Report of the Housing Task Force
Federal Reconstruction and Development
Planning Commission for Alaska
May 22, 1964

This report concerns residential properties damaged in Alaska by the earthquake of March 27 and methods for helping the homeowners. The Task Force has reviewed the findings of the Property Damage Survey. With the help of this information, some guidelines have been formulated for financing the reconstruction of damaged homes through Small Business Administration loans. These and other matters are discussed in detail below.

1. Property Damage Survey

All of the available data on damage to individual properties in Alaska have been analyzed. The analysis of reports on individual residential properties in the five urban renewal areas, prepared by HHFA in Washington, and a summary report of all real property damage in Alaska are attached.

2. Lender Response to Government Policy for Mortgage Debt Settlement on Destroyed Homes

On May 6, FNMA and other Government agencies announced a policy of accepting payment of $1,000 in return for release of the borrower from personal liability on indebtedness covering a residential property that was destroyed. At that time, FHA also announced that where an FHA-insured loan is involved, the lender can turn the property over to FHA for debentures, and FHA will reduce the mortgage amount to be given to the lender in debentures by the estimated cost of restoring the property.

Since that announcement was made, FNMA has begun processing settlement of three cases on this basis. Also, one large eastern lender reportedly is processing one destroyed property case in the same way. The same lender is also taking steps toward acceptance of debentures from FHA to work out settlements in cases of properties that were not destroyed, but which suffered extensive damage.

Generally, however, as reported by an HHFA representative in Alaska on May 19, lenders and their local representatives were pursuing a "wait and see" attitude rather than following the policies announced by FNMA and other Government mortgage holding agencies for the settlement of outstanding debts on homes that were destroyed. The reasons given for this "wait and see" attitude were: (a) a continuing hope by lenders and mortgagors that legislative relief measures will be enacted by the Federal Government; (b) hope that urban renewal will bail them out and compensate for losses; (c) Eastern investors have not set policies; and (d) not enough time has elapsed for clarification of ideas, communications with investor principals, and investigation of insurance claims.

While the "wait and see" attitude is reflected in the lack of settlements by private lenders along the lines adopted by Federal agencies, there are also indications that the lenders are not anxious to engage in foreclosure actions. The rate of foreclosures has fallen since March 27 and applications for FHA forbearance are picking up. It is believed, therefore, that when the Alaska reconstruction bill is introduced and it becomes clear that there will be no Federal relief measures such as retroactive insurance, the private lenders will begin to follow the FNMA example in settling mortgage debts on completely destroyed homes.

3. <u>Position on Maximum Term for SBA Loans</u>

The Task Force agreed that in order to facilitate residential financing for reconstruction, SBA should have authority to make 30-year loans. On the question of whether SBA should also have authority to use a balloon payment device so that maturity terms could be extended to 40 years, the view was expressed that there has been no demonstrated need for a 40-year term. There was no disagreement with this view except for SBA representative who thought that SBA should have the authority so that it could be used in cases where it was necessary to work out adequate financing arrangements.

4. <u>Guidelines for Mortgage Debt Settlement on Partially Damaged Homes</u>

The Task Force formulated an approach to the problem of financing and refinancing in the case of partially damaged homes. The basic points of this approach are (1) that the home owner should absorb damage costs to the extent of his equity in the home at pre-earthquake value; (2) the balance of the damage costs should be absorbed in the proportion of 80 percent by the lender and 20 percent by the home owner; (3) in the provision of refinancing by SBA, in no event would the total mortgage debt be permitted to exceed 140 percent of the home value; and (4) monthly housing payments should be at about the same level as before the earthquake assuming he has the same ability to pay.

