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19



Alaska State Legislature

House of Representatives

Committee on Rules

Pouch V
State Capitol
Juneau, Alaska 99811

Official Business

M E M O R A N D U M

TO: Rules Committee Members

FROM: Rep. Sally Smith
Chair, Rules Committee

RE: Rules Committee meeting

DATE: June 1, 1981

A meeting of the Rules Committee has been scheduled for Wednesday, June ^{3rd} 6th, at 8:00am in room 102 Capitol to take up Senate Bill 19.

QUESTIONS CONCERNING OUT-OF-STATE ACQUISITION OF A COMMERCIAL BANK

The primary regulator should make the decision as to whether or not a financial institution is solvent or insolvent and a feeling whether liquidation or merger or receivership is required.

Subsequent to the above determination by the primary regulator and appointment of the FDIC as the receiver, the corporation and primary regulator should determine if the disposition of the bank's assets and liabilities can be handled intrastate and should make every effort, including the splitting up of the bank or the sale to a nonbank institution, i.e., savings and loan, credit union, mortgage company or other, if necessary, to arrange an appropriate intrastate takeover.

Failing an intrastate resolution of the problem, the primary regulator and FDIC should have the responsibility for determining the manner of disposition of the failed bank.

A problem bank may not necessarily be classified as a failing bank, yet, a problem bank could fail at the moment that its liabilities exceed its assets or it cannot meet withdrawal demands.

One or all of the "camel" rating that is in a serious or critical rated position may be enough to initiate activity for merger or dissolution by a regulator. Camel is a standard of rating for financial institution standing for capital, assets, management, earnings, and liquidity.

Allowing a problem financial institution to put out for bid its controlling shares out of-State is rewarding incompetent management.

What is the underlying reason chosen for going out-of-State to solicit assistance rather than staying within the State. In other words what was the criteria for choosing a particular bank holding company over another?

Would this encourage the organization of new banks for the sole purpose to sell through out-of-State financial institutions for the benefit of the organizers? A new bank has, as a policy, three years to make a profit. Under the proposed legislation, it would be possible for a new bank to be organized and understandably show a loss for the first four years. On the fifth year, the financial institution could show a profit and, thus, be more marketable to outside financial institutions. Because of the first four years of losses, there would certainly be a drain on capital. Therefore, it would not be difficult to start new banks for the sole purpose of marketing their institution to the out-of-State financial institutions.

What effect would the entrance of a financial institution that is twice the size of the aggregate amount of all banks in the State of Alaska have on our existing banking system?

Would the financial institution that is \$5,400,000,000 in size create a concentration of banking in the State of Alaska of only three largest financial institutions?

If the State of Alaska is the primary regulator and the State of Alaska would have to exhaust all means possible in finding an intra-state solution, then what specific requirements could be put on the comptroller's office to assure that the comptroller has exhausted all means possible before they would look outside the State for a takeover of an in-State national bank? What requirements could be legislated that would allow the State authority to approach national banks in the State of Alaska if a State financial institution couldn't handle the takeover of a troubled State bank, and what authority could be granted the Comptroller of Currency to approach a State-chartered financial institution if the Comptroller could not find a national bank to take over a failing national bank in the State of Alaska?

The determination of whether a bank has failed and the determination of the necessity of going out of State for a takeover of a failed bank needs to be under the jurisdiction of the primary regulator. What procedure then must be followed by the primary regulator whether it is the State of Alaska or the Comptroller of Currency to go outside the State because the State of Alaska has no contiguous state with the continental United States, what states would then be first considered for a takeover? What qualifications should the takeover financial institution have? Should it be the one with the highest bid; the one with the largest size; one with the highest "camel" rating; the one that considers not only the assets but liabilities?

The question here would be should the State have legislation concerning the requirements of an out-of-State bank holding company in a takeover situation.

Should the State have any jurisdiction of a bank holding company coming into the State that is for the takeover of a national chartered financial institution?

Should restrictions be placed on the activities and the scope of services that an out-of-State bank holding company should have in the State of Alaska? Should it be allowed to branch; should it be required to have Alaska investments in an amount equal to its Alaska deposits; should the subsidiary bank have a majority of Alaska resident board members to maintain local control of the institution's activity?

may be acquired by Seattle firm

5619
#2

By BOB SHALLIT

Daily News business editor

In its first effort to gain a foothold in the Alaska banking market, Rainier Bancorporation, a Seattle bank holding company, is quietly maneuvering to take over Security National Bank of Anchorage.

Federal law prohibits bank holding companies — corporations that own a group of financial institutions — from acquiring banks outside their home states. But an amendment to the federal Bank Holding Company Act of 1956 allows individual states to override the federal law and accept the entry of

out-of-state corporations into the banking field.

Rainier, according to sources familiar with its plans, intends to seek such legislation here in order to move in on Security, Alaska's smallest national bank.

Rainier officials in Seattle declined to comment on the acquisition plan Tuesday.

However, The Daily News has obtained a copy of draft legislation — promoted by Rainier — that would allow the company to acquire an Alaska bank.

And a member of Security's board of directors confirmed that the Seattle corporation has been working on the possible

acquisition. "You can bet on it," one local bank executive said.

Bankers said they fear Rainier, with its superior financial clout, would be able to dominate the Alaska banking industry by offering short-term benefits to local depositors. Once local banks are driven out of business, the bankers said, Rainier would be free to conduct business as it saw fit.

"It will make life very, very difficult for state banks and, secondarily, for national banks doing business up here," said another banker, who added his fear that Rainier will take the state's assets and invest them in the Lower 48.

"There's no way on God's green earth that we could compete with a \$6 billion to \$7 billion institution," he said.

An official with the Federal Reserve Board in San Francisco, however, disagreed with the local bankers, saying that the entrance of out-of-state banks in new markets usually results in more competition and better customer services.

Harry Green, a vice president in the Federal Reserve's bank holding company division, said such acquisitions also provide additional sources of capital that can improve the state's

flowing out of the state if interstate banking took hold here. "I don't think that's a real worry because the (federal) Community Reinvestment Act requires (bank holding companies) to provide community services in the areas where they do business."

Bradbury, the Security attorney, also said he thinks Rainier's entrance in the state would help the industry. "I think it would bring in capital that the state has always needed."

The draft bill circulating in Juneau would amend Alaska's Banking Code to allow out-of-state bank holding companies to "acquire and own all or any portion of the voting shares or other capital stock of a state bank," provided that the state bank was in financial distress.

To qualify, a state bank would have to show a net loss on four of its previous five financial reports to the state.

Changes in state law such as those proposed by Rainier were allowed by a 1966 amendment to the federal bank holding act.

Since that time, three states — Maine, South Dakota and

SB 19
#1

To protect depositors and creditors, to prevent significant disruptions in financial services, and for other related purposes.

Be it enacted by the Legislature of the State of Alaska:

EXTRAORDINARY COMMERCIAL BANK ACQUISITION

Sec. 06.05.235(a) of the Alaska Banking Code (A.S. 06.05.235(a)) is amended by inserting the words "or (c)" following the words "under (b)" at the end of the second sentence of that subsection.

