



MEMORANDUM

TO: Representative Louise Stutes

DATE: Friday, February 14, 2025

FROM: Jim A. Andersen, Director

RE: CFRLF - New Fisheries Entrants

As requested, this memo discusses the procedures and loan terms of the Commercial Fishing Revolving Loan Fund (CFRLF) that have been developed over time to assist Alaskans entering the fisheries, and to give them the greatest chance of success.

Overview:

The CFRLF was created in 1972 to promote Alaskan ownership, the development of predominately resident fisheries, and the continued maintenance of commercial fishing gear and vessels by providing long-term low interest loans. When created, the fishing industry was, and continues to be, a vital part of Alaska's economy, and in many rural areas, the only income producing activity. The legislature felt that it was imperative that Alaskans maintain control of their fisheries and recognized that meeting this important public policy goal would not be possible unless Alaskan harvesters had access to reasonably priced capital. They also recognized that many harvesters would not meet typical private sector lending criteria. The fund is totally self-sufficient and has received no General Fund support since Fiscal Year 1985.

Favorable Loan Terms and Conditions:

One of the most important public policy goals of the CFRLF is to assist Alaskans in entering the fisheries. The fund has terms and conditions designed to give any borrower the greatest chance at success and is especially helpful for new entrants that typically have low net worth or lack credit history or sufficient income history. Part of the success of the loan program is due to loan officers who are not only trained in the operation of the CFRLF but also in counseling new entrants. The officers have basic knowledge of the various commercial fisheries around Alaska, types of commercial fishing vessels used, types of gear used, Limited Entry Permit types, and the unique properties of the various areas of the state where applicants live and fish. This training is necessary so that loan officers can provide assistance and guidance to applicants preparing to apply. It is not uncommon for an officer to work with a prospective borrower for many months before an application is submitted and to continue working with the applicant after submission to put together a successful loan package.

Pro-Forma Lending – The CFRLF uses projections to determine what the expected revenue and expenses will be after the loan is granted, rather than the current income an applicant has that is likely derived from being a deck hand.

Loan Term and Amortization – The maximum loan term under the CFRLF is 15 years. An officer will adjust the length of a loan as necessary to achieve a payment amount that meets the cash flow needs of the borrower.

Annual Payments – The borrower can request the payment schedule that works best for them, but 99 percent of the CFRLF loans are set on annual payments that are due at the end of the season. This gives the applicant the benefit of fishing an entire season before a payment is due. In many cases the first payment is not due until after the second season fished, depending on when the loan is closed. An interest only payment may also be used for the first season payment. This gives the borrower time to cash flow and pay the expenses that invariably come with a new startup.

Pay on Time Incentive – Once the borrower makes their first payment on time they will receive a one percent interest credit, reducing every payment thereafter, as long as they continue to pay on time. The savings over the life of the loan is significant and the reduced payment helps with cash flow. This is an extremely popular program that facilitates on time payment and saves the division time and expense in collecting on late payments.

Payment Difficulties – The division puts a great deal of effort into working with Alaskan borrowers that may have payment difficulties occasionally. The division's approach is to work closely with individual borrowers to craft solutions that work for that borrower while at the same time protecting the financial integrity of the loan fund. If the payment difficulties cannot be solved through granting extra time or an informal payment agreement, the borrower can request the loan be restructured. All a borrower needs to do is contact the division and ask to speak to a loan officer. The officer will walk the borrower through the process, explain all the available options, and provide as much assistance as necessary to find a resolution that gives the borrower the greatest chance of success.

Loan Guarantees – Investments collaborates with Bristol Bay Economic Development Corporation (BBEDC) and a subsidiary of Sealaska Native Corporation, Spruce Root, a native community development financial institute (CDFI). The division conducts informational and training seminars to familiarize staff and potential borrowers with the CFRLF. The partners provide fisheries business and financial training to prospective applicants. Once the applicants have received the training, BBEDC and Spruce Root will issue a cash guarantee so that Investments can authorize 100 percent financing. The cash guarantee acts as collateral protection so a down payment is not necessary.

