

EVALUATION AND REVIEW OF STATE HOUSING
FINANCE AGENCIES

With a Special Section on the
Alaska Housing Finance Corporation

a report prepared for
The Alaska Housing Finance Corporation

by

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HIGHLIGHTS

- Between 1973 and 1979, the percent of income required for the median-income family to purchase the median-priced house rose from 18 percent to 31 percent. (page 2)
- The typical State Housing Finance Agency (SHFA) assisted home purchaser is a first-time home buyer with a moderate income who purchases a modest home. (page 8)
- Evidence suggests that the interest rate and tax loss effects attributed to the SHFA single-family mortgage assistance program by critics may be overestimated by a factor of two or more. (pages 10, 15)
- The SHFA single-family mortgage program extends the benefits of federally assisted housing to families largely ineligible for the primary federal assistance program. (page 18)
- Proposals to eliminate the SHFA single-family mortgage program are ill-timed in view of current trends in the economy and housing market. (page 22)
- High incomes in Alaska, after adjusting for the high cost of living, do not compensate for high housing costs. (page 36)
- Consequently, the quality of the Alaskan housing stock is poor and homeownership is less frequent. (page 37)
- Alaska Housing Finance Corporation (AHFC) targets its loans to moderate-income families. (page 42)
- The absence of a secondary mortgage market in rural Alaska is a special problem which AHFC is attempting to rectify. (page 45)

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THE STATE HOUSING FINANCE AGENCY (SHFA)
SINGLE-FAMILY HOUSING MORTGAGE PROGRAM

PRIMARY OBJECTIVE

REDUCE THE COST OF SHELTER TO LOW- AND MODERATE-INCOME FAMILIES
THUS PERMITTING THEM TO PURCHASE HOMES.

- Cost savings is accomplished by providing mortgage assistance at reduced interest rates through the issuance of bonds, the interest on which is tax free to the holder. For qualifying low- and moderate-income families, this presently brings the effective mortgage loan rate down approximately 2 percentage points, reducing it from 11.5 to 9.5 percent. This converts into a savings in total housing costs of 6 to 9 percent.¹

JUSTIFICATION

A SIGNIFICANT PERCENTAGE OF FAMILIES ARE UNABLE TO PURCHASE SHELTER
BECAUSE THE COST OF THE MOST BASIC HOUSE IS BEYOND THEIR MEANS.

- In 1973 and 1977, the median-income family was able to purchase the median-priced new house. Housing prices rising more rapidly than incomes combined with sharply higher mortgage interest rates have now eliminated this possibility.

Table 1 shows that the median-income family needed to spend 18 percent of income on mortgage payments for the median-priced new home in 1973, but 23 percent was needed in 1977.²

TABLE 1. INFLATION PRICING FAMILIES OUT OF THE HOUSING MARKET

	<u>1973</u>	<u>1977</u>	<u>1977 (with 1979 interest rate)</u>	<u>1979 (with median family income estimated)</u>
Median Family Income ³	\$12,051	\$16,009	\$16,009	\$20,000
Median Housing Price ⁴	\$32,500	\$48,800	\$48,800	\$64,200
Mortgage Interest Rate	7.5	8.75	11.5	11.5
Home Purchased at 25% of Income Rule	\$55,833	\$52,940	\$42,080	\$52,570
Percent of Income Necessary to Service Mortgage on Median- Priced Home	18%	23%	29%	31%

Note: A thirty-year mortgage with 20 percent downpayment is assumed in all cases.

● Since 1977, housing prices have continued to increase more rapidly than income. The median price of a new house rose 32 percent in the two years between June 1977 and 1979.⁵ Personal income grew only 25 percent between the second quarter of 1977 and 1979.⁶ Using today's mortgage interest rates and estimated current median income, the median-income family would pay 31 percent of income for the mortgage on the median-priced new house. Thus, in the six-year period between 1973 and 1979, the proportion of income necessary to purchase a house has increased 72 percent.⁷

● For a family with an income 75 percent of the median in 1977, but facing today's interest rates, the housing choice would have been limited by the availability of low-priced housing. Such a family could afford a home costing \$31.5 thousand, but only 7 percent of new homes in 1977 had prices below \$30 thousand.⁸

● At an income below 75 percent of the median, the possibility of purchasing shelter is further reduced. In 1979, less than 12 percent of new homes have been priced below \$40 thousand,⁹ and only 12 percent of existing homes have been sold under \$30 thousand.¹⁰ The cost of modest shelter is shown in Table 2, which gives 1979 cost limits for a simple three-bedroom house applicable to various HUD low-income housing programs for various communities.

TABLE 2. CONSTRUCTION COST OF MODEST THREE-
BEDROOM HOUSE
DETACHED AND SEMI-DETACHED¹¹

(thousand \$)

Hartford	39.7	Minneapolis	36.0
Boston	35.2	Milwaukee	36.2
Manchester, N.H.	37.5	Des Moines	30.9
Burlington, VT	37.7	Omaha	31.2
Newark	42.3	Sioux Falls	38.6
Washington, D.C.	37.1	Salt Lake City	31.3
New York City (metro)	26.0	Los Angeles	34.9
Columbia, S.C.	27.2	Anchorage	40.8
Chicago	44.6	Portland, OR	36.5

Note: Excludes cost of land, site improvements, and fees.

• Families in high cost-of-living areas pay relatively more for housing and/or consume less because typically the cost of housing is relatively the most expensive item in these areas. For some representative high cost-of-living communities, Table 3 shows that the cost of homeownership exceeds the overall cost-of-living index. For example, the cost of housing in the New York-New Jersey metropolitan area is 21 percent higher than the overall cost index which itself exceeds the national urban average by 16 percent. Table 3 also shows that different components of the housing budget account for its high relative cost in different cities. In New York and Boston, property taxes and utilities make the housing index high, while in Anchorage all components are high. The cost burden on renters is also significant, as shown in Table 4.

TABLE 3. HIGH COST-OF-LIVING CITIES:
THE RELATIVE COST OF HOMEOWNERSHIP
FOR INTERMEDIATE-BUDGET FAMILY^{1,2}

(US Urban Average = 100)

High Cost-of-Living Cities	Cost-of- Living Index	Index for Selected Components of Housing				Percent by Which Housing Cost Exceeds Cost-of- Living Index
		Principal & Interest	Fuel & Utilities	Taxes	Total Index	
New York - Northeast New Jersey	116	120	145	216	140	21% higher
Washington, D.C.	108	113	111	106	112	4% higher
Boston, Massachusetts	119	113	141	306	156	31% higher
Anchorage, Alaska	141	155	149	147	148	5% higher
Honolulu, Hawaii	124	-	-	-	124	no higher
Hartford, Connecticut	104	-	-	-	114	10% higher

Note: Cost of housing includes, in addition to mortgage payments, property taxes, insurance, utilities, home repairs, and maintenance.

TABLE 4. HIGH COST-OF-LIVING CITIES:
THE RELATIVE COST OF RENTING
FOR LOW-BUDGET FAMILY¹³

(US Urban Average = 100)

<u>High Cost-of-Living Cities</u>	<u>Cost-of- Living Index</u>	<u>Cost-of- Renting Index</u>	<u>Percent by Which Renting Cost Exceeds Cost-of- Living Index</u>
New York - Northeast New Jersey	104	104	no higher
Washington, D.C.	107	120	12% higher
Boston, Massachusetts	108	120	11% higher
Anchorage, Alaska	165	230	39% higher
Honolulu, Hawaii	129	146	13% higher
Hartford, Connecticut	104	119	14% higher

Note: Cost of renting includes utilities and renter's insurance.

EFFECTIVENESS

SURVEYS SHOW THAT PROGRAM STATUTORY REQUIREMENTS LIMITING INCOME, HOUSING PRICE, AND MORTGAGE AMOUNT ARE EFFECTIVE IN TARGETING THE PROGRAMS TOWARD LOW- AND MODERATE-INCOME FAMILIES.

- Of 32 states identified as having State Housing Finance Agency (SHFA) single-family mortgage programs, about half set the upper limit on income for a family of four near the median income for the state.¹⁴ Of those states with income limits exceeding the median income of the state, only nine appear to have established income limits in excess of 125 percent of median family income for some program components.¹⁵

- A recent survey of SHFA single-family mortgage programs provides a profile of the average SHFA home buyer. This is compared to recent data on the "typical" home buyer in Table 5. The SHFA client is over twice as likely to be a first-time purchaser, has about three-quarters of the income of the typical home buyer, purchases a home costing less than three-quarters of the average for 1977 sales, and takes out a mortgage about 80 percent of the typical 1977 mortgage. This indicates that the program is successfully targeted to low- and moderate-income, first-time home buyers. (The SHFA buyer is compared here to 1977 norms because the SHFA survey covers all of the several years during which mortgage loans have been made.)

TABLE 5. TYPICAL HOME PURCHASER COMPARED TO SHFA-ASSISTED HOME PURCHASER

	Typical Purchaser ¹⁶ Utilizing SHFA	Typical Purchaser (National Averages in 1977)	Ratio of SHFA Sales To Total Sales
First-Time Home Purchaser (%)	79	38 ¹⁷	208%
Average Income	\$14,736	\$20,421 ¹⁸	72%
Average Purchase Price	\$33,952	\$47,900 ¹⁹	71%
Average Mortgage Amount	\$31,294	\$38,500 ²⁰	81%

EFFICIENCY

THE COST OF ADMINISTRATION IS LOW BECAUSE THE PROGRAMS ARE STREAMLINED AND OPERATE EFFICIENTLY.

- SHFA program efficiency can be measured by the rate at which agencies are able to make mortgage loans, the price which agencies must pay to attract funds, the difference between the two which is the amount used in program administration, the proportion of a bond issue actually used to purchase mortgages, and the level of administrative costs imposed on the home purchaser.

