

H R

17

COMMITTEE REPORT

HOUSE

(5)

FURTHER: JUDICIARY
FINANCE

2/3/82

Date: 2-23-82

Mr. Speaker:

The Committee on LABOR & COMMERCE has had HR 17

Requesting AHFC, AUDA, and the Department of Community and Regional Affairs to obtain and analyze statistical data on unlawful discrimination in state loan programs.

under consideration and reports it back as follows:

- do pass ^{with individual} ~~recommendation~~ do not pass
- do pass with attached amendments(s)
- replace with CS for _____ same title
- and recommends _____ new title
- AND attaches a "Letter of Intent" New Fiscal Note
- reports it back without recommendation
- referred to the _____ Committee

MEMBERS SIGNING
DO PASS

[Signature]

MEMBERS HAVING
OTHER RECOMMENDATIONS:

[Signature]

CHAIRMAN

F/N Reg.
Rod [unclear]

[Redacted]

Bill introduced 2-3-82

" Acid. 2-3-82

Referrals Judiciary & Finance

Comm. Hearing 2-23-82

" Action passed out of committee

Martin, Randolph do pass } taken chief clerk's office 2:20 p.m. 2-23-82.
By [unclear] - no rec. }

HR0017.A DOCUMENT= 1 OF 1 NUMBER OF LINES = 57
BILLS = HR0017
BILL NUMBER
HR0017
SPECIAL INFO

Introduced: 2/3/82
Referred: Labor & Commerce,
Judiciary and Finance
BY THE LABOR AND
COMMERCE COMMITTEE

SPONSOR
IN THE HOUSE
BILL HEADING

CS for HOUSE RESOLUTION NO. 17
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWELFTH LEGISLATURE - SECOND SESSION

RELATING TO

Requesting AHFC, AIDA, and the
Department of Community and Regional
Affairs to obtain certain data on
state loan programs.

TEXT BE IT RESOLVED BY THE HOUSE OF REPRESENTATIVES:

WHEREAS the Alaska House of Representatives has received
allegations that some lenders participating in state loan programs
have discriminated against some loan applicants in
violation of AS 18.80.250; and

WHEREAS the House of Representatives is concerned about the
allegations, and believes it to be in the Public Interest to determine
whether discrimination is actually taking place in state
loan programs; and

WHEREAS the principal state loan programs in which
discrimination is alleged to have occurred are those administered
by the Alaska Housing Finance Corporation (AHFC), the Alaska
Industrial Development Authority (AIDA), and the Department of
Community and Regional Affairs, nonconforming housing loan
program; and

WHEREAS AHFC, AIDA, and the Department of Community and
Regional Affairs can generate statistical data on the financial

characteristics of qualified applicants for loans under their respective programs; and

WHEREAS acceptable statistical methods exist that can be used to indicate if there are patterns of discrimination toward applicants for state loans under AHFC, AIDA, and the Department of Community and Regional Affairs;

BE IT RESOLVED that the Alaska House of Representatives requests AHFC, AIDA, and the Department of Community and Regional Affairs nonconforming housing loan program to generate current statistical data on the subject and present the resulting information be made available no later than April 1, 1983 to the House Special Committee on Banking, established by House Resolve No. 3 of the Twelfth Legislature - Second Session.



ALASKA MORTGAGE BANKERS ASSOCIATION

ANCHORAGE, ALASKA

February 19, 1982

The Honorable Terry Martin
Chairman, Labor and Commerce
Committee
Pouch V
State Capital
Juneau AK 99811

Re: House Resolution No. 17

Dear Representative Martin:

The Equal Credit Opportunity Act became a national law in October 1974. There have been several amendments since that date. Section 701 of the law reads, in part:

"Prohibited discrimination; reasons for adverse action

(a) It shall be unlawful for any creditor to discriminate against any applicant, with respect to any aspect of a credit transaction--

(1) on the basis of race, color, religion, national origin, sex or marital status, or age (provided the applicant has the capacity to contract);

(2) because all or part of the applicant's income derives from any public assistance program; or

(3) because the applicant has in good faith exercised any right under the Consumer Credit Protection Act."

In addition, Alaska lending institutions have, by policy, prohibited discrimination. We are always concerned and would appreciate any specific cases being brought to our attention.

Section 704 of the law reads, in part:

"Administrative enforcement

(a) Compliance with the requirements imposed under this title shall be enforced under:

(1) Section 8 of the Federal Deposit Insurance Act, in the case of --

(A) national banks, by the Comptroller of the Currency.

(B) member banks of the Federal Reserve System (other than national banks), by the Board.

(C) banks insured by the Federal Deposit Insurance Corporation (other than members of the Federal Reserve System), by the Board of Directors of the Federal Deposit Insurance Corporation.

(2) Section 5(d) of the Home Owners' Loan Act of 1933, section 407 of the National Housing Act, and sections 6(i) and 17 of the Federal Home Loan Bank Act, by the Federal Home Loan Bank Board (acting directly or through the Federal Savings and Loan Insurance Corporation) in the case of any institution subject to any of those provisions.

(3) The Federal Credit Union Act, by the Administrator of the National Credit Union Administration with respect to any Federal Credit Union.

(4) The Acts to regulate commerce, by the Interstate Commerce Commission with respect to any common carrier subject to those Acts.

(5) The Federal Aviation Act of 1958, by the Civil Aeronautics board with respect to any air carrier or foreign air carrier subject to that Act.

(6) The Packers and Stockyards Act, 1921 (except as provided in section 406 of that Act), by the Secretary of Agriculture with respect to any activities subject to that Act.

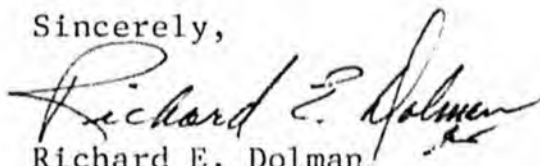
(7) The Farm Credit Act of 1971, by the Farm Credit Administration with respect to any Federal land bank, Federal land bank association, Federal intermediate credit bank, and production credit association;

(8) The Securities Exchange Act of 1934, by the Securities and Exchange Commission with respect to brokers and dealers; and

(9) The Small Business Investment Act of 1958, by the Small Business Administration, with respect to small business investment companies."

If specific instances of discrimination have occurred, complaints should be directed to the proper regulatory agency for investigation.

Sincerely,



Richard E. Dolman,
Alaska Mortgage Brokers Assoc.
Legislative Affairs Committee

RED:rds

STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

DEPT. OF COMMUNITY & REGIONAL AFFAIRS

DIVISION OF ADMINISTRATIVE SERVICES

PJUCH B
JUNEAU, ALASKA 99811

February 23, 1982


The Honorable Terry Martin
Chairman
House Labor and Commerce Committee
Alaska State Legislature
Pouch V
Juneau, AK 99811

Dear Representative Martin:

As requested, enclosed is a fiscal note for House Resolution No. 17 "Requesting AHFC, AIDA, and the Department of Community and Regional Affairs to obtain and analyze statistical data on unlawful discrimination in state loan programs."

Should you have any questions concerning this note please contact me at 465-4709.

Sincerely,



for Rod Mourant, Director
Division of Administrative Services

cc: Keith Specking, Legislative Assistant
Office of the Governor

Ron Lehr, Director
Division of Budget & Management
Office of the Governor

Elmer Lindstrom, Fiscal Analyst
Legislative Finance Division
Legislative Affairs Agency

Currently the Department is not collecting the data necessary to ascertain the presence of discrimination as contemplated by House Resolution 17. Therefore, it will be necessary to contract with an objective third party to survey rejected and accepted loan applicants. Since the implementation of the Nonconforming Housing Loan Program in FY'81, 384 applications have been approved and 51 applicants have been rejected.

THE LEGISLATURE OF THE STATE OF ALASKA
TWELFTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. House Resolution No. 17
 Title AHFC & DCRA to obtain and analyze...data...discrimination in State loan programs.
 Requested by Representative Martin Date 2/22/82

II. FISCAL DETAIL

Agency Affected Department of Community & Regional Affairs
 Program Category Affected Development
 BRU, Program, Or Subprogram(s) Affected Housing Assistance
 (Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL		20.0				
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL		20.0				

FUNDING (Thousands of Dollars)

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
GENERAL FUND		20.0				
FEDERAL FUNDS						
OTHER (Specify Source)						

POSITIONS

-0-

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
FULL TIME						
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instruction, Section III)

The Department of Community & Regional Affairs is prohibited by AS 18.80.250(a)(2) from making "a written or oral inquiry or record of the sex, marital status, changes in marital status, pregnancy, parenthood, race, religion, color or national origin of a person seeking the institution's financial assistance or credit, unless the inquiry is for the purpose of ascertaining the creditor's rights and remedies applicable to the particular extension of credit and is not made or used in order to discriminate in a determination of credit-worthiness."

(Continued)

IV. DATE 2/23/82

PREPARED BY Rod Mourant
 AGENCY Department of Community & Regional Affairs
 PHONE 465-4709

Original: Legislative Finance
 cc: Budget and Management
 Prime Sponsor (First Legislator Named)
 33-001 (Rev. 12/81)



ALASKA MORTGAGE BANKERS ASSOCIATION
ANCHORAGE, ALASKA

February 19, 1982

The Honorable Terry Martin
Chairman, Labor and Commerce
Committee
Pouch V
State Capital
Juneau AK 99811

Re: House Resolution No. 17

Dear Representative Martin:

The Equal Credit Opportunity Act became a national law in October 1974. There have been several amendments since that date. Section 701 of the law reads, in part:

"Prohibited discrimination; reasons for adverse action

(a) It shall be unlawful for any creditor to discriminate against any applicant, with respect to any aspect of a credit transaction--

(1) on the basis of race, color, religion, national origin, sex or marital status, or age (provided the applicant has the capacity to contract);

(2) because all or part of the applicant's income derives from any public assistance program; or

(3) because the applicant has in good faith exercised any right under the Consumer Credit Protection Act."

