers to work on the problems which are identified.

Another major class of denials involved the cancellation of commitments (18.6 percent) and the return of applications at the request of the lender (9.3 percent). Commitments may be cancelled by AHFC if the loan is not returned to AHFC for purchase within 120 days of approval for existing properties and 180 days for new structures under construction, owner/builders and refinance improvements (AHFC Seller/Service Guide, page 14). Sellers may request the cancellation of commitment if the sale falls through for any reason.

Unacceptable properties were responsible for 7 percent of denials. The remaining 12 percent of denials were based on reasons including unacceptable terms and conditions, lack of funds reserved, changes in program, and other miscellaneous reasons.

For the period July 1, 1981, through October 31, 1981, AHFC's denial rate for the Special Mortgage Loan Purchase Program was 17.4 percent. For this same period, denials in the Mobile Home Loan Purchase ran at 14 percent and the Rural Housing Mortgage Purchase Program at 6 percent.

Program Results

The Special Mortgage Loan Purchase Program is responsible for the increase in AHFC activity. The statistics which follow are for the period July 1, 1980, through October 31, 1981. During that period, the program purchased 9,792 mortgage loans with an original mortgage value of \$853.1 million. These figures include loans made under the HOF, PAM, and refinance programs. During this period, 733 borrowers qualified for participation in the homeownership assistance program.

These loans had an original loan balance of \$46.4 million. In December 1981, AHFC provided \$153,636 in HOF subsidy payments to 891 recipients, a mean subsidy of \$172. As of October 31, 1981, there were 356 PAM loans with an original mortgage balance of \$36.6 million. The refinance and home improvement program funded only 23 loans, with an original mortgage balance of \$1.8 million.

From its creation in 1980 through October 31, 1981, the mobile home program has financed 891 mobile home purchases. These loans had an original loan balance of \$20.9 million.

The rural owner-occupied program has funded 213 mortgage loan purchases in rural Alaska through October 31, 1981. These loans had an original loan balance of \$14.5 million. Between July 1, 1980, and October 31, 1981, the rural nonowner-occupied program financed seventeen loans, representing an original balance of \$2.7 million.

Future Levels of Activity

Given these high levels of activity in the first program year, the question arises as to whether the level of activity experienced is a norm which can be expected to continue into the future or a special case. In this section, we identify the factors which influenced the 1980-1981 activity.

First, by eliminating the income requirements for homeowners and expanding the value limits of property eligibility for purchase, the Special Mortgage Purchase Program made AHFC funds an option for the majority of the residential housing market. Of the 9,792 borrowers who received SMLPP loans between July 1980 and October 31, 1981, 6,311 (64 percent) could not have qualified for AHFC funds under the old Insured Mortgage Program (the pre-June 1980 low and moderate income program). The Insured Mortgage Program placed maximum income limits on borrowers and limited the price of eligible housing. An analysis of SMLPP buyers shows that 6,275 of the borrowers had incomes exceeding the last set of income limits under the Insured Mortgage

Program. Of these buyers, 2,967 purchased houses which exceeded the price limits.

Second, the choice of using AHFC funds instead of alternative funds such as from the financial institutions or federal credit agencies depends on the interest rate, maximum loan amount, and loan terms available from each source. A review of interest rates for the period June 1977 to June 1981 (Table 8) shows that the original base interest rate of 10 percent in the Special Mortgage Loan Purchase program was not only below the prevailing rates for other lenders at the time the program started but also the lowest rates since December 1978. This lower interest rate opened up the market to borrowers who may not have been able to afford the higher market interest rates. For example, monthly principal and interest payments on a \$90,000 mortgage increase from \$790 at 10 percent to \$925 at 12 percent. In the 10-to-16 percent interest rate range, a one percent increase in the mortgage interest rates raises the monthly payment from \$57 to \$72 on a \$90,000 loan. Additionally, buyers who could afford to purchase a house at market rates can afford to purchase more expensive housing at the lower rates.

TABLE 8. INTEREST RATES

	<u>FNMA</u>	<u>FHLMC</u>	<u>AHFC</u> ^a
6/30/77	9.106	9.008	
12/31/77	9.213	9.435	
6/30/78	10.125	9.971	
12/31/78	10.920	10.797	
6/30/79	11.433	11.595	
12/31/79	12.985	12.898	
6/30/80	12.807	12.204	10.0
12/31/80	15.430	14.735	10.0
6/30/81	16.337	16.564	10.0
12/31/81		16.845	12.375

^aInterest rate for non-veteran on first \$90,000 balance.

SOURCE: Real Estate Research Report, Fall 1981.
Alaska Housing Finance Corporation

Contrary to expectations, the threat of higher interest rates did not greatly dampen application activity. One explanation forwarded to explain this behavior is that borrowers expect future interest rates to increase even further. Future interest rates could increase either as a result of further increases in market interest rates or due to changes in AHFC programs.

Not surprisingly, AHFC has captured most of the eligible markets due to its lower interest costs. As long as AHFC interest rates are lower than the alternative sources, AHFC will maintain its dominant role as the primary source of owner-occupied residential mortgage funds.

Characteristics of Borrowers

In examining any public program, a common question is "Who was served by the program?" While AHFC housing programs have effects that go beyond the borrower (see Chapter Five), the borrower is viewed as the major beneficiary. In this section, we examine three characteristics of borrowers who received AHFC financing. These characteristics are income, previous ownership history, and residency. By comparing the variations across programs, we can begin to determine whether the various programs actually serve the intended groups.

Income. With the exception of the rural nonowner-occupied program, AHFC loan programs are designed to serve home buyers. Since homeownership by its very nature has minimum income requirements, AHFC programs serve those persons who have sufficient income to purchase rather than rent housing. Since AHFC operates as a business enterprise, with underwriting standards acceptable to their investors, some borrowers face the possibility that they have insufficient income to qualify for AHFC programs. The subsidy elements of the AHFC programs do, however, allow borrowers to qualify for mortgage loans that they might not qualify for at market interest rates. The homeownership assistance program further reduces the income required for low- and moderate-income buyers in Alaska.

Table 9 shows the income distributions of households receiving AHFC financing under the State Assisted Mortgage, Home Ownership Assistance, Pledged Account Mortgage, Mobile Home, and Rural Owner-Occupied programs. The distribution shows that over all programs in the Special Mortgage Loan Purchase Program, 61 percent of borrowers had household incomes greater than \$40,000 per year, and 39 percent had incomes greater than \$50,000. Only 2 percent of SMLPP recipients had incomes less than \$20,000 per year with a total of 16.1 percent having incomes less than \$30,000. For the rural owner-occupied program, 54 percent of borrowers had annual household incomes greater than \$40,000, and 19.7 percent had incomes less than \$30,000. Two AHFC programs provide the majority of assistance to households in the \$10,000-\$20,000 income range. The HOF program provided 20 percent of its loans to this income group, and the mobile home program provided 16 percent. None of the AHFC programs provide assistance to the very low income households (households with incomes less than \$10,000).

In order to compare the income distributions of AHFC recipients with the income distribution for the general population, we used an income distribution of Anchorage obtained from a 1978 survey and the income distribution of Anchorage recipients of the AHFC Special Mortgage purchase and mobile home programs (Ender, 1977).⁵ The survey showed that in 1976, 28.7 percent of Anchorage households had incomes less than \$20,000 (see Table 10). In 1976 dollars, only 8.9 percent of Special Mortgage Loan Purchase program recipients had incomes less than \$20,000. While the Anchorage income distribution may not be fully representative of the state, it does provide a measure upon which to compare the income of AHFC recipients to the general population. Evidence from a statewide survey shows that there is a higher

⁵Since the survey measured household income in 1976, we adjusted the AHFC recipient incomes downward to account for growth in income. The adjustment factor of .25 was based on the change in per capita personal income between 1976 and 1981 as measured by the Bureau of Economic Analysis.

TABLE 9. DISTRIBUTION OF HOUSEHOLD INCOMES
FOR BORROWERS USING AHFC PROGRAMS

(percent of borrowers)

<u>Annual Income</u>	<u>Special Mortgage Loan Purchase Program</u>					
	<u>Total</u>	<u>State-Assisted Mortgage</u>	<u>Home Ownership Assistance</u>	<u>Pledged Account</u>	<u>Mobile Home</u>	<u>Rural Owner- Occupied</u>
< \$10,000	0	0	0	0	0	0
\$10,000 - \$20,000	2.0	.6	19.8	.6	16.0	3.3
\$20,000 - \$30,000	14.1	8.4	80.1	15.7	43.7	16.4
\$30,000 - \$40,000	23.1	24.5	.1	38.5	27.3	25.3
\$40,000 - \$50,000	25.2	27.3	0	26.1	5.7	22.5
\$50,000 - \$60,000	17.5	19.2	0	12.9	4.0	16.0
\$60,000 - \$70,000	9.5	10.5	0	4.8	1.7	5.2
> \$70,000	8.6	9.5	0	1.4	.6	10.3
	100.0	100.0	100.0	100.0	100.0	100.0
Number of Loans	9,792	8,680	733	356	891	213

SOURCE: AHFC Data Base

TABLE 10. DISTRIBUTION OF HOUSEHOLD INCOME IN ANCHORAGE

Distribution of Household Income (adjusted to 1976 dollars) for:

<u>Household Income</u>	<u>Distribution of Household Income, 1976</u>	<u>Special Mortgage Purchase Program</u>		<u>Mobile Home Program</u>
		<u>Total Recipients</u>	<u>HOF Recipients</u>	
< \$10,000	10.0	0	0	8
\$10,000 - \$20,000	18.7	8.9	7/ 3	45.8
\$20,000 - \$30,000	20.9	22.4	25.7	42.6
\$30,000 - \$40,000	20.0	30.4	0	7.4
\$40,000 - \$50,000	12.9	21.6	0	2.1
\$50,000 - \$60,000	9.0	10.2	0	1.3
\$60,000 - \$70,000	2.9	3.9	0	0
> \$70,000	3.5	<u>2.6</u>	0	<u>0</u>
Don't Know	2.1			
Total	100.0	100.0	100.0	100.0

SOURCE: AHFC Data Base

Ender, Richard L. The Opinions of the Anchorage Citizen on Local Public Policy Issues, Anchorage Urban Observatory, December 1977.

proportion of households in the lower income categories statewide than in Anchorage (ISER, 1978, 1979, 1981).

Previous Ownership History. First-time home buyers purchased 38 percent of the properties financed under the Special Mortgage Loan Purchase program. This compares to a national average in 1978 of 36 percent (U.S. Department of Housing and Urban Development). There is, however, variation among AHFC programs.