- The effective mortgage interest rate on SHFA mortgages in 1978 was 7.87 percent. The rate for municipal programs was 8.83 percent, and 9.56 percent was the rate for all conventional lenders.²¹

- A portion of the lower effective interest rate on SHFA mortgages results from the smaller amount of points charged borrowers in the form of commitment and other fees. In 1978 and early 1979, these averaged 1.84 percent of the loan for SHFAs and 2.29 percent for municipal programs.²²

- The cost of borrowing (net interest cost) for SHFAs in 1978 was 6.407. This was 8 percent lower than municipal programs, in spite of generally lower ratings.²³

- The cost of program administration (the spread between the lending rate and borrowing cost) in 1978-79 has been 1.46 percent for SHFAs, compared to 1.50 percent for municipal programs.²⁴

- The costs to complete the sale of a bond issue (underwriting spread) have averaged 1.5 percent to 1.6 percent of the issue for an SHFA. In contrast, the municipal programs have spent 2.2 percent to 2.6 percent of bond proceeds to pay the cost of selling the issue.²⁵

- Scale and continuity of operations minimizes the proportion of bond sale proceeds necessary for SHFAs to hold in reserve accounts and maximizes the amount they can use to purchase mortgages.

- In addition, SHFA programs are structured to maximize the benefits accruing to the home purchaser rather than to the developer or financial institution handling the mortgages.²⁶ Furthermore, there is no competition among communities for mortgage loans which would tend to dissipate the gains.

FLEXIBILITY

VARYING OBJECTIVES AND REQUIREMENTS OF DIFFERENT STATES AND REGIONS CAN BE HANDLED WITHIN THIS PROGRAM.

- Several states utilize the program to stimulate lending as a counter-cyclical measure or to revitalize depressed areas.²⁷ In some instances, it serves to create a market in a region where one would otherwise not exist. State control allows this flexibility.

EFFECT ON INTEREST RATE

THE SMALL SCALE OF SHFA SINGLE-FAMILY MORTGAGE BOND OFFERINGS RELATIVE TO THE TOTAL TAX-EXEMPT BOND MARKET MINIMIZES UPWARD PRESSURE ON THE COST OF BORROWING.

- Table 6 shows that even though SHFA single-family mortgage tax-exempt bond sales have grown rapidly in recent years, in 1978 they accounted

for only 6 percent of all long-term, tax-exempt sales. As a result, this program has had a minimum effect on the tax-exempt market. Economists are not in agreement as to the impact which an increase in demand for tax-exempt bonds (governments desiring to issue bonds) has on the price of bonds (interest rate), although all agree that higher demand does cause the interest rate to be higher than it would be otherwise. The controversy centers upon what the relevant market is within which the bonds are sold; that is, who are the people who must be induced, by higher interest rates, to accept the additional tax-exempt bonds.

TABLE 6. SHFA SINGLE-FAMILY MORTGAGE BOND SALES
IN RELATION TO TAX-EXEMPT BOND MARKET

Year	Total Sales of ²⁸ Long-Term State and Local Tax-Exempt Bonds (billion \$)	Total SHFA ²⁹ Bonds Issued (billion \$)	SHFA Funding ³⁰ Of Single- Family Mortgages (billion \$)	Single-Family Mortgage SHFA Sales As Percentage of Total Bond Sales (percent)
1970	17.8	NA	NA	NA
1971	24.4	1.2	NA	NA
1972	22.9	.8	NA	NA
1973	23.0	1.6	NA	NA
1974	22.8	1.4	NA	NA
1975	29.3	.8	.2	1
1976	33.8	2.0	.6	2
1977	45.1	2.5	.85	2
1978	46.2	4.6	2.85	6

- Studies which suggest a large degree of sensitivity in the tax-exempt bond interest rate assume a market in which new issues must be sold to households with incomes which place them in the tax bracket where they are just indifferent between holding fully taxable and tax-exempt securities in their portfolios. Accepting these estimates for the sake of argument, the cost of tax-exempt borrowing is calculated to have been only from 2 percent to 4 percent higher in 1978 as a result of the SHFA single-family mortgage program.³¹

- Other economists argue that many of the new tax-exempt bonds would not be purchased by households whose tax rates make them just indifferent between tax-exempt and fully taxable bonds. Rather, many would be bought by households in higher tax brackets. This implies a much larger market for SHFA bonds and, consequently, a greater capacity to absorb a larger volume of bonds with a smaller price increase. Preliminary results of this analysis indicate an increase in the tax-exempt interest rate only 5-to-35 percent as large as predicted by the studies which form the basis of the criticism of the SHFA programs.³²

- Compared to year-to-year fluctuations in the bond interest rate shown in Table 7, the change of .1-to-.2 percent which critics claim attributable to the SHFA single-family bond program in 1978 is small. It suggests that, if there is concern for a stable interest rate in the tax-exempt market, singling out single-family, tax-exempt mortgage bonds for their destabilizing effect may be inappropriate.

• Interest rate movements in the tax-exempt bond market in recent years have been heavily influenced by the supply of funds available to purchase these securities. Much of this supply is relatively independent of bond prices and is influenced by factors outside the bond market which can cause considerable year-to-year variation in desired levels of purchases. For example, the drop in the bond interest rate in the years after 1975, shown in Table 7, when total bond sales were increasing, could be partially attributed to the sharp increase in the supply of funds available to purchase tax exempts coming from commercial banks and property and casualty companies.³³ A recent additional factor influencing supply has been the increased availability of tax-exempt bonds to the household sector through mutual funds.

TABLE 7. CHARACTERISTICS OF THE TAX-EXEMPT BOND MARKET

Year	Bond Buyer 11-Bond Index ³⁴	Change from Previous Year	Total Sales of Long-Term State and Local Tax-Exempt Bonds ³⁵ (billion \$)	Index of Real Value of Total Sales of Long-Term State and Local Tax-Exempt Bonds (1970=100)
1970	6.19	--	17.8	100
1971	5.29	- .9	24.4	131
1972	5.06	- .23	22.9	120
1973	5.10	.04	23.0	113
1974	5.87	.77	22.8	101
1975	6.62	.75	29.3	119
1976	6.18	- .44	33.8	130
1977	5.36	- .82	45.1	162
1978	5.70	.34	46.2	154

Note: Index deflates sales by consumer price index.

● Because of its small impact on the interest rate, the SHFA single-family mortgage bond program is not "crowding out" traditional types of tax-exempt issues. Table 7 shows essentially no growth in tax-exempt bond sales between 1971 and 1976, and most of the increase in the value of issues observed in 1977 and 1978 can be attributed to refundings rather than to new issues. Since these refundings have largely been terminated as a result of Treasury regulations, the demand pressure observed in these years is atypical of the longer trend of moderating demand for tax-exempt bonding.³⁶ In addition, both the proportion of issues funding the "traditional" government functions of education, transportation, and water and sewer and the proportion of general obligation bonds have experienced a secular decline since 1970, indicating either lack of interest or taxpayer resistance to these functions and instruments rather than "crowding out."³⁷

● To the extent that long-term revenue bonds are viewed as distinct from general obligation bonds, bonds with different maturities, and bonds with different risk characteristics, the upward pressure on interest rates from SHFA bonds will be primarily confined to similar bonds. There is some evidence in this from the fact that in 1978 the spread between the yield on general obligation bonds and both SHFA single- and multiple-family housing and municipal housing bonds tended to increase as a percentage of the interest rate as the volume of housing issues grew.³⁸

- The rise in the interest rate when tax-exempt bond sales increase is an impact of the SHFA single-family mortgage program but not necessarily a program cost. If a useful public purpose is served by providing single-family mortgage assistance, then the higher interest rate reflects the higher value of funds employed in that purpose.

EFFECT ON TREASURY REVENUES

BECAUSE THE PROGRAM IS MODEST IN SIZE AND EFFICIENTLY OPERATED, THE LOSS TO THE TREASURY, WHICH IS THE FEDERAL BUDGET COST OF THE PROGRAM, IS SMALL RELATIVE TO OTHER POTENTIAL HOUSING ASSISTANCE PROGRAMS.

- Opponents of the SHFA single-family bond program estimate the annual federal revenue lost from sales in 1978 at about \$63 million.³⁹ (To put this figure in perspective, tax deductibility of mortgage interest and property taxes is expected to cost the federal government \$14.6 billion in lost revenues in fiscal year 1980.)⁴⁰

- This estimate of the federal tax loss fails to recognize the important fact that SHFA programs allow home purchase by families who would otherwise rent. Because the tax advantages of apartment ownership exceed those of home ownership, the actual tax loss could be overestimated by nearly 20 percent by assuming that program participants would still be homeowners in the absence of this program.⁴¹

● In addition, some economists argue that the methodology used to determine the tax brackets of those paying additional taxes in the absence of the SHFA program leads to an overestimate of impact. This methodology assumes that the alternative to the tax-exempt bond is a fully taxable bond held by the same individual. While the amount of fully taxable bonds would undoubtedly increase, they could well be held by individuals who forego only partially taxable alternatives. The application of this analysis results in a tax revenue effect about half of that estimated by SHFA program opponents.⁴²

● Finally, the Treasury analysis assumes that in the absence of this program there would be no alternative providing assistance to low- and moderate-income families desiring to purchase homes. It is unlikely that this would be the case; and as a result, it is incorrect to analyze the program revenue (and other) effects without comparison to alternatives.

EFFECT ON STRUCTURE OF HOUSING FINANCE MARKET

BECAUSE IT IS SMALL, IS TARGETED TO LOW- AND MODERATE-INCOME FAMILIES, AND ADDS TO THE SUPPLY OF MORTGAGE FUNDS, THE PROGRAM AUGMENTS RATHER THAN "CROWDS OUT" TRADITIONAL SOURCES OF MORTGAGE FINANCING.