Sec. 06.05.235 of the Alaska Banking Code (A.S. 06.05.235) is amended by redesignating subsections (c) and (d) as subsections (d) and (e), respectively, and by inserting a new subsection (c) as follows:

(c) an out-of-state bank holding company, as defined in Sec. 540 of this chapter, may acquire and own all or any portion of the voting shares or other capital stock of a state bank, provided that: (1) the total equity capital of such bank is impaired to the extent that it does not exceed 75% of its paid-in capital and paid-in surplus as reported in its most recent Report of Condition as filed with the department, and (2) such bank shall have reported a net loss on at least four of its last five Consolidated Reports of Income as filed with the department. The department may require an out-of-state holding company holding stock of a state bank to post a bond with the department in an amount equal to the paid-in capital and paid-in surplus represented by

the proportion of the state bank stock directly or indirectly owned, held, or controlled by it under conditions the department may prescribe to assure full protection of the public. An out-of-state holding company directly or indirectly owning, holding or controlling state bank stock is subject to an examination by the department or a competent person designated by the department when the department considers it necessary. The out-of-state holding company shall pay an examination fee in accordance with A.S. 06.01.010.

Sec. 06.05.540 of the Alaska Banking Code (A.S. 06.05.540) is amended by adding thereto the following new paragraph 19:

(19) "Out-of-state bank holding company" means a registered bank holding company, as defined in the Bank Holding Company Act of 1956, as amended (12 USC sec.1841 et seq) other than a domestic bank holding company as defined in Section 540 of this chapter.

EFFECTIVE DATE

This act is necessary to protect depositors and creditors of commercial banks located in this state, to prevent significant disruptions of financial services, and for other related purposes, and shall take effect on _____.

W. Kilpatrick

COMMENTS TO BE MADE BEFORE THE HOUSE RULES COMMITTEE
BILL ANALYSIS SB 19

I HAVE BEEN ADVISED THAT AMENDMENTS HAVE BEEN OFFERED TO SB 19 TO AUTHORIZE AN OUT-OF-STATE BANK HOLDING COMPANY TO BE ORGANIZED TO PURCHASE CONTROL OF A FAILING BANK IN THE STATE OF ALASKA.

MY FIRST CONCERN IS THAT OF LACK OF TIME AND CONSIDERATION GIVEN SUCH A MAJOR PIECE OF LEGISLATION. SB 19 HAS HAD AN OPPORTUNITY TO BE HEARD IN COMMITTEES ON BOTH THE SENATE AND THE HOUSE AND ON THE FLOOR OF THE SENATE. WHAT WE ARE CONSIDERING NOW OVERSHADOWS THE USURY QUESTION OF SB 19 AND THE WEIGHT OF THIS QUESTION FALLS UPON A FEW AT THIS CLOSING HOUR OF THE SESSION.

THE AMENDMENTS PROVIDE THAT AN OUT-OF-STATE BANK HOLDING COMPANY MAY ACQUIRE A BANK IN ALASKA IF THE BANK HAS A NEGATIVE CAPITAL POSITION OF 25% OF ITS PAID-IN CAPITAL AND SURPLUS. ALSO, THE BANK WOULD HAVE TO SHOW A LOSS IN FOUR OF ITS LAST FIVE INCOME STATEMENTS. THE PROPOSED AMENDMENT, THEREFORE, IS IT TO ALLOW AN OUT-OF-STATE FINANCIAL INSTITUTION TO COME INTO ALASKA TO BUY A PROBLEM BANK TO KEEP IT FROM FAILING.

I WOULD LIKE TO ADDRESS, JUST FOR A MINUTE, THE PROBLEM BANK. THERE HAS BEEN PROPOSED NATIONAL CONSIDERATION FOR INTERSTATE TAKEOVER OF LARGE FAILING BANKS, HOWEVER, NO CONSIDERATION HAS EVER BEEN CONSIDERED FOR SMALL FAILING INSTITUTIONS. THE REASON BEING, OF COURSE, IS THE IMPACT THAT A BANK THE SIZE OF NATIONAL OF ALASKA WOULD HAVE ON THE STATE IF IT SHOULD FAIL. YOU WOULD WANT TO GUARD AGAINST THEN THIS PROPOSAL AS AN OPTIMISTIC AND DISGUISED EFFORT TO CIRCUMVENT LONG STANDING PROHIBITIONS AGAINST INTERSTATE BANKING.

IF EMERGENCY TYPE LEGISLATION IS REQUIRED TO PROTECT THE SAFETY AND SOUNDNESS OF THE BANKING SYSTEM, IT SHOULD CONSIDER SOME ESSENTIAL ELEMENTS IN SUCH LEGISLATION.

THE PRIMARY REGULATOR SHOULD BE THE ONE TO MAKE THE DECISION AS TO WHETHER OR NOT A BANK CHARTERED OR SUPERVISED BY THE PRIMARY REGULATOR CONSTITUTES A FAILED COMMERCIAL BANK. THIS WOULD MEAN THE STATE BANKING DEPARTMENTS, WITH RESPECT TO THE STATE CHARTERED BANK, AND A COMPTROLLER OF CURRENCY WITH RESPECT TO NATIONAL BANK.

SUBSEQUENT TO THE ABOVE DETERMINATION BY THE PRIMARY REGULATOR AND THE APPOINTMENT OF THE FDIC AS THE RECEIVER, THE FDIC AND THE PRIMARY REGULATOR SHOULD DETERMINE WHETHER OR

NOT THE DISPOSITION OF THE BANK'S ASSETS AND LIABILITIES CAN BE HANDLED INTRASTATE AND SHOULD MAKE EVERY EFFORT, INCLUDING THE SPLITTING UP OF THE BANK IF NECESSARY, TO ARRANGE AN APPROPRIATE INTRASTATE TAKEOVER.

IF THE PRIMARY REGULATOR AND THE FDIC DETERMINES THAT AN INTRASTATE TAKEOVER CAN BE IN NO WAY ACCOMPLISHED, THEN THESE PARTIES SHOULD HAVE THE RESPONSIBILITY FOR DETERMINING THE MANNER IN WHICH THE ASSETS AND LIABILITIES OF THE FAILED BANKS SHOULD BE DISPOSED.

THE SUBJECT OF INTERSTATE BANKING IS A LARGE SUBJECT AND IN THIS SPECIFIC CASE, IT IS A SUBSIDIARY BANK THAT WOULD HAVE A PARENT OVER \$5 BILLION STRONG. AS THIS MAY EFFECT THE BANKING SYSTEM AS WE NOW KNOW IT, THERE SHOULD BE AMPLE OPPORTUNITY FOR ALL TO HAVE A CHANCE TO BE HEARD. I SUBMIT THAT IF IT IS THE INTENT OF THE LEGISLATURE TO ALLOW INTER-STATE BANKING, FOR WHATEVER REASON, THERE SHOULD BE AT LEAST RECIPROCITY WITH THE STATE OF DOMICILE FOR THE OUT-OF-STATE BANK HOLDING COMPANY.

IN BRIEF SUMMARY, YOU SHOULD CONSIDER THAT IT IS THE PRIMARY REGULATOR'S RESPONSIBILITY TO DETERMINE WHEN A BANK IS FAILING OR HAS FAILED AND WHAT APPROPRIATE ACTION IS NECESSARY. IF IT IS FOUND THAT THE ONLY SOLUTION IS AN OUT-OF-STATE BANK

HOLDING COMPANY BECAUSE OF THE SIZE OF THE FAILING INSTITUTION, THEN THERE SHOULD BE SOME CONSIDERATION AS TO RECIPROCITY IN THE STATE THE BANK HOLDING COMPANY IS DOMICILED. OTHER CONSIDERATIONS SHOULD BE MADE AS TO WHETHER OR NOT THE STATE SHOULD GET INTO THE INTERSTATE BANKING AND IF IT IS FOUND THAT IT SHOULD, THERE SHOULD BE AT LEAST OPPORTUNITIES FOR EVERYONE, NOT ONLY THE FINANCIAL INSTITUTIONS, BUT THE CONSUMER AND THE BUSINESSES OF THE STATE OF ALASKA TO HAVE AN OPPORTUNITY TO CONSIDER THIS LEGISLATION.

