

## Sponsor Statement for CS for SB 181 (FIN) am

# Small Community Housing Loans

**"An Act relating to and increasing the interest rate on that portion of a loan for a single-family house or owner-occupied duplex that exceeds \$200,000 where the loan is for a house or duplex in a small community with a population of 6,500 or less that is not connected by road or rail to Anchorage or Fairbanks, or with a population of 1,600 or less that is connected by road or rail to Anchorage or Fairbanks for purposes of the small community housing program of the Alaska Housing Finance Corporation; relating to loans for teacher housing in which each unit that is not vacant is occupied by at least one individual who is employed as a certificated teacher in a public elementary or secondary school in a small community with a population of 6,500 or less that is not connected by road or rail to Anchorage or Fairbanks, or with a population of 1,600 or less that is connected by road or rail to Anchorage or Fairbanks, and increasing the interest rate on the loans if this occupancy requirement is not complied with; and providing for an effective date"**

[This Committee Substitute](#) makes four changes to the AHFC rural housing loan program established by [AS 18.56.420](#) and known as the HALF program. The changes are:

- Makes the program available for owner occupied single family or duplex homes but not investment property.
- Limits the subsidized portion of loans to \$200,000.
- Allows AHFC to offer blended rate mortgages; a loan amount in excess of the subsidized portion would be at market rates.
- Allows multi family non-owner occupied housing loans to be subsidized only if the tenants are certificated teachers.

It is clearly not good public policy to have a state program that rewards rich and well off people in low cost construction areas with a special discriminatory housing loan subsidy that also discourages formation and unification of local governments. But that is just what AS18.56.420 (the HALF program) does. The program includes a statutory 1 percent below market interest rate for the Housing Assistance Loan Fund (HALF) program. AS 18.56.420 creates the HALF program to provide housing loans to residents in communities of less than 6,500. AS 18.56.420 currently requires that these loans be made at 1 percent below market rates. This loan program is managed by AHFC. The 1 percent discount on HALF loans costs the state on average over \$40,000 in lost income over the life of one of these loans. The Committee Substitute modifies the program by capping the subsidized portion of the loan. Capping the subsidized portion of the loan amount at \$200,000 will make the program more profitable to AHFC, make more loans available to other borrowers, and will stop the current subsidizing the full cost of higher priced homes.

1. A September 2000 legislative audit concluded that the need for the program has been eliminated through other programs and private entities meeting the needs of homeowners. Testimony before the Senate Finance Committee showed that the program is a vital program in small communities.

2. The Committee Substitute contains provisions that are intended to enhance teacher recruitment in small communities. Subsidized loans can be used to finance multiple-unit housing as long as certificated teachers' are residents.
3. By limiting the subsidized portion of the loans, AHFC should be able earn additional income while still offering a subsidized program to qualified borrowers.
4. Providing these low cost loans to borrowers who don't need the subsidy while denying such a subsidy to other less well off Alaskans is unfair discrimination. The Committee Substitute also provides that any loan amount in excess \$200,000 can be offered at market rates.
5. The Committee Substitute also provides for financing of certificated teacher occupied multi-family homes. Loans for multi-family homes that do not have certificated teachers as residents are not eligible for this subsidized program.
6. AHFC have indicated that they have changed their lending regulations so that the program no longer inhibits formation, consolidation and unification of local governments and these changes will further reduce that disincentive.

At Senate Finance Committee hearings held last year and during the past few months indicated that support existed for continuation of this program. Accordingly, this committee substitute was drafted so that the program would continue. The program should also be limited to financing a primary residence or teacher occupied residence. In fiscal years 98 and 99 there were 1,026 HALF-subsidized loans made. During that two-year period the 1 percent subsidized loans were made to 166 borrowers with annual incomes over \$100,000. 74 percent of the loans made during this period were to borrowers in areas where home construction costs are less than in the Anchorage area. The average price of a home receiving a subsidized loan during this period was \$167,000. During this same period 148 loans were made for amounts above \$200,000. 11 loans were for amounts greater than \$300,000, the highest loan being for \$400,000. The 1 percent subsidy on that \$400,000 loan will cost the state close to \$100,000 in lost income over the life of that loan. In order to eliminate the abuse of residents receiving loans to finance expensive homes, the subsidized loan amounts are capped at \$200,000.

The HALF program was intended to give people a chance at home ownership when they didn't have other options. However, the eligibility requirements need to be tightened up so that those who can afford other programs or are already in low cost construction areas are not eligible. The eligibility requirements included in the Committee Substitute include limiting the loans to owner occupied single family or owner occupied duplex homes. This should continue to provide an attractive loan program while providing more income to the state and AHFC. It's just not good public policy to subsidize a multi unit housing development to increase the owner's profits. Even though no loans have been made for housing units larger than two units, it is good policy to place the prohibition in statute. It is probable that the people building multi unit housing have the income and /or the financial strength to use other non-subsidized programs. A subsidy program is usually reserved for those whose circumstances require it.

It is clearly not good public policy to have a state program that rewards rich and well off people in low cost construction areas with a special discriminatory housing loan subsidy that

discourages formation and unification of local governments. For these reasons the HALF 1 percent subsidy program should be modified so that high value loans cannot be fully subsidized under this state loan program.