● In 1978, less than 2 percent of single-family mortgage money was provided by SHFA loans.⁴³ Since a large proportion of program recipients

would not otherwise be home buyers, this means an increase in the overall demand for housing mortgages in the neighborhood of 1 percent. Although adding to housing demand selectively where a need is identified, the scale and continuity over time of the program minimizes upward pressure on housing prices.

- At the same time, the program establishes a new source of funds to purchase mortgages. Its operation is similar to other federal programs such as the Federal Home Loan Bank and Federal National Mortgage Association which increase the supply of funds available to purchase mortgages in the secondary market. It has been argued that attempts to increase the supply of mortgage money in this fashion merely displace funds from other sources without affecting the total. All studies of the mortgage market indicate that there is some positive supply response.⁴⁴ In addition, all admit to a positive impact of the program in the short run, thus indicating it is a useful tool for stabilization of the housing market.⁴⁵

- Although this program involves some displacement of mortgage funds, the fact that it does result in an increase in mortgage money is recognized to be an advantage over alternative attempts to stimulate housing which only increase demand and, consequently, exert upward pressure on prices; such attempts are, thus, largely redistribution schemes.⁴⁶

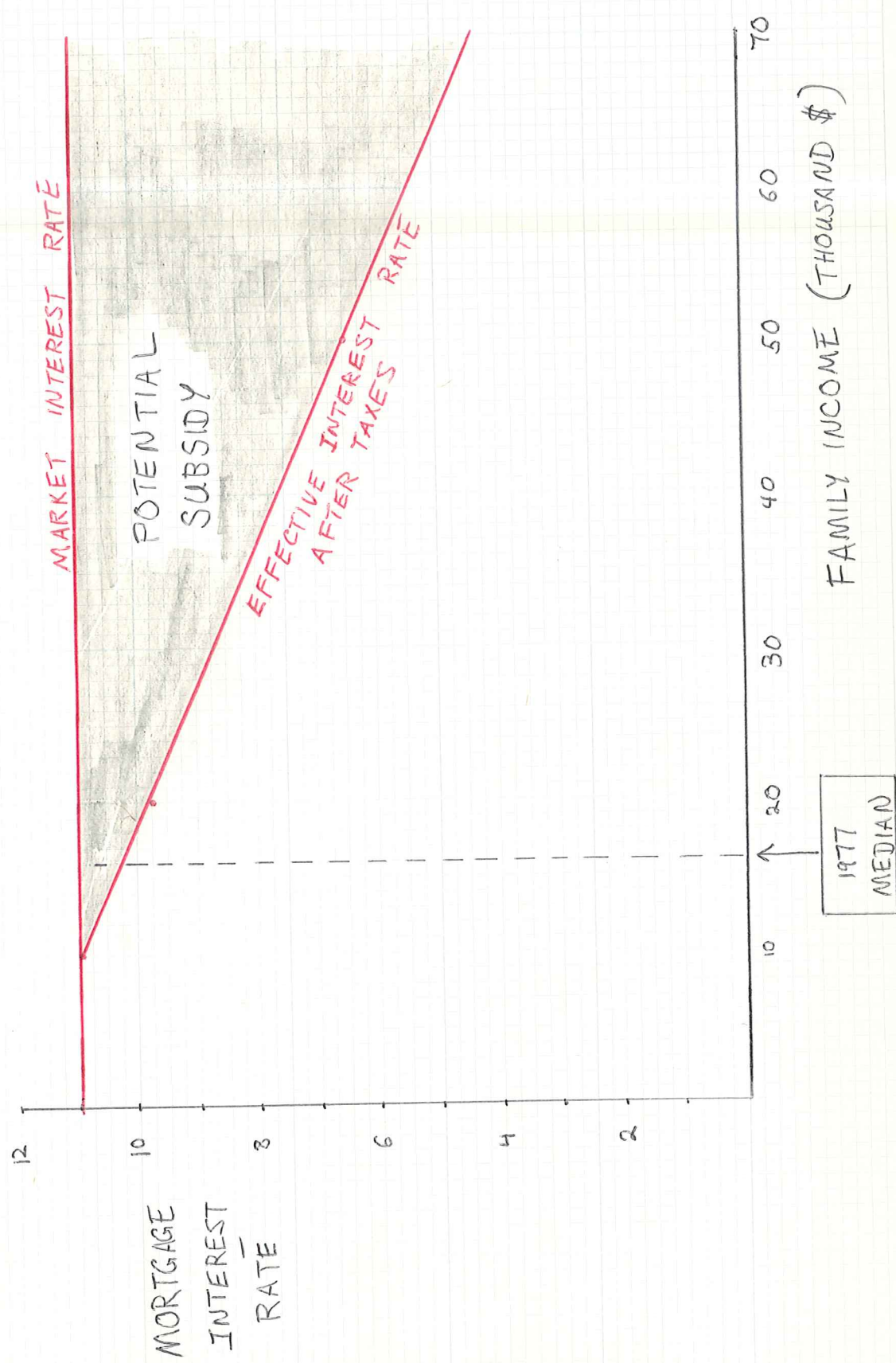
BENEFICIARIES OF FEDERALLY ASSISTED HOUSING

THE SHFA PROGRAMS PROVIDE ASSISTANCE TO FAMILIES WHOSE INCOMES GENERALLY DO NOT MAKE THEM ELIGIBLE FOR THE PRIMARY FEDERAL ASSISTANCE PROGRAM FOR HOME OWNERSHIP--MORTGAGE INTEREST AND PROPERTY TAX DEDUCTIBILITY FROM FEDERAL INCOME TAXES.

- The benefits of the largest subsidy program for home ownership are primarily reserved for the well-to-do. Of the \$11.2 billion in tax savings in 1978 attributable to mortgage interest and property tax deductions, 90 percent of the benefits went to those with incomes in the upper third of the population. No more than 10 percent went to those with incomes less than \$15,000.⁴⁷

- Figure 1 indicates the effective interest rate for an 11 percent mortgage implicit in federal tax deductibility of mortgage interest at various income levels.⁴⁸ The program offers no support to the typical family with an income under \$10 thousand and marginal support to the typical family with the 1977 median income of \$16 thousand. The subsidy for a family with income of \$50 thousand, however, reduces the effective loan rate to 6.5 percent. The tax deduction program clearly provides a greater benefit to higher income families not only in terms of a reduction of the effective interest rate but also the proportion of the housing cost and the dollar amount which the government pays. Ironically, a move up the income scale increases the subsidy rather than reduces it. Inflation causes this to occur naturally and also to increase the value

FIGURE 1: POTENTIAL INTEREST RATE SUBSIDY
IMPLICIT IN TAX DEDUCTIBILITY OF
MORTGAGE INTEREST PAYMENTS
 (11% MORTGAGE)



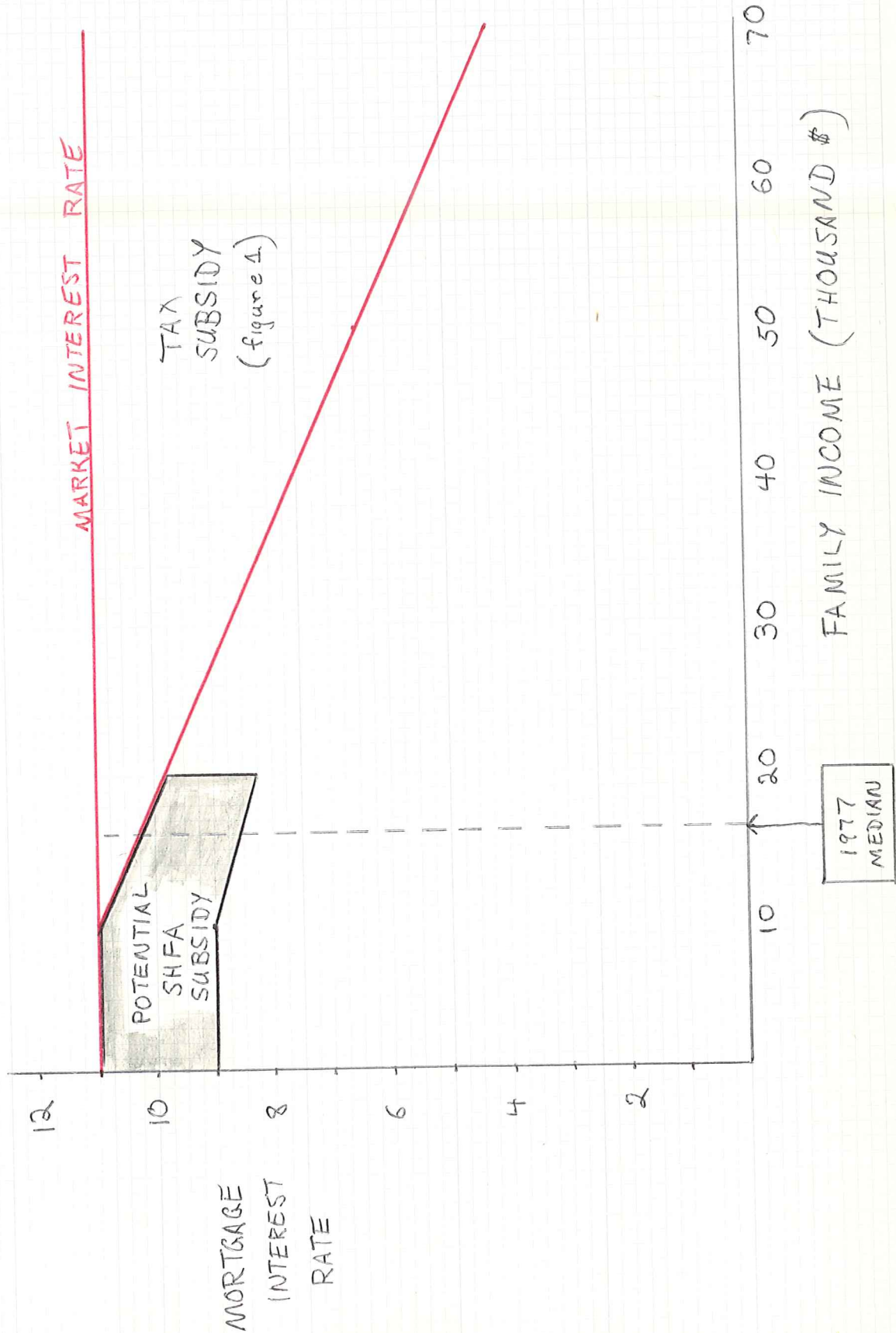
of the house. Thus, the subsidized interest rate is paying for an appreciating asset--a double benefit for the homeowner.