First-time home buyers who participated only in the SAM program matched the national average exactly at 36 percent. The HOF and the Mobile Home programs both showed a high rate of participation by first-time home buyers--75 and 65 percent, respectively. These participation rates are likely tied to the price of property allowed under each program. First-time home buyers are most likely to enter the housing market at the lower end of the price range. The rural owner-occupied program also showed a high rate of first-time home buyers--56 percent.

The PAM program had the lowest participation rate by first-time home buyers--21 percent. Just as the HOF is well-suited for first-time home buyers, the PAM program's equity requirements do not suit the average first-time home buyer.

Residency. A sample of AHFC loan application files shows that 18 percent of recipients in the Special Purchase program and the mobile home program had been residents of the State of Alaska less than one year. Only 6 percent of rural owner-occupied loans went to residents of less than one year. New residents are more likely to be in the housing market due to their recent moves.

Geographic Distribution of AHFC Loans

In order to analyze the geographic distribution of AHFC loan funds, we created ten geographic categories. There are separate categories for Anchorage, Fairbanks, Juneau, Ketchikan, Kodiak, and Sitka. The Anchorage, Fairbanks, and Juneau categories include surrounding communities which are part of their housing market areas. Palmer, Wasilla, and Willow are combined. The final three categories are road-connected communities in southcentral and interior Alaska; communities in southeast Alaska which qualify under the AHFC rural definition; and communities in southcentral, western, interior, and arctic Alaska which qualify under the AHFC rural definition.

Table 11 shows the distribution of loans according to the number of loans made for the Special Mortgage Loan Purchase Program, the Mobile Home Loan Purchase Program, and the Rural Housing Mortgage Purchase Program. As a point of reference, the distribution of loans for AHFC's entire portfolio and a population distribution of the state are also presented.

Loan activity in the Special mortgage Loan Purchase Program is concentrated in the larger cities. The majority of Special Mortgage Loan Purchase Program activity took place in Anchorage: 68 percent of overall SMLPP loans, 84 percent of HOF loans, and 89 percent of PAM loans. Fairbanks received 10.9 percent of SMLPP loans but only 4.3 percent of HOF and 3.9 percent of PAM loans. Juneau received 5.7 percent of SMLPP activity with 1.9 percent of HOF and 3.2 percent of PAM. An additional 10 percent of Special Mortgage Loan Purchase Program loans went to the road-connected Southcentral and Interior places including Palmer, Wasilla, and Willow. The remainder of SMLPP activity went to Ketchikan (2.3 percent), Kodiak (1.1 percent), Sitka (1.2 percent), and rural areas (.7 percent). Palmer and Wasilla received most of the remaining HOF (5.3 percent) and PAM (2.5 percent) loans. Participation in HOF and PAM was limited in Ketchikan, Kodiak, and Sitka and almost non-existent in rural areas of the state.

TABLE 11. GEOGRAPHIC DISTRIBUTION OF AHFC LOANS
(percent of loans)

Special Mortgage Loan Purchase Program

Place	Entire Portfolio	Total	SAM ^a	HOF ^b	PAM ^c	Mobile Home	Rural Owner-Occupied	Population (1981)
Anchorage	59.6	67.9	65.7	83.9	89.0	42.6	0	43.1
Fairbanks	11.9	10.9	11.8	4.3	3.9	11.7	0	13.9
Juneau	6.1	5.7	6.1	1.9	3.2	17.2	.5	5.0
Ketchikan	2.5	2.3	2.5	.5	0	4.3	0	2.7
Kodiak	1.7	1.1	1.2	.7	.3	3.6	18.3	1.1
Sitka	1.6	1.2	1.3	.3	0	4.8		1.9
Palmer/Wasilla/ Willow	5.6	4.3	4.3	5.3	2.5	1.3	0	1.0
Road-Connected Southcentral Interior	7.8	5.9	6.3	3.0	.8	9.4	1.4	13.4
Rural Southeast	1.0	.3	.3	0	.2	1.8	15.5	3.7
Rural	2.1	.4	.5	.1	0	3.3	64.3	14.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
No. of Loans	19,463	9,792		733	356	891	213	

^a State Assisted Mortgage

^b Homeownership Assistance

^c Pledge Account Mortgage

SOURCES: AHFC Data Base

AHFC-Selected Corporation and Program Information, October 1981, Alaska.

Department of Community and Regional Affairs, July 1, 1981, Population, Municipalities, and Census Areas. December 15, 1981.

Several factors provide possible explanations to the overall level of SMLPP activity in Anchorage. First, we expect real estate markets to be more active in larger places. Anchorage provides buyers with more opportunities to buy both new and existing housing. A review of the distribution of real estate employment in the state shows that 64 percent of all persons employed in real estate related jobs worked in Anchorage in August 1980 (Alaska Department of Labor, 1980). Second, the Anchorage economy is expanding rapidly. The Alaska Department of Labor estimates that between August 1980 and August 1981, employment in Anchorage grew by 6,000 jobs, 78 percent of the statewide increase of 7,700 jobs (Alaska Department of Labor, October 1981). Third, SMLPP activity measures only part, although the major portion, of AHFC activity. Rural areas, constituting approximately 18 percent of the state's population, have alternate AHFC and other state programs available.

Finally, the knowledge of and participation in AHFC programs by seller/servicers are important to the geographic distribution. First, seller/servicers and the real estate industry are the major sources of information for the borrowing public regarding AHFC programs. AHFC underwriters respond to completed applications; they do not evaluate whether the applicant should be applying for a loan in another AHFC program. Second, seller/servicers can choose the AHFC programs in which they participate. The lopsided geographic distribution of HOF and PAM loans in the Anchorage area is likely the result of these factors.

Mobile home loans are distributed more proportionately across the state. The majority of loans, 79.4 percent, were made in urban areas. When compared to population, the mobile home activity was highest in Southeast Alaska. Juneau received 17 percent of mobile home loans; Sitka, 4.8 percent; and Ketchikan, 4.3 percent. Only 5 percent of mobile home loans went to rural areas. The cost involved in transporting mobile homes to remote sites is a likely reason.

The distribution of rural owner-occupied loans was close to proportionate with the population in the eligible areas. Rural Southeast Alaska received 15 percent of rural owner-occupied loans; rural Western, Interior, and Arctic Alaska received 64 percent; and Kodiak Island received 18 percent. A review of rural loans shows that most of the loans were made in the regional centers and larger villages (Table 12). Bethel, Nome, and Kotzebue received 52 percent of rural owner-occupied loans; and Petersburg and Wrangell received 11 percent. Possible explanations for the distribution are that the larger rural cities have more active real estate markets and that persons in these places have greater access to the Regional Housing Authorities and financial institutions which act as seller/servicers for the program. Additionally, there is greater opportunity to earn cash incomes in the regional centers.

There is additional evidence that access to seller/servicers in rural areas may be a factor in program participation. A review of geographic location of SMLPP loans turned up 54 loans which were located in rural areas as defined by AHFC (AHFC data base). The apparent reason for these loans' being part of the SMLPP and not the Rural Housing Mortgage Purchase Program is that the loan recipients used seller/servicers who did not participate as the seller/servicers for the rural program. The cost to the borrower is the higher interest rate of the State Assisted Mortgage program. These 54 loans were located in Cordova (21), Petersburg (14), Wrangell (7), Dillingham (4), Skagway (3), Unalaska (2), Kotzebue (1), King Salmon (1), and Yakutat (1).

Property Characteristics. An examination of the characteristics of properties financed by AHFC programs since July 1980 provides a broad overview of the Alaska owner-occupied housing market.

The housing characteristics of the State Assisted Mortgage program are used as a base case against which other AHFC programs can be compared. Table 13 summarizes the housing characteristics discussed.

TABLE 12. GEOGRAPHIC DISTRIBUTION OF RURAL LOANS
(as of October 31, 1981)

	<u>Special Mortgage Loan Purchase Program</u>	<u>Rural Housing Purchase Occupied Program</u>
<u>Southeast</u>		
Petersburg (3,001)	14	17
Skagway (819)	3	1
Wrangell (2,345)	7	7
Elfin Cove		1
Craig (560)		2
Metlakatla		2
Port Alexander (90)		1
Pelican (172)		2
<u>Western, Arctic, Interior</u>		
Regional Centers:		
Bethel (3,549)		53
Cordova (2,223)	21	
Dillingham (1,670)	4	6
King Salmon/Naknek (1182)	1	12
Kotzebue (2,250)	1	33
Nome (3,039)		26
Galena (805)		5
Kodiak Island Villages		39
McGrath (343)		2
Aniak (338)		1
St. Mary's (432)		1
Barrow (2,353)		2
Nonregional Centers:		
Yakutat (430)	1	
Unalaska (1,944)	2	
Port Lions (211)		1
Mountain Village (580)		1
Nunapitchuk		1
Seldovia (505)		1
Tanana (463)		3
	—	—
	54	210

SOURCE: AHFC Data Base.
State of Alaska, Department of Community and Regional Affairs,
July 1, 1981 Populations, Municipalities and Census Areas

TABLE 13. CHARACTERISTICS OF PROPERTIES FINANCED
THROUGH AHFC PROGRAMS

Characteristic	Special Mortgage Loan Purchase Program					
	Total	State-Assisted Mortgage	Home Ownership Assistance	Pledged Account	Mobile Home	Rural Owner- Occupied
No. of Loans	9,792	8,680	733	356	891	213
Original Principal Balance	\$853,133,200	\$768,232,080	\$50,001,807	\$36,637,000	\$20,917,060	\$14,499,000
Mean Sales Price	\$98,033	\$99,988	\$68,215	\$110,141	\$25,765	\$82,466
Mean Note Amount	\$87,125	\$88,506	\$63,363	\$102,912	\$23,476	\$68,070
Mean Loan-to- Value Ratio	88.9%		94.221%	94.146%	91.1%	82.5%
Dwelling Type:						
Single Family	78.64%	80.2%	55.1%	88.2%	NA	96.71%
Condominium	13.55	11.4	42.0	9.3	NA	Ø
Duplex	5.70	6.4	Ø	.8	NA	3.29
Planned Unit Development	2.11	2.1	2.9	1.7	NA	Ø
New/Existing:						
New	25.7%	26.1%	17.2%	34.6%	6.51%	41.3%
Existing	74.3	73.9	82.8	65.4	93.49	58.7

SOURCE: AHFC Data Base

The mean sales price for SAM-financed properties was \$99,988 for the period July 1, 1980, through October 31, 1981. The mean mortgage loan amount was \$88,506. The predominant housing type was single family (80.2 percent), followed by condominiums (11.4 percent), duplexes (6.4 percent), and units in planned unit developments (2.1 percent). Finally, 26 percent of all units were new.

