

Alaska Bankers Association

P.O. Box 241489 • Anchorage, Alaska 99524-1489 • T: 907-261-3525 • F: 907-562-1758

March 16, 2017

The Honorable Neal Foster, Co-Chair
The Honorable Paul Seaton, Co-Chair
House Finance Committee
Alaska State Capitol
Juneau, AK 99801-1182

Re: HB 56 - Commercial Fishing Loans

Dear Representatives Foster and Seaton:

The Alaska Bankers Association would like to take the opportunity to weigh in on the subject of the state's Commercial Fishing Revolving Loan Program and is not advocating against HB56 as is currently drafted.

The ABA's concerns with the CFRLF's far-reaching, economic implications are not new. While we share in the desire to see our fisheries thrive and understand the state's intention to assist residents that do not qualify for alternative financing to enter or remain in the fishery, we are troubled with the state's ongoing position as the preferred lender for most types of commercial fishing loans.

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 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 customer would desire such an offering. Who wouldn't? Unfortunately for banks, the state's turn-down letter process does not adequately prevent motivated, credit-worthy borrowers from seeking out the state's better deal.

When a lender does not understand an industry at a local level, and instead relies on a paint-by-numbers approach, bad things can happen. For example, the maintenance of older fishing vessels is a valuable part of our economy, but it has its limits. The market has long demanded higher quality product than what can be delivered by older, out-dated vessels. Shipwrights are being phased out as a result of newer steel, fiberglass and aluminum boats being deployed as the industry standard. Fishermen now deliver increased payloads and higher quality product from fishing grounds to market more efficiently than ever.

Alaska's existing fleet and those that aspire to enter the fisheries deserve the opportunity to build equity and wealth as they work toward success. Long term loans with irrational low down payments do not allow for the accumulation of equity for

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subsequent upgrades of equipment to meet continually evolving industry standards, and presents borrowers with the risk that their loan may exceed the value of their asset. Further, by increasing loan amounts, the state risks raising up price levels, which is good for current owners looking to exit the market but problematic for new entrants. Such practice can lead to dangerous outcomes; take, for example, the experience with the U.S. housing markets during the financial crisis.

Alaska's banks are committed to Alaska. We all have capacity to lend and are motivated and willing to support Alaska's fishing industry in a sustaining, responsible fashion.

Sincerely,

A handwritten signature in blue ink that reads "Ryan Strong". The signature is fluid and cursive, with the first name "Ryan" being more prominent than the last name "Strong".

Ryan Strong, Vice-President
Alaska Bankers Association