- In contrast, the SHFA program is targeted toward low- and moderate-income families and provides them with some of the advantages which they are denied because they generally do not benefit by itemizing their deductions. A typical SHFA program, reducing the mortgage rate from 11-to-9 percent is shown in Figure 2 with an upper limit at 125 percent of the median. It provides an interest rate reduction comparable to those enjoyed by middle-income families.

- Thus, to characterize the SHFA program as a unique subsidy ignores the fact that, within the context of all federal programs supporting housing, this is one which primarily aids the low-to-moderate-income families. It is a method of filling the gap between programs directed toward aiding the poor and those which assist the well-to-do.

- Geographically, the SHFA single-family mortgage program is directed toward central and western states and urban areas where the cost of single-family housing exceeds the national average and where a larger proportion of low- and moderate-income housing programs are single-family oriented. Elimination of the program would thus differentially affect these areas.⁴⁹

FIGURE 2: STATE HOUSING FINANCE AGENCY
MORTGAGE SUBSIDY COMPARED
TO MORTGAGE INTEREST TAX
DEDUCTION SUBSIDY



PROPOSED LEGISLATION ILL-TIMED

SUGGESTIONS TO ELIMINATE THE SHFA SINGLE-FAMILY MORTGAGE PROGRAM
RUN COUNTER TO CURRENT ECONOMIC AND HOUSING TRENDS, INCLUDING

1. RISING RELATIVE COST OF HOUSING,
2. TIGHTENING SUPPLIES OF MORTGAGE FUNDS,
3. RISING DEMAND FOR HOUSING, AND
4. CONTRACTION OF HOUSING INDUSTRY AS MAJOR
WEAPON IN WAR ON INFLATION

● As previously documented, inflation is increasing the cost of home purchase more rapidly than income; and with mortgage interest rates also higher, the cost of buying a home is becoming prohibitive for families who are not fortunate enough to possess one already.

● The supply of funds available to finance mortgages from traditional sources declines when disintermediation occurs. Disintermediation is experienced during periods of strong credit demand when the limits on interest rates paid by thrift institutions cause depositors to shift to higher yielding investment opportunities. Analysis has not yet been done to indicate the extent of disintermediation in the present tight period.⁵⁰ New sources of mortgage funds such as mortgage pools have not prevented the mortgage rate from rising to extremely high rates.

- The demand for housing continues to rise as the children of the postwar "baby boom" (echo effect) reach the age when they are forming households.⁵¹

- The analyses submitted in support of the legislation fail to consider the impact of inflation on the housing market and alternatives to the existing program to deal with the problems it introduces. They do not consider that the growth in the SHFA single-family mortgage program during the last two years is partially in response to the effects of inflation's squeezing buyers and lenders out of the lower end of the market. In this sense, the program is filling a need which other programs are not addressing, and tax revenue losses and impacts on the tax-exempt interest rate are masking the real issue.

- Suggestions that the SHFA program would grow to the proportions indicated by recent estimates are without serious analysis. Unlike the municipal mortgage assistance program which has grown exponentially since its inception last year, the growth in the SHFA single-family mortgage program has been more moderate and orderly. Table 8 shows that it is dangerous to extrapolate on the basis of limited information. In 1978, there was no quarter-by-quarter increase in single-family SHFA bond sales. In contrast, multifamily SHFA bond sales grew each quarter and exceeded single-family sales in the final quarter. In early 1979, the SHFA single-family bond sales grew very rapidly but not nearly so fast as the municipal programs. A portion of the increase in the volume of sales in early 1979 can be attributed to the rapid rise in the interest

rate on conventional mortgages in late 1978. Between October and November, the rate rose from 9.66 to 9.84; and between December and January 1979, it increased from 9.88 to 10.13.⁵² These "shocks" to the market have obviously created an abnormal demand for lower interest rate mortgage money.

TABLE 8. QUARTERLY VOLUME OF HOUSING BONDS
NEW ISSUES 1978-1979

(million \$)

	Single-Family ⁵³ SHFA	Multi-Family ⁵⁴ SHFA	Single-Family ⁵⁵ Municipal Bond Programs	Effective Rate ⁵⁶ On Conventional Home Mortgages
1978:1	669.2	214.7	--	9.13
:2	887.9	327.7	33.2	9.24
:3	668.0	411.6	212.4	9.50
:4	615.6	732.0	357.2	9.79
1979:1	1292.1	260.9	971.7	10.21
April 1979	214.2	77.4	728.0	10.34

● The Office of Tax Analysis has estimated the growth in the volume of SHFA issues to be 20 percent annually to 1984 when they will be \$13.7 billion.⁵⁷ Between 1970 and 1978, however, the annual growth rate for total originations of mortgage loans on one-to-four-family houses was over 22 percent.⁵⁸ Simple extrapolation implies virtually no increase in the now 2 percent share of SHFA mortgages in the total.

● The housing industry traditionally bears the brunt of monetary policies to reduce inflation. In May of this year, housing starts were already off 12 percent from 1978.⁵⁹ To eliminate the SHFA program at this time would magnify the contraction of the industry, particularly in those parts of the nation where the program is a large portion of all mortgage activity, and would tend to deepen the current recession.

Notes

1. George Peterson, "Tax Exempt Financing of Housing Development," report to Department of Housing and Urban Development, Office of Policy Development and Research, Urban Institute, 1979, p. 37.
2. The most recent year for which median-family income data is currently available from the Bureau of the Census (BOC) is 1977.
3. USDC, BOC, Current Population Reports, Consumer Income, "Money Income of Families and Persons in the U.S," various issues. For 1979, estimated on the basis of the 25 percent increase in total personal income between 1977:2 and 1979:2, USDC, Bureau of Economic Analysis, Survey of Current Business, July 1979.
4. USDC, BOC, Construction Reports, C25-79-5, "New One-Family Houses Sold and For Sale," June 1979.
5. USDC, BOC, Construction Reports, op. cit.
6. USDC, Bureau of Economic Analysis, op. cit.
7. The relationship of income-to-house price is most relevant for potential first-time home buyers. Obviously, many families with modest incomes enjoy the benefits of home ownership. For example, 14 percent of families with incomes below \$3 thousand own homes valued over \$50 thousand. See USDC, BOC, Annual Housing Survey 1977, Series H-150-77, "Financial Characteristics of the Housing Inventory," Table A-1. The declining ability of moderate-income families to afford to buy a house is also analyzed in Congressional Budget Office, "Home Ownership: The Changing Relationship of Costs and Incomes and Possible Federal Roles," Budget Issue Paper, January 1977.
8. USDC, BOC, Construction Reports, C25-77-3, "Characteristics of New Housing: 1977." Twenty-eight percent of new housing was sold at prices below \$40 thousand.
9. USDC, BOC, Construction Reports, C25-79-5, "New One-Family Houses Sold and For Sale," op. cit.
10. National Association of Realtors, Existing Home Sales, monthly report.
11. DHUD, Office of Assistant Secretary for Housing, "Prototype Cost Limits for Low Income Public Housing," Federal Register, June 6, 1979. These are the upper limits on new housing suitable for occupancy by low-income families.
12. USDL, BLS, "Autumn 1978 Urban Family Budgets," April 1979, Table 5, and unpublished data on components of homeowner cost.

13. Ibid, Table 6.

14. Three separate reports provide the basis for this statement. They do not report the same income limits for some programs, nor do they all include the same number of states. The author has not had the opportunity to examine the source documents. Nine states--Georgia, Idaho, Michigan, Minnesota, Montana, North Carolina, Oregon, Utah, Virginia--had upper limits below the median by all sources reporting. For several others, the sources reported income limits clustering around the median. These reports are Peterson, op. cit., p. 33, which identifies 31 programs as of April 1979; Congressional Budget Office, "Tax Exempt Bonds for Single Family Housing," prepared for the Subcommittee on the City of the Committee on Banking, Finance, and Urban Affairs, House of Representatives, April 1979, p. 26, which identifies 23 agencies which issued bonds between June 1978 and April 1979; and Ronald Forbes, Phillip Fischer, and Alan Frankle, "An Analysis of Tax-Exempt Mortgage Revenue Bonds," for Council of State Housing Agencies, State University of New York at Albany, May 1979, Appendix II, which identifies 31 agencies which issued bonds in 1978 and 1979.

15. In contrast, the income limit on tax-exempt, single-family housing bonds issued by local governments as of April 1, 1979, in all cases except one exceeded area median income using the HUD definition. For fifty-five issues, the breakdown is as follows:

<u>Issues</u>	<u>Income Limit</u>
9	no income limit
1	income limit exceeds 4 times median
1	income limit exceeds 3 times median
24	income limit exceeds 2 times median
20	median
1	less than median

Congressional Budget Office, op. cit., Table 1, p. 11.