The mean sales price for homeownership assistance program properties was \$68,215 with a mean loan value of \$63,363 and a mean loan-to-value ratio of 94.2 percent. This lower mean sales price is expected due to both the sales price limit of \$80,000 and the income limits of the buyer. While the majority of homeownership assistance program borrowers (55.1 percent) purchases single-family residences, they purchased a greater proportion of condominiums than SAM borrowers (42.0 versus 11.4 percent). Also, homeownership assistance program borrowers purchased more existing structures than the market on average (82.8 percent versus 73.9 percent). Both of these factors can be attributed to the price of structures. Condominiums tend to be less expensive than single-family units, and existing structures tend to be less expensive than new structures, controlling for all other factors. AHFC data shows that over the period examined, the mean sales price of single-family residences was \$100,250, \$25,560 more than the mean sales price of condominiums. The mean sales prices of single family residences were \$114,275 for new, and \$95,275 for existing, a \$19,000 difference. The mean price for new condominiums of \$87,000 was \$15,450 more than for existing units.

The properties purchased by participants in the Pledge Account Mortgage Program (PAM) also showed the expected characteristics--just the reverse of HOF purchasers. PAM borrowers purchased higher-priced houses (mean sales price, \$110,141) although the loan-to-value ratio remained high at 94.1 percent. PAM borrowers purchased more single-family residences (88.2 percent) and fewer duplexes (.8 percent) than SAM borrowers. Additionally, new structures made up 35 percent of PAM purchases.

The characteristics of the properties purchased under the Rural Housing Mortgage Purchase Program are different from the characteristics of the SAM-financed properties. The mean sales price for rural loans was \$15,000 lower than for SAM loans, indicating that rural housing prices are generally less than urban prices. Single-family properties were the overwhelming structure type, 97 percent. New units made up 41 percent of rural owner-occupied purchases. This indicates that the rural housing markets are either expanding or there is currently a replacement of existing units in rural areas.

The mean mobile home purchase price in 1980-1981 was \$25,765. Only 6.5 percent of mobile home purchases statewide were for new mobile home units.

Program Financing and Costs

A review of AHFC's operations shows that a primary responsibility of AHFC is financial management. AHFC raises and invests capital funds within the framework of its housing programs.

The primary sources of capital funds are proceeds from mortgage bond sales, mortgage loan principal repayment, contributions of capital from the State of Alaska, proceeds from bonds sold to the State of Alaska, and funds generated through operations. The uses of capital funds include the acquisition of mortgages, the payment of mortgage bonds and notes, short-term investments, and changes in cash balances. Table 14 summarizes the sources and uses of AHFC capital for fiscal years 1978 through 1981.

Mortgage Bonds

The single, largest source of capital for AHFC is bonds. The proceeds from these bonds, issued on national capital markets, are used to purchase mortgages. As of December 31, 1981, AHFC had issued \$1,753 billion in mortgage bonds. Of this total, \$1.1 billion, or

TABLE 14. SOURCES AND USES OF AHFC CAPITAL FUNDS
FISCAL YEARS 1978-1981^a

(in millions of dollars)

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981^a</u>
<u>Sources of Capital Funds</u>				
Provided by Operations	9.808	13.538	30.343	23.735
Mortgage and Loan Principal Repayment	29.094	29.698	45.623	61.575
Net Proceeds from Sale of Mortgage Bonds	99.913	209.657	264.669	373.081
Net Proceeds from State of Alaska Notes		.905	4.712	7.310
Contribution of Capital from State of Alaska			400.000	150.000
Other	25.440	Ø	.096	.093
Total	164.255	253.798	745.443	615.794
<u>Uses of Capital Funds</u>				
Increase in Investments	21.241	34.909	189.363	180.006
Acquisition of Mortgages	116.968	189.490	549.404	427.833
Payment of Mortgage Bonds	1.850	3.580	5.005	7.690
Payment of Alaska Notes	.115	.301	.387	.329
Increase in Cash	- 1.730	.070	1.180	- .160
Other	25.811	25.448	.104	.096
Total	164.255	253.798	745.443	615.794

^aUntil Fiscal Year 1981, AHFC's fiscal year ran from December 1 to November 30; Fiscal Year 1981 was a transition year which ran from December 1 to June 30.

SOURCES: AHFC Annual Report 1978-1980
AHFC Financial Statement, 1981

63.3 percent, were issued for use in the Special Mortgage Loan Purchase Program which began in July 1980.

The structure of AHFC bond debt illustrates the growth and recent expansion of AHFC operations. Of the total bonds issued since the first issue in 1972, 98 percent of principal is still outstanding.

Structure of Bonds. The bond instrument used by AHFC has changed over time. Until the Mortgage Subsidy Bond Act of 1980 (Ullman Bill) limited their use, AHFC issued tax-exempt bonds. The Ullman Bill forced AHFC into the taxable market for the majority of its financing.

The tax-exempt bonds issued by AHFC prior to 1981 were structured as serial bonds with thirty years as the term of the longest bond. With serial bonds, principal payments are due at specified dates over the life of the bond issue. Since the mortgages financed with the proceeds from these bonds also had a maximum thirty-year life and principal repayments are included in even payment mortgages, the cash flow from the mortgages approximated the cash flow requirements of the bond issue. The serial bonds which matured in earlier years were to be paid off with mortgage loan principal payments. Mortgage loan prepayments were used to purchase new loans and pay off outstanding bonds. A prepayment is the paying off of a mortgage loan ahead of the specified schedule as when someone sells a house.

When AHFC entered the taxable bond market, it had to restructure its bond issues. First, taxable bonds are usually fixed term, not serial; that is, all bonds in the issue have the same maturity date, with interest payments due at specified times over the life of the bond. Second, due to interest rates and market expectations at the time AHFC entered the taxable market, AHFC could not expect to sell bonds with a thirty-year maturity.

The current taxable structure used by AHFC is the joint issue of two bonds, each issue with a different maturity. On the last two taxable bond sales, the terms are ten and twenty years. The two bond issues are then combined into a single bond pool for purchasing mortgages. For example, the most recent taxable bond issues were State Assisted Mortgage Bonds Series D (\$90,000,000 due December 1, 1991) and Series E (\$60,000,000 due December 1, 2001). The principal and interest payments on the mortgages pledged to that bond issue are deposited into a sinking fund as they are received. Principal and interest payments on the bonds are made from the sinking funds. Since the mortgages which secure the bonds have a longer legal life, AHFC has established additional security for investors. First, the original balance of the mortgage pool pledged to repayment of a bond issue is larger than the original balance of bonds. These additional mortgages are funded through state appropriations (state appropriations will be discussed in the next section). Second, AHFC establishes a source of funds which can be tapped if insufficient funds are available from the sinking fund to meet an interest or principal payment. The most recent device used by AHFC is a letter of credit. This letter of credit, arranged at the time of the bond sale, is a lending agreement between AHFC and a bank that guarantees AHFC's ability to borrow funds if the sinking fund does not provide adequate funds to meet bond principal and interest payments.

Level of Activity. In fiscal year 1980, AHFC issued \$269.4 million in bonds with net proceeds of \$264.7 million.⁶ Most of these bonds, \$230 million, were issued in July 1980 to provide initial bond funding for the Special Mortgage Loan Purchase Program. During fiscal

⁶Prior to fiscal year 1981, the AHFC fiscal year was December through November; for fiscal year 1981, the fiscal year was December through June; starting in fiscal year 1982, AHFC's fiscal year will run July through June.

year 1981, AHFC issued \$384.4 million in bonds with net proceeds of \$373 million. As of December 31, 1981, AHFC had issued \$500 million in bonds, 84 percent of its fiscal 1982 \$592 million bonding authority. This includes \$200 million of tax-exempt bonds issued under provisions of the Mortgage Bond Subsidy Tax Act of 1980. In order to ensure sufficient funds to finance operations at the level of public demand, AHFC requested supplemental bonding authority of \$210 million in January 1982.

Contributions by the State of Alaska

The State of Alaska has made a variety of financial contributions to AHFC since operations began in 1972 (Table 15). These contributions include direct appropriations, loans, purchase of AHFC bonds, and deposits to the state insurance fund. Total state contributions in all forms through fiscal year 1982 total \$891.98 million. By far the largest category of assistance is direct appropriations--94 percent of the total. Direct appropriations have increased dramatically as a result of the program changes in 1980. Of total state appropriations to AHFC of \$836.8 million, \$815 million has been appropriated since 1980 to fund current AHFC programs. The State of Alaska has loaned AHFC \$27.6 million since 1972. Additionally, the State of Alaska purchased \$10.0 million in rural housing bonds. Finally, the state has contributed \$17.6 million into the insurance funds used to secure the insured housing mortgage program and the rural insurance programs.

Special Mortgage Loan Purchase Program. The Special Mortgage Loan Purchase Program is the largest recipient of state appropriations at AHFC. For fiscal 1982, \$222 million of the \$265 million state appropriation was for the SMLPP program.

In the SMLPP program, the state appropriations are used to purchase mortgage loans. The cash flow derived from the principal and interest payments on these state funded mortgages are pledged to meet

TABLE 15. STATE OF ALASKA CONTRIBUTIONS TO AHFC, 1972-1982
(in millions of dollars)

<u>Year Ended November 30</u>	<u>Direct Appropriations</u>		<u>Loans to Corporation (in thousands)</u>	<u>Purchase of Corporation Obligations</u>	<u>Deposited to State Insurance Fund</u>
	<u>Cash</u>	<u>Property</u>			
1972	--	\$ 2.625	\$.811	--	--
1973	--	9.800	4.619	--	--
1974	--	--	3.720	--	--
1975	--	9.400	--	--	--
1976	--	--	.500	--	\$.391
1977	--	--	12.300	--	2.109
1978	--	--	--	--	.995
1979	--	--	.905	\$ 5.600	3.630
1980	\$114.000	286.000	4.712	--	5.505
1981 ^a	<u>150.000</u>	<u>--</u>	<u>--</u>	<u>4.400</u>	<u>4.960</u>
1982 ^a (budget)	<u>265.000</u>				
	\$529.000	\$307.525	\$27.567	\$10.000	\$17.590

^aFor year ended June 30.

SOURCE: AHFC. Official Statement, State-Assisted Mortgage Bonds, Series A, June 18, 1981.

the cash flow requirements of bonds. State appropriations are required because AHFC purchases mortgage loans with interest rates less than its own borrowing costs. The state-funded mortgages must supplement the bond-purchased mortgages to a level adequate to meet the bond debt service requirement. For example, if bond and mortgage interest rates are both 10 percent, interest payments from \$100 in mortgages will be sufficient to pay interest on \$100 in bonds. If, however, the bond interest rate is 15 percent, \$150 in mortgages at 10 percent is required to meet the bond interest payments of \$15.