In addition, Alaska lending institutions have, by policy, prohibited discrimination. We are always concerned and would appreciate any specific cases being brought to our attention.

Section 704 of the law reads, in part:

"Administrative enforcement

(a) Compliance with the requirements imposed under this title shall be enforced under:

(1) Section 8 of the Federal Deposit Insurance Act, in the case of --

(A) national banks, by the Comptroller of the Currency.

(B) member banks of the Federal Reserve System (other than national banks), by the Board.

(C) banks insured by the Federal Deposit Insurance Corporation (other than members of the Federal Reserve System), by the Board of Directors of the Federal Deposit Insurance Corporation.

(2) Section 5(d) of the Home Owners' Loan Act of 1933, section 407 of the National Housing Act, and sections 6(i) and 17 of the Federal Home Loan Bank Act, by the Federal Home Loan Bank Board (acting directly or through the Federal Savings and Loan Insurance Corporation) in the case of any institution subject to any of those provisions.

(3) The Federal Credit Union Act, by the Administrator of the National Credit Union Administration with respect to any Federal Credit Union.

(4) The Acts to regulate commerce, by the Interstate Commerce Commission with respect to any common carrier subject to those Acts.

(5) The Federal Aviation Act of 1958, by the Civil Aeronautics board with respect to any air carrier or foreign air carrier subject to that Act.

(6) The Packers and Stockyards Act, 1921 (except as provided in section 406 of that Act), by the Secretary of Agriculture with respect to any activities subject to that Act.

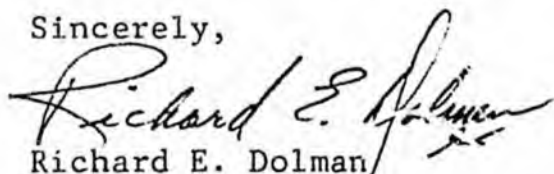
(7) The Farm Credit Act of 1971, by the Farm Credit Administration with respect to any Federal land bank, Federal land bank association, Federal intermediate credit bank, and production credit association;

(8) The Securities Exchange Act of 1934, by the Securities and Exchange Commission with respect to brokers and dealers; and

(9) The Small Business Investment Act of 1958, by the Small Business Administration, with respect to small business investment companies."

If specific instances of discrimination have occurred, complaints should be directed to the proper regulatory agency for investigation.

Sincerely,



Richard E. Dolman
Alaska Mortgage Brokers Assoc.
Legislative Affairs Committee

RED:rds

A PERFORMANCE REVIEW OF THE
DEPARTMENT OF COMMERCE
AND ECONOMIC DEVELOPMENT
ALASKA INDUSTRIAL
DEVELOPMENT AUTHORITY

November 23, 1981

Audit Control Number
08-022-0024-R

Commissioner, Department of
Commerce and Economic Development

Charles R. Webber

Deputy Commissioner, Department of
Commerce and Economic Development

Edward W. Eboch

Deputy Commissioner, Department of
Commerce and Economic
Development, Acting

Lois Cook

Board of Directors

Chairman
Member
Member
Member
Member

Thomas K. Williams
Charles R. Webber
Lee McAnerney
Lee Coffman
Mike Harper

STATE OF ALASKA

AUDIT DIVISION
POUCH W—ALASKA OFFICE BUILDING

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

JUNEAU, ALASKA 99811

November 23, 1981

Members of the
Legislative Budget and Audit Committee:

In accordance with the provisions of Title 24 of the Alaska Statutes, the attached report is submitted for your review.

A PERFORMANCE REVIEW OF THE
DEPARTMENT OF COMMERCE
AND ECONOMIC DEVELOPMENT
ALASKA INDUSTRIAL
DEVELOPMENT AUTHORITY

November 23, 1981



Gerald L. Wilkerson, CPA
Legislative Auditor
Division of Legislative Audit

TABLE OF CONTENTS

	<u>Page</u>
Purpose of the Review.	1
Organization and Function.	2
Findings and Recommendations	4
Appendixes:	
A. Type of Loan Information.	10
B. General Loan Information.	11
C. Applications Considered During Year	12
D. Return on Investment/Cost Analysis.	14
E. Summary of Loan Transactions Tested	15
F. Schedule of Delinquent Loans.	16
Agency Response:	
Alaska Industrial Development Authority.	18

PURPOSE OF THE REVIEW

In accordance with the provisions of Title 24 of the Alaska Statutes and Chapter 18 of the 1980 Session Laws of Alaska, a performance review of the Department of Commerce and Economic Development, Alaska Industrial Development Authority (AIDA), was conducted to:

1. Evaluate program goals and objectives relative to AIDA's statutory mandates.
2. Determine the extent to which program objectives are being accomplished.
3. Evaluate AIDA's operating efficiency and effectiveness.

ORGANIZATION AND FUNCTION

Title 44, Chapter 88 of the Alaska Statutes created AIDA in 1967, yet it was not functional until 1978. The intent was to provide a vehicle to import outside capital to Alaska, creating jobs and economic diversification. However, AIDA remained a concept which lacked funding, staff, and impetus for eleven years until revived in 1978 by legislation which expanded its purpose to include financing air and water transportation, pollution control, gas, and electrical facilities.

From 1978 to 1980 the Authority's sole means of providing financing to industrial and manufacturing enterprises was through the tax-exempt Stand-Alone Revenue Bond Program. Under the Stand-Alone Bond Program, AIDA acts as a conduit for businesses seeking to utilize the tax-exempt bond market. Revenue bonds are secured solely by the revenues of the financed project and not by the full faith and credit of AIDA. As of October 20, 1981, the Authority had funded 15 projects aggregating \$120.5 million under this program.

In 1981 the Legislature authorized a similar program, the Supported Stand-Alone Bond Program. Under this program the originating financial institution must retain at least twenty percent of the loan and the bonds are an obligation of AIDA. No bonds have yet been issued under this program.

The Umbrella Bond Program was created following a \$183.0 million appropriation to fund the Authority's Enterprise Development Fund on July 1, 1980. Under this program AIDA issues revenue bonds which are secured by the Authority's full faith and credit and uses the proceeds to purchase a portion of lending institutions' loans for projects up to a maximum of \$1.0 million. Until prohibited from doing so by an Internal Revenue Service (IRS) ruling in August 1981, AIDA pooled the projects together into large bond issues. AIDA has held two bond sales under this program, aggregating \$76,140,000 for 271 projects. The IRS has ruled that such poolings will be treated as a single large issue and the capital asset expenditure limitation of \$10.0 million for the previous and subsequent three years will be applied to the combined borrowers rather than individually. This ruling has eliminated the large issues and the related economies. AIDA may offer this program on a much smaller scale, pooling five or six issues.

Uncertainty surrounding tax-exempt financing has caused AIDA to develop alternative strategies involving taxable financing. Another program has been developed under 1981 legislation which permits AIDA to purchase, from available funds, the Federally guaranteed portions of loans made by financial institutions up to a maximum amount of \$500,000. No financings had been effectuated at the conclusion of our review under these two programs.

3

FINDINGS AND RECOMMENDATIONS

Recommendation No. 1

AIDA should adopt a policy to defer bond sales if possible until market conditions are favorable.

AIDA issued its first general obligation bonds in April 1981, during a week in which it was reported that the bond market registered its biggest single day loss in 14 months with prices on government securities reaching all-time lows.

AIDA's second general obligation bond issue was held in the Fall of 1981 when the bond market was "bearish" and many would-be borrowers were refusing to issue new bonds because of high interest rates.

On both occasions, AIDA's financial strength was such that it was not necessary to issue bonds at that particular time. AIDA should time its bond sales to coincide with favorable market conditions.

Recommendation No. 2

AIDA should comply with the provisions of the Alaska Administrative Code.

1. Title 3, Chapter 99, Section 260(c) of the Alaska Administrative Code requires AIDA to determine loan interest rates after the related bond sales. AIDA placed a limit on the amount of interest that could be charged for 166 loans before bonds were sold to finance the loans. The effect of this decision was an estimated loss of approximately \$7,000,000 as poor market conditions in 1981 resulted in higher bond interest rates than anticipated. This \$7,000,000 subsidy represents the difference between actuarial loan and bond yields as calculated by AIDA personnel.
2. Title 3, Chapter 99, Section 300(b) of the Alaska Administrative Code requires lending institution originators of AIDA loans to provide a bond to ensure against errors, omissions and fraud. We could find no evidence that 6 of 19 originators had obtained this bond.
3. Title 3, Chapter 99, Section 120 of the Alaska Administrative Code requires Stand-Alone Revenue Bond applications to contain audited financial statements (unless waived by resolution), project descriptions, and business histories of persons owning at least 10% of the enterprise. Twenty of 43 files tested did not contain one or more of these items. Audited financial statements were waived for one project without a resolution.

