

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

April 3, 2006

2:05 p.m.

MEMBERS PRESENT

Representative Ralph Samuels, Co-Chair
Representative Carl Gatto
Representative Gabrielle LeDoux
Representative Paul Seaton
Representative Harry Crawford
Representative Mary Kapsner

MEMBERS ABSENT

Representative Jay Ramras, Co-Chair
Representative Jim Elkins
Representative Kurt Olson

COMMITTEE CALENDAR

HOUSE BILL NO. 304

"An Act relating to the commercial fishing loan program; and providing for an effective date."

- HEARD AND HELD

HOUSE BILL NO. 328

"An Act prohibiting mixing zones in freshwater spawning waters."

- SCHEDULED BUT NOT HEARD

PREVIOUS COMMITTEE ACTION

BILL: HB 304

SHORT TITLE: COMMERCIAL FISHING LOAN PROGRAM

SPONSOR(S): REPRESENTATIVE(S) COGHILL

05/07/05	(H)	READ THE FIRST TIME - REFERRALS
05/07/05	(H)	FSH, RES, FIN
03/22/06	(H)	FSH AT 8:30 AM CAPITOL 124
03/22/06	(H)	Moved CSHB 304(FSH) Out of Committee
03/22/06	(H)	MINUTE(FSH)
03/24/06	(H)	FSH RPT CS(FSH) 2DP 3NR
03/24/06	(H)	DP: ELKINS, THOMAS;
03/24/06	(H)	NR: HARRIS, KAPSNER, WILSON

WITNESS REGISTER

RYNNIEVA MOSS, Staff
to Representative John Coghill
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented HB 304 on behalf of Representative Coghill, sponsor.

GREG WINEGAR, Director
Division of Investments

Department of Commerce, Community, & Economic Development
POSITION STATEMENT: Testified that the state's commercial loan program for fishermen has been valuable and pays for itself.

LEA KLINGERT, President
Alaska Commercial Fishing and Agriculture Bank (CFAB)
Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 304.

ACTION NARRATIVE

CO-CHAIR RALPH SAMUELS called the House Resources Standing Committee meeting to order at [2:05:39 PM](#). Representatives Samuels, Seaton, LeDoux, Gatto and Kapsner were present at the call to order. Representative Crawford arrived as the meeting was in progress.

HB 304-COMMERCIAL FISHING LOAN PROGRAM

CO-CHAIR SAMUELS announced that the only order of business would be HOUSE BILL NO. 304, "An Act relating to the commercial fishing loan program; and providing for an effective date."

RYNNIEVA MOSS, Staff to Representative John Coghill, Alaska State Legislature, said Representative Coghill has wanted to put the Division of Investments out of the loan business for many years, but the Division's director, Greg Winegar, convinced him of the need to keep the commercial fishing revolving loan fund. Representative Coghill believes government should not compete with the private sector, so he wants the loan program to be used only as a last resort. The bill sets new loan limits and changes some provisions. She noted that the bill clarifies that loans are available only to those who are not eligible for financing through a commercial lending institution. She said HB

304 sets the interest rate at the prime rate plus 2 percent. It defines the prime rate as the lowest United States money center prime rate of interest published in the Wall Street Journal.

[2:08:19 PM](#)

MS. MOSS said the legislation reduces the amount of money loaned on collateral to 80 percent of appraised value; it is currently 90 percent. Section 3 states that the division can loan \$35,000 for delinquent federal taxes, raising it from \$30,000. All loans combined are limited to \$335,000. She said that HB 304 repeals a provision that the fund allocate at least 10 percent of its money for loans of \$35,000 or less, as requested by the division, since that money was underutilized.

[2:09:27 PM](#)

MS. MOSS said Representative Coghill thinks the government strings people along when they have businesses that are failing, and he would like to prevent the continuous cycle of refinancing when someone is failing in business. She spoke of some existing loans that are as high as \$400,000, and said they are not just one loan, but a series of refinancing. Representative Coghill doesn't want people to get into debt of over \$500,000.