The amount of the state appropriation pledged to each bond pool depends on the difference between AHFC's bond and program mortgage interest rates, the term of the bonds and mortgages, and the expected level of prepayment. AHFC calculates the state appropriation required for each bond issue based on the cash flow requirements of the bond issue. AHFC makes assumptions regarding the expected prepayment level and calculates the additional amount of mortgages required to meet the cash flow requirements of the issue. AHFC's goal is to minimize the state appropriation required for a given bonding amount and bond/mortgage interest rate differential (Goldbar, January 8, 1982).

Table 16 lists the amount of state appropriations utilized by the first seven bond issues under the Special Mortgage Loan Purchase program. The state appropriation required to supplement the bond funds rose from 3.7 percent of total funds available on Insured Mortgage Program Bonds, 1980 second series (the first issue under the SAM program) to 39.3 percent under State Assisted Mortgage Bond, Series B and C. The major reason for the increase is found in the difference between bond and mortgage interest rates. On Insured Mortgage Program Bonds, 1980 Second Series, AHFC's borrowing cost was 10.25 percent versus a mortgage rate of 10 percent (9 percent for state veterans). On State Assisted Mortgage Bonds, Series B and C, AHFC's borrowing cost of 19.153 percent exceeds the mortgage interest rate of 12.125 percent by 7.03 percentage points. For the first seven bond

TABLE 16. USE OF STATE APPROPRIATION BY BOND ISSUE, SPECIAL MORTGAGE PURCHASE PROGRAM
(millions of dollars)

	Insured Mortgage Housing Bonds (Tax Exempt)		State-Assisted Mortgage Bonds (Taxable)			Home Mortgage Bonds (Tax Exempt)	
	1980 Second Series	1980 Third Series	Series A	Series B and C	Series D and E	First Series	Second Series
Bond Proceeds Used to Purchase Mortgages	\$203.304	\$200.872	\$148.822	\$146.510 ^a	\$145.821 ^a	97.748 ^a	97.825 ^a
State Appropriation Pledged to Issue	7.851	39.061	82.641	94.775	56.000 ^b	29.502 ^b	23.300 ^b
Total Funds Available for Mortgages	211.155	239.933	231.463	241.285 ^c	201.821 ^c	127.250 ^c	121.125 ^c
State Appropriation as A Percent of Total Funds	3.7%	16.3%	35.7%	39.3%	27.7%	23.18%	19.24%
Costs of Funds ^d	0.25%	12.29%	17.05%	19.153%	19.411%	13.158%	13.19%
AHFC Mortgage Rate:							
First \$90,000	10.0%	10.0%	10.0%	12.15%	12.375%	10.0%	10.0%
Balance	10.25	12.29	17.05	19.53	19.411	13.158	13.19
State Appropriation as Percent of Total Funds for Each Percentage Point of Interest Rate Differential	14.8	7.1	5.06	5.59	3.39	7.34	6.03

^a net proceeds from bond issue.

^d includes cost of issuance.

^b AHFC estimate at time of bond sale.

^c Rate for nonveteran.

^c Estimate of total funds available.

SOURCE: AHFC

issues used to finance the SMLPP program, state appropriations of \$333 million was required, 24 percent of mortgage funds available.

While total state appropriations relative to bond proceeds increased due to increases in the bond/mortgage interest rate differential, the state appropriation per one percentage point of differential has declined since the first bond issue used to finance the Special Mortgage Loan Purchase Program. The state appropriation of 3.7 percent of total funds for Insured Mortgage Housing Bonds, 1980 second series represented a 14.8 percent share per one percentage point of bond/mortgage interest rate differential. Table 16 shows that this differential has decreased to as low as 3.4 percent per point of differential for State Assisted Mortgage Bonds, Series D and E.

As of November 31, 1981, AHFC had completed mortgage purchases under the first three bond issues used to finance the Special Mortgage Loan Purchase Program (Insured Mortgage Housing Bonds, 1980 second and third series and State Assisted Mortgage Bonds, Series A). For these issues, the mean state appropriation per mortgage loan purchased was \$3,108 for 1980 second series, \$13,960 for 1980 third series, and \$31,822 for State Assisted, Series A. On a per percentage point of interest rate differential, the appropriation declined from \$12,432 per percentage point for Insured Mortgage Housing Bonds, second series, to \$4,514 for State Assisted Mortgage Bonds, Series A. The actual cost of individual loans depends on the level of interest rate differential and the length of time the mortgage loan is held. (These issues are discussed in Chapter Seven on Program Costs.)

Other AHFC Programs. The mobile home program, the rural owner-occupied, and the rural nonowner-occupied programs are funded through direct state appropriations made to the Home Ownership Fund. The state appropriations for these programs increased from \$6.5 million in

fiscal year 1980 and \$17.0 million in fiscal 1981 to a total of \$43.0 million for fiscal 1982. For 1982, the appropriations were \$18.0 million for the mobile home program, \$20.0 million for the rural owner-occupied program, and \$5.0 million for the rural nonowner-occupied program.

AHFC has approved \$15.4 million in mobile home loans in the first five months of fiscal year 1982, an annual rate of \$37 million. This demand is approximately twice the 1982 appropriation. This additional demand will be financed with funds available from other sources. The rural programs are operating in 1982 and levels in line with the appropriations. Loan approvals in the Rural Housing Mortgage Purchase Program totaled \$6.3 million in the first five months of fiscal year 1982, a \$15.1 million annual rate. The Rural Nonowner-occupied Program has approved \$1.5 million through November 1981, a \$3.5 million annual rate.

Operating Expenditures and Revenue

The major categories of AHFC's operating costs are interest payments on outstanding notes and bonds; mortgage service fees; legal, accounting, and trustee fees; general and administrative expenses; and the provision for loan loss. Table 17 summarizes AHFC's operating costs and revenues for fiscal years 1978 through 1981. Over the period examined, AHFC's operating costs increased from \$26.3 million in 1978 to \$57.4 million in the seven months of fiscal year 1981. The composition of operating expenses has remained constant with interest payments on outstanding notes and bonds constituting 93 percent; mortgage service fees representing 4-to-5 percent; general and administrative costs declining from 2.0 to 1.4 percent; and legal, accounting, and trustee fees remaining below 1 percent. A new category of operating cost in 1981 was the monthly payments required under the HOF program.

TABLE 17. AHFC OPERATING REVENUES AND EXPENSES
FISCAL YEARS 1978-1981^a

(in millions of dollars)

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981^a</u>
<u>Revenues</u>				
Interest Income:				
Mortgage Loans	23.311	33.540	57.176	60.440
Investments	7.651	13.329	22.549	39.616
Loan and Other Fees	.732	1.031	1.378	2.193
Total	31.695	47.900	81.103	102.249
<u>Expenses</u>				
Interest on Notes and Bonds	24.483	35.654	51.159	53.350
Mortgage Service Fees	1.048	1.495	2.653	2.610
General and Administrative	.519	.661	.888	.800
Legal, Accounting, and Trustee	.161	.362	.490	.426
Mortgage Payment Assistance Subsidies	Ø	Ø	Ø	.137
Provision for Loan Loss	.059	.097	Ø	.065
Total	26.270	38.269	55.190	57.391
Revenues in Excess of Expenses	5.425	9.631	25.913	44.858

^aUntil Fiscal Year 1981, AHFC's fiscal years ran from December 1 to November 30; Fiscal Year 1981 was a transition year which ran from December 1 to June 30.

SOURCES: AHFC Annual Report 1978-1980
AHFC Financial Statement, 1981

Interest payments on outstanding bonds and notes cost AHFC \$53.35 million in the seven months of fiscal 1981. Interest payments will continue to grow as AHFC issues additional bonds to finance the SMLPP. AHFC pays its bond interest payments from payments it received on the mortgage loans. In fiscal 1981, AHFC collected \$60.4 million in mortgage interest payments.

General and administrative expenses combined with legal, accounting, and trustee fees cost AHFC \$1.3 million in fiscal 1981 and \$1.4 million in fiscal 1980. These expenses are budgeted for \$2.9 million in fiscal year 1982. AHFC finances these expenses through income earned on corporation activities.

The monthly subsidy required for the HOF program is funded through the income generated from capital contributed by the State of Alaska. At the time the program was authorized in 1980, the State of Alaska contributed \$50.0 million in mortgages to the home ownership fund. The income from these mortgages was to be used to make the monthly subsidy payments. In fiscal year 1981, AHFC disbursed \$137,000 from the fund. In fiscal year 1982, the State of Alaska pledged the income from the funds appropriated for the mobile home and rural programs to provide HOF subsidies. In December 1981, the HOF program paid out \$153,636 in subsidies to 891 recipients, a mean subsidy of \$172. The actual subsidies ranged from \$5.82 to \$333.

Summary

AHFC evolved from a supplier of mortgage funds for low and moderate income households in 1979 to the primary provider of mortgage funds in 1981 as a result of the Special Mortgage Loan Purchase Program which was created in June 1980. In fiscal year 1982, AHFC estimates that it will provide at or near \$1.0 billion for the purchase of below market interest rate loans in Alaska.

AHFC offers several mortgage programs from which potential homeowners may choose. The Special Mortgage Loan Purchase Program includes the Home Ownership Assistance Program for low- and moderate-income homebuyers and the Pledged Account Mortgage Program. There are also programs for rural residents and mobile home buyers.

The Special Mortgage Loan Purchase Program is financed through bond and state appropriated funds. The level of state appropriation required depends on the difference between the below-market interest rate provided and the cost of borrowing to AHFC. While the goal is ultimately to provide mortgage funds on the first \$90,000 of balance at three percentage points below AHFC's cost of funds, events of the past year have kept state appropriations at a higher level. These events include the limitations placed on AHFC to issue tax exempt bonds under the Mortgage Subsidy Bond Tax Act of 1980 and the historically high levels of interest rates.

The effects of AHFC programs on state housing markets and a further discussion of program costs are provided in Parts 2 and 3 of this report.