4. Title 3, Chapter 99, Section 140(a) of the Alaska Administrative Code requires Stand-Alone Revenue Bond applicants to pay a \$2,500 application fee. Twenty-nine of 43 fees tested amounted to less than \$2,500 as follows: 12 twelve applicants paid no fee, 4 applicants paid \$100, 12 applicants paid \$500, and 1 applicant paid \$2,100. No resolution was issued to waive or modify these 29 exceptions, which resulted in a loss of application fee revenue amounting to \$59,000.
5. Title 3, Chapter 99, Section 230(b) of the Alaska Administrative Code requires Umbrella Bond applications to contain certain information, which can be waived. We reviewed 26 of 106 funded loan files and noted the following regulation exceptions:
 - a. 65% did not contain financial statements prepared by a Certified Public Accountant;
 - b. none contained soil tests;
 - c. 25% of the files to which the requirement applies did not contain signed loan agreements with the bank;
 - d. 27% of the files to which the requirement applies did not contain copies of lease agreements; and,
 - e. 33% of the files to which the requirement applies did not contain a loan summary.

While AIDA has the authority to waive requirements, waivers should be documented and should be the exception rather than the rule.

Recommendation No. 3

Members of AIDA's Board of Directors should comply with the provisions of the Alaska Statutes.

AS 39.20.180 authorizes transportation expenses for Board members according to the provisions of AS 39.20.110-170. AS 39.20.140 requires the lowest tourist class fare to be used for out-of-state travel. AIDA's Board members use first class fare when travelling outside of Alaska. AIDA's employees also travel using first class fare when on out-of-state trips. While no statutory prohibition prevents AIDA employees from doing so, such travel may not be appropriate for public representatives when tourist class is available.

Recommendation No. 4

Internal control over assets should be strengthened.

1. AIDA employees are permitted to charge personal travel to AIDA accounts. On one occasion AIDA paid for an employee's Hawaii airfare and did not discover the mistake until months later when the employee resigned. Personal and business travel charges should not be commingled.
2. Employees receive salary advances with unlimited time for repayment. During our review, records had to be reconstructed from disbursement and deposit records to determine which employees had advances. Three employees had advances which had been outstanding from five months to one year without repayment. Salary advance agreements should be obtained from employees and repayment required in monthly installments not to exceed six months.
3. Board, operating, and investment policies and procedures are unwritten, causing incorrect and inconsistent treatment of transactions. For example, an undefined investment policy resulted in the investment of \$3,900,000 of bond proceeds in low-yield securities instead of AIDA's customary investment in repurchase agreements. Lost interest income is estimated at more than \$19,000. We also noted inconsistent per diem payments to employees with six instances of overpayment and two of underpayment. We believe this resulted from varying policy assumptions of employees making the calculations.
4. Long distance telephone bills of approximately \$1,000 per month are paid without verifying whether calls represent authorized business activity by AIDA personnel.

Underwriters were paid \$94,550 for out-of-pocket expenses without an accounting. This amount included \$32,700 for travel and entertainment, and \$4,250 for miscellaneous expenses. AIDA also paid its financial advisor \$17,500 for travel and entertainment without requiring an itemized accounting of the dates, personnel, or activities which resulted in this expense.

In order to safeguard its assets, check the accuracy and reliability of its accounting records, ensure operational efficiency and effectiveness, and promote adherence to managerial policy, AIDA should review and improve its system of internal controls.

Recommendation No. 5

AIDA should adopt a loan assumption policy.

Federal law prohibits the use of tax-exempt bond proceeds for inventory, that is, items purchased for resale. AIDA sold tax-exempt bonds to finance the acquisition of a motel which appears to have been purchased for resale. According to records in AIDA's files, the borrower stated an intention to resell the facility several times before receiving the funds, yet AIDA made the loan. AIDA is presently attempting to respond to potential buyers of this facility, however they lack a definite assumption policy which, for example, would require a minimum holding period for loans. If AIDA allows an assumption, the loan could be declared an inventory loan and the bonds might lose their tax-exempt status, yet AIDA has no assumption regulations on which to base a denial.

Recommendation No. 6

AIDA should develop a Seller/Service Guide to assist lending institutions in complying with program requirements.

Four of 13 lending institutions responded as follows to the question of whether AIDA provides adequate information on its requirements for purchasing loans:

1. In many cases changes are made in commitment procedures and funding methods with no explanation.
2. There is no written communication on internal policy changes, which happen frequently.
3. Communication between AIDA and bank participants could be better. AIDA periodically changes its practices, and we find out only after the fact.
4. The requirements have been changed so many times we have difficulty in determining exactly what is needed on any one application.

Presently AIDA's only written program guidelines are its regulations, which are not consistently applied. To avoid confusion and ensure consistent treatment of borrowers, AIDA should provide lending institutions with written program requirements.

Recommendation No. 7

Electronic recording devices should be visible and their use should be disclosed to affected persons at the time of such use.

During the audit AIDA employees and other individuals expressed concern that conversations might be tape recorded by AIDA's Executive Director without the knowledge or consent of those affected. To alleviate these concerns and ensure compliance with Federal and State laws governing their use, electronic recording devices should be displayed and notification given of their use.

APPENDIXES

APPENDIX A

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY
TYPE OF LOAN INFORMATION
For the Fiscal Year Ended June 30, 1981
(UNAUDITED)

Loan Types and Terms

AS 44.88 establishes AIDA's authority to finance loans.

<u>Type</u>	<u>Limit</u>	<u>Current Interest Rate</u>	<u>Terms</u>	<u>Purpose</u>
Tax-exempt Umbrella Bond Loans	\$1,000,000 - Mining, Small Business, Tourism	12%-13%	Real Estate - 1-25 years or 75% of estimated economic life. Equipment - 1-10 years or 75% of estimated economic life.	To finance the cost of small business, tourism, mining or commercial fishing enterprise projects.
Appropriated Loans (Note 1)	\$150,000 - Commercial Fishing \$500,000 - Small Business \$3,000,000 - Tourism	7.5%-9.5%	Fishing - 1-15 years Small Business - 1-25 years Tourism - 1-20 years	To finance the cost of small business, tourism, and commercial fishing projects at a low interest rate.

Note 1: Appropriated loans are loans transferred to AIDA by Chapter 120, 1980 Session Laws of Alaska.

APPENDIX B

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY
GENERAL LOAN INFORMATION
For the Fiscal Year Ended June 30, 1981
(UNAUDITED)

	1981			
	<u>Number of Loans</u>	<u>\$ Amount of Loans</u>	<u>Percent of Number Loans O/S</u>	<u>Percent of \$ Amount Loans O/S</u>
<u>Loans Outstanding (O/S)</u> (Note 1)				
Fishing	170	\$ 15,823,049	20%	10%
Tourism	22	13,224,358	3%	9%
Small Business	489	79,226,346	57%	50%
Special Programs	169	49,167,596	20%	31%
<u>Total Loans Outstanding</u>	<u>850</u>	<u>\$157,441,349</u>	<u>100%</u>	<u>100%</u>

Loans Delinquent
(Note 2)

30-60 Days Past Due	\$ 5,423,000	3.44%
61-90 Days Past Due	\$ 1,098,000	.70%
Over 90 Days Past Due	\$ 4,454,000	2.83%
<u>Total Loans Delinquent</u>	<u>\$ 10,975,000</u>	<u>6.97%</u>

Note 1: At June 30, 1981, the Authority had received approximately 800 loans from the State of Alaska and had made an additional 39 loans from the proceeds of its bond sale or from its own funds which will be reimbursed from the proceeds of future bond sales. Loans selected by the Authority but not yet transferred from the State of Alaska amounted to \$8,878,000.

Note 2: None of the 39 loans made by the Authority were delinquent at June 30, 1981.

Note 3: There were no Loans in Foreclosure or Loans Written Off at June 30, 1981.

APPENDIX C

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY
APPLICATIONS CONSIDERED DURING YEAR
For the Fiscal Year Ended June 30, 1981
(UNAUDITED)

	1981			
	<u>Number of Loans</u>	<u>\$ Amount of Loans</u>	<u>Percent of Number</u>	<u>Percent of \$ Amount</u>
<u>Applications in Process</u> <u>(Beginning of Year)</u>				
Tax-Exempt Umbrella Bond Loans	-0-	\$ -0-	-0-	-0-
Appropriated Loans	-0-	-0-	-0-	-0-
<u>Total Applications in Process</u> <u>(Beginning of Year)</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
<u>Applications Received During</u> <u>Year</u>				
Tax-Exempt Umbrella Bond Loans	195	\$ 66,585,525	19%	29%
Appropriated Loans (Note 1)	850	166,000,000	81%	71%
<u>Total Applications Received</u> <u>During Year</u>	<u>1,045</u>	<u>\$232,585,525</u>	<u>100%</u>	<u>100%</u>
<u>Applications Approved</u>				
Tax-Exempt Umbrella Bond Loans	150	\$ 48,550,000	16%	24%
Appropriated Loans	811	157,122,000	84%	76%
<u>Total Applications Approved</u>	<u>961</u>	<u>\$205,672,000</u>	<u>100%</u>	<u>100%</u>
<u>Applications Denied/Withdrawn</u>				
Tax-Exempt Umbrella Bond Loans (Note 2)	14	\$ 3,960,000	100%	100%
Appropriated Loans	-0-	-0-	-0-	-0-
<u>Total Applications</u> <u>Denied/Withdrawn</u>	<u>14</u>	<u>\$ 3,960,000</u>	<u>100%</u>	<u>100%</u>
<u>Applications In Process</u> <u>(End of Year)</u>				
Tax-Exempt Umbrella Bond Loans	31	\$ 14,075,525	44%	61%
Appropriated Loans	39	8,878,000	56%	39%
<u>Total Applications In</u> <u>Process (End of Year)</u>	<u>70</u>	<u>\$ 22,953,525</u>	<u>100%</u>	<u>100%</u>

(continued next page)

APPENDIX C

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY
APPLICATIONS CONSIDERED DURING YEAR
For the Fiscal Year Ended June 30, 1981
(UNAUDITED)

<u>Applications Processed Per</u> <u>Loan Examiner (Note 3)</u>	<u>25.6 Loans Per Examiner</u>
<u>Average Processing Time</u> <u>Per Application In Sample</u>	<u>21 Days Per Loan</u>
<u>Cost Per Application and</u> <u>Loan O/S</u>	
Administrative Expenses	<u>\$1,667,354</u>
Number of Applications Processed (Note 4)	<u>975</u>
Cost Per Application (Note 5)	<u>\$ 1,710</u>
Cost Per Loan O/S (Note 6)	<u>\$ 1,962</u>

Note 1: "Applications" for appropriated loans means loans selected.