[2:10:35 PM](#)

CO-CHAIR SAMUELS asked about a borrower not being eligible for a loan from another bank, and he said he can always find a bank that will turn him down.

MS. MOSS said it refers to an institution that has a loan application similar to the division's application.

CO-CHAIR SAMUELS asked if the borrower needed to be turned down by two banks. He said he wants to know the intent.

MS. MOSS responded that it would only need to be one bank.

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REPRESENTATIVE SEATON noted on page 4, line 21, there is a reference to \$200,000, and he asked if it should be indexed to Anchorage CPI instead statutory. "Otherwise, in about four years, that's going to equal very little—in eight or ten years."

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GREG WINEGAR, Director, Division of Investments, Department of Commerce, Community, & Economic Development, said he has been working with Representative Coghill and appreciated his willingness to listen to the concerns the division had with his original bill. The division offered changes to the program that satisfied Representative Coghill's concerns without destroying the funding program, which has helped thousands of Alaskans over the years. Mr. Winegar said the program began in the early 1970s and was designed to promote a predominately resident fishery. The legislature had realized that a large part of Alaska's fleet was going to have problems with accessing capital. The program was intended to be sure that Alaskans could continue to participate in Alaska's fisheries, he noted.

CO-CHAIR SAMUELS asked if the [loan] amounts have increased.

MR. WINEGAR said yes; prices have risen so the fund, interest rates, and other terms have been adjusted. The program has been very, very successful, he stated, and has helped over 6,000 harvesters. He said the program has totally paid its own way since fiscal year 1985. "In fact the legislature has appropriated a lot more money back out of the fund than went into it originally." He noted that the program is achieving important policy goals of keeping Alaska's fisheries in Alaska, and there are excess earnings that are going back to the general fund to pay for other programs. He said discussions of any changes to the program is of concern to him, but he is confident that the CS will not cause major problems.

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CO-CHAIR SAMUELS asked about "changing the amount" and the "primary".

MR. WINEGAR said the prime rate is at 7.5 [percent].

CO-CHAIR SAMUELS suggested that at 7.5 plus 2 percent, nobody would finance through the program if a bank loan was available.

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MR. WINEGAR said the private rate would be either similar or a little higher. The program is flexible, working with people with difficult [fishing] seasons, because "the idea was to keep these permits and these fisheries in the hands of Alaskans."

CO-CHAIR SAMUELS asked if banks are complaining that the program is taking customers away.

MR. WINEGAR said he has heard no complaints from other lenders, except for the Commercial Fishing and Agriculture Bank (CFAB), "which is where this legislation came from."

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CO-CHAIR SAMUELS asked about bad debts in the program.

MR. WINEGAR said the delinquency and default rate combined is about 6.5 percent.

[2:16:07 PM](#)

CO-CHAIR SAMUELS asked about the problem of constant refinancing that Ms. Moss spoke of.

MR. WINEGAR said the section Ms. Moss spoke of relates to the total that a person can get under various aspects of the program, and it is not refinancing necessarily; "probably what it is, is somebody went out and bought a vessel, for example, and then, say, two years later they want to buy quota share or a permit. And the way the statute is worded, you can combine those various eligibilities. And right now you can get up to \$630,000 by combining those various types of programs." He said HB 304 would "ratchet that down to about \$335,000." He said there are six borrowers in the existing portfolio that are now over that amount. They would be grandfathered in, but it is a small portion of the approximately 1,600 current borrowers.

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REPRESENTATIVE SEATON asked how much those six have borrowed.

MR. WINEGAR said five have borrowed between \$335,000 and \$400,000, and one has borrowed over \$400,000.

REPRESENTATIVE LEDOUX asked how the division's [delinquency/default] rate compares with commercial enterprises.

MR. WINEGAR said the program's rate is probably a little higher, but he doesn't know.