16. Survey of state programs conducted by Council of State Housing Authorities. Response from individual states differed in the survey. The value of bond issues covered for each characteristic is as follows:

Income	\$3.7 billion
First-Time Purchaser	\$3.7 billion
Mortgage Amount	\$3.8 billion
Sale Price	\$3.2 billion

Total SHFA bond sales between 1975 and 1978 were \$4.5 billion. Successful program targeting is also noted by Peterson, op. cit., p. 73.

17. USDC Housing Survey 1977, Series H150-77, "Housing Characteristics of Recent Movers," Table A-1, p. 3.
18. The median and mean income of all families in 1977 was \$16,009 and \$18,264 (USDC, BOC, Current Population Reports, Consumer Income, Series P-60, No. 118, March 1979, Table 5, p. 23). The median income of recent movers into owner-occupied housing in 1977 was \$17,900 (USDC, BOC, Housing Survey 1977, Series H150-77, "Housing Characteristics of Recent Movers," Table A1, p. 3). Using the mean-to-median ratio for all family incomes yields mean family income of new movers in 1977 of \$20,421.
19. The average sale price for a resale house in 1977. National Association of Realtors, Existing Home Sales, July 1979, p. 10. USDC, BOC, Construction Reports, "New One Family Houses Sold and For Sale" reports the average sale price for new houses in 1977 was \$54.2 thousand.
20. Conventional loan amount on combined new and previously occupied homes, 1977, Federal Home Loan Bank. Data collected by telephone.
21. Forbes, op. cit., Appendix V, p. 10. Includes amortization of maximum allowable points.
22. Ibid., p. 69.
23. Ibid., p. 62. The term structure of the bonds affects the cost of borrowing differently for the two types of issues.
24. Ibid., p. 72.
25. Ibid., p. 64.
26. Congressional Budget Office, op. cit., pp. 15-16.
27. Congressional Budget Office, op. cit., p. 31. The advantage of this type of program in targeting funds to specific geographic locations is noted in Peterson, op. cit., pp. 150-153.
28. Congressional Budget Offices, op. cit., p. 46.
29. Peterson, op. cit., p. 20.
30. See Peterson, op. cit., p. 29.
31. Congressional Budget Office, op. cit., p. 53. Also see Forbes, op. cit., Appendix III, pp. 5-7, where a somewhat smaller impact is argued.

32. See Roger C. Kormendi and Thomas T. Nagle, "The Interest Rate and Tax Revenue Effects of Mortgage Revenue Bonds," preliminary unpublished paper, Graduate School of Business, University of Chicago, July 1979.
33. Commercial bank and property casualty company purchases (which together held over 60 percent of tax-exempt in 1977) of tax-exempt holdings are primarily dependent upon profitability and liquidity considerations. See Forbes, op. cit., Appendix III, p. 8. Household purchases (30 percent of holdings) are a function of marginal income tax rates and rising nominal incomes.
34. Ibid., Appendix 4, p. 9.
35. Ibid.
36. Forbes, op. cit., Appendix IV, pp. 4-8.
37. Ibid., p. 54.
38. Forbes, op. cit., p. 54. It is argued by others that the pronounced spread between housing bonds and other tax-exempt is caused by their recent appearance in the bond market and will largely disappear with increased familiarity. See Peterson, op. cit., pp. 115-118.
39. Congressional Budget Office, op. cit., p. 47. Also see Peterson, op. cit., p. 124, for an estimate 50 percent greater.
40. Congressional Budget Office, op. cit., p. 72.
41. Assume that in the absence of the SHFA program, all of the participants remained in rental units. In such an extreme case, the first-round program effect on tax revenues would depend upon the tax status of the holders of the mortgages backing the apartment units, the apartment owners, and the uses of investment funds made available because the unit cost of apartments is less than the unit cost of single-family housing.

Without the tax-exempt bonds, investors at the margin would be forced to seek some other, presumably taxable, investment. If the mortgage written on the typical apartment unit is half that of a single-family house, then only half of each billion dollars of tax-exempt bonds offsets conventional mortgages and the initial tax loss from this is \$15 million (using 30 percent marginal tax rate, Congressional Budget Office Estimate). Perhaps 10 percent of the billion would be invested in equity shares of the rental units, a well-known tax shelter where the average lifetime effective tax rate on investment can be quite low. The taxes could be in the range of the tax loss offset calculated for conventional mortgage homeowners (Congressional Budget Office) of \$5 million because of depreciation, maintenance, and other deductions as well as capital gains treatment of sales.

Additionally, there remains \$400 million of the \$1 billion to invest in nonmortgage assets, and renters have the money which would have gone into down payments had they bought. The \$400 million would be spread among assets ranging from fully taxable at regular rates to completely tax exempt. The net tax liability incurred would thus be at somewhat less than a 30 percent rate. If it were on average 20 percent, the tax loss is \$8 million. The renters with smaller, individual amounts to invest are more likely to bank their savings. The maximum tax for them could be \$2 million (\$200 million in savings x 5% return x 20% marginal tax rate).

Finally, there is the offset to the tax loss because of lower earnings for the investment bankers, mortgage pool insurers, and participating program lenders. The Congressional Budget Office estimates this loss at \$2.5 million. This figure seems high, since there would undoubtedly be profits earned in the brokering of the assets alternatively sold in the absence of the tax-exempt program. The earning might be smaller, however, so a \$1.25 million offset might be more reasonable.

The result is an estimate of \$18.75 million annual tax loss for every billion dollars of bonds sold--about 83 percent of the Congressional Budget Office estimate. ($\$15 - \$5 + \$8 + \$2 - \$1.25$)

42. Kormendi and Nagle, op. cit.
43. Gross new mortgages made on single-family homes in 1978 were about \$176 billion. Congressional Budget Office, op. cit., p. 42.
44. Congressional Budget Office, op. cit., p. 43. If the displacement effect results in only \$200 million in new mortgage market fund for every \$1 billion in tax exempts issued, the loss to traditional lenders is only \$2.3 billion, or slightly more than 1 percent of their market.

Some authors detect a significant expansion of mortgage funds from government attempts to augment the secondary market. In the late 1960s, the rapid expansion of FNBA and FHLB primarily augmented rather than "crowded out" traditional mortgage fund sources. See Leo Grebler, "Broadening the Sources of Funds for Residential Mortgages," in Ways to Moderate Fluctuation in Housing Construction, pp. 177-252, Federal Reserve Staff Study, Board of Governors of the Federal Reserve System, December 1972.

45. Peterson, op. cit., p. 190.
46. Peterson, op. cit., p. 72.
47. Congressional Budget Office, op. cit., p. 74.

48. This chart assumes home purchase is made at the family income limit (mortgage payment at 25 percent of income) using an 80 percent, thirty-year, 11 percent interest rate mortgage. Itemized deductions net of those related to housing are assumed to be 7.5 percent of income based upon USDL, BLS, Bulletin 1997 Consumer Expenditure Survey: Interview Survey 1972-73, Volume 1, Table 5. Marginal tax rates are calculated in the absence of housing deductions. The fact that households in higher tax brackets may have deductions as a larger percentage of income is not included in the analysis. Consequently, these marginal tax rates are higher than those actually observed from information on returns.

This calculation of the average effective mortgage rate ignores the fact that deductions and cash flow are concentrated in the early years of the mortgage. This means the actual effective rate is somewhat lower than indicated.

In addition, the deductibility of property taxes is not included. This would significantly reduce the effective mortgage rate further. The property tax is assumed to be 15 mills.

49. Peterson, op. cit., p. 174.

50. It has been argued that at least through the third quarter of 1978 the supply of mortgage funds was not restricted. Peterson, op. cit., pp. 84-86.

51. The average annual increase in the number of households in recent years is as follows:

	<u>thousand</u>
1965	927
1970	1,193
1975	1,544
1978	1,637

and it is projected to continue rising for several more years. See USDC, BOC., Current Population Reports, Population Estimates and Projections Series P-25, No. 805, "Projections of the Number of Households and Families: 1979 to 1995," p. 3.

52. Federal Home Loan Bank Board, Terms on Conventional Home Mortgages.

53. Forbes, op. cit., p. 36.

54. Ibid.

55. Ibid.

56. Federal Home Loan Bank Board.

57. Peterson, op. cit., p. 12.
58. Congressional Budget Office, op. cit., p. 46.
59. USDC, BOC, Construction Reports, C20-79-5, "Housing Starts,"
May 1979.

THE ALASKA HOUSING FINANCE CORPORATION
SINGLE-FAMILY HOME MORTGAGE PROGRAM

TWO IMPORTANT FEATURES OF THE ALASKA HOUSING MARKET SHOULD BE EMPHASIZED IN ANY EVALUATION OF STATE SUPPORT OF SINGLE-FAMILY HOME MORTGAGES.

1. The impact of inflation on housing ownership patterns is demonstrated by the high relative housing cost in Alaska.
2. The special needs of the rural housing market are being met by the Alaska Housing Finance program.

THE COST OF HOUSING IN ALASKA EXCEEDS ALL OTHER STATES.

- Public and private indices of residential construction costs, without exception, rank Alaska as the highest cost location. Table 1 compares Anchorage to other cities using one well-known index of cost--the Marshall Swift Index.

- Comparable differentials can be generated using the other widely utilized industry index, the Boeckh Index, as well as government sources such as HUD, the Bureau of the Census, and the Bureau of Labor Statistics. Estimates of cost differ from source-to-source, but the pattern of high cost for Alaska is unmistakable.¹

TABLE 1. LOCAL COST MULTIPLIERS
FOR RESIDENTIAL CONSTRUCTION²

(Marshall Swift Index)

US Average = 1.00

Anchorage	1.46
Other High-Cost Areas	
Oahu, Hawaii	1.34
Tahoe-Reno	1.18
California (state average)	1.15
Manhattan, New York	1.14
Westchester, New York	1.13
Cleveland, Ohio	1.12
Brooklyn-Queens, New York	1.12
Other Selected Areas	
Newark	1.10
New York City	1.05 - 1.14
Boston	1.05
Hartford	1.02
Washington, D.C.	1.02

• Comparative cost data for rural Alaska is not as readily available as for the urban areas of which Anchorage is representative. However, HUD generates prototype costs for a three-bedroom house in various rural parts of the state. Shown in Table 2, they clearly indicate how rapidly housing costs escalate as one moves into the rural parts of the state.