Note 2: Nine applications amounting to \$3,030,000 were denied by AIDA; 5 applications amounting to \$930,000 were withdrawn by applicants.

Note 3: 195 umbrella bond applications divided by 3 loan examiners. Loan examiners did not process appropriated loan applications.

Note 4: 150 umbrella bond applications approved plus 14 denied plus 311 appropriated loans selected equals 975. Appropriated loans are included because administrative expenses were incurred in their selection.

Note 5: \$1,667,354 divided by 975 equals \$1,710.

Note 6: \$1,667,354 divided by 850 (Appendix B) equals \$1,962.

APPENDIX D

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY
RETURN ON INVESTMENT/COST ANALYSIS
For the Fiscal Year Ended June 30, 1981
(UNAUDITED)

<u>Rate of Return on Total Assets</u>	<u>1981</u>
Total Revenues Per Income Statement	\$ 18,150,393
Total Expenses Per Income Statement	<u>1,667,354</u>
Net Income	<u>\$ 16,483,039</u>
Average Total Assets	<u>\$204,215,255</u>
Rate of Return (Note 1)	<u>8.0%</u>

<u>Loans O/S Per Employee Month</u>	
Total Number of Loans O/S	<u>850</u>
Total Number of Employee Months	<u>156</u>
Number of Loans O/S Per Employee Month	<u>5.5</u>

Note 1: Rate of Return is defined as follows:

$$\frac{\text{Net Income}}{\text{Average Total Assets}}$$

Note 2: 13 employees at June 30, 1981, times 12 months equals 156.

APPENDIX E

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY
SUMMARY OF LOAN TRANSACTIONS TESTED
Funded Umbrella Board Loans at August 31, 1981
(UNAUDITED)

<u>Criteria Tested</u>	<u>Number of Loans Tested</u>	<u>\$ Amount of Loans</u>	<u>Percent of Number Tested</u>	<u>Percent of \$ Amount Tested</u>
1. Note which represents evidence of debt.	26	\$6,270,000	25%	25%
2. Letter of intent identifying purpose of the loan.	26	6,270,000	25%	25%
3. Application form.	26	6,270,000	25%	25%
4. Description of collateral including an independent appraisal or survey.	26	6,270,000	25%	25%
5. Proof of current insurance coverage for collateral.	26	6,270,000	25%	25%
6. Financial statements for three preceding years.	26	6,270,000	25%	25%
7. Federal and State income tax returns for previous three years.	26	6,270,000	25%	25%
8. Proforma financial statements.	26	6,270,000	25%	25%
9. Approval by loan committee.	26	6,270,000	25%	25%
10. Credit checks and reports.	26	6,270,000	25%	25%
11. Compliance with statutory and regulatory requirements.	26	6,270,000	25%	25%
12. Properly recorded security agreements.	26	6,270,000	25%	25%
13. Assignments or guaranties are proper.	26	6,270,000	25%	25%
14. Corporate or partnership borrowing authorizations.	26	6,270,000	25%	25%

APPENDIX F

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY
SCHEDULE OF DELINQUENT LOANS
At September 30, 1981
(UNAUDITED)

	1981			
	Number of Loans	\$ Amount of Loans	Percent of Number Loans O/S	Percent of \$ Amount Loans O/S
<u>Total Loans Outstanding (O/S)</u>				
Umbrella Bond Loans	120	\$ 28,331,259	13%	16%
Appropriated Loans	829	143,530,459	87%	84%
<u>Total Loans Outstanding</u>	<u>949</u>	<u>\$176,861,718</u>	<u>100%</u>	<u>100%</u>

Loans Delinquent

Umbrella Bond Loans

30-60 Days Past Due	\$ -0-
61-90 Days Past Due	-0-
Over 90 Days Past Due	-0-

Appropriated Loans

30-60 Days Past Due	1,674,689
61-90 Days Past Due	1,612,747
Over 90 Days Past Due	<u>3,495,063</u>

Total Loans Delinquent

\$6,782,499

Loans More Than 90 Days Delinquent

- | | |
|---|--|
| <p>1. Ackland Helicopters
Interest Rate: 9.5%
Date of Loan: 01-17-80
Original Amount: \$104,400
Current Balance: \$81,900
Maturity Date: 12-01-84
Amount of Payment: \$2,083.34/mo.
Payments Past Due: \$10,416.70</p> | <p>5. Preising, Wilmer
Interest Rate: 8%
Date of Loan: 12-01-78
Original Amount: \$300,000
Current Balance: \$283,774.09
Maturity Date: 11-01-93
Amount of Payment: \$2,867/mo.
Payments Past Due: \$17,202</p> |
| <p>2. Alaska Central Airways
Interest Rate: 9.5%
Date of Loan: 01-14-80
Original Amount: \$281,250
Current Balance: \$276,326.93
Maturity Date: 01-20-95
Amount of Payment: \$2,939/mo.
Payments Past Due: \$20,573</p> | <p>6. Howell, Charles
Interest Rate: 8%
Date of Loan: 05-01-79
Original Amount: \$285,000
Current Balance: \$261,995.38
Maturity Date: 04-01-94
Amount of Payment: \$2,724/mo.
Payments Past Due: \$16,344</p> |
| <p>3. Clark, Martin H.
Interest Rate: 9.5%
Date of Loan: 01-31-80
Original Amount: \$500,000
Current Balance: \$482,780.92
Maturity Date: 02-01-95
Amount of Payment: \$5,221.12/mo.
Payments Past Due: \$31,326.72</p> | <p>7. Stromme, Zana
Interest Rate: 8%
Date of Loan: 06-01-79
Original Amount: \$235,000
Current Balance: \$221,663.99
Maturity Date: 05-01-94
Amount of Payment: \$2,246/mo.
Payments Past Due: \$20,214</p> |
| <p>4. Arctic Mechanical, Inc.
Interest Rate: 8%
Date of Loan: 10-17-78
Original Amount: \$150,000
Current Balance: \$138,280.33
Maturity Date: 11-01-93
Amount of Payment: \$1,434/mo.
Payments Past Due: \$10,038</p> | <p>8. Mt. Susitna Broadcasting
Interest Rate: 8%
Date of Loan: 08-01-79
Original Amount: \$280,000
Current Balance: \$246,678.05
Maturity Date: 07-01-89
Amount of Payment: \$3,398/mo.
Payments Past Due: \$16,990
(Note: During the first week of November this loan was in current status).</p> |

APPENDIX F

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY
SCHEDULE OF DELINQUENT LOANS
At September 30, 1981
(UNAUDITED)