CHAPTER TWO
ALASKA STATE HOUSING AUTHORITY

In this chapter, we discuss the history and operations of Alaska's public housing authorities, the Alaska State Housing Authority and thirteen regional Native housing authorities. The Alaska State Housing Authority (ASHA) is the state's oldest housing agency. Created in 1945 by the territorial legislature, ASHA was a response to an acute housing shortage caused by the limited availability of financing, high costs of construction, and a small construction industry in the territory. The Alaska State Housing Authority was given responsibility for assisting in the development of decent, safe, and sanitary housing throughout the territory and, subsequently, the State of Alaska by building and operating public housing. In the 1950s and 1960s, ASHA's role was expanded to include several additional housing-related activities from providing planning assistance for boroughs as well as cities (1957), constructing water and sewer facilities and authority for their interim operation (1964), and acquiring or constructing public buildings for lease to the state (1965) to constructing rental and ownership housing for moderate income families (1965). Several of these functions have since been discontinued due to federal funding cuts or have been transferred to other state agencies; today ASHA functions primarily as a provider of subsidized low-income housing. In an appendix to this report, we describe the early history of ASHA and its housing production under past programs up to the early 1970s.

For twenty-five years, ASHA attempted to meet the housing needs of residents throughout the entire state as mandated in enabling legislation (Alaska Statutes, Title 18, Chapter 55). The agency encountered a number of physical, economic, and cultural problems with housing provision in the bush that have been difficult to resolve¹.

¹This discussion draws upon The Housing Element of the State of Alaska Comprehensive Plan (Division of Policy Development and Planning, 1978), which contains a review of several reports on housing problems in Alaska.

Physical problems include such things as getting materials and labor to bush locations on schedule, and the lack of ground water and difficulty of sewage disposal in permafrost areas. Chief among economic problems is the low level and irregular nature of cash income in most rural areas, making conventional housing finance methods unsuitable in the local economy. Housing operating costs such as heating costs can also be beyond the means of many rural Alaskans. ASHA also encountered a general lack of experience in many Native communities in operating and maintaining standard housing.

The combination of these problems resulted in generally poor working relations between ASHA staff and Native communities. This situation led in 1971 to state legislation providing for regional Native housing authorities (RHAs) to be established by the Native regional corporations (Alaska Statutes, Title 18, Chapter 55, Article 5). It was expected that regionally based authorities would better represent the needs of their Native constituents and would be better able to understand and resolve the special problems faced in predominantly Native villages.

There are thirteen RHAs in Alaska with jurisdictions corresponding to the twelve regional Native corporation boundaries and the federally recognized tribal lands in Metlakatla. ASHA retains the legislative authority to operate throughout the state but since the creation of the RHAs has confined its new projects to the cities and larger towns in Southcentral and Southeast Alaska.

ASHA and the RHAs are public corporate agencies of the state. The major role of each, however, has been that of an agent of the federal government. Virtually all of their housing has been financed through programs of the U.S. Department of Housing and Urban Development (HUD). Only recently has the state become systematically involved in funding low-income housing, and even in these cases, state money has primarily been used to leverage federal funds.

The state housing authority and the RHAs have the same legislative authority for carrying out their housing programs. The differences in their activities in general arise not from differing limits on their corporate powers, but from the different problems of their constituents. Today ASHA is involved almost exclusively in providing rental housing. The agency also manages some houses built under the Turnkey III homeownership program² which was initiated thirteen years ago, but ASHA has not been involved in any ownership programs since the early 1970s.

The RHAs, for the most part, administer a homeownership program for Alaska Natives, the Mutual Help for Indians Program. Since 1978, however, a few RHAs have constructed approximately 129 public housing rental units for families or elderly residents. There is a growing interest among some RHAs in becoming more involved in providing rental housing in the larger Native towns and regional centers, particularly those that have recently experienced steady economic growth (Patton, October 27, 1981).

In general, however, rental programs designed for large, developed population centers are inappropriate to and not used in the small, isolated communities served by the RHAs. Because of the expense of construction and management and the seasonal nature of the local cash economy, HUD is reluctant to build fewer than about twenty rental units in a town and requires evidence that the units it does build will, in fact, be rentable (Curtis, October 28, 1981).

Federal Housing Programs

Table 18 summarizes the federal housing programs that have been used in Alaska. The four programs that are presently active--the conventional public housing programs, Mutual Help for Indians, and both Section 8 programs--will be described in detail in the following

²Please refer to the discussion of the Mutual Help program of the RHAs and to Appendix A.

TABLE 18. FEDERAL HOUSING PROGRAMS IN ALASKA

Program	Dates of Activity in Alaska	Housing Type	Agency
Conventional Low-Rent Public Housing	1951 to Present	Rental	ASHA, RHAs
Turnkey III	1968 to 1970	Ownership	ASHA
Middle Income 221(d)(3)	1967	Rental	ASHA
Remote 200/ Mutual Help	1971	Ownership	ASHA
Mutual Help for Indians	1978 to Present	Ownership	RHAs
Section 8, New Construction	1976 to Present	Rental	ASHA
Section 8, Existing Housing Program	1976 to Present	Rental	ASHA

sections on ASHA and RHA activities. The operations of programs that are no longer being funded--Turnkey III, 221(d)(3), and Remote 200--will not be described in any detail, although program summaries are found in an appendix to this report. The new units produced in Alaska in the past decade under these programs are included in total production figures later in this chapter.

There are several requirements which HUD commonly imposes in most of its programs that will be discussed briefly. HUD usually sets program eligibility limits, such as income limits or priority for serving certain groups. In public housing and in both Section 8 programs, eligible tenants must be 62 years of age or older, be handicapped, or be a family. Their income must not exceed a maximum set by

HUD that is based on household composition and income levels in the area in which the housing is located; consequently, income limits vary across the state. Table 19 shows federal program income limits for Anchorage. The lowest limits are found in the bush, where income levels are the lowest in the state (Czech, December 8, 1981). The highest limits are set for Juneau, where incomes are the highest.

TABLE 19. ANCHORAGE INCOME LIMITS, PUBLIC HOUSING, AND SECTION 8 NEW CONSTRUCTION AND EXISTING HOUSING

Program	Single Person (Elderly or Handicapped)	Family of Two	Family of Three	Family of Four
Public Housing	\$13,700	16,800	18,900	21,000 ^a
§8, New and Existing	16,350	18,700	21,000	23,350 ^b

^aLimit increases by approximately \$2,100 for each additional person.

^bLimit increases by approximately \$1,500 for each additional person.

SOURCE: Correspondence with John Curtis, Director of ASHA, November 6, 1981.

A second requirement, imposed by Congress in 1969, is a limit on tenant monthly payments that applies to all federal housing subsidy programs. This law originally required that no subsidy recipient could be charged more than 25 percent of monthly income for rent and other housing payments. This rent/income ratio will increase to 30 percent this spring as a result of recent Congressional action (Czech, December 14, 1981).

HUD has also required that tenants in its housing projects have a broad range of incomes, within program income limits, that replicates the income distribution in the community. HUD imposed a further stipulation that at least 20 percent of tenants in a particular project be in the "very low income" category, defined as having an income of no more than 50 percent of the area median. Both of these requirements are also being changed. HUD will no longer require a broad income distribution and is effectively lowering income eligibility limits (Czech, December 14, 1981). In the future it will be difficult for anyone with an income greater than 50 percent of the area median to qualify for housing subsidies.

Finally, HUD imposes a per-unit total development cost limit on all federally funded new housing construction. This limit is currently set at \$92,000 and includes everything from architects' fees to brick and mortar and labor. This limit is particularly important for rural housing projects in Alaska since the costs of construction in the bush are so high.

ASHA and Federal Programs

Program operations and current and potential problems under Conventional Public Housing, Section 8 New Construction and Section 8 Existing Housing, are discussed in this section. While the programs are described in the context of ASHA, they operate the same way when used by the RHAs.

ASHA currently administers six federal housing programs. The three active programs for which new units are funded are Conventional Public Housing, Section 8 New Construction housing, and Section 8 Existing housing. The other federal programs that ASHA administers will be referred to only briefly as HUD funds no new units, and the programs involved no state funds.

Public Housing

Under the Conventional Public Housing program, HUD finances the development of a project and provides additional operating subsidies. The development subsidy mechanism is somewhat complicated. HUD sells tax-exempt, federally guaranteed bonds to private investors for the housing authority. The federal government pays off the bond principal and interest through annual contributions to the housing authority which owns and operates the housing project constructed with bond revenues. Federal operating subsidies were not originally intended in the public housing program; tenant rents were expected to cover operating expenses. In the late 1960s, when these expenses--namely utility charges, salaries, etc.--began to rise faster than tenant incomes, Congress expanded the federal contribution to include part of project operating costs as well as all of the capital costs of public housing.

While ASHA owns, operates, and maintains its public housing, it must adhere to the requirements set by HUD (described above) regarding tenant eligibility and rent payments. HUD allows the housing authority the choice of setting tenant asset limits, an option ASHA has chosen to exercise. The Anchorage asset limits for public housing tenants are \$15,000 for the elderly and handicapped and \$10,000 for a family. The average net income of a tenant in ASHA public housing is \$7,350 per year; the average rent paid by a tenant is \$150 per month (Curtis, November 6, 1981).

Table 20 lists ASHA's low-income public housing projects. ASHA has built eighteen projects under this program since 1951, totaling 891 units. There is a demand for at least another 500 units, as indicated by the waiting lists. Public housing waiting lists are fairly good indicators of unmet demand since any qualified applicant who cannot be served immediately is put on the list, and that list is updated monthly (Wilson, November 23, 1981).

TABLE 20. CONVENTIONAL PUBLIC HOUSING

LOCATION: Project Name	Year Built	Number of Units	Number on Waiting List
TOTAL		1060	92
ANCHORAGE		449	278
1. Willow Park	1953	150	
2. Loussac Manor	1967	62	
3. Fairmount	1969	88	263
4. Acquisition ^a	1981	99	
5. Park View Manor	1981	50	15
FAIRBANKS		155	17
1. Birch Park	1951	75	17
2. Spruce Park	1973	80	
JUNEAU/DOUGLAS		117	50
1. Cedar Park	1952	50	26
2. Cedar Park Annex	1967	25	
3. Mountain View	1977	42	24
4. Geneva Woods	1974	25	
KETCHIKAN		64	120
1. Schoenbar Park	1969	24	85
2. Sea View Terrace	1977	50	35
SITKA: Paxton Manor	1966	24	11
PETERSBURG: Vista View	1967	12	7
KODIAK: Pacific Terrace	1967	40	43
VALDEZ: Valdez Arms	1967	14	7
CORDOVA: Eyak Manor	1970	16	1
BETHEL: Bethel Heights ^b	1968	120	47
NOME: Beringvue ^b	1970	29	1
WRANGELL: Etolin Heights ^b	1969	20	10

^aExisting units in three- and four-plexes bought by ASHA.

^bBethel Heights, Beringvue, and Etolin Heights were built and financed under other federal programs. Public Housing subsidies were granted to them when these projects experienced financial and other operating problems.