TABLE 2. 1979 PROTOTYPE COST LIMITS FOR THREE-BEDROOM HOME FOR LOW-INCOME, PUBLIC HOUSING IN ALASKA³

(thousand \$)

Anchorage	40.8
Fort Yukon	74.9
Kenai	45.3
Galena	80.5
Tok Junction	69.2
Coastal Area, North of Aleutians	90.6
Barter Island	93.4
Inland Area, North of Aleutians	103.6

THE HOUSING PRICE DIFFERENTIAL IN ALASKA EXCEEDS THAT OF MOST OTHER GOODS, MAKING SHELTER RELATIVELY EXPENSIVE AFTER CORRECTING FOR HIGHER PRICES.

- Table 3 compares the relative cost of housing for both owners and renters in Anchorage with the relative cost of all goods. Shelter is more expensive in Alaska than most goods consumed.

TABLE 3. RELATIVE COSTS IN ALASKA⁴

	Index of Price Compared to U.S. Urban Average		Relative Cost of Housing Compared To All Goods
	<u>All Goods</u>	<u>Housing</u>	
Lower Budget Family	165	216	1.31
Intermediate Budget Family	141	163	1.16
Higher Budget Family	140	155	1.11

INCOMES ARE HIGH IN ALASKA BUT IN NORMAL YEARS DO NOT COMPLETELY COMPENSATE FOR THE HIGH COST OF LIVING.

- In 1978, Alaska per capita income was \$10,963, the nation's highest. After correcting for the high prices, however, it was \$7,775, less than the national average of \$7,836.⁵ During the boom years of 1975-1977, when the trans-Alaska pipeline was under construction, the adjusted per

capita income for Alaska exceeded the national average by about 9 percent. In more normal times, however, the Alaskan per capita income has been in the range of 80-90 percent of the national average.⁶

BECAUSE OF HIGH RELATIVE HOUSING COSTS AND LOW RELATIVE INCOMES,
THE HOUSING STOCK IN ALASKA IS INFERIOR.

- Alaskan housing is smaller and more crowded than the national average. Table 4 uses Census data to show that when corrected for the number of rooms and the persons per living unit, the relative price of housing in Alaska is even higher than it appears to be initially.

- The types of housing available are also limited by cost considerations. Nationally, in 1976, 3 percent of housing units inside SMSAs were mobile homes or trailers.⁷ In Anchorage (the only SMSA in Alaska), trailers and mobile homes comprised 10 percent of residential units in 1975--over three times the national average.⁸

A SMALLER PERCENTAGE OF ALASKANS OWN THEIR OWN HOMES.

- Alaskan families own their own homes only 81 percent as often as the national average because of the high relative costs. Table 5 shows that it is even less likely for families below the median income in Alaska to own their own homes. This is true in spite of the fact that

TABLE 4. CHARACTERISTICS OF THE 1970 HOUSING STOCK, ALASKA AND THE UNITED STATES⁹

	<u>U.S. Urban Average</u>	<u>Anchorage</u>	<u>Alaska</u>
Median Number of Rooms for			
All Year-Round Units	5	4.5	4.2
Owner Occupied	5.7	5.2	4.7
Renter Occupied	3.9	3.9	3.9
Median Persons Per Unit			
Owner Occupied	3	3.5	3.6
Renter Occupied	2.2	2.8	2.8
Median Price of Owner-Occupied Housing (thousand \$)	\$18.1	\$32.4	\$23.1
Price Ratio to U.S. Urban	--	1.79	1.28
Ratio Corrected for Smaller Size of Houses	--	1.97	1.54
Ratio Corrected for Greater Occupancy Rate	--	2.09	1.54
Ratio Corrected for Size and Occupancy (1.1 x 1.17)	--	2.30	1.84

TABLE 5. 1975 HOME OWNERSHIP PATTERNS ALASKA AND THE UNITED STATES¹⁰

	<u>United States</u>	<u>Alaska</u>
Number of Families (thousand)	56,080	82
Living in Owner-Occupied Housing (thousand)	39,765	47
Percent	70.9	57.3
Number of Families Below Median Income (thousand)	28,040	41
Living in Owner-Occupied Housing (thousand)	16,258	18.5
Percent	58.0	45.1

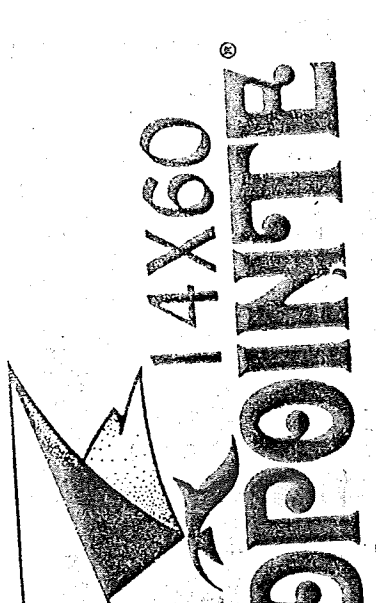
higher nominal incomes which result in higher real income taxes create a strong incentive toward home ownership in Alaska. Table 6 shows that the federal government shares in 32 percent more of the home ownership costs for the median income family in Alaska than for the United States as a whole.

TABLE 6. TAX INCENTIVES FOR HOME OWNERSHIP
ALASKA AND THE UNITED STATES

	<u>United States</u>	<u>Alaska</u>
1975 Median Family Income ¹¹	\$14,094	\$22,432
(Median Income Corrected ¹² for Cost of Living)	\$14,094	\$16,138
Approximate Marginal Tax Rate Based on Nominal Income	19%	25%
Federal Income Taxes Paid (Schedule Y)	\$ 1,380	\$ 3,260
Approximate Portion of Mortgage Cost Paid by Federal Government	19%	25%

- The high cost of housing can be summarized by the fact that the median U.S. family income is sufficient to buy a mobile home in Anchorage, but not the land on which to locate it. Table 7 indicates that the median Alaskan income is just sufficient to purchase the trailer described in Figure 1.

FIGURE 1. MOBILE HOME ADVERTISEMENT



HURRY...OFFER EXPIRES AUG. 24!

UP TO 12 YEAR FINANCING!

10% DOWN...CASH OR TRADE

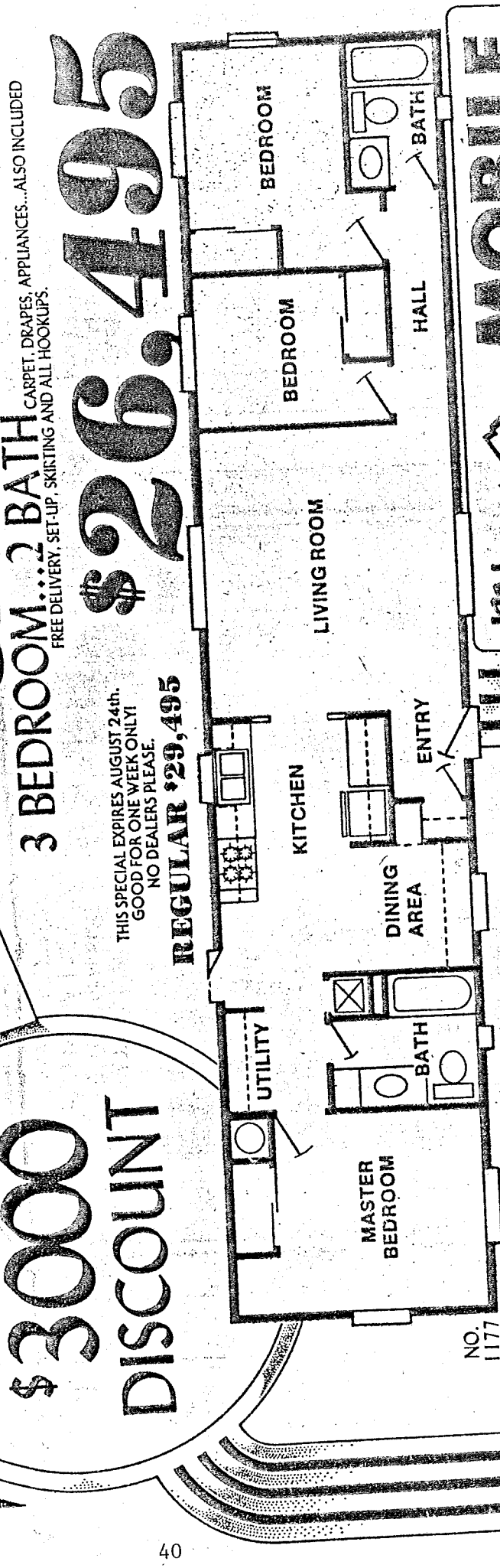
3 BEDROOM...2 BATH
FREE DELIVERY, SET-UP, SKIRTING AND ALL HOOKUPS. CARPET, DRAPES, APPLIANCES...ALSO INCLUDED.

\$26,495

REGULAR \$29,495

THIS SPECIAL EXPIRES AUGUST 24th. GOOD FOR ONE WEEK ONLY! NO DEALERS PLEASE.

\$3000 DISCOUNT



NO. 1177

Mr. McKinley MOBILE HOMES

CORNER OF GLENN HIWAY & BONIFACE
PHONE 337-9477

Pretty as a picture, and practical as a penny-saver. That's this ingeniously designed new three bedroom by Sandpointe. A hospitable entry provides a guest closet. There's an ample living room which opens into a two bedrooms-and-bath wing in one direction, leads to the kitchen/dining/master bedroom areas and the other direction. There's a conveniently situated utility/storage area and an attractive master bath to set the master bedroom well apart from the rest of the home for the ultimate in privacy. Cozy, comfortable, economical...and a real bargain in housing!