WFK/cw#21W



ALASKA STATE LEGISLATURE
SENATE BANKING COMMITTEE
POUGH V, JUNEAU 99811

SB 19: "An Act relating to rates of interest; and providing for an effective date."

The primary purpose of this bill is to amend the usury statute, AS 45.45.010, (1) to reduce the number of loans on which the interest rate is set by law rather than by free market forces; and (2) to adjust the procedure by which the legal rate of interest is set, by making it more timely.

Section 1: Deletes language in the small loans act to provide for an interest rate ceiling on loans between \$5,000 and \$25,000 of the greater of 18 percent or eight points above the discount rate on a daily basis. It is important to note that under the terms of "most favored lender" provisions of the national bank act, this ceiling on interest rates is actually the one which applies to all financial institutions in Alaska on loans between \$5,000 and \$25,000.

Sections 2-3: Inserted at the request of the small loan companies, and with the approval of the division of banking, these sections provide that small loan companies will not be unfairly penalized if they make a mistake in computing the legal rate of interest, provided they correct the mistake within 30 days.

Section 4: Corrects an existing inequity in the law relating to Alaskan landowners whose land is taken from them by the state through eminent domain proceedings. Provides that the judgement shall include lawful interest - a rate substantially higher than the presently-allowable six percent. This section was included at the suggestion of the Supreme Court for the State of Alaska.

Sections 5-6: Amends usury statute to reduce from \$100,000 to \$25,000 the limits on loans subject to an interest rate ceiling, and provides for a daily rather than a quarterly computation of that ceiling.

Sections 7-8: Override the federal preemptions of state usury ceilings.

Once this bill becomes law, interest rate ceilings will be as follow:

* loans up to \$5,000	AS 45.45.010
* loans from \$5,000 - \$25,000	AS 06.20.230
* loans over \$25,000	set by competition



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PO BOX V, JUNEAU 99811

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*or bank holding company
(11.11.14 Patrick)*

the proportion of the state bank stock directly or indirectly owned, held, or controlled by it under conditions the department may prescribe to assure full protection of the public. An out-of-state holding company directly or indirectly owning, holding or controlling state bank stock is subject to an examination by the department or a competent person designated by the department when the department considers it necessary. The out-of-state holding company shall pay an examination fee in accordance with A.S. 06.01.010.

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NOTE REGARDING THE FOLLOWING FRAME ON MICROFILM:

COMPLETE DOCUMENT IS AVAILABLE IN ORIGINAL FILES
IN ALASKA STATE ARCHIVES. TITLE PAGE ONLY HAS
BEEN FILMED.

TITLE PAGE NOT OF A QUALITY
TO MICROFILM.

RAINIER
BANCORPORATION
1980 ANNUAL REPORT

C.I.T. CORPORATION

2600 DENALI ST., SUITE 606, P.O. BOX 4-G, ANCHORAGE, ALASKA 99509
TELEPHONE: 007 274-9581

May 28m 1981

Alaska State Legislature
Pouch V - (MS - space 3100)
Juneau, AK 99811

Attention: Rep. Sally Smith,
Chairman House Rules Committee

Dear Representative Smith:

I have had an opportunity to review Senate Bill #19, as amended, which will effect the lending rate in the State of Alaska.


In our opinion this new bill would be beneficial to our company and to the borrower, it would enable us to serve more companies at competitive rates.

We urge the passage of this bill.

If you would like additional testimony please let me know.

Sincerely,

C.I.T. Corporation



Ronald L. Riecks,
Assistant Vice President, Anchorage Division

RLR/jm

may be acquired by Seattle firm

By BOB SHALLIT
Daily News business editor

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out-of-state corporations into the banking field.

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Rainier officials in Seattle declined to comment on the acquisition plan Tuesday.

However, The Daily News has obtained a copy of draft legislation — promoted by Rainier — that would allow the company to acquire an Alaska bank.

And a member of Security's board of directors confirmed that the Seattle corporation has been working on the possible acquisition since early this year.

"It's no secret that Rainier is interested in starting operations in the state," said John Bradbury, Security's attorney and a member of the local bank's board of directors. "They consider the state to be where the action is, and I think they can help the state."

Bradbury said Security officials have worked with Rainier in its efforts to get legislative authorization to make an acquisition in Alaska, though he denied that Security will necessarily be the holding company's target.

He conceded, however, that a purchase of Security is "an option that's being considered" and that an acquisition of a small, capital-short institution like Security would be "the easiest way for Rainier to get in."

Officials with other local banks declined to comment for the record on the prospect of Rainier's entrance into the Alaska marketplace. But, privately, they predicted the full force of the state banking community's political power will be wielded to oppose a change in state law.

"There's going to be opposi-

tion. You can bet on it," one local bank executive said.

Bankers said they fear Rainier, with its superior financial clout, would be able to dominate the Alaska banking industry by offering short-term benefits to local depositors. Once local banks are driven out of business, the bankers said, Rainier would be free to conduct business as it saw fit.

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He disputed the assertion that bank assets would begin

flowing out of the state if interstate banking took hold here. "I don't think that's a real worry because the (federal) Community Reinvestment Act requires (bank holding companies) to provide community services in the areas where they do business."

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To qualify, a state bank would have to show a net loss on four of its previous five financial reports to the state.

Changes in state law such as those proposed by Rainier were allowed by a 1966 amendment to the federal bank holding act.

Since that time, three states — Maine, South Dakota and Delaware — have passed such legislation; according to the Federal Reserve. Similar legislation is being considered in several other states.

Anchorage

Daily News

WEDNESDAY, MAY 20, 1981

ALASKA STATE LEGISLATURE
SENATE BANKING COMMITTEE
POUCH V, JUNEAU 99811SB 280: "An Act relating to credit unions."

- Section 1: Declares the policy of the state regarding state-chartered credit unions. In addition, allows the division of banking to authorize for state-chartered credit unions, the same powers authorized by state-chartered institutions in other states, provided the division determines the powers serve a public purpose.
- Section 2: Provides for state-chartered credit unions to fall under the "wild card" statute, AS 06.01.020. That statute allows the division of banking to authorize for state-chartered credit unions, the same powers authorized for federally-chartered credit unions, provided the division determines the powers serve a public purpose.
- Section 3: Provides that the interest rate ceiling for state-chartered credit unions shall be the greater of 15 percent or the percent established under the state usury law, AS 45.45.010. This is the most important section of the bill, as it would allow state-chartered credit unions parity with federally-chartered credit unions. There are no state-chartered credit unions at this time, primarily because of this lack of parity. Once this act becomes law, it is expected there will be a number of conversions to state charter.
- Sections 4-6: Make technical changes in the credit union act; in the case of sections 4-5 for clarity, and in section 6 to comply with federal regulations.
- Section 7: Provides that state-chartered credit unions may, with the approval of the division of banking, seek insurance from other than the NCUA (National Credit Union Administration).

