

Housing finance agency boosts market

by the Alaska Housing
Finance Corporation

for the Tundra Times

In good economic times and in bad, Alaska Housing Finance Corp.'s programs boost Alaska's housing market, a recent study found.

The study also found that in the 1980s, AHFC has done just what the Alaska Legislature intended it to do: make housing affordable for most Alaskans.

The study was conducted by Matthew Berman and Lee Husky of the University of Alaska's Institute of Social and Economic Research.

In the study, completed in December, the team researched the effect AHFC's programs had on the housing market from 1980 to present.

AHFC was created in 1971 by the state to provide Alaskans with low-cost mortgage financing. AHFC, a self-supporting public corporation, is a secondary purchaser of mortgages. Although AHFC's activities now constitute a significant portion of the Alaskan residential housing market, AHFC does not lend funds directly. Rather, AHFC purchases mortgage loans from private financial institutions or mortgage companies operating in Alaska.

The majority of funds used to purchase mortgage loans are generated through the issuance of taxable and tax-exempt bonds.

AHFC is the major secondary mortgage lender in the state. On June 30, AHFC's portfolio contained 53,121 loans totalling \$4.6 billion.

According to the study, in the first half of the 1980s, AHFC mortgage loan programs made it possible for thousands of Alaskans to buy houses



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rather than rent. Also, more Alaskans were able to buy bigger and better houses as a result of AHFC's programs.

"But contrary to popular belief," the study states, "AHFC's subsidized mortgage interest rates and other program features had little lasting effect on housing prices. Prices did go up after AHFC began subsidizing mortgage rates in 1980, but those increases stimulated new construction — and the increased supply of housing subsequently held down price increases."

The study also found:

- The biggest effects of AHFC's programs have been on the number and quality of houses sold rather than on prices; AHFC's programs meant that Alaskans bought more and better homes. About 8 percent — roughly 8,000 — more Alaska households were able to buy homes rather than rent because of AHFC's programs. Households that probably would have bought homes anyway spent about 15 to 20 percent more buying a bigger and better house than they otherwise

would have because of AHFC's reduced interest rates and other benefits.

- Sales of just single-family houses were 40 percent higher in the first half of the 1980s as a result of AHFC's programs. Those increased sales were due in large part to AHFC policies that allowed a substantial number of Alaskans who would otherwise have bought condominiums or mobile homes to buy single-family houses.

- AHFC's programs have had little lasting effects on prices: they increased prices by about 3 percent above what they would otherwise have been in the first half of the 1980s, because those subsidies rapidly increased demand. But higher prices stimulated new construction that rapidly increased the supply of housing and held down subsequent price increases.

- The high conventional mortgage rates prevailing at the start of the 1980s might have reduced the share of Alaska households owning homes by as much as 12 percent if AHFC had not subsidized rates.

- Homeowners tend to default on their mortgages when prices of their

homes fall below what they still owe on the properties. The overall housing boom of the early 1980s and AHFC's programs sharply increased the number of Alaskans owning their own homes — so that many more households were at risk when the economic downturn brought down housing prices.

- Homeowners with little equity in their properties are more likely to default on their mortgages than are others with similar family and financial characteristics. AHFC has been harder hit by defaults than other lenders because many AHFC mortgage holders have little equity in their properties. AHFC made about 80 percent of new mortgage loans in the past few years — so thousands of AHFC borrowers have had little time to build up equity.

- AHFC borrowers with mortgages on condominiums and mobile homes have been more likely to default because prices of condominiums and mobile homes have fallen more — in percentages — than have prices of single-family houses. When housing prices are falling, single-family houses tend to hold their value better than do condominiums or mobile homes, because buyers generally prefer single-family houses and are better able to afford them when prices are down.

- AHFC programs, by continuing to offer the lowest available interest rates and other benefits, are still — even in the current economic slump — stimulating more demand for housing than would exist without the programs.

The ISER team also predicts that prices of housing and the demand for new AHFC mortgages will decline slightly through 1988.