- | | |
|--|---|
| <p>9. Moore, Jeffery
Interest Rate: 8%
Date of Loan: 10-01-79
Original Amount: \$167,000
Current Balance: \$158,892.62
Maturity Date: 10-01-94
Amount of Payment: \$1,596/mo.
Payments Past Due: \$11,172</p> | <p>16. Stikine Development Corporation
Interest Rate: 7%
Date of Loan: 05-29-70
Original Amount: \$10,000
Current Balance: \$6,095.90
Maturity Date: Until principal and interest are fully paid.
Amount of Payment: \$232.59/mo.
Payments Past Due: \$465.18
(Note: This payment is due quarterly. During the last week in October this loan was in current status.)</p> |
| <p>10. Gene's Auto Service
Interest Rate: 9.5%
Date of Loan: 11-14-79
Original Amount: \$187,500
Current Balance: \$166,862.61
Maturity Date: 11-14-94
Amount of Payment: \$2,427/mo.
Payments Past Due: \$9,708
(Note: During the first week of October this loan was in current status).</p> | <p>17. Zerembe Native Corporation
Interest Rate: 7%
Date of Loan: 08-15-72.
Original Amount: \$5,750
Current Balance: \$4,633.70
Maturity Date: Until principal and interest are fully paid.
Amount of Payment: \$122.19/mo.
Payments Past Due: \$366.57</p> |
| <p>11. Switzerland, Inc.
Interest Rate: 9.5%
Date of Loan: 11-18-79
Original Amount: \$391,900.29
Current Balance: \$376,470.66
Maturity Date: 11-19-94
Amount of Payment: \$4,095.19/mo.
Payments Past Due: \$16,380.76</p> | <p>18. Royal Fisheries
Interest Rate: 7%
Date of Loan: 05-23-73
Original Amount: \$7,265
Current Balance: \$5,177.96
Maturity Date: Until principal and interest are fully paid.
Amount of Payment: \$347.26/mo.
Payments Past Due: \$1,041.78</p> |
| <p>12. College Utilities
Interest Rate: 9.5%
Date of Loan: 11-30-79
Original Amount: \$171,000
Current Balance: \$165,418.71
Maturity Date: 11-30-94
Amount of Payment: \$1,787/mo.
Payments Past Due: \$8,935</p> | <p>19. Fireside Lounge
Interest Rate: 7%
Date of Loan: 01-17-74
Original Amount: \$18,556
Current Balance: \$18,523.08
Maturity Date: Until principal and interest are fully paid.
Amount of Payment: \$394.32/mo.
Payments Past Due: \$1,182.96</p> |
| <p>13. Aaron, Inc.
Interest Rate: 9.5%
Date of Loan: 06-25-80
Original Amount: \$246,667
Current Balance: \$216,929.38
Maturity Date: 06-25-85
Amount of Payment: \$5,200/mo.
Payments Past Due: \$17,535</p> | <p>20. Southeastern Cedar Products
Interest Rate: 7%
Date of Loan: 09-04-74
Original Amount: \$25,000
Current Balance: \$25,000
Maturity Date: Until principal and interest are fully paid.
Amount of Payment: \$531.25/mo.
Payments Past Due: \$14,875</p> |
| <p>14. Cramer, Robert
Interest Rate: 8%
Date of Loan: 04-10-78
Original Amount: \$298,500
Current Balance: \$263,314.37
Maturity Date: 04-01-93
Amount of Payment: \$2,853/mo.
Payments Past Due: \$14,265</p> | <p>21. International Banquet House
Interest Rate: 7%
Date of Loan: 01-18-74
Original Amount: \$20,000
Current Balance: \$19,503.18
Maturity Date: Until principal and interest are fully paid.
Amount of Payment: \$425/mo.
Payments Past Due: \$5,525</p> |
| <p>15. Chena View Hotel
Interest Rate: 7%
Date of Loan: 11-14-73
Original Amount: \$75,000
Current Balance: \$74,840.87
Maturity Date: When principal and interest are fully paid.
Amount of Payment: \$1,593.75/mo.
Payments Past Due: \$15,937.50</p> | |

STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

POUCH 5
JUNEAU, ALASKA 99811

February 1, 1982

RECEIVED

FEB 01 1982

LEGISLATIVE
AUDIT

Mr. Gerald L. Wilkerson, C.P.A.
Legislative Auditor
Division of Legislative Audit
Pouch W
Juneau, AK 99811

Re: Preliminary Audit Report -- Alaska Industrial Development
Authority (AIDA)

Dear Mr. Wilkerson:

This responds to your Preliminary Audit Report of November 23, 1981 on AIDA, which you transmitted to me with your cover letter of January 29, 1982.

Before discussing the recommendations of the Preliminary Audit Report, I would like to make a few observations about its description of AIDA's organization and function (pp. 2-3 of the Report). The first regards the statement,

"However, AIDA remained a concept which lacked funding, staff, and impetus for eleven years until revived in 1978 by legislation which expanded its purpose to include financing air and water transportation, pollution control, gas, and electrical facilities."

While it is true that AIDA lay asleep like an enchanted maiden for 11 years before the legislation referred to was enacted, I believe the handsome prince who awoke AIDA from this slumber was AIDA's first Executive Director, David A. Rose. He was the right man in the right place for the first job, and without his ability and untiring efforts to make the program succeed, AIDA might still be lacking impetus.

My second observation concerns the statement, "No bonds have yet been authorized under [the Supported Stand-Alone Bond Program authorized by the Legislature in 1981]." This is true, but without any explanation of why this is so, it seems unnecessarily negative. The Supported Stand-Alone Bond Program was intended simply to allow "umbrella" bonds to be issued by AIDA for projects larger than \$1,000,000 (just as it would in its regular "umbrella" bond program for projects of \$1,000,000 or less), provided the originating financial institution retained at least 20 per-

Mr. Gerald L. Wilkerson, C.P.A.
Preliminary Audit Report on AIDA
February 1, 1982
Page 2

cent of the loan to be financed. The reason no Supported Stand-Alone Bonds have been issued is the same as the reason described in the Preliminary Audit Report as having caused some difficulty in the regular "umbrella" bond program. Under the recent IRS Revenue Ruling, projects that are pooled together for an "umbrella" bond sale are aggregated and treated as a single project for purposes of the IRS limitations on capital expenditures in the three-year periods before and after the bond sale. While "umbrella" bonds still make sense for pools of projects not over \$1,000,000, the larger size of the projects for the Supported Stand-Alone Bond Program (plus the usually larger size of the businesses proposing such projects) makes it virtually infeasible to combine these projects for an "umbrella" bond issue and still comply with the IRS rules limiting capital expenditures. However, these larger projects can be and are being financed under AIDA's original bond program, the ordinary Stand-Alone Bond Program.

My third observation pertains to the statement,

"No financings had been effectuated at the conclusion of our review under these two programs [i.e., a taxable bond program which AIDA is developing, and a program to purchase from available funds within AIDA the federally guaranteed portions of business loans up to \$500,000 in size]."

As long as AIDA is able to meet its customers' needs through its various tax-exempt financing programs, there is no need to finance projects by taxable bonds with their higher interest rates. As for AIDA's not purchasing any federally guaranteed loans when your review was concluded (which I presume was November 23, 1981), AIDA had the necessary regulations adopted and was ready to receive applications under this program in October 1981. By December 1, 1981, some 13 of these loans had been purchased by AIDA totaling \$2,447,000 (of which the federally guaranteed portions, which is all AIDA is allowed to purchase, came to \$2,202,300).

Having made these observations, I would not like to take up and address the various recommendations contained in the Preliminary Audit Report.

Recommendation No. 1. AIDA should adopt a policy to defer bond sales if possible until market conditions are favorable.

As a general rule, AIDA would like nothing better than to see the timing of its bond sales coincide with periods when interest rates are at their lows. Unfortunately, we did not have much success in achieving this objective with our first two "umbrella" bond sales, as the Preliminary Audit Report points out. However, we did have good reasons to proceed with the sales when we did, even though we were under no financial duress to do so.

Mr. Gerald L. Wilkerson, C.P.A.
Preliminary Audit Report on AIDA
February 1, 1982
Page 3

AIDA's first "umbrella" bonds were sold in April 1981, eight months after the legislation enabling AIDA to issue such bonds took effect. This unusually long delay in implementing new legislation was particularly embarrassing for AIDA, which had made a firm commitment to the Legislature that it would get the "umbrella" bond program up and running quickly and successfully. In order to re-affirm its commitment and to demonstrate that such a bond program would work well for both AIDA and the Alaskan public served by AIDA, the AIDA board believed it was important that we proceed with our first "umbrella" bond sale as soon as we could.

Even though in retrospect it appears that we could scarcely have picked a worse week in which to go to the bond market, that sale was a significant success. The 50 projects that were financed by that sale all received interest rates significantly below the prevailing level for any other financing source, and -- equally important, I believe, to those borrowers -- the rates of interest were fixed for the entire period of the loans. Most other sources of financing would have required some type of floating interest rate. Thus, the borrowers were benefitted by the sale, and of course, the feasibility of an "umbrella" bond program was conclusively demonstrated.

Our second "umbrella" bond sale was held despite the adverse market last fall because of the considerable uncertainty that had arisen about the future of tax-exempt financing of the type done by AIDA. First, the Internal Revenue Service issued a Revenue Ruling (No. 81-216) that reverses a long-standing position by the IRS and considerably restricts the ability of bond issuers like AIDA to pool borrowers together for purposes of issuing "umbrella" bonds. At the same time several important Congressmen and Senators in Washington, D.C. were reported to be considering amendments to the Internal Revenue Code to severely limit or end altogether the tax-exempt status of industrial development bonds. The Reagan Administration was also rumored to be considering making a similar proposal as part of its comprehensive tax package.

In light of these threats to the AIDA "umbrella" program, the board decided to proceed as rapidly as possible to a bond sale for the applications that had been "in the mill" when the Revenue Ruling was issued, since under that Ruling those applications were "grandfathered." The sense of urgency was very strong because the proposed tax amendments were reliably reported to have effective date clauses running either from the date of their introduction or from the end of calendar year 1981. Thus, if AIDA didn't hold the sale promptly while it still could under the "grandfather" provision in the Revenue Ruling, there was a real risk that the new legislation would prevent the issuance of tax-exempt bonds for even the "grandfathered" borrowers once that legislation was introduced. Thus, even though we recognized that the bond market was indeed rather "bearish," we decided it was more important to get the bond sale

concluded before any more harm could be done by either Congress or the IRS.

Although so far no legislation limiting or ending the tax-exempt status of industrial development bonds has been introduced in Congress, there are still reliable reports that something is in the wings and will be introduced shortly. To be ready "just in case," AIDA has authorized an underwriting team to prepare the necessary documentation for a taxable bond program. Meanwhile, we have developed a modification of the "umbrella" bond program to allow it to continue under the restrictions imposed by the Revenue Ruling and have also created a "mini-stand-alone" program for additional flexibility under the present IRS rules.

