<u>Regarding CFAB's Opinion of HB 261</u>

In a letter to committee members, Lela Klingert, the president of the Commercial Fishing and Agriculture Bank (CFAB), states that she believes offering low-interest loans for limited entry permits will inflate the costs of entry permits.

This argument is not credible.

If you look at the values of salmon fishery entry permits since 1980, you will find that permit costs closely track the price of salmon, not the interest rates for entry permit loans.

- Since 1980, 66.8 percent of all permit purchases have been through self-financing.

- Only 15 percent of permit purchases have been financed through the Commercial Fishing Revolving Loan Fund.

- The remainder was financed either by the transferor or through commercial banks or through CFAB.

Clearly, with more than two thirds of permit purchases being self-financed, it is not the terms of loans through the state's financing program that drives permit costs.

More evidence that it is salmon prices and not interest rates that drive permit costs can be found by looking at historic permit values and historic interest rates.

- At the time that entry permits were at their highest costs in history (late 80s/early 90s) the prime lending rate averaged more than nine percent—three times what the rate is now.

- As interest rates dropped significantly during the early to mid-1990s, permit costs did not increase—in fact, permit costs fell.

CFAB's opposition to HB 261 is especially puzzling when you consider that Section B CFRLF permit loans are only available to borrowers who are not eligible for financing through a commercial bank or CFAB.

- A borrower is only eligible for Section B loans if he or she "is **not eligible** for financing from a state financial institution as defined in AS 06.01.050, a federally chartered financial institution, **or the Commercial Fishing and Agricultural Bank.**" (AS 16.10.310(a)1(B))

It is the responsibility of the Financial Section within the Division of Economic Development to uphold this statute.