SOURCE: ASHA Records

The primary concern of HUD is that public housing projects be income solvent, that is, able to meet operating expenses with operating income. The housing authority derives its operating income from two sources, tenant rent payments and federal operating subsidies. Because of the low income levels of public housing tenants and the 25 percent rent/income limit, ASHA has depended on the operating subsidy for about half of its operating revenues (see Table 32). If these funds are significantly decreased, ASHA will be placed in a difficult situation under the new federal requirements. It will not be able to raise rents above 30 percent of any tenant's income, an undesirable move under any circumstances; nor will ASHA be able to replace the poorest tenants with new ones having higher incomes.

Public housing operating subsidies are not a guaranteed source of income for housing authorities. The funds are appropriated annually by Congress, which is under no obligation to continue these appropriations at current levels, or even at all. It is quite possible that they may be dramatically reduced in future spending cuts. Given the various constraints on ASHA under this program, such federal cuts could make it impossible for ASHA to meet program requirements and may result in financial difficulty for the housing authority. Under these circumstances, the authority would probably sell its public housing on the private market, unless other funding sources could be found.

Section 8 Subsidy Programs

While federal budget cuts may have important impacts on all federal housing programs, they would be less likely to lead to potential insolvency in the Section 8 programs. Before describing how these programs operate and how budget cuts may affect them, it is necessary to explain why the programs were instituted and how they differ from earlier federal housing programs.

In the 1960s and early 1970s, housing programs proliferated, but many projects floundered financially due to poor program design or

administration or faced criticism based on perceived discriminatory or other harmful social effects. In 1973, President Nixon suspended all principal subsidized housing programs for being inequitable, inefficient, duplicative, and too expensive. Section 8 was advanced to solve these problems by consolidating previous programs and relying on the private sector to build and manage subsidized housing, as opposed to relying on the public sector (Weicher, 1980).

Before Section 8, housing programs relied entirely on a "supply-side" approach. That is, subsidies were used to increase directly the number of housing units by financing some portion of capital costs of new housing. The benefits of the subsidies were only indirectly passed on to the nominal program beneficiaries. For example, interest subsidy programs³ were a popular supply-side approach in the 1960s. An interest subsidy effectively reduces the cost to the developer of building housing, the intention being to induce production of new housing units. This development cost savings was expected to be passed along to the program beneficiary in the form of lower rents or house prices.

A number of problems arose in many programs in the late 1960s and early 1970s. They cost more than had been anticipated in some cases; in others they were actuarially unsound or did not serve the groups intended as recipients. In general, the units built were often not affordable to intended program users (Weicher, 1980).

Under "demand-side" approaches, there is a shift away from direct production incentives that are tied to the housing unit being subsidized. The emphasis instead is on a subsidy that goes directly to the

³Section 221(d)(3) and Section 236 are two examples of interest subsidy programs for rental housing. Section 235 is an example of a homeownership program that used interest subsidies. See Weicher, Housing: Federal Policies and Programs.

needy family, enabling the recipient to afford housing in the private, unsubsidized market. The subsidy is tied to the recipient, not to a particular housing unit. The anticipated indirect effect is an increase in housing production, caused by the increase in the effective demand for housing from the poor whose incomes are increased by receiving subsidies.

The Section 8 Existing program fits this description; it is a pure demand-side approach. The Section 8 New Construction program, on the other hand, fits the supply-side description. Any program that directly produces new units is a supply-side program since the subsidy must be inseparable from the housing units that are built. The only similarity between the two Section 8 programs is the method by which the per-unit amount of subsidy is calculated. Both programs are described below.

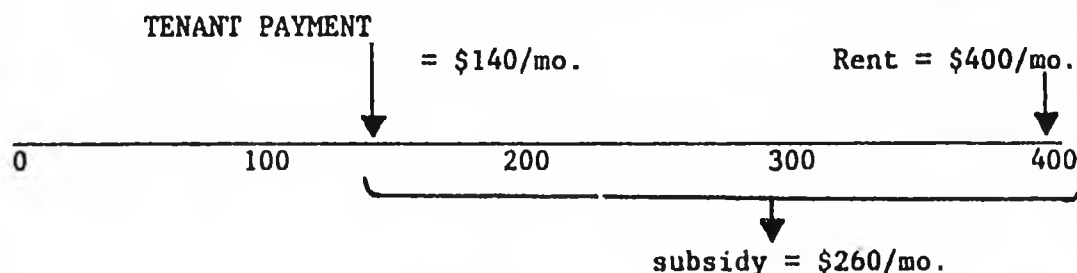
Section 8 New Construction. ASHA's new Section 8 housing closely resembles public housing since both are constructed and managed by ASHA. ASHA, as a public agency, was able to finance its Section 8 New Construction projects with state low-interest loans and grants. Without these state subsidies made, the projects would not have been financially feasible. The state funds prevented federal housing funds allocated to Alaska from being lost to the state,⁴ as HUD's practice is to reallocate funds that will not be used in one area to other parts of the country where they will be used.

In Section 8, the subsidy is not used to reduce the cost of constructing the housing; it is used to make the housing affordable to the tenant. The subsidy amount for each apartment is the difference between the rent on the unit and the tenant's monthly payment, which currently may not exceed 25 percent of monthly income.

⁴HUD's Fair Share Allocation system is described in Appendix B.

For example, for an eligible tenant with an annual income of \$6,720, or \$560 per month, the tenant payment for a subsidized apartment may not exceed \$140 (25 percent of \$560). Assume that the rent required to pay for utilities, maintenance and repairs, other operating costs, and for debt amortization is \$400 per month (see Figure 2). The difference between the tenant payment and the rent is \$260; this is the amount of subsidy HUD pays on that apartment each month. Under the 30 percent rent/income ratio to be instituted this spring, the tenant's payment will increase to \$168 per month, and the subsidy will decrease by \$28 to \$232 per month. Note that the \$260 or \$232 payment is not used to reduce the cost of building or operating the housing. It is used to reduce the cost for that eligible tenant of renting that unit.

FIGURE 2. DETERMINING THE AMOUNT OF SUBSIDY UNDER SECTION 8 PROGRAMS



HUD sets maximum allowable rents for standard quality (nonluxury) apartments and houses that receive Section 8 subsidies, called Fair Market Rents (FMRs). The FMR is not the rent paid by the tenant; it is the amount received by the landlord from both the tenant payment and the HUD subsidy. The FMR limit is set to prevent landlords from charging rents above market levels, thereby preventing larger federal subsidy outlays than are necessary. If the project sponsor, be it a private developer or ASHA, cannot amortize the mortgage debt and operate the housing with the income from the allowed rents, the project is not built.

Fair Market Rents for Section 8 New Construction units are designed to reflect the costs of constructing and operating new housing by setting them at the level charged for comparable private units. The process of setting FMRs is complex. HUD bases them on a survey of rents on nonsubsidized apartments in the area where the project will be built. FMRs are revised annually to account for changes in construction costs and in the local housing market. Table 21 shows FMRs for Section 8 New Construction in effect in Alaska as of November 1981.

There are several criticisms of HUD's FMRs. Some claim that FMRs are outdated by the time they come into effect due to the time lag between when the survey is made and the time the FMRs are used--a year to a year-and-a-half later (Young, December 13, 1981). This reduces the incentive for developers to build Section 8 housing. Rents usually increase, so Section 8 housing may rent for less, but it costs just as much to build as unsubsidized housing.

ASHA owns and operates five Section 8 New Construction projects, containing 285 rental units (see Table 22). In November 1981, there were 130 eligible applicants on waiting lists for these units. These lists, however, are not a good indicator of unmet program demand. Unlike Conventional Public Housing, Section 8 lists are closed when ASHA anticipates no open units and turnover is low. No new applications are taken by the housing authority, regardless of the eligibility of the needy individual or family.

TABLE 21. FAIR MARKET RENTS FOR SECTION 8 NEW CONSTRUCTION

Market Area	Structure Type	Number of Bedrooms				
		0	1	2	3	4 or more
Anchorage	Detached			643	711	735
	Semi-Detached/Row		553	616	671	694
	Walkup	384	453	531	628	650
	Elevator/2-4 Story 5 + Story	503	592	662		
		512	602	673		
Fairbanks	Detached			633	690	751
	Semi-Detached/Row		542	608	683	737
	Walkup	476	517	584	657	723
	Elevator/2-4 Story 5 + Story	583	670	746		
		595	684	760		
Juneau	Detached			670	763	794
	Semi-Detached/Row		538	650	727	763
	Walkup	431	481	599	693	735
	Elevator/2-4 Story 5 + Story	483	545	625		
		507	572	650		
Ketchikan	Detached			589	670	745
	Semi-Detached/Row		478	561	639	710
	Walkup	385	435	510	581	645
	Elevator/2-4 Story 5 + Story	442	505	592		
		464	515	609		
Coastal Area, ^a N. of Aleutians/ N. Coastal Area, Barter Island	Detached		861	947	1042	1146
	Semi-Detached/Row		836	920	1012	1113
	Walkup	738	812	894	983	1081
	Elevator/2-4 Story 5 + Story					

^aMarket areas are not combined. FMRs are identical for these market areas.

SOURCE: Federal Register, Vol. 45, No. 170.

TABLE 22. SECTION 8 NEW CONSTRUCTION

<u>Location Project Name</u>	<u>Year Built</u>	<u>Number Units</u>	<u>Number on Waiting List</u>
Total		285	130
Anchorage		137	96
1. Chugach View	1977	120	66
2. Ptarmigan Park	1979	17	30
Fairbanks: Golden Towers	1976	96	30
Cordova: Sunset View	1979	22	2
Seward: Glacier View	1979	30	2

SOURCE: ASHA

Tenants in ASHA's Section 8 New Construction projects have an average annual income of \$6,400 and pay an average of \$133 per month (Curtis, November 6, 1981).

There are also seven privately owned and managed housing projects in Alaska built under the Section 8 New Construction program. Each of these projects was financed with FHA mortgage insurance, an important factor in the financial feasibility of these projects. They have a commitment from HUD for 20, 30, or 40 years, depending on the term of the project loan. Table 23 lists these projects, the number of units, and the subsidy commitment.

TABLE 23. PRIVATE SECTION 8 NEW CONSTRUCTION HOUSING IN ALASKA

<u>Project</u>	<u>Subsidy</u>	<u>No. Units</u>	<u>Date</u>
1. Bethel: Ayalpik Apts.	\$228,804	24	FY 81
2. Juneau: Madsen/Tiffany	392,928	52	FY 81
3. Fairbanks: Chenana Apts.	320,820	51	FY 76
4. Fairbanks: Executive Estates	682,560	108	FY 78
5. Fairbanks: Park West Apts.	522,720	84	FY 77
6. Anchorage: KBL Apts.	477,024	76	FY 78
7. Kodiak: Kodiak Elderly	400,620	55	FY 78
TOTAL	3,025,476	450	

SOURCE: U.S. Department of Housing and Urban Development.