[2:18:43 PM](#)

CO-CHAIR SAMUELS asked if the six people with large loans could re-finance [under the new legislation].

MR. WINEGAR said he doesn't know.

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CO-CHAIR SAMUELS asked if it would make sense to clarify how many banks a person needs to be turned down from.

MR. WINEGAR said there is similar language already in statute, and the division has interpreted it to be that only one bank with a similar loan program would be required.

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REPRESENTATIVE SEATON asked how many times the legislature has increased the fund due to demand from the [fishing] industry.

[2:20:34 PM](#)

MR. WINEGAR said perhaps four to five times since the 1970s.

REPRESENTATIVE SEATON suggested that by indexing the maximum limit to the Anchorage Consumer Price Index (CPI), it would take care of the need to increase the amounts in the future.

MR. WINEGAR said that would be one way to do that.

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REPRESENTATIVE GATTO asked if "recognized" is a legal term in reference to a lending institution.

MR. WINEGAR said the division considers any lender that makes those kinds of loans, which would be major banks and CFAB.

REPRESENTATIVE GATTO asked if a loan shark would be a "recognized" lender. He expressed concern that the intent of the sponsor is followed.

[2:23:45 PM](#)

MR. WINEGAR said that has not happened yet, but he could see where someone could try and get around the [eligibility requirement].

CO-CHAIR SAMUELS said he assumes that Wells Fargo has similar types of loans. He asked if the Alaska Industrial Development and Export Authority would be considered a lender.

2:24:45 PM

MR. WINEGAR said the only other lender that can make a loan on a limited entry permit is CFAB. He said savings and loans don't make those kinds of loans.

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REPRESENTATIVE SEATON asked about the interest rate going from 10.5 [percent] to prime plus two. He asked if that meant the rate would change or stay at 10.5

MR. WINEGAR said the statute prohibits the rate from exceeding 10.5 percent, and that has changed over the years. By regulation, the rate has been tied to the prime rate. "So the way it works now, is the regulations say that the rate is prime plus two, or, in the case of product quality loans, prime minus two, not to exceed 10.5, which is the statutory cap. What this provision would do would be to remove the cap, and so in effect it would just say it cannot exceed prime plus two. It would not require us to go to that, but it says we could not exceed that."

2:26:50 PM

LEA KLINGERT, President, Alaska Commercial Fishing and Agriculture Bank (CFAB), said HB 304 is a combined effort between Alan Austerman [fisheries policy advisor to the governor], the Division of Investments, and CFAB. She referred to the question from Co-Chair Samuels about banks complaining about the state loan program and said, "Because of the restriction in CFAB statute of what we can do and where we can lend, we have probably made the most noise." She said the program doesn't affect other lenders to the extent that it affects CFAB. She said the bill attempts to scale down the powers of the Division of Investment. She stated that over the years the fishing industry has consolidated; the capital needs of the industry have shrunk in most areas. There are some areas where it has increased, but overall the amount required to get into fishing today is less than it was five or ten years ago.

MS. KLINGERT said a public agency that competes with private agencies becomes the preferred lender, causing other lenders to go do something different. She said Wells Fargo or Key Bank has

the option to look to other markets. But CFAB's statute restricts it, so it still focuses on fishing, she said. She surmised that the intent of the legislature was not to eliminate loan options for private lenders. She stated that HB 304 brings the division back to being a lender of last resort, which was the original intent. She believes the amounts listed in the bill are sufficient, based on the overall needs of the industry. For those who need more, there is Wells Fargo, CFAB and Key Bank, but "maybe not always at the most optimum interest rates depending upon the market, but there are avenues available."

REPRESENTATIVE KAPSNER asked about Mr. Austerman.

MS. KLINGERT said he had input.

[2:30:38 PM](#)

CO-CHAIR SAMUELS asked about the six borrowers who will be grandfathered in and if Ms. Klingert is opposed to them refinancing [within the division].

MS. KLINGERT responded that she would have no objection.