Recommendation No. 2. AIDA should comply with the provisions of the Alaska Administrative Code.

The Preliminary Audit Report cites five areas in which AIDA did not appear to have complied with its own regulations. Let me discuss each of these areas in turn.

1. "Title 3, Chapter 99, Section 260(c) of the Alaska Administrative Code requires AIDA to determine loan interest rates after the related bond sales. AIDA placed a limit on the amount of interest that could be charged for 166 loans before bonds were sold to finance the loans. The effect of this decision was an estimated loss of approximately \$7,000,000 as poor market conditions in 1981 resulted in higher bond interest rates than anticipated. This \$7,000,000 subsidy represents the difference between actuarial loan and bond yields as calculated by AIDA personnel."

I have the following comments to make regarding this area. First, I do not believe that 3 AAC 99.260(c) was actually violated by AIDA's practice of committing to loans at an interest rate not to exceed some specified rate. The regulation states in pertinent part:

The rate of interest on the authority's participation in a real property or tangible personal property loan will be determined after sale of the authority's bonds and may not exceed the interest rate paid by the authority on the bonds by more than the percentage permitted under the arbitrage rules of the Internal Revenue Service. . . .

AIDA's commitment not to impose an interest rate higher than a specified amount did not, strictly speaking, "determine" at that time what the rate of interest would be for the loan. After the bonds were sold, it became apparent that the maximum rate permitted under the arbitrage rules would be greater than the "ceiling" rate that AIDA had promised, and conse-

quently, the loans were made at the "ceiling" rate. At no time before the bond sale was the rate for these loans actually fixed at the "ceiling," however, since there was always the possibility that the interest rates for bonds could drop and we could fulfill the commitment at a rate below the "ceiling."

While this practice does not therefore seem to have violated the letter of 3 AAC 99.260(c), I would nevertheless agree that it was a spiritual violation.

This brings me to my second comment, which is that the practice of committing to loans at not more than a specified rate of interest has been discontinued and will not be resumed.

Finally on this point, I would note that while AIDA's early calculations indicated that this practice had in fact cost the Authority about \$7,000,000, subsequent analysis by Lehman Brothers Kuhn Loeb, Inc. (AIDA's financial advisor) indicates that the total cash flow from each "umbrella" bond sale is positive (i.e., there is no actual cash loss from either sale), although the return on AIDA's committed funds in both cases is significantly below what AIDA would have earned on those funds at then-prevailing market rates. The "loss" therefore is not a realized loss, but rather an opportunity cost in terms of foregone income from alternative action. But, had interest rates moved a little higher than they did, we might well have been looking at negative-value total cash flows, and then there would have been realized losses as well.

2. "Title 3, Chapter 99, Section 300(b) of the Alaska Administrative Code requires lending institution originators of AIDA loans to provide a bond to ensure against errors, omissions, and fraud. We could find no evidence that 6 of 19 originators had obtained this bond."

The protection required by 3 AAC 99.300(b) is actually provided both by fidelity bonds and by errors and omissions insurance. It is true that no evidence of a fidelity bond was on file with AIDA for six institutions, although one of those six has never sold any loans to AIDA. Of the six, two did have adequate errors and omissions insurance on file with us. These deficiencies in our files are acknowledged and are being corrected.

One of the benefits of your audit has been the discovery that a number of the bonds and insurance policies on file with AIDA would seem to have expired, based solely on what was in AIDA's files. Consequently, a "tickler" system has been established to keep those records current and to ensure that there are no expirations of bonds or insurance in the future.

3. "Title 3, Chapter 99, Section 120 of the Alaska Administrative Code requires Stand-Alone Revenue Bond applications to contain audited financial statements (unless waived by resolution), project descriptions, and business histories of persons owning at least 10% of the enterprise. Twenty of 43 files tested did not contain one or more of these items. Audited financial statements were waived for one project without a resolution."

According to AIDA's Executive Director, all of the stand-alone files contain project descriptions.

In the case of the project for which the audited financial statements were allegedly waived without a resolution, we were advised by counsel that audited financial statements of one of the partners in the project satisfied the purpose of the regulation because they showed that the one partner alone was sufficiently creditworthy to finance the project. Thus, under this legal opinion, sufficient financial statements were on file and no waiver was in order.

It is true that business histories of persons owning at least 10% of a project are not present in all of the stand-alone files. The AIDA board will consider what to do about this situation at its next monthly meeting.

4. "Title 3, Chapter 99, Section 140(a) of the Alaska Administrative Code requires stand-alone revenue bond applicants to pay a \$2,500 application fee. Twenty-nine of 43 fees tested amounted to less than \$2500 as follows: 12 applicants paid no fee, four applicants paid \$100, 12 applicants paid \$500, and 1 applicant paid \$2,100. No resolution was issued to waive or modify these 29 exceptions, which resulted in a loss of application fee revenue amounting to \$59,000."

The regulation (3 AAC 99.140(a)) referred to reads as follows:

Unless waived by a resolution of the authority for good cause, an applicant shall pay a nonrefundable application fee of \$2500 when the application is submitted. An application will not be finally considered by the authority until the application fee is paid. The amount paid as an application fee will be credited against the financing fee required under (b) of this section. (emphasis added)

This regulation is not skillfully drafted -- the first sentence explicitly declares that the non-refundable application fee must be paid at the time the application is submitted to AIDA; however, the second sentence's

reference to final consideration implies that preliminary consideration could be given even though the fee is not paid. This ambiguity was discussed with AIDA's bond counsel, who opined that AIDA did not actually have to demand full payment of the \$2500 by an applicant until AIDA was ready to give final consideration to the application (i.e., passage of the actual bond sale resolution). On the basis of this opinion, the AIDA board decided initially to process applications without payment of this fee in cases where it appeared likely that the project would be proceeding promptly to sale, at which time AIDA would collect a financing fee under 3 AAC 99.140(b) against which the application fee would be credited anyway.

Accordingly, until December 1, 1980, AIDA did not require the payment of application fees at the time stand-alone applications were submitted. At that time the board decided to change this policy, so as to require partial payment (\$500) of the fee at the time of submission in order to defray AIDA's out-of-pocket costs for the legal review and preparation of the initial "SOSQA" resolution for the applicant (the SOSQA action is the first official action taken by the AIDA board in the course of processing an application and is important primarily for determining when expenditures for a project may begin to be incurred that are permitted under the Internal Revenue Code and IRS regulations to be eventually financed on a non-interim basis with the proceeds of tax-exempt bonds). The remaining \$2000 was to be paid when AIDA was ready to conduct the financial review of the application, which would generally be followed shortly by the passage of the bond sale resolution (assuming everything still looked all right with the application after the financial review had been completed). The effect of the policy adopted in December 1980 is that applicants paid only for the services they received from AIDA, while assuring at the same time that AIDA was more or less reimbursed for its actual expenses in reviewing and processing the applications. This reimbursement was, after all, the purpose in adopting this regulation; without some such fee arrangement AIDA would simply be "out the money" for its costs of reviewing and processing an application if the applicant later changed his mind or for other reasons the project failed to go successfully to a bond sale.

The foregoing explains the 12 instances in which the applicant paid no application fee and the 12 other ones where \$500 was paid. This leaves the four occasions where a \$100 fee was paid and the one case of \$2100.

The first two of the \$100 fee payments were for stand-alone projects whose SOSQA resolutions were approved on October 3, 1980. Note that this was before the board adopted the policy of requiring \$500 at the time of submission, with payment of the balance to be made when AIDA is ready to begin its financial review of the project. Until that time no fees had been collected from earlier stand-alone applicants. The departure from the no-fee practice reflected the AIDA board's growing

uneasiness about the possibility of incurring significant costs in reviewing applications and then never actually being reimbursed for them if the projects did not proceed all the way to a bond sale. In a sense, then, these cases might be characterized as reflecting a transitional phase in the board's policy on the matter. However, I agree that a greater formality in modifying the policy or in adapting it on a case by case basis would have been preferable to what actually happened in these cases.

The other two instances where \$100 fees were paid were projects whose SOSOA resolutions were approved in October 1981. On August 31, 1981, the AIDA board adopted emergency regulations repealing subsection (a) of 3 AAC 99.140, amending subsection (b) to provide for a financing fee of \$10,000 payable at the time bonds are issued, and amending subsection (c) to require the applicant to pay "other costs and fees prescribed by law or agreement". See Register 79 of the Alaska Administrative Code, Appendix A (p. ER-3). By "agreement" these two applicants paid \$100 to AIDA at the time they submitted their applications.

This leaves the unique instance in which only \$2100 was collected. I admit that this case was irregular -- \$2500 is what should have been paid. I am advised by Norm Levesque that AIDA encountered difficulty in collecting this particular fee from the applicant. Proper procedure should have been not to allow the project to come to the board for a bond sale resolution until the fee had been fully paid. This was not done, however, and on July 27, 1981, a bond sale resolution for the project was approved by the board. This did not result in a loss of revenue to the Authority, however, since the applicant paid a financing fee to AIDA pursuant to 3 AAC 140(b) when the bond sale closed. This financing fee was greater than the \$2500 that should have been received as the application fee. Since the application fee under 3 AAC 140(a) is credited against the financing fee, AIDA ultimately received (at the bond closing) the full sum to which it was entitled as its fee for conducting the transaction.