June 21, 1981
submitted by Senator Rodey

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF ALASKA

ARCHIE M. CUPPLES, MAYNARD C.)
FALCONER, CAROL S. GREEN, HAROLD)
B. GRONROOS, JACK JOHNSON, VERN L.)
PADGETT, LARRY ORSINI, AND JOHN J.)
TURINSKY, JR.,)

Plaintiffs,)

vs.)

SECURITY NATIONAL BANK, a National)
Banking Association, ROGER D.)
MOORE, Individually and as)
President and Chief Executive)
Officer and Director of SECURITY)
NATIONAL BANK, CHARLES H. BUMPUS,)
JOHN BRADBURY, GEORGE A. DICKSON,)
WILLIAM SCHUILING, Individually)
and as Voting Directors of SECURITY)
NATIONAL BANK, WILLIAM COGHILL and)
ARLON TUSSING, Non-Voting Directors)
of SECURITY NATIONAL BANK, and)
STEVE C. HOLLAND, JOHN G. HEIMANN,)
Comptroller of the Currency, M. B.)
ADAMS, Regional Administrator,)
Comptroller of the Currency,)

Defendants.)

Case No. A80-222 Civ

AFFIDAVIT OF WILLIAM E. MARTIN
DEPUTY COMPTROLLER FOR SPECIAL SURVEILLANCE
OFFICE OF THE COMPTROLLER OF THE CURRENCY

I, WILLIAM E. MARTIN, being duly sworn, state the following:

(1) I am the Deputy Comptroller for Special Surveillance of the Office of the Comptroller of the Currency ("Comptroller"), having held this position since July, 1979. As Deputy Comptroller for Special Surveillance, I supervise the Special Projects Division and the National Bank Surveillance System Division of the Comptroller's Office. Among my official duties is the monitoring of the condition of national banks which require more than normal supervisory attention and, for that reason, are in the Special Projects program.

(2) Prior to assuming my present position, I served as Director of the Special Projects Division of the Comptroller

from February, 1978, to May, 1979. Before that, I served as the Deputy Regional Administrator for the Eighth National Bank Region in Memphis, Tennessee, for the period April, 1977, to February, 1978. Finally, before assuming my position as Deputy Regional Administrator, I was a National Bank Examiner for thirteen years during which time I conducted hundreds of examinations of national banks ranging in asset size from \$5 million to \$60 billion and ranging in condition from excellent to insolvent.

(3) For supervisory purposes, all insured banks are assigned a numerical rating which is designed to capsule for regulatory officials the overall condition of each bank. The rating is assigned by the appropriate supervisory agency after a thorough examination of the involved bank and careful analysis of all key components of the bank's overall condition. The numerical rating system, which has been adopted on a uniform basis by all Federal banking regulators, employs a rating scale from 1 to 5; banks rated 1 are considered excellent in all respects and banks rated 5 are considered to be in imminent danger of failure. (The precise definition of each of the 5 numerical ratings is set forth in EXHIBIT A, attached hereto.)

(4) Because of regulatory concern for the conditions which underlie a numerical rating of 3, 4 or 5, national banks assigned such a composite rating are thought to require more than the normal supervisory attention and, for that reason, are included in the Comptroller's Special Projects program. The Special Projects Division of the Comptroller's Office, which is under my personal supervision, is responsible for closely monitoring the condition of all banks in the Special Projects program and for recommending and implementing appropriate supervisory action with respect to those banks. As of June 30, 1980, there were a total of 4,431 nationally chartered

banks in the United States of which 262 are rated 3, 4 or 5 and thus are included in the Special Projects program. By individualized rating, these Special Projects banks are broken down as follows:

<u>Rating</u>	<u>Number</u>
3	213
4	38
5	11

(5) Following an examination which began on May 31, 1979, the Security National Bank, Anchorage, Alaska ("Bank") was assigned a composite rating of 4 and, consequently, was admitted to the Special Projects program on August 9, 1979. The principal factors which led to the assignment of the 4 rating and the Bank's inclusion in the Special Projects program were a substantial increase since the prior examination in the volume of poor quality assets, the insufficiency of the Bank's capital and the questionable quality of supervision being provided by the Bank's Board of Directors and senior management. These factors also led the Comptroller to initiate a formal administrative action against the Bank under the Financial Institutions Supervisory Act of 1966, 12 U.S.C. §1818(b), as amended, by service on August 13, 1979, of a Notice of Charges dated August 10, 1979 (see EXHIBIT O, attached hereto). The Notice alleged the existence of unfavorable conditions discovered in the May 31, 1979 examination, including various violations of the National Bank Act and the Bank's operating with inadequate capital, as well as other unsafe and unsound banking practices.

(6) On October 26, 1979, the Comptroller commenced an examination of the Bank which continued until December 31, 1979. The condition of the bank disclosed by the October 26 examination merited a change in the Bank's composite rating to 5, since the volume and character of identified weaknesses

were such as to require urgent aid from shareholders or other sources and the Bank's probability for failure was considered high. Thus, of the 4,431 national banks in the country, Security National Bank is now one of only 11 such banks assigned a 5 rating.

(7) In light of the extremely serious condition of the Bank disclosed by the October 26 examination, its most glaring and pressing need was for additional capital to sustain its operations. The examination revealed the Bank's capital position to be inadequate in every respect. Not only were the capital accounts insufficient to support the sheer volume of the Bank's operations, but when viewed in light of the Bank's operating in 1979 at a loss of some \$430,000 through October 1, and the inordinate volume of assets classified as substandard, doubtful, or loss (which totalled over 165 percent of the Bank's gross capital funds) the Bank's capital was seriously deficient. In addition to the compelling need for additional capital and the poor quality of the Bank's assets, the October 26 examination disclosed the following to be among the other deficiencies in the Bank's operations:

- (a) the Allowance for Possible Loan Losses was insufficient to cover losses inherent in the loan portfolio;
- (b) loans not supported by current and satisfactory credit information accounted for 14% of total loans outstanding;
- (c) loans which were past due as to principal or interest totalled 18% of total loans outstanding; and
- (d) the Bank had exceeded its legal lending limit, and thereby violated 12 U.S.C. §84, on 11 occasions.

A summary of the findings of the October 26 examination is contained in a letter to the Bank's Board of Directors from

the National Bank Examiner in charge of that examination, Mr. Mel Ekstrom. (Mr. Ekstrom's letter is attached hereto as EXHIBIT B.)

(8) On December 6, 1979, in settlement of the administrative action begun on August 13, 1979, the Comptroller and the Board of Directors of the Bank entered into a formal written Agreement, pursuant to 12 U.S.C. §1818 (EXHIBIT C). Article XV of the Agreement addressed the immediate need for capital injection:

ARTICLE XV

(19) Within sixty (60) days of the effective date of this Agreement, the Board of Directors shall submit to the REGIONAL ADMINISTRATOR, for his approval, a written capital program designed to ensure the ongoing capital adequacy of the BANK. It shall be the responsibility of the Board of Directors to make any adjustments necessary to acquire the approval of the REGIONAL ADMINISTRATOR for the BANK's capital program.