REPRESENTATIVE SEATON said the fund is for those turned down by other institutions, "so how are you saying if we have them under this limit, then they have additional financing opportunities for additional capital?"

[2:32:46 PM](#)

MS. KLINGERT said the limit of the \$335,000 is a limit for one individual, and two people together would have a higher limit because each person would have their limit. She added that, in theory, Representative Seaton is correct, but the division is a lender of last resort providing "startup" money for fishermen. "Generally somebody who can qualify for \$335,000 in financing isn't going to have a problem with another institution," she said. They may not get the same terms, but she thinks there should be a cutoff point. Up until 1995 the limit was \$300,000, and it was expanded through the years because the capital requirements had grown. But now those capital requirements have declined substantially over the last few years, she noted.

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REPRESENTATIVE SEATON said prices of black cod and longlining have gone up for the central Gulf of Alaska. He asked if CFAB

makes loans for those. He questioned restricting the amount of the loan and the idea that capital needs have decreased.

MS. KLINGERT said permit and vessel prices have declined. She said Representative Seaton is speaking of the quota market, which has an overabundance of lenders willing to finance on quota share. The federal government is the lender of choice and has the most liberal lending terms, she said, but Wells Fargo, Key Bank, CFAB, and credit unions are looking at that market. "There's more than ample institutions willing to finance quota."

REPRESENTATIVE SEATON asked if CFAB will loan sufficient money to someone with a boat and not much else, based on quota, to run a business on. He asked what percentage of the quota share, priced at \$20 per pound, is CFAB currently loaning.

MS. KLINGERT said the advance rate would be 50 percent.

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REPRESENTATIVE SEATON asked, "If someone wanted to get 20,000-pound quota share, they're talking \$400,000, so you would have to have outside collateral for \$200,000, and you would loan them \$200,000 without any additional collateral...or do they have to have additional collateral for your 50 percent?" He then asked, "Is the only requirement for your loan the quota share itself, or do you require additional collateral like a boat and a house and that kind of thing?"

MS. KLINGERT said CFAB has done it multiply ways, and each person is treated differently. "Credit is an art, not a science," she noted. A diversified fisherman is less of a risk than a fisherman in one fishery. She said it is not like mortgage lending where a person pays a loan on an outside source of income. A commercial loan is paid by the assets of the loan, and as a rule CFAB advances 50 percent of the purchase price. It could be 100 percent with other collateral to mitigate the risk to CFAB. She said the federal government has an advance rate of 80 percent on a loan term of up to 30 years with a very favorable interest rate.

REPRESENTATIVE SEATON asked if they have any money.

MS. KLINGERT said yes; they have had an abundance of funding for the last few years, and they routinely mail letters to fishermen soliciting loans.

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CO-CHAIR SAMUELS expressed some concern with Page 2, line 8. He said he will offer an amendment that states: from another recognized commercial lending institution. He said he will let the Division of Investments worry about the specifics, and he suggested holding the bill to also clarify language for the six borrowers that will be grandfathered in.

MS. MOSS said the language in the bill would prohibit any loan that, combined with other loans, would exceed \$335,000. She said there is a definition for a financial institution, as Representative Gatto was curious about, and she suggested using that term. She said it is defined as an institution organized under the Banking and Financial Institutions title, AS 06.05.990, or one that is subject to examination under that title.

CO-CHAIR SAMUELS asked about banks not based in Alaska.

MS. MOSS said if a bank is lending money in the State of Alaska, it is regulated under AS 06.05.

REPRESENTATIVE LEDOUX said there are state and federal charter banks, so both would need to be included.

The committee took an at-ease from [2:43:03 PM](#) to [2:44:25 PM](#).

CO-CHAIR SAMUELS said HB 304 will be the first order of business on Wednesday. He said amendments will be offered on inflation indexing, an increase in the loan limit, refinancing for grandfathered borrowers, definition of lending institutions, and an inflation indicator.

[HB 304 was held over]

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 2:45 p.m.