Section 8 Existing Housing. This program bears little similarity to either of the two programs described earlier. ASHA administers the Section 8 Existing program, but its role is not that of landlord. Eligible participants must find their own house or apartment in the private market that meets HUD's requirements. They are responsible to their private landlord for their rent payments and for other responsibilities as tenants. ASHA is involved in determining eligibility (same eligibility requirements as in Section 8 New Construction), in inspecting the units, in entering into and terminating contracts with landlords, and in passing through to the landlords the subsidy from HUD.

The only similarity between the Section 8 Existing and New Construction programs is the way the per-unit subsidy amount is determined. HUD pays the difference between 25 percent of the recipient's income and the rent on the apartment, just as in the New Construction program.

HUD also sets FMR limits for Section 8 Existing housing lower than the FMRs for New Construction (see Table 24). The reason given for lower FMRs for existing housing is that it should rent for less than new housing because it was less expensive to build. This reasoning, however, may not be valid. All rents respond to the level of housing demand, increasing when demand increases. New housing is built only when rents can be charged that offset the costs of building and managing the housing, with a profit margin included. New units rent for amounts close to that for older units; people may be willing to pay a little more for newer housing, but if a new apartment costs much more than older ones, it will remain vacant unless something makes it worth more. Setting lower FMRs for the Section 8 Existing program does not reflect this relationship. Subsidy recipients are experiencing increasing difficulty in finding apartments with rents as low as the FMRs (Strasbaugh, December 7, 1981; Terrell, December 16, 1981).

TABLE 24. FAIR MARKET RENTS FOR SECTION 8 EXISTING HOUSING^a

<u>Location</u>	<u>Number of Bedrooms</u>				
	<u>0</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
Anchorage	332	404	475	546	618
Fairbanks	332	404	515	592	670
Juneau	332	404	515	592	670
Kenai	332	404	515	592	670
Ketchikan	332	404	515	592	670
Matanuska-Susitna	332	404	515	592	670

^aNew FMRs will be published early in 1982.

SOURCE: Federal Register, Vol. 46, No. 52, p. 17505.

As program funds become available, the HUD Anchorage Area Office allocates them around the state. They are allocated in the form of a certain number of rent subsidy certificates for different types of units, from efficiency to five-bedroom apartments. The mix of units determines the number of certificates: the more certificates for large units, that is, for large families, the fewer the households that receive them. This tradeoff between number and size of families receiving subsidies also applies to Section 8 New Construction and any other housing program, because the amount of available funds is not unlimited. HUD attempts to be equitable in its distribution of funds by basing the mix of units it subsidizes on local needs and on the mix of units previously subsidized in that area. Table 25 shows the distribution of Section 8 Existing subsidies in Alaska.

Tenants with Section 8 Existing subsidies have average annual incomes of \$7,100 and pay an average of \$148 per month for rent (Curtis, November 6, 1981).

TABLE 25. SECTION 8 EXISTING HOUSING

<u>Location</u>	<u>Number Certificates Allocated</u>	<u>Number Certificates Under Contract</u>	<u>Number On Waiting List</u>
State Total	1,363	1,032	479
Anchorage ^a	980	772	299
Fairbanks	100	100	100
Kenai/Soldotna	110	110	47
Ketchikan	40	40	11
Juneau ^a	11	1	22
Mat-Su ^a	122	9	0

^aAnchorage and Mat-Su received a new allocation of certificates in the fall of 1981; consequently, a large number of these certificates have not yet been contracted.

Juneau received its eleven-certificate allocation in 1980, but due to extremely low vacancy rates, only one has been successfully contracted. The remaining ten allocations must be returned to HUD.

SOURCE: Alaska State Housing Authority.

Regional Housing Authorities

Mutual Help Housing

Most RHA activity currently takes place under the federal Mutual Help for Indians housing program. As the name implies, the program serves only the Native population. Today's Mutual Help program is the latest in a series of three low-income homeownership programs that began in the early 1960s with the Turnkey III program.⁵ The major differences between the programs have been in how monthly payments are computed.

Participating families initially lease houses owned by the RHA and gradually build up equity in the homes they occupy. Ownership passes to the family under three circumstances: when family income increases to the point where it can obtain permanent financing; when the amount contributed to an equity account equals the unamortized debt and closing costs; or after 25 years.

Eligible participants are low-income Native families with a potential for homeownership; that is, the ability to meet the minimum payments required. Income limits vary from one RHA to another; each RHA sets maximum and minimum limits for families of different sizes. The maximum income limits must be approved by HUD, which requires that they not exceed 80 percent of the area median income unless no other source of mortgage financing is available in the area where the applicant lives. The minimum income limit is the level of income the RHA determines is necessary to pay home operating costs and the minimum monthly payment.

⁵In 1968 and 1970, before the creation of RHAs, ASHA constructed 230 houses under Turnkey III--180 in Bethel and 50 in Nome. Approximately 138 of these units have been converted to rentals due to the inability of many participants to maintain a home buyer status. (Barbara Wilson, ASHA; Performance Review of ASHA: 2,8.) HUD has not accepted new Turnkey III applications since 1973.

Participating families are required to contribute either land for the house site, labor in constructing the house, building materials, cash, or a combination of these, valued at \$1,500. In addition, the family must make a monthly payment to the RHA. This monthly payment has two components; the first is an administrative service charge that covers the RHA program administrative expenses, insurance on the house, and payments in lieu of local property taxes. The second component of the monthly payment is an amount that goes into a family equity account. The entire monthly payment may not exceed 25 percent of family income; thus, the amount budgeted to the equity account is the difference between 25 percent of income and the administrative charge. A participating family may have an income low enough that no payments are ever made to the equity account. Nonetheless, after 25 years, ownership will pass to such a family as long as it has paid its utility costs and the monthly administrative service charge.

The monthly payment may change if the costs of administering the program changes and if family income changes. The RHAs periodically recertify family income to adjust monthly payments and to determine if the family is eligible for permanent financing, one of the ways a family can attain ownership status.

Once a family is determined eligible for permanent financing and elects to take out a mortgage loan, its obligations change from those under an occupancy agreement to those under a promissory note and mortgage, which are held by the RHA. The RHA lends the family the amount for home purchase at the current FHA interest rate. The purchase price is established as the portion of original development cost that has not been paid off by HUD in its annual contributions to the RHA, plus loan closing costs. The family continues to make its payments to the housing authority, but now it is paying principal and interest on its mortgage loan. If the family's income subsequently decreases, this payment schedule can be adjusted to a certain extent to prevent hardship and the possibility of default.

Several advantages accrue to a family that achieves this arrangement, despite the fact that its monthly payments increase. The family can sell the house without any special restrictions. If it can qualify for a loan from another lender, the family can get out of the program altogether. This means an end to annual house inspections and income recertification. And whether or not it finds private financing or keeps its RHA mortgage, it is able to take the usual tax deductions for ownership expenses.

Housing construction under the Mutual Help program has been financed entirely by the U.S. Department of Housing and Urban Development. By mid-1981, HUD had financed approximately 2,547 Mutual Help houses under the latest program and had applications from RHAs for another 612 units (see Table 26).

TABLE 26. MUTUAL HELP HOUSING PRODUCTION

<u>Housing Authority</u>	<u>No. Units Financed^a</u>	<u>No. Units in Applications</u>
Aleutian	131	38
ASRC	146	25
AVCP	698	306
Bering Straits	230	55
Bristol Bay	219	0
Cook Inlet	122	30
Copper River Basin	72	20
Interior	311	125
Kodiak Island	166	12
Metlakatla	36	0
Nana	252	10
North Pacific Rim	116	21
Tlingit-Haida	48	0
TOTAL	2,547	612

^aIncludes units completed, under construction, and with funds reserved.

SOURCE: Department of Housing and Urban Development.

The 1981 Alaska legislature established a Supplemental Housing Development Fund in the Department of Community and Regional Affairs (CRA) that makes grants to RHAs for the cost of on-site sewer and water facilities, road construction to the project site, and the extension of electrical distribution facilities to individual residences (1981 House Bill 502 and 503). Staff at several RHAs maintain that without these funds, it would be much more difficult to build any housing in their jurisdictions because of the HUD per-unit total development cost limit. The total cost of housing involves more than the materials and labor that go into the actual structure. Federal programs often require that houses constructed with federal funds conform to standards that include water, sewer, and electrical service. It is difficult to build within HUD's cost limit because the costs of construction in rural Alaska are high. The CRA grants for water, sewer, etc. are not included by HUD in its development cost calculations, and the grants allow federal funds that would have funded infrastructure to be used to meet other necessary expenses.

At this time, the entire \$12.3 million appropriated by the state for this program have been committed to RHA projects that will build between 500 and 600 new houses (Crane, January 1982).

State-Funded Housing

In the early 1970s, the state undertook construction of a rental housing project under no federal program, with no federal funding or involvement. This project is described below.

Marine View

During a severe housing shortage in Juneau, Alaska, in 1972, the Alaska State Housing Authority initiated construction of the Marine View apartments. The 98-unit project consisted of 64 one-bedroom, 32 two-bedroom, and 2 three-bedroom units. Financing for the \$3.9

million project was obtained from the Alaska Housing Finance Corporation (AHFC). Terms of the loan included interest at 3 percent over 36 years with the first five years requiring interest-only annual payments. Despite its predominantly low-income composition, the project did not receive any federal subsidy due to insufficient federal allocations (Special Review of Marine View).

Since initial occupancy in early 1974, the project has been in financial difficulty. Due to increased annual debt payments (principal portion) and other costs, in mid-1979 ASHA converted three floors of the nine-floor structure to office space. Various state agencies occupied the three floors in 1979 with the state retaining a negotiable option on the fourth floor. The state exercised the option in early 1980, and ASHA, after examining various alternatives, agreed to convert. Fourth-floor tenants receiving eviction notices were either provided relocation assistance in the form of lump-sum payments of \$4,000 or were assisted in moving. Assistance to tenants occupying the first three floors was not necessary because there was much greater lead time; the tenants either moved to higher units in Marine View as they became available or to other projects.

Marine View now contains 60 apartments on the upper five floors. Tenants must meet income and asset limits: maximum annual incomes cannot exceed \$19,500 for a single person, \$22,270 for a family of two, \$25,100 for three, \$27,825 for four, and \$29,600 for a family of five. The maximum asset limit is \$50,000 per household. The average gross income of a Marine View tenant is \$20,000 annually, and the average rent paid is \$308 per month for a one-bedroom unit and \$385 per month for a two-bedroom unit.

