



MEMORANDUM

TO: Senator Stedman, Co-Chair
Senator Hoffman, Co-Chair
Senate Finance Committee

FROM: Susan K. Bell, Commissioner
Department of Commerce, Community,
and Economic Development

DATE: January 30, 2012

RE: HB 121 – Loan Funds:
Charter/Mariculture/Microloan

[Handwritten signature of Susan K. Bell]

Senators Stedman and Hoffman,

We have provided responses to questions raised during the recent hearing on HB 121. Please contact me if you have any further questions.

1. Capitalization:

The requested capitalization for each fund was arrived at based on an assessment of the likely pool of borrowers for the fund, the history of similar funds managed by the department, the characteristics of the business type and eligible financing purposes, input from the banking community, and other market factors at the time of the initial request.

- Commercial Charter Fisheries RLF – The department considered the potential size of the permit market, the range of pricing for the permits, and similar experience with lending for Limited Entry Permits and Individual Fishing Quota. During last session, there was significant uncertainty in the market due to the new licensing requirements and decisions pending with NOAA and other regulatory agencies. The department's initial projections were based on an average loan amount of \$85.0 with initial loan demand averaging 20 – 25 loans per year. The House Finance Committee increased the capitalization to \$9MM based on the committee's concern that escalating permit prices and the size of the market would necessitate the higher amount.
- Alaska Microloan RFL – This fund closely parallels the microloan program administered by the Small Business Administration (SBA). Alaska is one of a handful of states that does not participate in the program because there is no participating intermediary lender. Given constrictions in the credit market, we assumed that the average loan would be \$35.0 with loan demand of 20 – 25 loans per year. The department reviewed similar loan funds and determined that \$2.5MM would be sufficient capitalization.
- Mariculture RLF – Currently, there are 27 commercially producing farms and another 47 permitted farms in the state. Additional farmers are training through programs such as the Haa Aani mariculture program, the Naukati Weekend Warriors program, and other training offered through the Marine Advisory Program. The initial capitalization request of \$3MM was based on discussions with farmers, the University, seed producers, and shellfish cooperatives and associations. The department assumed an average loan of \$100.0 with loan demand averaging 6 – 8 loans per year.

2. Interest Rates:

- Commercial Charter Fisheries Revolving Loan Fund Floor – Prime + 2%. Floor/Ceiling 6 - 10.5%
- Mariculture Revolving Loan Fund – Prime + 1%. Floor/Ceiling 5 - 9%
- Microloan Revolving Loan Fund – Prime + 1%. Floor/Ceiling 6 - 8%

The department practices the industry standard of using the prime rate as a base index for calculating the interest rate for loans. The margin above or below the prime rate is arrived at by analyzing factors such as the public

purpose served by the program, legislative input, private lender input, similar government programs, and communication with the target constituency to be served by the program. The floor for Mariculture was set at 5% to help establish this new, promising industry.

3. Delinquency Rates:

- The department tracks delinquency and default rates for each loan fund and the combined portfolio of funds. Based on FY 11 performance, the combined delinquency rate for all loan funds was 1.2 percent and the combined default rate was 0.2 percent. A breakdown of delinquency and default rates by loan funds is provided below:

Delinquency and Default Rates by Fund As of June 30, 2011	# Active Loans	Default Loans	Delinquent	Restructured
Commercial Fishing RLF	1,631	11	25	41
Fisheries Enhancement RLF	174	0	3	40
Small Business & Economic Development	39	0	1	0
Rural Development Initiative Fund	59	1	1	1

4. PSP Testing:

- DEC reports that they have accounted for the permitted farms, therefore they do not anticipate a need for additional funding for PSP testing based on the passage of this legislation.

5. Commissioner versus Department:

- Having the Commissioner determine what is acceptable for secured collateral is boilerplate language across most state revolving loan programs. However, Department of Law has suggested changing this from Commissioner to the department, as it does not require an implied delegation of authority by the Commissioner. We are supportive of making all references in the bill consistent.