(20) The capital program shall provide for, but not necessarily be limited to, the following:

- (a) Targets for minimum acceptable capital ratios relative to total assets, net loans, and other balance sheet categories such as risk assets, total deposits, and rate sensitive deposits;
- (b) Projections for balance sheet categories and income and expense items for 1980. Projections for 1981 shall be completed no later than March 31, 1980;
- (c) A periodic review of the budgets and projections with explanations of variances and revisions; and
- (d) Specific plans to eliminate the current capital deficiency. (Emphasis added)

(9) Subsequently, on December 17, 1979, the Bank applied to and received preliminary approval on January 10, 1980 (see EXHIBIT D), from the Comptroller's Regional Administrator of National Banks, Thirteenth National Bank Region, Portland, Oregon, to sell 47,737 shares of authorized but unissued common stock with an aggregate par value of \$334,159 and a total sale price of \$1,193,425 and a proposed price per share of \$25.00. The proposed price per share was later reduced to \$11.50 per share (see EXHIBIT E attached hereto) with a total projected increase in equity capital of \$548,975. In accordance with

the Comptroller's standards published in 12 C.F.R. §14.2(b), only the approval of the Bank's Board of Directors and the Comptroller was required to permit the issuance of this capital, since the Bank sought only to issue previously authorized stock (see Article 5, EXHIBIT F attached hereto) which had not yet been issued and was not seeking to increase the total amount of authorized stock available to the Bank.

(10) The next examination of the Bank, also performed by National Bank Examiner Mel Ekstrom, utilized financial data as of March 31, 1980. The condition of the Bank disclosed by the March 31 examination is summarized in Mr. Ekstrom's letter to the Board of Directors (EXHIBIT G) which was included in the report of his examination. In summary, the overall condition of the Bank had deteriorated even below the point revealed in the October 26, 1979 examination. Among the problems discovered were the following:

- (a) the level of classified assets which had equalled 165 percent of gross capital funds in October, 1979 increased to 294 percent of gross capital funds in March, 1980;
- (b) the Allowance for Possible Loan Losses continued to be inadequate;
- (c) past due loans reached 40 percent of total loans outstanding, a figure virtually unprecedented among national banks;
- (d) 22 violations of the Bank's lending limit (12 U.S.C. §84) were noted; and
- (e) the Bank had suffered a net loss during 1979 of approximately \$1,107,000.

(11) For a number of supervisory purposes, the Comptroller's Office utilizes a computer based data system which enables the regulator as well as bank management to compare numerous elements of a bank's overall financial position with those of other

banks similarly situated. The data system is based upon uniformly compiled information which all national banks and other members of the Federal Reserve System are required by law to produce on at least a quarterly basis, 12 U.S.C. §161. Within the Comptroller's Office, these data are compiled and analyzed principally by the National Bank Surveillance System (NBSS) Division which is under my personal supervision. In the NBSS, each national bank falls in to one of 23 "peer groups" which are composed of banks having common characteristics with respect to the following factors:

- (a) asset size;
- (b) whether the bank operates within a branch system or as a unit bank; and
- (c) whether the bank is located in an urban or rural community.

The Security National Bank falls within NBSS peer group number 14 which consists of 170 banks having assets between \$25 and \$40 million, operating no full service branches and located in a high density population area (SMSA).

(12) Comparisons between the Bank's financial position and those of its peer group with respect to certain components of overall condition are provided in selected pages from the March, 1980 NBSS Bank Performance Report (attached hereto as EXHIBIT H). Among what I consider to be key comparisons which further demonstrate the Bank's critical need for capital are the following (as of March 31, 1980):

- (a) the Bank's total capital funds represented 3.01% of its total assets, while the peer group mean figure for total capital funds was 8.10% of total assets. The Bank was in the first percentile within its peer group, meaning that 99 percent of the banks in the peer group had a higher percentage of capital funds to total assets than did the Bank.

- (b) the Bank's assets were approximately 33.20 times its total capital funds, while the mean figure for the peer group was approximately 12.81 times capital funds. The Bank was in the ninety-eighth percentile.
- (c) the Bank's net loans were approximately 11.54 times equity capital, while the peer group mean was 6.78 times capital. The Bank was in the ninety-seventh percentile.
- (d) the Bank's risk assets were 12.47 times equity capital, while the peer group mean was 8.30 times equity capital. The Bank was in the ninety-fourth percentile.
- (e) the Bank's deposits were 30.56 times equity capital, while the peer group's mean was only 11.37 times equity capital. The Bank was in the ninety-eighth percentile.

Several of these comparisons are graphically demonstrated on EXHIBITS I - M, attached hereto.

(13) In view of the severely distressed condition of the Bank, the official within the Comptroller's Office responsible for all bank supervision personally sent a letter, dated July 10, 1980, to the Bank's Board of Directors (attached as EXHIBIT N). In large part, Senior Deputy Comptroller Paul M. Homan's letter read as follows:

This is to again formally inform you of the critical condition of your bank and the vital need for acquiring additional equity capital. This need for capital has been the subject of numerous conversations, correspondence, and even a Formal Agreement issued under the Financial Institutions Supervisory Act. Your failure to respond to these requests and directions, coupled with the continued erosion of the bank's condition which is producing substantial losses, has resulted in the very survival of the institution being placed in jeopardy.

We believe that the serious volume of problems confronting the bank has created a high probability that your bank will fail unless you take prompt and vigorous action to raise the needed additional equity capital. We estimate that at a minimum \$1,500,000 in equity is needed. In the absence of the injection of such funds within ninety (90) days of the date of this letter, the Office of the Comptroller of the Currency will take such additional steps as it deems necessary to protect the bank and its depositors.

Mr. Homan's representatives who delivered the foregoing letter advised the Bank's directors that failure to satisfy the letter's capital augmentation requirements might result in the Comptroller recommending termination of deposit insurance proceedings to the Federal Deposit Insurance Corporation pursuant to 12 U.S.C. §1818(a).

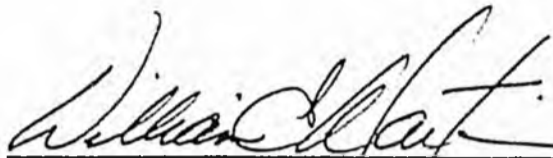
(14) After representations regarding then pending efforts on the part of the Bank to raise equity capital were made to the Comptroller's Office by Bank representatives on July 17, 1980, Senior Deputy Comptroller for Operations H. Joe Selby, acting in Mr. Homan's absence, modified, by letter dated July 18, 1980 (EXHIBIT E), the requirements of Mr. Homan's July 10, letter. The operative provisions of Mr. Selby's letter of modification are as follows:

This letter reaffirms Mr. Homan's request of July 10, 1980 for \$1.5 million dollars in new equity capital. However, as a result of the meeting and the demonstration of good faith efforts by the Board to restore the bank to a sound operating footing with an adequate capitalization, I am agreeable to modifying the letter of July 10, 1980, by removing the 90 day limitation under the following conditions:

1. Authorized but unissued stock as proposed is sold within 30 days from 7/17/80 for the specified \$548,975 and injected into the bank as equity capital.
2. The bank will be examined as soon as possible, and a conclusion reached regarding its condition, including the adequacy of its capital, will be transmitted to the Board of Directors. If that conclusion results in the need for additional equity capital, the Board of Directors will be asked to submit a plan to accomplish it within a timeframe set by this office.
3. If the authorized but unissued stock is not sold within the 30 day limitation the original time limitation stated in Mr. Homan's letter of July 10, 1980 is reinstated.