5. "Title 3, Chapter 99, Section 230(b) of the Alaska Administrative Code requires Umbrella Bond applications to contain certain information, which can be waived. We reviewed 26 of 106 funded loan files and noted the following regulation exceptions:
 - "a. 65% did not contain financial statements prepared by a Certified Public Accountant;
 - "b. None contained soil tests;
 - "c. 25% of the files to which the requirement applies did not contain signed loan agreements with the bank;

"d. 27% did not contain copies of lease agreements.

"e. 33% did not contain a loan summary.

"While AIDA has the authority to waive requirements, waivers should be documented, and should be the exception rather than the rule."

AIDA generally waives the requirement for a C.P.A.-prepared financial statement in the case of individuals, sole proprietorships and Subchapter S corporations when the application is supported by copies of the applicant's federal income tax returns. The purpose of the requirement for a financial statement is to disclose to AIDA the financial condition of the applicant. In the cases described, tax returns most often do describe that financial condition. AIDA believes it would be unreasonable to expect small businessmen to bear the expense of retaining a C.P.A. when comparable and reliable information can be provided to AIDA through the income tax returns. I agree with the point made in the Preliminary Audit Report that waivers of regulatory requirements should be the exception rather than the rule, and perhaps AIDA should therefore consider amending the regulation to reflect more accurately the present practice.

Soil tests are required only when the appraisal, cost estimate or other information indicates that there is or may be a soil problem. AIDA relies on the originating financial institution to disclose to us any soil problems and to protect the Authority against any losses. Again, perhaps AIDA should consider a clarifying amendment to the present regulation.

The regulation in question does not require the submission of a "signed loan agreement"; the most similar phrase in the regulation is "signed loan application". See 3 AAC 99.230(b)(3). One file does indeed contain a copy of a signed loan agreement between the bank and the borrower, but this would not have been because of any regulatory requirement. I would also add that each closed file does contain a copy of the loan participation certificate by the originating financial institution.

The Preliminary Audit Report refers to three instances in the audit sample in which there was no lease agreement. In two of these cases the files were for the purchase of equipment which the applicant was going to use himself, rather than lease it out. No lease agreement would exist in those cases, and so it is only natural that AIDA would not have a copy of one in the file. The third case involved the acquisition of retail space and office space, of which one-third was reserved for the applicant's own use. The financial strength of the applicant was such that no further income from the leasing of the other two-thirds of the project was needed in order for the project to be acceptable financially

to the Authority. However, this decision should have been noted in the loan committee approval sheet in the file, but was not. AIDA staff have been instructed to be careful that such decisions are noted in the file in the future.

The Preliminary Audit Report refers to five files in the audit sample that did not contain loan summaries. Two of these files did in fact contain loan summaries, which we will be willing to show to you if you wish to return to the AIDA offices to inspect them. The other three files were for applications originated by First National Bank of Alaska, whose practice is to include a loan summary as part of the narrative in their letters of transmittal. Again, you are welcome to inspect those letters at AIDA if you wish.

Recommendation No. 3. Members of AIDA's Board of Directors should comply with the provisions of the Alaska Statutes.

The violation referred to in this Recommendation is the first-class airline travel by members of the AIDA board for out-of-state travel. AS 39.20.140(b), which may under AS 39.20.180(1) apply to travel by AIDA board members, states:

The Department of Administration may not reimburse an official or employee or pay for more than the lowest tourist class fare for the most direct route unless (1) tourist class accommodation is not available; (2) waiting for tourist class accommodation would occasion a delay harmful to the state; or (3) the Department of Administration finds that travel by tourist class accommodation is not in the best interest of the state, and authorizes other accommodation.

I am seeking the advice of the Attorney General's office about whether these provisions in fact apply to travel by AIDA board members, and if they do, whether and how reimbursement should be sought from the board members involved. Meanwhile, I have instructed the Executive Director not to allow AIDA to pay any first-class fares for AIDA board members unless one of the three statutory exceptions applies to the particular case.

The Preliminary Audit Report also criticizes AIDA staff for flying first-class on Outside travel as well, although it acknowledges that there is no statutory provision which prevents this practice. All, or very nearly all, of the out-of-state travel by AIDA employees has been to New York City. The mere act of flying in an airplane for nine or 10 hours is exhausting in itself; when this is compounded by the fact that the staff also suffer the effects of a five-hour time difference, they are simply in no good condition to start dealing right away with the enormously complicated financial matters that they are in New York for.

Our choices are either to let them work on multimillion-dollar arrangements under this disadvantage and simply hope they don't make mistakes that are too serious, or else do whatever is reasonable to mitigate the effects of the long trip east. I believe the public interest is better served by the latter course of action, which can then be achieved through either of two basic ways. One, we can let them fly to New York two or three days early, so they can recover from their flight and the jet lag. Or two, they can fly first class, which I have found from my limited personal experience to be considerably less exhausting. Given the cost of New York hotels (those convenient to Wall Street run over \$100 a night), I believe the latter option is more advantageous in terms of cost, provided of course that there is no undue indulging in the complimentary drinks offered on most first-class flights. Flying first class also gives more physical room, which would facilitate doing work while en route. Under these conditions first-class travel to the East Coast should be appropriate, even for "state representatives" like AIDA employees.

Parenthetically, I might add that in my entire career with the State I have travelled first class at the public's expense only once, and that was from Anchorage to Washington, D.C. to testify about North Slope oil pricing and no space in tourist class was available that would get me there in time for the hearing.

Recommendation No. 4. Internal control over assets should be strengthened.

The Preliminary Audit Report offers several areas of criticism with regard to this point. I shall discuss them each in turn.

1. "AIDA employees are permitted to charge personal travel to AIDA accounts."

This refers to a unique instance in which a member of the family of an AIDA employee travelled to Hawaii on an airline ticket (tourist class) that was charged to AIDA. The employee entered into AIDA's files a copy of a personal check made out to AIDA for the \$583.40 price of the ticket. However, an examination of AIDA's deposit slips disclosed no evidence that this check was ever in fact cashed. After this employee was confronted with these circumstances and afforded a reasonable time in which to provide AIDA with a copy of the cancelled check (which was not provided by the employee), the employee resigned. AIDA was reimbursed for the \$583.40 at the time of resignation. This matter was referred to the Attorney General for any further legal action that might be appropriate.

The policy of AIDA is that all travel for purely personal reasons be paid by the employee and not charged to the Authority. If the

employee travels on AIDA business and takes a side trip to conduct personal business, the ticket may be charged to AIDA provided that the employee reimburses the Authority for the additional cost of his personal travel at or before the time the airline ticket is picked up.

2. "Employees receive salary advances with unlimited time for repayment."

I agree that the standard practice for other State officials and employees should be followed in AIDA -- namely, that standard salary advance agreements be obtained from employees requesting such advances, with repayment to be made in monthly installments over a period not to exceed six months. I shall recommend to the AIDA board at its next monthly meeting that it formally adopt this policy.

3. "[A]n undefined investment policy resulted in the investment of \$3,900,000 of bond proceeds in low-yield securities instead of AIDA's customary investment in repurchase agreements. Lost interest income is estimated at more than \$19,000."

This refers to the fact that the proceeds of 13 series of bonds from the first "umbrella" sale were invested in special State and Local Government Securities (SLGS) offered by the U.S. Treasury to tax-exempt bonding institutions that need investments of limited yield for bond proceeds in order not to violate the arbitrage regulations for those bonds (such a violation would render the bonds taxable instead of tax-exempt). AIDA relied on the advice of its financial advisor (Lehman Brothers Kuhn Loeb, Inc.), bond counsel (Wohlforth & Flint), lead underwriter (John Nuveen & Co., Inc.) and bond trustee (Seattle-First National Bank) about the proper and required subscription and purchase of these SLGS.

The maturity dates of the SLGS were to have coincided with the dates submitted by the financial institutions originating the loans as the estimated closing dates, except that AIDA understood that no maturity date for the SLGS could be before July 6, 1981. For the 13 loans of interest here, the estimated closing dates ranged from June 15 to September 15, 1981.

AIDA had agreed that, for loans for projects that had been completed, it would fund them before the estimated closing dates. Thus, actual funding dates ranged from April 6 to May 14, 1981. At the time AIDA could foresee no loss from the early funding since interest rates had been on the decline, as evidenced by seven successive reductions in the prime rate up until then from its all-time high in December 1980. Our expectation at the time was for further modest declines in interest rates or a levelling off. This proved to be mistaken.

AIDA was not familiar with all the technicalities in subscribing for SLGS, and hence, was unaware that closing date changes for the SLGS

could be made, or even cancelled, under certain conditions. Had we known this, we would have cancelled the subscription for SLGS for Series 16 (\$200,000) of the first "umbrella" sale, and the SLGS subscriptions for Series 27, 35, 48 and possibly 11, 32 and 45 (totaling \$1,380,000) might also have been cancelled. The remainder of the 13 loans were all funded after the SLGS subscription date.

Later, during the closing for the second "umbrella" bond sale, AIDA discovered that, subject to certain limitations, various changes and cancellations may be made after the SLGS subscription date; however, not even the Federal Reserve Bank responsible for processing our SLGS subscriptions could give AIDA a complete answer about the procedures for changing or cancelling those subscriptions. Before AIDA holds another "umbrella" bond sale, this issue will have been thoroughly researched, or an alternative to SLGS will have been found that satisfies the arbitrage requirements.

4. "We also noted inconsistent per diem payments to employees with six instances of overpayment and two of underpayment."