The rationale for these basic premises are, first, that the lender would not agree to a settlement instead of foreclosure if the owner did not agreedto sacrifice his equity in the home; second, the sacrifice of owner equity parallels the policy that has been set forth with respect to completely destroyed homes where the owner's equity must be completely sacrificed. The parallelism of policies is also carried forward by requiring that the owner shall absorb at least 20 percent of the damage cost remaining after the sacrifice of equity. This corresponds to the payment of $1,000 in settlement of the old debt by owners of completely destroyed homes. Third, the mortgage debt should not exceed 140 percent of the home value so that the possibility of resale of the home does not become completely unreasonable. Furthermore, a 30-year, 3 percent SBA loan of about 140 percent of the pre-earthquake debt will make for about the same monthly debt service payment as on the pre-earthquake loan which had less favorable terms.

The above criteria can be more formally stated as follows:

(a) 80 percent of any amount of damage above the amount of owner's pre-earthquake equity to be written off from outstanding debt which will be reduced accordingly. Lender will also permit refinancing of part of remaining debt, if necessary, as indicated in (b) following.

(b) where above agreement has been reached, SBA second mortgage loan will be made in an amount equal to cost of damage repair (necessary to restore home to pre-earthquake value) plus such part of remaining old mortgage debt as is necessary to bring total monthly mortgage debt service payments of owner down to level of his payments before earthquake. In no event is total mortgage debt to exceed 140 percent of home value, which will be the same as before earthquake when damage repair is completed.

Six examples of settlements under the above guidelines have been worked out and are attached. Each of these examples assumes a pre-earthquake value that was typical in the Turnagain area of $32,000. The varying examples are for high, moderate, and low damage and for small and large equities. It is apparent from these examples that the owner who had a large equity in a home that suffered small or moderate damage would have to absorb the entire damage loss. As has been explained above, this follows from the general principle that the home owner's equity must be sacrificed to cover any damage loss before a compromise settlement could be made with a mortgage lender.

5. A Consumer Advisory Service

The Housing Task Force thought that it would be helpful in arriving at mortgage debt settlements, as well as in making other necessary financial arrangements, if people in the area damaged by the earthquake could have the benefit of a professional advisor on financial matters. Special Assistant to the President for Consumer Affairs has responded favorably to this idea. It would certainly help in giving direction as to how to proceed toward settlements. A check is now being made of personnel available to carry out this function.

Examples of Refinancing Partially Damaged Homes

(It is assumed that all second mortgages would be SBA loans at 3 percent, 30 years)

Case I. High Damage Cases (60%)

a. Small Equity (18.75%)

1. Pre-earthquake property value.............. $ 32,000
2. Original mortgage amount.................... 27,000
3. Outstanding pre-earthquake balance 26,000
4. Pre-earthquake equity 6,000
5. Pre-earthquake loan term 5-3/4%, 30 yrs.... (5.84 per M)
6. Pre-earthquake monthly payment 158
7. SBA financing at 30 yrs., 3% .... (4.22 per M)
8. Amount of damage 19,200
9. Borrower share of damage = 6,000 + 20% of $13,200 = $8,640
10. Lender share of damage = 10,560

Old mortgage written down at 30 yrs., 5-3/4%: 26,000 − 10,560 = 15,440

Monthly payment.............. $90.00

Financing of damage repair...19,200

Monthly payment at 30 yrs., 3%.............. 81.00

Recast:	first mortgage	$8,000	mo.payment	47
	second mortgage	26,640	mo. payment	112
				$159

Case I. High Damage Cases (60%)

b. Large Equity (about 50%)

1. Pre-earthquake property value........................ $ 32,000
2. Original mortgage amount 17,000
3. Outstanding pre-earthquake balance 16,000
4. Pre-earthquake equity 16,000
5. Pre-earthquake loan term, 5-3/4%, 30 yrs. .... (5.84 p.m.per M)
6. Pre-earthquake monthly payment .... 99.
7. SBA financing at 30 yrs., 3% .... (4.22 p.m.per M)
8. Amount of damage 19,200
9. Borrowers share of damage .... -16,640 (16,000 + 20% of 3,200)
10. Lenders share of damage.......... 2,560