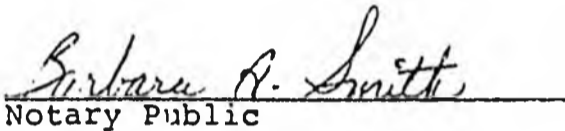
(15) The condition of the Bank as accurately reflected in the above reports of condition, reports of examination and comparisons to its peer group banks leads me to conclude that an immediate capital injection is necessary to prevent the insolvency of the Bank. Any delay in completing the initial

capital injection as directed in Mr. Selby's July 18, 1980
letter to the Bank's Board of Directors will cause immediate,
substantial and irreparable harm to the Bank.



William E. Martin
Deputy Comptroller for
Special Surveillance

Subscribed and Sworn to before me this 7th day of August,
1980.




Notary Public

My Commission expires on December 14, 1980

- (I) Graph, relating SNB's total capital trend to peer group trend;
- (J) Graph, relating SNB's assets to total capital ratio to peer group ratio;
- (K) Graph, relating SNB's risk assets to equity capital ratio to peer group ratio;
- (L) Graph, relating SNB's equity capital trend to peer group trend;
- (M) Graph, relating SNB's deposits of federal funds to total capital ratio to peer group ratio;
- (N) Letter to Board of Directors of SNB from Paul M. Homan, dated July 10, 1980; and
- (O) Notice of Changes dated August 10, 1979 served on SNB.

IN TESTIMONY WHEREOF, I
have hereunto subscribed
my name and caused my
Seal of Office to be
affixed hereto at the
Treasury Department in
the City of Washington,
District of Columbia,
this 7th day of August,
1980.


Comptroller of the Currency

Uniform Interagency Bank Rating System

Composite Rating

The five composite ratings are defined and distinguished as follows:

Composite 1

Banks in this group are sound institutions in almost every respect; any critical findings are basically of a minor nature and can be handled in a routine manner. Such banks are resistant to external economic and financial disturbances and capable of withstanding the vagaries of business conditions more ably than banks with lower composite ratings.

Composite 2

Banks in this group are also fundamentally sound institutions but may reflect modest weaknesses correctible in the normal course of business. Such banks are stable and also able to withstand business fluctuations quite well; however, areas of weakness could develop into conditions of greater concern. To the extent that the minor adjustments are handled in the normal course of business, the supervisory response is limited.

Composite 3

Banks in this group exhibit a combination of weaknesses ranging from moderately severe to unsatisfactory. Such banks are only nominally resistant to the onset of adverse business conditions and could easily deteriorate if concerted action is not effective in correcting the areas of weakness. Consequently, such banks are vulnerable and require more than normal supervision. Overall strength and financial capacity, however, are still such as to make failure only a remote possibility.

Composite 4

Banks in this group have an immoderate volume of asset weaknesses, or a combination of other conditions that are less than satisfactory. Unless prompt action is taken to correct these conditions, they could reasonably develop into a situation that could impair future viability. A potential for failure is present but is not pronounced. Banks in this category require close supervisory attention and financial surveillance.

Composite 5

This category is reserved for banks whose conditions are worse than defined under number 4 above. The volume and character of weaknesses are such as to require urgent aid from the shareholders or other sources. Such banks require immediate corrective action and constant supervisory attention. The probability of failure is high for these banks.

LETTER TO THE BOARD OF DIRECTORS

The solvency of your bank is being seriously threatened. Capital has been depleted from massive loan losses and unprofitable operations. Immediate corrective action is required in order to remain a viable institution. Objectives and priorities with proper communications to employees and close monitoring and follow up by the Directorate and management will be required. The injection of capital from an outside group, if successful, will provide a more substantial base and allow time to remedy this grave situation.

The loan portfolio continues to deteriorate from the extremely poor condition that was disclosed at the last examination. Total classified assets increased to \$2,881M (165% of Gross Capital Funds (GCF)) from \$1,977M (102% GCF). In addition, other assets mentioned total \$624M (36% GCF). Delinquencies are also inordinate; up substantially to 18% of the portfolio or \$3,623M. The severity of the classifications is of major concern. Losses amount to \$398M with Doubtful representing an additional \$236M. For the year, your bank has written off \$725M in loans with only \$9M recovered. Causes have been identified as: Lack of technical competence of former senior loan officers; excessive lending authority; failure to follow the bank's lending policy; insufficient administrative overview; and the depressed local economy. A new lending team has been established; however, it has taken time to become familiar with all the problem credits. Better direction of the loan officer staff will require establishing and communicating clear cut objectives, defining roles, delegating authority and demanding accountability.

Violations of law are too numerous, with most dealing with lending limits per 12 USC 84. Many are due to lack of attention. Because of diminishing capital management must become more familiar with pertinent laws. Notification of corrective action on all violations should be sent to the addressees listed on the cover page of this report.

The bank has failed to provide for an adequate loan loss reserve. In fact, the losses charged to the reserve this examination resulted in a \$151M deficiency. A recommended minimum charge to this reserve from earnings - considering the probable loss inherent in the remainder of the loan portfolio and the current recessed economy - would be \$467M. This charge would bring the reserve to \$305M or 1.69% of the total net loans outstanding.

The major factor for the bank's estimated earnings loss for 1979 of one million dollars is loan losses. However, other factors are also present and contribute to this year's large deficit. A lack of attention to the matching of asset and liability maturities has resulted in a low yielding fixed rate loan portfolio dependent on high rate, volatile, market sensitive deposits. This has resulted in inadequate interest spreads, causing a loss of earnings and a dependence on purchased funds to maintain liquidity. Other elements include prior reliance on loan service or fee income, high occupancy expense and various nonrecurring items such as legal expenses. Steps taken to improve this situation have not provided sufficient results. A concerted effort to improve asset quality and mix plus restoration to a core-deposit base are keys to the bank's recovery.

The erosion of capital from the above discussed problems has produced a deficiency that can not support the bank's asset structure. Continuance of these adverse trends will result in impairment of capital stock in the near future. A private placement that is being solicited would provide a temporary - though not permanent - relief. Although this injection is considered a reasonable expectation by the Board, a program must be addressed that will provide stability so that the bank can again become a competitive, growing and viable institution.

This General examination was conducted in accordance with standard examination procedures of the Office of the Comptroller of the Currency. Financial information as of October 26, 1979 was used and updated as appropriate. The comments and criticisms

Continued

LETTER TO THE BOARD OF DIRECTORS - Continued

in the body of this report have been reviewed with management and must receive your immediate attention.

The problems confronting the bank are very serious and can result in insolvency. A unified earnest effort by the directorate and management is essential to bring about corrective action.

Examiner-in-Charge

Mel Ekstrom

Mel Ekstrom

By

M. B. Adams

M. B. Adams

2 Regional Administrator of National Banks

AGREEMENT BY AND BETWEEN
THE SECURITY NATIONAL BANK
ANCHORAGE, ALASKA
AND
THE OFFICE OF THE COMPTROLLER
OF THE CURRENCY

WHEREAS, the Security National Bank, Anchorage, Alaska (hereinafter BANK), and the Office of the Comptroller of the Currency of the United States of America (hereinafter COMPTROLLER), wish to protect the interests of the depositors, other customers, and shareholders of the BANK and, toward that end, wish the BANK to operate safely and soundly and in accordance with all applicable laws, rules and regulations; and

WHEREAS, the COMPTROLLER, through his appointed National Bank Examiner, has criticized certain practices of the BANK in Examination Reports or letters to the BANK as being unsafe and unsound, within the meaning of the Financial Institutions Supervisory Act of 1966 (12 U.S.C. §1818); and

WHEREAS, in the Report of Examination of the BANK, dated May 31, 1979 (hereinafter REPORT OF EXAMINATION), and incorporated herein by reference the same as if fully set forth, the COMPTROLLER, through his appointed National Bank Examiner, has cited certain violations of law, rule or regulation applicable to the BANK;

NOW, THEREFORE, IT IS HEREBY AGREED, between the BANK, through its duly elected and acting Board of Directors, and the COMPTROLLER, through his duly authorized and acting Representative, that commencing no later than the effective date of this Agreement, or as shall otherwise be specified in the several Articles of this Agreement, the BANK shall operate at all times in compliance with the Articles of this Agreement.