These inconsistencies arose during a period when AIDA did not have a copy of the State Administrative Manual. A copy was finally obtained by the Authority in December 1981. All per diem and expenses are now to be paid in accordance with the procedures and guidelines set forth in that manual, which should prevent any further inconsistencies from occurring in the future.

5. "Long distance telephone bills of approximately \$1,000 per month are paid without verifying whether calls represent authorized business activity by AIDA personnel."

This point is well taken, and I have requested the Executive Director to draft a statement to advise all AIDA employees about our policy about not making personal long-distance telephone calls. I will also recommend to the board that it consider having periodic reports about the results of internal policing efforts to ensure that this policy is complied with.

6. "Underwriters were paid \$94,550 for out-of-pocket expenses without an accounting. This amount included \$32,700 for travel and entertainment, and \$4,250 for miscellaneous expenses. AIDA also paid its financial advisor \$17,500 for travel and entertainment without requiring an itemized accounting of the dates, personnel, or activities which resulted in this expense."

The payment of \$94,550 to the underwriters was part of the underwriters' discount in the sale of the bonds. This discount is not only to reimburse the underwriters' costs in preparing the bond issue for

Mr. Gerald L. Wilkerson, C.P.A.
Preliminary Audit Report on AIDA
February 1, 1982
Page 14

sale and marketing it, it also provides them with their profit from the transaction. In a competitive bond sale, the underwriters' discount is an important part of their bid because, if two bids have the same interest rates but one has a smaller underwriters' discount, the one with the smaller discount is the better bid since the debt service is the same but the bond seller realizes more of the total bond proceeds and less of those proceeds goes to the underwriters. In the case of a negotiated sale such as AIDA's two "umbrella" sales, the underwriters' discount is part of the negotiated price for the bonds, together with the rate of interest to be paid. In order to protect an issuer from conceding too much for the underwriters' discount, the transaction is reviewed by the issuer's financial advisor as to the reasonableness of the discount and of the interest rates on the bonds. One must rely on the integrity and reputability of the financial advisor, as well as the advisor's expertise, in deciding whether to accept the underwriters' offer or not in a negotiated sale.

AIDA has requested and received from its financial advisor a detailed statement of the personnel, dates and activities involved with respect to the billing for \$17,500. It will be our procedure in the future to request such an itemization for future billings from our financial advisor.

From the foregoing discussion of Recommendation No. 4, it is apparent that AIDA should strengthen its system of internal controls. Our staff are reviewing our present procedures with an eye toward doing exactly that. Some improvements have already been made, and I am confident that additional ones will be forthcoming shortly.

Recommendation No. 5. AIDA should adopt a loan assumption policy.

The concerns expressed on this point in the Preliminary Audit Report are well founded, and I am pleased to be able to state that the AIDA board at its last monthly meeting formally adopted and approved written guidelines about the assumption of AIDA-financed loans. A copy of those guidelines is attached.

Recommendation No. 6. AIDA should develop a Seller/Service Guide to assist lending institutions in complying with program requirements.

This Recommendation is well taken. A Seller/Service Guide is being developed. I shall be asking the Executive Director at our regular monthly board meetings for updates on the status of the guide until it is completed and ready for approval by the board.

Recommendation No. 7. Electronic recording devices should be visible and their use should be disclosed to affected persons at the time of such use. 0

The electronic recording devices referred to are sensitive microphones in the ceiling of the AIDA conference room and of the Executive Director's office, which are connected by hidden wiring to tape recorders. This equipment allows the proceedings of the AIDA board to be recorded and is considerably more convenient and safer than having microphones and wires running all around the room. Our regular monthly meetings are held in the conference room, while our weekly teleconference meetings are conducted through a speaker-phone in the Executive Director's office.

At the present time there is nothing visible in either room that would indicate whether the microphone and recording equipment are operating. I have asked the Executive Director to explore the possibility of installing something like a red signal light in each room that would automatically go on whenever the recording equipment is activated. This would prevent any inadvertent or intentional recording of private conversations in those rooms without the knowledge of the participants. Meanwhile, until such a signaling system can be installed, I have requested that the following written notice be placed at the doors of both rooms:

NOTICE: THIS ROOM IS EQUIPPED WITH ELECTRONIC RECORDING EQUIPMENT WHOSE OPERATION CANNOT BE DETECTED BY PERSONS WITHIN THE ROOM. PLEASE CHECK TO BE SURE THIS EQUIPMENT IS OFF WHENEVER YOU USE THIS ROOM FOR WORK OR MEETINGS THAT ARE NOT REQUIRED BY LAW TO BE PUBLIC.

Let me assure you, however, that this written notice will not, in my opinion, be satisfactory as a permanent measure. If some automatic signaling system cannot be installed or can only be installed at unreasonable expense, then I will want to explore how best to replace the present recording system with one whose operation is more readily apparent to persons in the room.

Before I close, I would like to note for the record a number of the positive things about AIDA's operations to date, which lie outside the proper scope of comment for the write-up of a program audit and therefore could not be mentioned in the Preliminary Audit Report. First of all, setting up the "umbrella" program and getting it to run successfully was no mean accomplishment. Rather, it was the result of considerable hard work and dedication on the part of AIDA staff, bond counsel, financial advisor and the underwriters. As a result of their efforts some 184 projects totaling \$53,265,000 have been funded at fixed, tax-exempt rates through the "umbrella" program as of December 31, 1981. Another \$234,023,000 worth of projects were "in the mill" as of that

Mr. Gerald L. Wilkerson, C.P.A.
Preliminary Audit Report on AIDA
February 1, 1982
Page 16

date. Moreover, this program has been able to continue to work smoothly and with minimal disruption of services to the public, even though a major ground rule was changed in mid-stream by the IRS. While certainly not without its problems, AIDA's "umbrella" program has been a remarkable success in the short time it has been in operation.

The accomplishments in the "umbrella" area have not meant that AIDA neglected its original program, the stand-alone bonds. During 1981 some \$90,955,760 of stand-alone bonds were issued for 22 different projects.

Also during 1981, AIDA was charged by the Legislature with responsibility for implementing a loan program for small business working capital and inventory loans, under which AIDA was to purchase the federally guaranteed portion of the loans (usually guaranteed by the Small Business Administration). In the five months in 1981 after that legislation took effect, loans totaling \$4,228,575 had been made under this program, of which the guaranteed portions purchased by AIDA came to \$3,805,717. According to the applicants' own estimates, these loans accounted for some 32 jobs that would otherwise not exist. More than 30 percent of the number of loans were to borrowers seeking less than \$100,000.

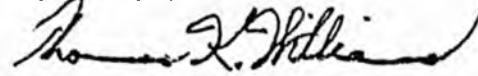
And, as one last toot on AIDA's horn, I would point out that AIDA has taken the precaution of developing a contingent, taxable-bond program that will be ready for quick implementation in the event Congress amends the federal tax laws so as to end or greatly curtail the tax-exempt status of industrial development bonds such as those which AIDA issues. In contrast to the situation that developed with Alaska Housing Finance Corporation in 1979 when Congress started changing the rules for tax-exempt housing financing, AIDA's program will not be dead in the water if adverse legislation is introduced or passed. The ability of AIDA to continue operations through the taxable bond market if necessary, albeit at higher interest rates for the borrower, will prevent the Legislature from coming into session in a crisis atmosphere, as was the case with AHFC.

Finally, and in closing, let me take this opportunity to congratulate you on the thoroughness of your audit. Despite the minor flaws which I have pointed out earlier, the Preliminary Audit Report has been of great usefulness, and I am sure that the Authority will be better off

Mr. Gerald L. Wilkerson, C.P.A.
Preliminary Audit Report on AIDA
February 1, 1982
Page 17

as a consequence of it. Thank you for affording me this opportunity to respond and at such length.

Very truly yours,



Thomas K. Williams
Chairman, AIDA

Attachment

TKW:tw

cc: AIDA Board Members

H. A. Hoffman
Executive Director, AIDA

MEMORANDUM

TO: H.A. Hoffman
Executive Director

FROM: Wayne A. Williams
Deputy Director (Credit)

DATE: December 29, 1981

SUBJECT: Proposed Policy Guidelines

ASSUMPTION POLICY GUIDELINES - UMBRELLA LOANS

In considering an assumption policy on AIDA loans the Authority has three major concerns:

- 1) AIDA must not be used as a refinancing vehicle.
- 2) AIDA must not be involved in inventory type financing.
- 3) AIDA must retain its security position on all loans.

To satisfy these concerns, assumption requests will be considered on a case by case basis, conforming to the following guidelines:

- 1) The assumption will not effect the tax-exempt status of the bonds after specific inquiry to bond counsel.
- 2) The assumpor shall be an equal or stronger credit than the original AIDA borrower.
- 3) The party or entity assuming the mortgage, the assumpor, cannot have been a party or owner of interest in the seller of the property, if a sales transaction was involved in the original loan.
- 4) No assumption will be allowed during the first 25% of the term of the loan and in no event during the first two years, regardless of term.
- 5) The use of the property shall remain substantially the same after the assumption so as to retain the profitability of the property.

SUBORDINATION POLICY - APPROPRIATED LOANS

Loans within the appropriated loan portfolio may be subordinated to an AIDA loan provided the request involves the same financial institution and provided the total debt against the property meets all AIDA loan guidelines. Also, such subordinations will be approved only if the Financial Advisor and Bond Counsel have no objections.

Amendment included in Mr. Coffman's motion to approve the policies proposed in these guidelines.
W