ASHA's experience with Marine View led to the conclusion not to attempt to construct low-income housing without the commitment by HUD of federal operating subsidies. The HUD area manager has indicated to ASHA that housing units developed from non-HUD funds may be eligible

for operating subsidies but will be governed completely under the terms and conditions normally required by HUD (Curtis, October 28, 1981). Any such arrangement could not guarantee a fixed level of subsidy, however, since funds for operating subsidies are appropriated annually by the U.S. Congress and are subject to annual congressional adjustments.

Low-income housing built under such an arrangement with HUD could be of substantial financial benefit to the state's residents. Project development costs comprise a relatively small part of the total project-life subsidy cost; a relatively small state expenditure could bring in a much larger amount of federal funds. Today's political climate makes the future of operating subsidies, and housing subsidies in general, uncertain. Under these circumstances, it would be unwise to consider this strategy, unless the state is willing to provide state funds for operating subsidies or raise rents to levels sufficient to sustain the project if no federal funds were available.

Subsidized Housing Production

Since 1970, ASHA and the RHAs have constructed about 3,478 new housing units throughout the state. About 2,236 units for homeownership and about 1,242 rental units were built. The combined impact of public housing authority production on the state as a whole has been small; these units account for only five percent of the net change in number of units from 1970 to 1980.

HUD is an important factor in determining how federal housing subsidies are distributed around the state. Most federal housing assistance funds are allocated to different geographic regions based on housing need, as measured by population, poverty, and housing conditions (see Appendix B). Housing authorities influence the distribution of these benefits by responding to funds availability with well-prepared project applications. State agencies, therefore, have only limited influence over where the federal funds are spent.

Table 27 shows the geographic distribution of subsidized housing units managed by the various housing authorities. By far the greatest impact has been in the Northwest region, where one in five households receives subsidies through the public housing authorities.

TABLE 27. GEOGRAPHIC DISTRIBUTION OF SUBSIDIZED HOUSING
MANAGED BY STATE HOUSING AUTHORITIES

	<u>No. Households With Subsidy^a</u>	<u>Percent of House- holds In Region</u>
Southeast	708	3.87
Southcentral ^b	2,424	2.92
Central	1,567	6.30
Northwest	<u>997</u>	20.74
	5,696	

^aIncludes recipients of Section 8 Existing Housing subsidies and residents of public housing, Section 8 New Construction, HUD Remote Housing, Bartlett, Turnkey III and 221(d)(3) projects.

^bIncludes Aleutian and Pribilof Islands.

SOURCES: U.S. Department of Housing and Urban Development
Alaska State Housing Authority

Program Beneficiaries

In this section we examine the income, age and racial characteristics of federal housing subsidy recipients. Current data on RHA program participants are not available; detail will be provided only for ASHA participants. It is certain, however, that RHA beneficiaries are predominantly Natives and families. In at least three regions, Kodiak Island, Bering Straits, and AVCP, they usually have the minimum income required to participate in the Mutual Help Program (Knight, January 14, 1982).

ASHA housing projects contain a high proportion of very low income tenants (having incomes no greater than 50 percent of the area

median). Table 28 shows the portion of very low income ASHA tenants in various cities. As a whole, 64 percent of all public housing and Section 8 New Construction projects fall into this category. Recipients of Section 8 Existing subsidies also usually have very low incomes⁶ (Snyder, November 19, 1981).

TABLE 28. VERY LOW INCOME HOUSEHOLDS IN ASHA HOUSING^a

	<u>Number</u>	<u>Percent of ASHA Units</u>
Anchorage	351	60
Fairbanks	190	76
Juneau/Douglas	72	62
Ketchikan	46	72
Sitka	10	42
Petersburg	9	75
Kodiak	20	50
Valdez	8	57
Cordova	24	63
Seward	26	86
	$\Sigma = 756$	64.3%

^aIncludes public housing and Section 8 New Construction units.

SOURCE: Alaska State Housing Authority.

A large portion of ASHA housing, 37.9 percent, is rented by elderly households (see Table 29). Persons aged 62 or older comprise only 4 percent of Alaska's population (Bureau of the Census, unpublished data). It is difficult to estimate what portion of elderly households needs housing assistance. The problem is generally recognized as an important one, however, and the state has had a program to

⁶Data on Section 8 Existing recipients were collected only for Anchorage, which accounts for 72 percent--or 980 out of 1,363--of all current certificates. Of those in Anchorage, 78 percent of recipients have very low incomes.

facilitate the provision of senior citizen housing for several years (see Chapter Three). A representative of the Older Persons' Action Group indicated that affordable, adequate housing is the biggest problem the elderly face today (McVickers, January 10, 1982).

Native and black households living in ASHA's housing are shown in Tables 30 and 31. Nearly 40 percent of ASHA's tenants are Natives, and 8 percent are black. Only 7 percent of the population in ASHA-served places is Native (1980 Census of Population Advance Counts), but Natives have historically had lower incomes than the rest of the state's residents. In 1970, 39.3 percent of all Native families had incomes below poverty level, while only 9.3 percent of all families in the state fell into that category (1970 Census of Population).

TABLE 29. ELDERLY HOUSEHOLDS IN ASHA HOUSING^a

	<u>Number</u>	<u>Percent of ASHA Units</u>
Anchorage	176	20
Fairbanks	135	54
Juneau/Douglas	50	35
Ketchikan	18	28
Sitka	3	13
Petersburg	3	13
Kodiak	3	7
Valdez	4	29
Cordova	24	63
Seward	30	100
TOTAL	<u>440</u>	<u>37.9</u>

^aIncludes public housing and Section 8 New Construction.

SOURCE: Alaska State Housing Authority.

TABLE 30. ALASKA NATIVE HOUSEHOLDS IN ASHA HOUSING^a

	<u>Number</u>	<u>Percent</u>	<u>% of 1980 Population</u>
Anchorage	193	33	5
Fairbanks	102	41	7
Juneau ^b	65	46	11
Ketchikan	31	48	15
Sitka	14	58	21
Petersburg	1	8	11
Kodiak	24	60	14
Valdez	2	14	6
Cordova	16	42	15
Seward	<u>8</u>	<u>27</u>	13
TOTAL	456	38.8%	

^aConventional Public Housing and Section 8 New Construction projects.

^bIncludes Douglas.

SOURCE: ASHA Public Housing and Section 8 New Construction program records.

TABLE 31. BLACK HOUSEHOLDS IN ASHA HOUSING^a

	<u>Number</u>	<u>Percent</u>	<u>% of 1980 Population</u>
Anchorage	47	8	5
Fairbanks	25	10 _b	9
Juneau/Douglas	1	- _b	-
Ketchikan	18	28	-
Sitka	0	0	-
Petersburg	0	0	-
Kodiak	0	0	-
Valdez	1	7	1
Cordova	0	0	-
Seward	0	0	-
TOTAL	92	7.8%	

^aConventional Public Housing and Section 8 New Construction projects.

^bLess than one percent.

SOURCE: ASHA Public Housing and Section 8 New Construction program records.

The evidence presented indicates that the impact of housing authority operations in the state as a whole have been small. The Northwest region has felt the greatest impact: in 1980, over 20 percent of households received housing assistance through RHA activity. The distribution of the benefits of housing authority activity appears to be consistent with the distribution of need among state residents, according to HUD's indicators of need.

There is no evidence that ASHA's operations fail to serve particular poor groups, the elderly and Natives, for instance. The greatest gap between needy families and federal program service exists in the bush, where a large portion of the population cannot benefit from the Mutual Help homeownership program because their incomes are so low. Any program to benefit this group must provide operating subsidies to help meet the costs of operating and maintaining a home.

State Funding

States do not normally provide any funding in the public housing, Section 8, or Mutual Help for Indians programs. In Alaska, however, the costs of construction exceed the limit currently allowed by HUD. To prevent federal funds from being lost to the state, supplemental funds have been provided through the Department of Community and Regional Affairs through two programs: the Supplemental Housing Development Fund and the Senior Citizens Housing Development Fund. The former of these, described briefly in the discussion of RHA activities, is a new program, with \$12.3 million in capital funds appropriated by the legislature in 1981. The program for elderly housing has provided funds for four ASHA elderly projects. Sunset View, Glacier View, Sea View Terrace, and Mountain View received grants totaling \$1,658,095; the funds were used to reduce ASHA's debt service for these projects.

In five cases with ASHA projects, the state has also made low-interest loans to ensure project feasibility. Permanent loans totaling \$11,211,453 at 7 percent interest were made for two elderly projects, Chugach View and Golden Towers. Three interim low-interest loans, also at 7 percent, were made for two additional elderly and one family project, Sunset View, Glacier View, and Ptarmigan Park. The original principal amount of the loans totaled \$4,629,000; ASHA reduced its indebtedness on Sunset and Glacier View by using its grants from the Department of Community and Regional Affairs to pay off a portion of its loans immediately (Curtis, January 12, 1982). Table 32 summarizes ASHA's state loans and grants.

The state, then, has used its resources in a limited way to take advantage of federal housing funds allocated to Alaska. By enabling the financial feasibility of these projects with its grants and loans, the state secured a continuing stream of federal subsidies which surpasses the state investment over the years.

TABLE 32. STATE FUNDING FOR ASHA PROJECTS

<u>Project</u>	<u>Grant</u>	<u>Loan</u>
Sunset View	\$183,600	\$1,455,000
Glacier View	215,100	1,984,000
Sea View Terrace	761,311	
Mountain View	498,084	
Chugach View		5,911,453
Golden Towers		5,300,000
Ptarmigan Park		1,190,000

SOURCE: Alaska State Housing Authority.

Program Costs

The costs to the state of its investment in ASHA housing have been small. Its grants have totaled about \$1.66 million, nearly \$400,000 of which was used by the grantee, ASHA, to pay back a portion of the state's own loans to this agency. The actual net grant amount comes to \$1,259,395.

The state's loans to ASHA, despite their total original principal value of \$15,840,453, will cost the state relatively little. Most of this total, \$11.2 million, will be repaid over 40 years with 7 percent interest. The cost to the state of making these loans equals the value of the interest subsidy, which is determined by the alternate uses to which the money could have been put and the rate of return on those uses. The remaining \$4.6 million was loaned at an interim rate of 7 percent. Negotiations on renewing these interim loans will probably provide the state with an effective rate of return of 14 or 15 percent on the remaining principal balance (Curtis, January 12, 1981) if the loans are renewed. The costs of the state interest subsidy on these loans will be lower than for the permanent loans, and will also be determined by the return on alternate uses for these funds.