Old mortgage written down 16,000
-2,560
13,440

Monthly payment at 30 yrs., 5-3/4%.......... 78.00

Financing of damage repair......19,200
Monthly payment at 30 yrs., 3%.............. 81.00

Recast: first mortgage 0
second mortgage 32,640 mo.payment-- $138

Case II. Moderate Damage (30%)

a. Small Equity (18.75%)

1. Pre-earthquake property value ....$ 32,000
2. Original mortgage amount 27,000
3. Outstanding pre-earthquake balance 26,000
4. Pre-earthquake equity 6,000
5. Pre-earthquake loan term, 5-3/4%, 30 yrs. .... (5.84 p.m.per M)
6. Pre-earthquake monthly payment 158
7. SBA financing at 30 yrs., 3% .... (4.22 p.m.per M)
8. Amount of damage 9,600
9. Borrower's share of damage... -6,720 (6,000 + 20% of 3,600)
10. Lender's share of damage..... 2,880

Old mortgage written down 26,000 -2,880 = 23,120

Monthly payment at 30 yrs., 5-3/4% .... 135.

Financing of damage repair..... 9,600
Monthly payment at 30 yrs., 3% .... 41.

Recast:	first mortgage	12,000	mo.payment	70.
	second mortgage	20,720	mo.payment	87
				157

Case II. Moderate Damage (30%)

b. Large Equity (50%)

1.	Pre-earthquake property value	$ 32,000
2.	Original mortgage amount	17,000
3.	Outstanding pre-earthquake balance	16,000
4.	Pre-earthquake equity	16,000
5.	Pre-earthquake loan term, 5-3/4%, 30 yrs.	(5.84 p.m.per M)
6.	Pre-earthquake monthly payment	99.
7.	SBA financing at 30 yrs., 3%	(4.22 p.m.per M)
8.	Amount of damage.................. 9,600	
9.	Borrower's share of damage....... 9,600	

Old mortgage - no write-down 16,000
Monthly payment.............................. 99.

Second mortgage 9,600
Monthly payment 41

Recast: first mortgage 0
second mortgage 25,600 monthly payment--$108

Case III. Low Damage (20%)

a. Small Equity (18.75%)

1. Pre-earthquake property value ....$ 32,000
2. Original mortgage amount 27,000
3. Outstanding pre-earthquake balance 26,000
4. Pre-earth equity 6,000
5. Pre-earthquake loan term, 5-3/4%, 30 yrs. .... (5.85 p.m.per M)
6. Pre-earthquake monthly debt service 158
7. SBA financing at 30 yrs., 3% .... (4.22 p.m.per M)
8. Amount of damage 6,400
9. Borrower's share of damage ....-6,080 (6,000 + 80 (20% of $400))
10. Lender's share of damage 320

Old mortgage written down 26,000 - 320 = 25,680

Monthly payment at 30 yrs., 5-3/4% .... 150.

Financing of damage repair...... 6,400
Monthly payment at 30 yrs., 3%.................. 27

Recast:	first mortgage	14,500	mo.payment	85
	second mortgage	17,580	mo.payment	74
				159

Case III. Low Damage (20%)

b. Large Equity (50%)

1. Pre-earthquake property value ....$ 32,000
2. Original mortgage amount 17,000
3. Outstanding pre-earthquake balance 16,000
4. Pre-earthquake equity 16,000
5. Pre-earthquake loan term, 5-3/4%, 30 yrs. .... (5.84 p.m.per M)
6. Pre-earthquake monthly debt service .... 99.
7. SBA financing at 30 yrs., 3% .... (4.22 p.m.per M)
8. Amount of damage 6,400
9. Borrower's share of damage ...... All (equity of $16,000 greater than damage)
10. Lender's share of damage 0

Old mortgage monthly payment................. 99.