TABLE 7. INCOME NECESSARY FOR MOBILE HOME PURCHASE
ANCHORAGE, ALASKA¹³

Mobile home price (Figure 1)	\$29,495
Monthly payment (based on 10 percent down, 12-year mortgage @ 12 percent)	\$ 349
Minimum family income to support this payment (25 percent rule)	\$16,752
(1979 estimated U.S. median family income)	\$20,000
Price of urban lot	\$20,000
Monthly payment (based on 10 percent down, 30-year mortgage @ 10 percent)	\$ 158
Minimum family income to support mobile home and lot payment (25 percent rule)	\$24,341
1979 Estimated Alaskan median family income	\$28,000

THE ALASKA HOUSING FINANCE CORPORATION SINGLE-FAMILY HOME MORTGAGE ASSISTANCE PROGRAM IS TARGETED TO THOSE FAMILIES MOST IN NEED OF ASSISTANCE.

• The characteristics of the average recipient of an Alaska Housing Finance Corporation (AHFC) loan in Anchorage in 1978 are compared to those of a mortgage purchased by FNMA and the total housing market in Table 8.

TABLE 8. CHARACTERISTICS OF AHFC LOANS IN ANCHORAGE IN 1978 COMPARED TO OTHER PROGRAMS

	<u>AHFC</u> ¹⁴	<u>FNMA</u> ¹⁶	<u>TOTAL ANCHORAGE MARKET</u> ¹⁷
Average Purchase Price	\$68,039	\$86,293	\$79,869
Average Mortgage	\$60,427	\$68,096	--
Income	\$27,169	\$45,300	--
Maximum Allowable Income Under Program	\$30,100	--	--
Percent First-Time Homeowner	53% ¹⁵	--	--
Percent New Homes	28%	--	--
Total Sales	1,154	1,811	2,864

- The average purchase price using an AHFC loan was \$68 thousand, compared to \$79.9 thousand for the market as a whole and \$86.3 thousand for FNMA mortgage loans. The average AHFC loan was 85 percent of the market average.¹⁸

- The loan-to-value ratio on the AHFC loans was considerably higher at 89 percent than for FNMA loans which had a loan-to-value ratio of 79 percent.

- An accurate estimate of median family income is not available for Anchorage for 1978.¹⁹ The average income of AHFC loan customers in 1978 was \$27.2 thousand compared to an average of \$45.3 thousand for FNMA. Since the maximum allowable income of AHFC recipients under the program, based on family size, was \$30.1 thousand, the fact that the average is 90 percent of the maximum indicates the program was well within its income target.

- Approximately 53 percent of AHFC loans to Anchorage were to first-time home buyers and 28 percent were for new homes. The national average for first-time homebuyers in the housing market is near 38 percent;²⁰ so in terms of stimulating home ownership, the program can be judged as successful. The 28 percent figure for new homes acquired under AHFC is explained by the fact that new construction has been concentrated in the upper end of the housing market in a trend to upgrade the housing stock.

IN RURAL ALASKA, THE QUALITY AND QUANTITY OF THE HOUSING STOCK IS VERY POOR.

• In spite of the fact that the housing stock is relatively new in rural Alaska, the quality is far below the national average in terms of type of structure, size, and amenities. Table 9 shows that, compared to the national rural average, there are twice the percentage of mobile homes in rural Alaska. In a situation atypical of the rest of the nation, this component may comprise some of the better quality housing available. The median number of rooms is 20 percent below the average, but the median number of people is 30 percent above the average. Rural Alaskan homes are twice as likely to be without piped water, flush toilets, and bathrooms or showers.

• In spite of the fact that the cost of equivalent housing in rural Alaska is often more than double the price of urban areas such as Anchorage (see Table 2), the actual value of the housing stock is much less. The median value of owner-occupied housing in urban areas in 1970 was \$30.4 thousand, while in rural Alaska it was \$15.7 thousand.²¹

TABLE 9. CHARACTERISTICS OF THE 1970 RURAL HOUSING STOCK
ALASKA AND THE UNITED STATES²²

	<u>United States</u>	<u>Alaska</u>
Units without piped water (%)	8.4	22.5
Units without flush toilets (%)	13.1	26.4
Units without bathroom or shower (%)	13.8	26.9
Median rooms	5.2	4.0
Median persons (owner-occupied housing only)	2.8	3.7
Mobile homes or trailers (%)	7.1	15.7
Less than 10 years old (%)	27.9	50.9
Less than 20 years old (%)	45.3	75.6
Less than 30 years old (%)	56.8	87.1

Note: Rural is defined as housing outside urbanized areas in places of less than 2,500 inhabitants. Fifty-one percent of Alaskan housing units were rural according to this definition.

A MAJOR PROBLEM IN UPGRADING THE HOUSING STOCK IN RURAL ALASKA IS THE ABSENCE OF A SECONDARY MORTGAGE MARKET.

• Alaska, as is typical with a rapidly growing state, is a credit-poor region, and this is particularly true in the area of mortgage finance. The four savings and loan associations in the state had total loans outstanding of only \$237 million in 1977. If the level of their activity

were comparable to the national average, they would have had three times the loan volume outstanding, or over \$700 million.²³ The small relative importance of savings and loan mortgage activity in the state is not a result of competition from AHFC because since 1970 the average annual growth rate of Alaskan savings and loan outstanding loans has been 18 percent.²⁴

- The activity of the larger of the two mutual savings banks located in the state, with 74 percent of total assets, is representative of the urban concentration of the mortgage market. Of the total residential mortgage loans made, 93 percent occurred within the greater Anchorage area.²⁵

- Virtually all of the Alaskan mortgages held by the Federal National Mortgage Association are from the four largest communities in the state: Anchorage, Fairbanks, Juneau, and Ketchikan.²⁶

ALASKA HOUSING FINANCE AGENCY IS A SOURCE OF MORTGAGE FUNDS FOR RURAL ALASKA AND IS ATTEMPTING TO STIMULATE THE DEVELOPMENT OF A SECONDARY MARKET.

- Of the 7,316 mortgage loans held by AHFC as of April 30, 1979, 955 or 13 percent were in rural communities (outside the greater Anchorage area, Fairbanks, Juneau, and Ketchikan.)²⁷

● One of the constraints on the development of a secondary mortgage market in rural Alaska is the lack of title insurance and hazard insurance availability. In order to help overcome this problem, AHFC has embarked upon a rural housing finance program which would establish investor confidence in rural mortgages.

NOTES

1. The Boeckh index has a base of 100 in 1967 so that comparison of Alaska to a U.S. average is not possible. The index of Anchorage prices compared to other cities can be calculated by taking the ratio of their indexes. This ratio for selected cities is reflected in the percentage by which Anchorage residential construction costs exceed the other city.

<u>Highest Cost Cities</u>	<u>Anchorage cost relative to city</u>
Honolulu	1.09
New York City	1.18
Cleveland	1.20
Buffalo, N.Y.	1.21
California (average)	1.22
Detroit	1.22
Chicago	1.23
Seattle	1.23
Tacoma	1.24
Las Vegas	1.25
Toledo	1.25

<u>Lowest Cost Cities</u>	<u>Anchorage cost relative to city</u>
Charlotte, N.C.	1.56
Macon, G.	1.56
Raleigh, N.C.	1.56
Winston/Salem, N.C.	1.56
Tallahassee, FL.	1.57
Charleston, C.S.	1.59
Columbia, C.S.	1.63

<u>Selected Cities</u>	
Boston	1.31
Hartford	1.32
Newark	1.28
Washington, D.C.	1.30

See Boeckh Building Cost Modifier, Publication 12, #4, July, August 1979.

HUD publishes at least three schedules which provide comparisons of housing cost by state and regions within states. These are the "Prototype Cost Limits for Low Income Public Housing", "Fair Market Rents", and "General Prototype Costs for One to Four Family Dwelling Units". It is not possible using these schedules to compare the cost

of construction of an identical structure in different locations because the structure priced in these schedules contains characteristics particular to the region.

Nevertheless, the high cost of Alaskan housing is clearly demonstrated. For example, selected costs for single family dwellings from the schedule of prototype housing costs: one to four family units, is as follows:

	<u>Cost (thousand \$)</u>		
	<u>Low Range</u>	<u>Medium Range</u>	<u>High Range</u>
Anchorage	101.8	109.4	116.4
Boston	42	61.7	83.2
Hartford	51	53.4	57.8
Phoenix	40	60	100
Sacramento	43.5	51.2	82.4

HUD, "General Prototype Costs for One to Four Family Dwelling Units", Federal Register, August 21, 1979. For Prototypes costs for low income housing, see text, Table 2.

The Bureau of the Census estimates the average sales price of new and previously occupied homes involved in a sale by state. For the most recent year, 1976, the average sales price was highest in Alaska for new homes and second only to Hawaii for previously owned homes. This measure does not compensate for the different composition of housing involved in transactions in different states.

	<u>Average Sales Price</u> (thousand \$)	
	<u>New Home</u>	<u>Previously Owned Home</u>
U.S. Average	44.7	34.6
Alaska	64.3	59.3
(ratio to U.S. average)	(1.44)	(1.71)
California	56.3	46.9
Washington, D.C.	47.3	57.3
Hawaii	61.9	78.4

USDC, Bureau of the Census, 1977 Census of Government, Taxable Property Values and Assessment/Sales Price Ratios, Table 11.