ARTICLE I

(1) This Agreement shall be construed to be a "written agreement entered into with the agency" within the meaning of the Financial Institutions Supervisory Act of 1966, 12 U.S.C. §1818(b)(1).

ARTICLE II

(2) The Board of Directors shall at all times consist of at least five qualified, bonded and active members who have been duly elected or appointed. The Bank shall promptly notify the Regional Administrator of National Banks for the Thirteenth Region (hereinafter Regional Administrator) of any and all vacancies arising on the Board either through resignation of existing Board member(s) or Resolution adopted thereof to effect an increase in the size of the Board of Directors. Furthermore, the Bank shall provide the Regional Administrator with 30 days advance written notice of the names of all nominees for director proposed by management for election at any shareholders meeting or for appointment by the Board of Directors to fill any vacancies on the Board between annual meetings of the shareholders, and the Regional Administrator shall have the power to veto any such nomination or appointment to the Board.

ARTICLE III

(3) The daily operating management of the bank shall be the responsibility of the Chief Executive Officer, (CEO), and he alone shall exercise that responsibility. The CEO shall be subject to the guidance and policies of the Board of Directors acting on majority resolution of the full board.

ARTICLE IV

(4) No executive officer shall be employed, or have his or her employment altered or terminated, except by majority resolution of the full Board of Directors. Furthermore,

prior to effecting any action referred to in the immediately preceding sentence, the BANK shall provide 30 days advance written notice to the REGIONAL ADMINISTRATOR who shall have the power to veto such action.

ARTICLE V

(5) The Regional Administrator shall immediately be advised both by telephone and by mail of the calling of any special shareholders meeting, as well as the time, date, location and purpose of the meeting.

ARTICLE VI

(6) Within sixty (60) days, the Board of Directors, in consultation with management, shall develop, adopt and implement a written program for the elimination of each asset from criticized status. The program shall be submitted to the REGIONAL ADMINISTRATOR, promptly following adoption thereof.

(7) The BANK shall not lend additional money or otherwise extend credit to any borrower whose loan or extension of credit has been criticized, in whole or in part, in the Report of Examination dated May 31, 1979 (hereinafter REPORT OF EXAMINATION) or in subsequent Reports of Examination, unless the criticism of the loan or credit is eliminated.

(8) The immediately preceding paragraph shall not apply if the BANK's failure to extend further credit would be detrimental to the best interests of the BANK. Before any such extension of credit is made, however, it shall be approved in writing by a majority of the Board of Directors who shall certify the specific reasons why failure to extend such credit would be detrimental to the best interests of the BANK. A copy of any such certification shall be maintained in the credit file of the borrower, and shall also be attached to and made a part of the permanent minutes of the Board meeting at which the credit was considered.

ARTICLE VII

(9) The BANK shall immediately establish an executive loan committee to review and approve all extensions of credit in excess of \$50,000. This committee shall be made up of at least the president and two non-officer directors of the BANK. This committee shall review the BANK's legal lending limit in light of the diminution of the BANK's capital account, and shall ensure that no extension of credit, by renewal or otherwise, exceeds the legal lending limit. No new, modified or renewal extension of credit in excess of \$50,000 shall be granted without the prior approval of this committee. The REGIONAL ADMINISTRATOR shall be promptly notified of the members of this committee.

(10) The executive loan committee shall, within sixty (60) days, analyze and assess the capabilities of the lending staff of the BANK, and shall review the lending limits of each individual officer. The lending limits of each officer shall be adjusted as required by the results of this review. Upon completion of this study, a listing of the names of all lending officers together with their designated titles and lending limits shall be furnished to the REGIONAL ADMINISTRATOR.

ARTICLE VIII

(11) Within 60 days, the BANK shall take all steps necessary to establish adequate "internal controls to monitor the lending function. At a minimum, the Board's attention shall be given to the following:

- (a) A thorough review and revision shall be made of the present loan policy statement to correct all deficiencies listed in the REPORT OF EXAMINATION and any subsequent Report of Examination. The loan policy shall incorporate at a minimum, the principles, set forth in Sections 205.1, and 205.4 of the Comptroller's Handbook for National Bank Examiners.

- (b) A thorough review shall be made of the reports on the lending function to ensure that adequate information is transmitted to senior management and the Board. Specific attention shall be given to the accuracy and completeness of the Past Due Loan Reports, Non-accrual Loan Reports, Loan Commitment Reports, Problem Loan Reports, and Reports of Loans Granted, Renewed, Modified or Paid.
- (c) A thorough review shall be made of the overall level and adequacy of the BANK's internal loan review procedures, with specific attention directed to procedures for periodic review of loans within a loan officer's lending limit.
- (d) A thorough review and revision of the BANK's policy for charging off assets shall be performed. The policy shall identify those officers with authority to charge off assets and shall set standards for when assets should be charged off.

A copy of the revised loan policy statement and a summary description of the BANK's internal controls for lending shall be forwarded to the REGIONAL ADMINISTRATOR.

ARTICLE IX

(1?) The BANK shall take all necessary steps to obtain current and satisfactory credit information on all loans listed as lacking such information in the REPORT OF EXAMINATION, and any subsequent Report of Examination, and shall refrain from granting any new loans, renewals of existing loans or other extensions of credit, whether consumer or otherwise, without first obtaining current and satisfactory credit information. The credit information shall include a statement of purpose for which the loan is to be made together with a summary of the source and terms of repayment.

ARTICLE X

(13) The BANK shall ensure that each loan officer includes a written analysis to explain and justify his or her credit decision, and shall maintain current and complete information on all borrowers while their loans are outstanding.

ARTICLE XI

(14) The BANK shall correct the deficiencies pertaining to the securing of collateral as listed in the REPORT OF EXAMINATION, and any subsequent Report of Examination, and shall not grant any new loans or other extensions of credit for which the taking of collateral thereon is deficient.

ARTICLE XII

(15) The BANK shall take all steps necessary to recover on past due and non-accrual assets, including the implementation of a vigorous collection program. This program shall be submitted to the REGIONAL ADMINISTRATOR for his approval within 30 days of the effective date of this Agreement.

ARTICLE XIII

(16) Within sixty (60) days of the effective date of this Agreement, the Board of Directors shall adopt and implement written policies governing liquidity and asset and liability management. The policy shall be submitted to the REGIONAL ADMINISTRATOR for his review. 4

(17) The policy shall include, but not necessarily be limited to, the following:

- (a) Guidelines contained in Sections 302 and 405 of the Comptroller's Handbook for National Bank Examiners.
- (b) A plan to reduce the BANK's dependence on rate sensitive deposits and borrowings of all types.
- (c) Establishment of and goals for balance sheet (asset and liability categories) proportions, consistent with the BANK's profit plan and budget.

