AHFC’s Market Effects, 1980–1986

If you moved out of a rented apartment and bought a house in Alaska during the past six years, or if you bought a bigger or better house than you owned before, chances are good the Alaska Housing Finance Corporation (AHFC) subsidized your mortgage interest rate or offered you other special loan terms. AHFC financed 80 percent of new Alaska mortgages in the 1980s.

A recent study by the University of Alaska, Anchorage’s Institute of Social and Economic Research (ISER) found that between 1980 and mid-1986 AHFC’s programs allowed Alaskans to buy more and better houses: about 8,000 households that would otherwise have rented were able to buy; roughly 11,000 households that would otherwise have bought condominiums or mobile homes were able to buy single-family houses; and overall, the roughly 58,000 Alaska households that bought through AHFC spent about 15 to 20 percent more (buying bigger or better houses). Figure 1 illustrates some of the effects of AHFC on Alaska’s housing quality.

But did AHFC’s subsidized interest rates and other policies designed to help more Alaskans buy homes also drive up prices? Are AHFC’s loan policies in part responsible for the growing number of mortgage defaults, now that Alaska’s economy is in a slump? And how much demand might there be for AHFC mortgages in the coming years?

The ISER study—done for AHFC—broadly examines how AHFC’s residential mortgage loan programs have affected the Alaska housing market in the 1980s, and includes a model to project future mortgage demand.

Finding Highlights

- The biggest effects of AHFC’s programs have been on the number and quality of houses sold rather than on prices, as noted above.
- Sales of just single-family houses were 40 percent higher in the first half of the 1980s, largely as a result of 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 effect on prices: they increased prices by about 3 percent above what they would otherwise have been in the first half of the 1980s. AHFC’s interest subsidies did contribute to the sharp price increase in the early 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 their own homes by as much as 12 percent if AHFC had not subsidized rates.

Figure 1. Selected Effects of AHFC on Alaska Housing Quality, 1980-1986

Increased Value of All AHFC Homes

Increased Sales of Single-Family Houses

AHFC Borrowers

Spent 15% to 20% more for bigger or better houses

AHFC Financed 39,000 Single-Family Houses

11,000

S-F Sales Due to AHFC

28,000

Would Have Bought Single-Family Anyway

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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. Also, AHFC requires smaller down payments than do other lenders.

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.

Projected Mortgage Demand

The computer model ISER developed for this study projects that in the absence of any big economic changes, demand for new AHFC mortgages will change little through the end of 1988—so while the housing market will remain slow, the slump in prices and sales is not likely to get much worse than it already is. However, defaults and foreclosures will probably continue to rise.* But projections of any sort are

*We assume that AHFC will not auction off its large and growing inventory of foreclosed and repossessed homes. If auction-type sales (such as the one FNMA recently held in Anchorage to reduce its inventory of foreclosed homes) became more prevalent, prices would fall much more rapidly in the short-term and bottom out more quickly.

The middle line shows projected mortgage demand under the assumptions in the model's base case; the base case assumes that oil prices will stabilize slightly above their current levels and that per capita income and employment will decline slightly. The bottom line shows how mortgage demand could fall if interest rates rose to 14 percent; if that happened, mortgage demand could drop substantially below 1986 levels. The top line shows how mortgage demand could surge to twice the current levels if the price of oil increased substantially and alleviated the economic slump. There are many other factors that could affect mortgage demand; the ones in the figure are just intended to show the range of possible activity.

This summary is based on Effects of Changes in the Alaska Housing Finance Corporation Mortgage Programs by Matthew Bernier and Lee Huskey. The 130-page report is available for 10 cents a page from ISER at 3211 Providence Drive on the UAA campus; phone 786-7710.