The Bureau of the Census also estimates the approximate market value of single family homes by small area. In 1976, the value for selected areas was as follows:

	<u>Thousand \$</u>
Anchorage SMSA	55.3
Honolulu SMSA	114.9
Washington, D.C.- Maryland - Va. SMSA	62.2
New York - New Jersey SMSA	53.0
Boston SEA	20.9
Boston (Suffolk Co.)	28.4

USDC, BOC, op.cit., Table 19. (An SEA, state economic area, is a census bureau aggregation of counties equal to an SMSA except in New England where SMSAs are composed of towns.)

The DOL, Bureau of Labor Statistics, published relative costs of home ownership for various cities as part of the Urban Family Budget series. Because they include taxes, insurance, utilities, repair and maintenance costs as well as principal and interest on a mortgage they are interpreted as the relative costs of owning rather than buying a home. In particular, the inclusion of property taxes in the housing index distorts the reliability of the statistic as a measure of the relative cost of home purchase.

2. Marshall-Swift Valuation Service, July 1979, Class D (residential) local multipliers.
3. HUD, "Prototype Cost Limits for Low Income Public Housing", Federal Register, June 6, 1979.
4. USDL, BLS, "Autumn 1978 Urban Family Budgets", April, 1979.
5. USDC, BEA, "1978 State Per Capita Personal Income", 1979.
6. An historical comparison of the Alaska/U.S. per capita income ratio after adjusting for the cost of living differential using the BLS intermediate family budget index is as follows:

<u>Year</u>	<u>Ratio of Alaska/U.S. per capita income</u>	
	<u>Nominal</u>	<u>Cost of Living Adjusted</u>
61	1.19	.83
62	1.15	.81
63	1.13	.80
64	1.18	.85
65	1.16	.80
66	1.13	.80
67	1.16	.83
68	1.14	.80
69	1.14	.81
70	1.18	.87

<u>Year</u>	<u>Ratio of Alaska/U.S. per capita income</u>	
	<u>Nominal</u>	<u>Cost of Living Adjusted</u>
71	1.18	.87
72	1.15	.87
73	1.20	.92
74	1.30	.97
75	1.56	1.12
76	1.57	1.11
77	1.48	1.05
78	1.40	.99

This is an admittedly imprecise measure of the burden of higher prices in Alaska. The most important omission from the analysis is the fact that prices are higher than in Anchorage in most regions of the state and so deflating by the Anchorage price deflator results in overestimation of the real per capita income in Alaska. In spite of this personal income per capita (data published by the USDC, Bureau of Economic Analysis) is the best measure of income available continuously on a state and regional basis.

Both HUD and HEW publish family income figures, but the methodologies employed, especially when applied to Alaska, are suspect. The Bureau of the Census last published a median family income figure by state in 1975.

7. USDC, Bureau of Census, Current Housing Reports, H-150-76, Annual Housing Survey Part A. General Housing Characteristics for the United States and Regions.
8. Anchorage Urban Observatory, "Anchorage Municipal Housing Study", Interim Report, 1976, p.9.
9. USDC, Bureau of the Census, 1970 Census of Housing, Detailed Housing Characteristics: United States Summary, Table 30 and Detailed Housing Characteristics: Alaska, Table 33 and Table 60.
10. USDC, Bureau of the Census, Current Population Reports, P-60-113, Consumer Income, Money Income and Poverty Status in 1975 of Families and Persons in the United States and the West Region by Divisions and States, July 1978, Tables 1A and 16A.

The same pattern is reflected in the 1970 Census of Housing.

	<u>Percent of Occupied Units (owner occupied)</u>
U.S. Urban Average	58.4
Anchorage	48.5
Alaska	50.3

USDC, Bureau of Census, 1970 Census of Housing, op. cit., Tables 29 (U.S.), 32 and 60 (Alaska).

Several factors in addition to high relative housing cost contribute to the low rate of owner occupancy in Alaska. These include the young average age of the population, the transient nature of the population, particularly in 1975, and the fact that in some remote locations housing is provided by the employer.

11. USDC, Bureau of Census, Current Population Reports, op. cit., p.7, 169.
12. Deflated using the intermediate family budget. See USDL, BLS, op. cit. Note that the mean family size in Alaska is 1.09 times the national average, so that the family income must support a larger family. See USDC, Bureau of Census, Current Population Reports, Ibid.
13. The 1979 figure for median family income is not available. The national estimate is derived by multiplying the 1977 income figure from the Bureau of the Census by the 25 percent increase in personal income reported between 1977:2 and 1979:2 in USDC, BEA, Survey of Current Business, July 1979. To construct the estimate for Alaska the value for 1975 is augmented by the growth in personal income between 1975 and 1978 with the author's estimate of a 5 percent growth between 1978 and 1979. USDC, Bureau of Census, Current Population Reports, series P-60-116, Consumer Income, Money Income in 1977 of Families and Persons in the United States, Table A, series P-60-113 op. cit., and USDC, BEA, Personal Income Per Capita data.
14. Data taken from Alaska Housing Finance Corporation individual loan files based on 100 percent sample of Anchorage for 1978.
15. 43 percent of respondents reported they were first time homeowners. Information was not available for 16 percent of respondents because they were VA and FHA loans. It was assumed that a majority of this 16 percent were VA loans and that a substantial proportion of the VA loans were to first time homeowners.
16. From a letter from Oakley Hunter, Chairman of the Board, Federal National Mortgage Association to Alaska Senator Mike Gravel, June 22, 1979. The data cover single family home loans throughout the state although most are in the Anchorage area. (about 2/3).
17. Anchorage Multiple Listing Service as reported in "Anchorage Real Estate Research Report", published by Anchorage Real Estate Committee, Vol. II, No. 1.

18. The average sale price of an AHFC home in 1978 of \$68,039 puts it in the lower 1/3 of the distribution of all sales prices. That distribution is as follows:

<u>Price Range</u>	<u>Percent of Sales</u>
under 55	9.1
55 - 70	23.6
70 - 85	31.4
85 - 100	22.2
100 - 125	9.3
125 +	4

Anchorage Multiple Listing Service, Ibid.

19. The most recent accurate estimate of Alaskan median family income was done in 1975 by the Bureau of the Census which reported \$22,432, a figure 59 percent above the U.S. average in nominal terms. As the historical record of relative personal income data shows 1975 was not a typical year because of the boom associated with construction of the pipeline.

A special tabulation of the Current Population Series survey data for 1976 was run to obtain a median family income figure for that year. It was calculated to be \$22,323, slightly lower than the published Bureau of the Census figure for the previous year. See Alaska Department of Commerce and Economic Development, Division of Economic Enterprise, "The Alaska Economic Information and Reporting System Quarterly Report", January 1979, p. 16.

HEW publishes an annual median income estimate for a family of four by state. The most recent figure for Alaska, for fiscal year 1980, is \$32,119, an unrealistically high number. See "Family Median Income by State," Federal Register, February 7, 1979.

HUD propagates an estimate of family income by counties. A recent estimate for Anchorage is \$25 thousand, although an alternative preliminary estimate is \$22.8 thousand. This procedure, like that of HEW essentially involves applying wage rate growth to Census data. From conversation with Al Robinson, HUD economist, Anchorage, Alaska. Also "Methodology for Estimating 1979 Income of Families Living In Metropolitan and Non-Metropolitan Areas", HUD memorandum, July 1979.

Household income (generally somewhat lower than family income in Alaska) in Anchorage has been estimated by survey in 1978 and 1979 to be \$31.2 and \$28.7 thousand respectively. See 1978 Population Profile, Municipality of Anchorage and the Anchorage Health Needs Assessment Study: Consumer's Health Survey, Municipality of Anchorage, 1979.

Simple application of personal income per capita growth rates to 1975 median family income figures would produce an estimate of median family income for Alaska of approximately \$28,000.

In 1969, the median family income in Anchorage exceeded the statewide average by 9 percent (13,593/12,443). USDC, Bureau of Census, 1970 Census of Population, General Social and Economic Characteristics: Alaska, Table 44. Applying this ratio to the statewide extrapolated estimate of \$28 thousand yields a figure of about \$30.6 thousand. This method of arriving at a figure for median income is admittedly ad hoc but does have the advantage over federal methodologies of taking into account unusual Alaskan economic conditions since 1975.

20. USDC Housing Survey 1977, Series H-150-77, "Housing Characteristics of Recent Movers," Table A1, p.3.
21. USDC, BOC, 1970 Census of Housing, Detailed Housing Characteristics: Alaska, Table 34.
22. USDC, BOC, 1970 Census of Housing, Detailed Housing Characteristics: United States Summary Tables 29, 30, 32 and Detailed Housing Characteristics: Alaska, Tables 32, 33, 35.
23. Total mortgage loans outstanding of U.S. Savings and Loans in 1976 was \$322 billion with Alaska's share being \$204 million. With .19 percent of the population, Alaska had .07 percent of the loans. U.S. Federal Home Loan Bank Board, Asset and Liability Trends.
24. Alaska Department of Commerce and Economic Development, The Alaskan Economy Year End Performance Report 1978, p.88.
25. Alaska Mutual Savings Bank, Mortgage Loan Disclosure Statement for 1978 (pursuant to Public Law 94-200) and Alaska Department of Commerce and Economic Development, Division of Banking, Securities, Small Loans and Corporations, "Comparative Statement of Assets, Liabilities and Capital Accounts of Alaska Banks as of 9-30-78".
26. FNMA held about 6,000 loans on Alaskan property at the end of 1978. Almost 5,400 were located in the Anchorage area, while 371 were from Fairbanks, 200 from Juneau, and 22 from Ketchikan. Letter from Oakley Hunter, Chairman of the Board and President of Federal National Mortgage Association to Senator Mike Gravel, June 22, 1979.
27. Alaska Housing Finance Corporation, "Offering Circular", Insured Mortgage Program Bonds, 1979 Second Series, Exhibit C.