Most Recent Legislation:

House Bill 273 – 2024

In response to the economic crisis facing Alaska's seafood industry, the Alaska State Legislature passed House Bill 273 which included an amendment that made a few changes to the CFRLF. These changes were intended to assist Alaskan fishermen facing a financial hardship by offering debt

restructuring opportunities with more affordable loan terms along with those seeking financing for their small boat fishing operations. These changes included:

- The interest rate was reduced from 10.5 percent to 5.25 percent for all new loans. The interest rate is a fixed rate for the term of the approved loan; and
- The maximum amount for a loan to refinance a fishing vessel or gear purchase was increased from \$200,000 to \$400,000; and
- The maximum amount on all loans made under Section B of the CFRLF has been increased from \$200,000 to \$400,000. Section B loan types include the following:
 - Limited Entry Permit Purchase
 - Vessel Purchase
 - Vessel Upgrade
 - Product Quality Improvement
 - Engine Fuel Efficiency Upgrade
 - Gear Purchase or Upgrade

These changes were implemented on August 1, 2024, upon Governor Dunleavy signing House Bill 273 into law. It's important to note that these changes are temporary and will expire on July 1, 2027. The fund will then revert back to the previously established maximum loan amounts and interest rates.

House Bill 56 – 2018

This bill increased borrowing limits within four sections of the CFRLF, but did not raise the maximum overall aggregate of \$400,000:

- The total outstanding balances on all loans made under Section A was increased from \$300,000 to \$400,000.
- The total outstanding balances on all loans made under Section B may not exceed \$200,000. This increased all Section B loans from \$100,000 to \$200,000. The purchase of an entry permit was already at \$200,000.
- Quota Shares: The total outstanding balances on all loans made under Section C was increased from \$300,000 to \$400,000.
- Tender Vessel Product Quality Improvement: The total outstanding balances on all loans made under Section F was increased from \$300,000 to \$400,000.

House Bill 261 – 2012

This bill amended the CFRLF by increasing the maximum loan amount for limited entry permit loans under Section B from \$100,000 to \$200,000.

The bill also amended the CFRLF to allow a borrower that received a permit loan under Section A to still be eligible to receive any loan under Section B. Previously a borrower that received a permit loan under Section A would no longer be eligible to receive any Section B loans. Most importantly it

made it so a Section A borrower would not be eligible to receive a vessel loan or vessel upgrade loan under Section B for life.

The bill was sponsored by Representative Bryce Edgmon and was intended to increase Alaskan ownership in the fisheries by making loans to purchase limited entry fishing permits more accessible to more residents.

Program Requirements:

General Requirements

- Alaska resident for the past two years.
- Child support payments must not be past due or have arrearage.

Definition of Resident

- Living in Alaska with the intent to remain indefinitely.
- Primary and permanent home in Alaska.
- Present in Alaska except for brief intervals (generally less than 90 days) except for military service, education, or good cause.

Program Requirements

- Purchases - Loans are available for limited entry permits, quota shares, vessels, or gear purchased less than 12 months prior to the date your application is received.
- Refinancing - Vessels or gear loans made by other lenders more than one year prior to receipt of an application are eligible for financing.
- Collateral - The item being financed (limited entry permit, vessel, etc.) will be the collateral for the loan and, generally, a priority lien must be obtained.

Terms and Conditions

- Interest rate will be fixed at the time of loan approval.
- Maximum loan term is 15 years.
- Borrower is responsible for paying all direct costs incurred in processing an application including surveys, inspections, appraisals, title insurance, etc.

Required Bank Denials

- Must be from recognized commercial fishing lender.
- Must clearly state valid reasons for denial. (May not be due to requested loan terms)
- Must be for the exact same loan request.