Financing of damage repair..... 6,400
monthly payment at 30 yrs., 3%............. 27

Recast: first mortgage 0
second mortgage 22,400 mo.payment 95.

TABLE 4

Owed Balance of Mortgage (or Mortgages) Plus Property Damage as a Percent of Pre-Quake Value of Property, Classified by Degree of Damage Sustained

Owed Balance Plus Property Damage ÷ Pre-Quake Value of Property	Percent of Damage Sustained									
	Less than 10	10-19	20-29	30-39	40-49	50-59	60-69	70-79	80-89	90 or more
Under 80 Percent	11	12	5	1	1					
80-89	16	4	4	4	1					
90-99	9	14	3		1					
100-109	3	3	2	7	1	3				1
110-119	1		3	3	1	2	1		1	2
120-129		1		3	1	2	5	6	1	1
130-139						4	5	4	1	3
140-149				1			5	3	2	12
150-159					1	1	3	3	5	6
160-169								2	3	9
170-179							1	1	4	8
180-189									2	7
190-199								1		
200 and over									1	1
Total (239)	40	34	17	19	7	12	20	20	20	50

Table 3

Owed Balance of Mortgage (or Mortgages) Plus Property Damage as a Percent of Original Mortgage Amount Classified by Degree of Damage Sustained

Owed Balance Plus Total Damage ÷ Original Mortgage Amount	Percent of Damage Sustained									
	Less than 10	10-19	20-29	30-39	40-49	50-59	60-69	70-79	80-89	90 or more
Less than 80 percent	3	1	-	1	-	-	-	-	-	-
80 - 89	2	3	2	-	-	-	-	-	-	-
90 - 99	7	3	-	1	-	-	-	-	-	-
100- 109	19	14	5	-	-	-	-	-	-	-
110- 119	-	10	4	1	3	-	-	-	-	-
120-129	-	2	5	2	-	-	-	-	-	-
130-139	-	-	-	7	1	1	-	-	-	-
140-149	-	-	1	3	1	1	-	1	-	-
150-159	-	1	-	2	1	3	-	1	-	1
160-169	-	-	-	-	-	-	5	3	1	1
170-179	-	-	-	1	-	1	5	5	1	2
180-189	-	-	-	1	-	5	4	4	5	4
190-199	-	-	-	-	-	1	4	2	7	4
200 and over	-	-	-	-	1	-	2	4	6	37
Total -- 239	41	34	17	19	7	12	20	20	20	49

TABLE 2

Original Mortgage Amounts Classified by Pre-Earthquake Value of Property, Turnagain Urban Renewal Area, Anchorage, Alaska

Pre-Earthquake Value of Property	Amount of Mortgage									
	Under $10,000	$10,000-14,999	$15,000-19,999	$20,000-24,999	$25,000-29,999	$30,000-34,999	$35,000-39,999	$40,000-44,999	$45,000-49,999	$50,000 & Over
Under $20,000		1		1						
20,000-24,999		1		1	1					
25,000 - 29,999			1	11	14					
30,000 - 34,999	1	1	1	10	33	14		1	1	
35,000 - 39,999			3	6	15	36	2	1		
40,000 - 44,999			2	1	9	17	5	1	1	
45,000 - 49,999		1		1	4	5	7			
50,000 - 54,999	1			1		5	2			
55,000 - 59,999		1			2	4	1			
60,000 - 64,999						1				
65,000 - 69,999						4	2	1		
70,000 - 74,999						1				
75,000 & Over						1				
Total 237	2, or 0.8%	5, or 2.1%	7, or 3.0%	32, or 13.5%	78, or 32.9%	88, or 37.1%	19, or 8.0%	4, or 1.7%	2, or 0.8%	0
Mid Point of Modal Value				$27,500	32,500	37,500	47,500			
Mid Point of Mortgage Interval				22,500	27,500	32,500	37,500			
Percent Coverage				82%	85%	87%	79%			
Equity				5,000	5,000	5,000	10,000			