

ALASKA BANKERS ASSOCIATION

ELECTRONIC MAIL

May 1, 2025

The Honorable Donny Olson, Co-Chair
Senate Finance Committee
State Capitol Building
Juneau, Alaska 99801

The Honorable Neal Foster, Co-Chair
House Finance Committee
State Capitol Building
Juneau, Alaska 99801

Re: SB 156 & HB 199 – Alaska Commercial Fishing & Agriculture Bank; Loans

Dear Senator Olson and Representative Foster:

The Alaska Bankers Association (AKBA) has long-opposed state loan programs and agencies that directly compete with private sector lenders. With government lending programs and agencies that do fill a gap, AKBA supports interest rates and terms based on market forces.

AKBA opposed the action taken by the 33rd Alaska Legislature in the eleventh hour of the 2024 legislative session to alter lending terms of the state's Commercial Fishing Revolving Loan Fund (CFRL). We were concerned that the subprime interest rate offered and passed through an amendment to SB 125 and later merged into HB 273, combined with other state lending practices, would cause harm to private lenders by making the State of Alaska the preferred lender in the commercial fishing industry rather than a lender of last resort. Prior to that action, responsible state managers set lending rates after taking into consideration risk of loss, loan term, and the costs of issuance, operation, and servicing. CFRL statutes provided for an interest rate floor based on the state's "cost of funds" that reflected a more market-based approach to setting interest rates and that avoided direct competition with private lenders.

The Senate and House Rules Committees have recently introduced SB 156 and HB 199 to grapple with the practical consequences of the policy set by the 33rd Legislature. We understand the Alaska Commercial Fishing and Agriculture Bank (CFAB) is losing significant loan volume because it is unable to match the CFRL's much-reduced interest rate, and that the ongoing CFRL subsidies further threaten refinancings out of CFAB's seafood harvester portfolio.

AKBA writes to alert you that CFAB is not the only entity adversely impacted by the CFRL and other subsidized state lending programs. Alaska's community banks know well the struggle of competing against the state's zero-cost capital with under-market, fixed interest rates locked-in over long periods, with refinance options, pay-on-time interest rate reduction rewards, deferred interest, and postponed collection efforts.

Alaska's community banks rely heavily on small business loans as a key part of their portfolios and on developing long-term customer relationships for other services and growing local wealth. The CFRL and other state lending programs have led to a crowding-out effect, where borrowers opt for the state's better deal instead of seeking financing from local banks. With so many potential borrowers diverted to the CFRL and other state lending programs, community banks have

experienced slower growth or contraction in their loan portfolios. This makes it more difficult for banks to generate interest income and sustain long-term viability, especially in Alaska's smaller communities.

Credit markets utilize interest rates as a means of differentiating between borrowers, with those deemed most likely to meet their obligations typically paying the lowest rates. An irony embedded in the state's current lending practices is that the most credit-worthy borrowers pay more. In addition, by artificially suppressing interest rates, the state risks raising price levels, which is good for current fisherman looking to exit the market but problematic for new entrants who must pay more for a given level of cash flow.

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 state's lending programs are intended.

To address the adverse impacts of the state's subsidized lending policies on community banks while maintaining support for the commercial fishing industry, the state should consider alternative approaches that foster partnerships between the state and banks. State-backed loan guarantees, co-lending arrangements, or interest-rate buy downs, etc., could be explored as options aimed at leveraging the strengths of community banks—local knowledge and relationships, underwriting expertise, and regulatory compliance—while addressing the financial challenges faced by the commercial fishing industry. The federal Paycheck Protection Program is an example of a successful program that utilized the banking industry without creating competing government agencies. AKBA welcomes the opportunity to work with state policy makers to find solutions that work for both the fishing industry and community banks.

Sincerely,



Sam Mazzeo, President
Alaska Bankers Association

Cc: Members of the Senate Finance Committee
Members of the House Finance Committee