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Alaska Bankers Assoc

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HB 177 - commercial fishing loans. - opposed

The Honorable Bill Stoltze, Co-Chair
The Honorable Alan Austerman, Co-Chair
House Finance Committee
State Capitol Building
Juneau, Alaska 99801

Re: Opposition to HB 177

Dear Representatives Stoltze and Austerman:

The Alaska Bankers Association (ABA) wishes to respectfully inform you of its opposition to HB 177. Alaska's banks support interest rates offered through the state's loan programs that are more closely based on market forces and discourage the state from offering artificially low, subsidized rates in areas that effectively compete with the private sector.

The ABA appreciates the intent behind the Commercial Fishing Revolving Loan Fund (CFRLF) to provide borrowing opportunities to Alaskan fisherman that would not otherwise qualify for financing through other lenders. However, the ultra-low interest rates proposed in HB 177, combined with other state lending practices, will culminate in the state reclaiming its preferred lender status for most types of commercial fishing loans[1].

Prices are the thermostat of an economy and, in the world of lending, interest rates are prices. Artificially pressing interest rates downward corrupts decision making because it distorts value. Alaska banks have seen first-hand in local markets how policymaking and mission-creep at the state level has affected loan-making in Alaska. Banks must cover their cost of doing business; it is difficult to compete against zero-cost capital with under-market, fixed interest rates locked-in over long terms, with refinance options (limiting future opportunities for banks), pay-on-time interest rate reduction rewards, deferred interest, and postponed collection efforts. We understand why any performing bank loan would desire such an offering. Who wouldn't? Unfortunately for banks, under the provisions of HB 177, the state's turn-down letter process would not adequately prevent motivated, credit-worthy borrowers from seeking out the state's better deal.

Credit markets utilize interest rates as a means of differentiating among borrowers, with those deemed most likely to meet their obligations typically paying the lowest rates. An irony embedded in HB 177 is that the most credit-worthy borrowers would pay more. Additionally, by artificially suppressing interest rates, the state risks reciprocally raising up price levels, which is good for current owners looking to exit the market but problematic for entrants who must pay more for a given level of cash flow. Such practice

[1] Legislative Audit Number 08-30022-03

can lead to dangerous outcomes; take, for example, recent experience with U.S. housing markets.

A remedy for the unintended consequences of the state's past lending practices was set into law in 2012 to allow responsible state managers to set lending rates after taking into consideration risk of loss, loan term, and the costs of issuance, operation and servicing. Current CFRLF statutes provide for an interest rate floor based on the state's "cost of funds" that reflect a more market-based approach to setting interest rates and that is consistent with the sound lending practices of other state agencies. For example, loans from the Alaska Industrial Development and Export Authority to support economic development are made based on its own "cost of funds"[2], which reduces pressure on the state's general fund and ensures its programs will be able to meet future lending needs.

Alaska's banks are committed to Alaska and are motivated and willing to make every commercial fishing loan where an applicant can demonstrate good credit history, show an acceptable level of profitability and provide adequate collateral. By maintaining the current "cost of funds" approach to lending, with interest rates more closely based on market forces, the state will help ensure that benefits flow to those for whom the CFRLF is intended.

Respectfully Submitted,

Joe Everhart, Chair
Alaska Bankers Association

[2] AS 44.88.159