ARTICLE XIV

(18) The Board of Directors shall, within sixty (60) days of the effective date of this Agreement, amend the existing investment policy as necessary to address the deficiencies noted in the REPORT OF EXAMINATION, and any subsequent Report of Examination, and to adequately guide the BANK's investment account. The revised policy should be consistent with the BANK's asset and liability management policy and needs and a copy shall be submitted to the REGIONAL ADMINISTRATOR for his review.

ARTICLE XV

(19) Within sixty (60) days of the effective date of this Agreement, the Board of Directors shall submit to the REGIONAL ADMINISTRATOR, for his approval, a written capital program designed to ensure the ongoing capital adequacy of the BANK. It shall be the responsibility of the Board of Directors to make any adjustments necessary to acquire the approval of the REGIONAL ADMINISTRATOR for the BANK's capital program.

(20) The capital program shall provide for, but not necessarily be limited to, the following:

- (a) Targets for minimum acceptable capital ratios relative to total assets, net loans, and other balance sheet categories such as risk assets, total deposits, and rate sensitive deposits;
- (b) Projections for balance sheet categories and income and expense items for 1980. Projections for 1981 shall be completed no later than March 31, 1980;
- (c) A periodic review of the budgets and projections with explanations of variances and revisions;
and
- (d) Specific plans to eliminate the current capital deficiency.

ARTICLE XVI

(21) The Board of Directors shall not declare or pay a dividend without the prior written approval of the REGIONAL ADMINISTRATOR.

ARTICLE XVII

(22) The Board of Directors shall immediately review the adequacy of the BANK's Allowance for Possible Loan Losses, particularly in light of the present condition of the BANK's loan portfolio and the potential for loss inherent in that portfolio. Upon completion of its review, the Board of Directors shall augment the Allowance by an amount necessary to make it adequate and acceptable to the REGIONAL ADMINISTRATOR.

(23) The Board of Directors shall conduct at least calendar quarterly reviews of the Allowance for Possible Loan Losses and make appropriate adjustments thereto which will be reflected in the quarterly Reports of Conditions submitted to the Comptroller. The BANK will maintain documentation sufficient to justify the actions taken after each review, and shall immediately submit a report thereon to the REGIONAL ADMINISTRATOR.

ARTICLE XVIII

(24) Beginning thirty days after the effective date of this Agreement, the BANK shall submit monthly reports to the REGIONAL ADMINISTRATOR signed by a majority of the Board of Directors, detailing:

- (a) The actions taken to rectify those matters criticized in the REPORT OF EXAMINATION, and any subsequent Report of Examination;
- (b) The actions taken to correct each violation of law, rule, or regulation cited in the REPORT OF EXAMINATION, and any subsequent Report of Examination, and the actions taken to prevent their recurrence;
- (c) The actions taken by the BANK to comply with the provisions of this Agreement; and

(d) The results of those actions.

ARTICLE XIX

(25) Although the Board has agreed to submit certain programs and reports to the Regional Administrator for approval, it recognizes that the ultimate responsibility for proper and sound management of the BANK rests with the Board of Directors.

ARTICLE XX

(26) It is expressly and clearly understood that if, at any time, the COMPTROLLER deems it appropriate in fulfilling the responsibilities placed upon him by the several laws of the United States of America to undertake any action affecting the BANK, nothing in this Agreement shall in any way inhibit, estop, waive, bar or otherwise impede or prevent him from so doing.

ARTICLE XXI


(27) The provisions of this Agreement shall become effective immediately upon execution by the parties hereto and shall continue in full force and effect until such time as they shall be modified, suspended, excepted, waived or terminated by mutual consent of the parties of this Agreement.

IN TESTIMONY WHEREOF, the undersigned, designated by the Comptroller of the Currency as his Representative, has hereunto set his hand on behalf of the COMPTROLLER.

M. B. Adams
M. B. Adams
Regional Administrator of National Banks
Thirteenth National Bank Region

12/6/79
Date

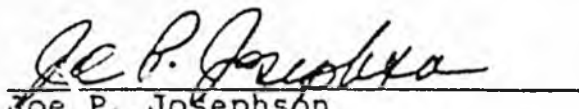
IN TESTIMONY WHEREOF, the undersigned, as the duly elected and acting Board of Directors of the BANK, have hereunto set their hands on behalf of the BANK, and themselves.


George A. Dickson

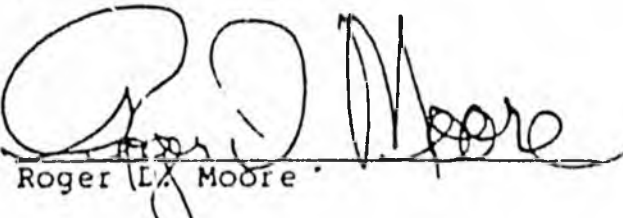
12/6/79
Date


Steven C. Holland

12/6/79
Date


Joe P. Josephson

12/6/79
Date


Roger L. Moore

12/6/79
Date

William J. Schuiling

Date

January 10, 1980

Board of Directors
Security National Bank
Pouch 7-777
Anchorage, Alaska 99510

Gentlemen:

The Bank's application dated December 17, 1979 to increase common stock to \$1,050,000 from \$715,841 by sale of 47,737 shares having an aggregate par value of \$334,159 and a total sale price of \$1,193,425 is hereby given preliminary approval.

This approval is granted subject to the following conditions:

- (a) That appropriate corporate action is taken to release the 2,737 shares which were allocated to the employees' stock purchase plan. Copies of appropriate resolutions should be furnished this Office.
- (b) If the bank proposes to rely upon a private placement exemption from the offering circular requirements set forth in 12 CFR 16, four copies of the notice required under Section 16.5(f) and any request for exemption under Section 16.5(g) should be furnished this office and prior approval obtained.
- (c) That the Bank shall provide notice to the proposed purchasers of the requirements of the Change in Bank Control Act of 1978 and take reasonable steps to assure that those requirements are complied with if applicable.

All cash received from the stock sale should be credited to a special account, which should be maintained until the capital increase has become effective. A report should be made to this Office on the enclosed Certificate of Payment for Additional Common.

EXHIBIT "D"

Board of Directors
Security National Bank, Anchorage
January 10, 1980
Page 2

Stock, in duplicate, when the full amount of cash for the new shares has been paid-in. Please advise us of the date you desire the capital increase to be declared effective.

Upon receipt of the foregoing documents and advice of the date the capital increase is to be effective, a certificate will be issued by this Office granting final approval and making the capital increase effective. Stock certificates representing the new shares should bear the effective date shown on the Comptroller's Certificate.

Very truly yours,

M. B. ADAMS
Regional Administrator of National Banks

Enclosures

cc: J. James Gallagher, Attorney
bcc: Capital Increase, Washington, D. C.
Subregion Special Projects, D.C.
Capital Funding File
Chronos.
Follow-up: 2/8/80

JDD:joh



Comptroller of the Currency
Administrator of National Banks

Washington, D C 20219

July 18, 1980

Board of Directors
Security National Bank
Pouch 7-777
Anchorage, Alaska 95510

Gentlemen:

A meeting was held in this office yesterday with Board Chairman Holland, President Moore, and bank attorney Evans. They hand-delivered a letter dated July 14, 1980 from Mr. Holland and Mr. Moore to myself and Senior Deputy Comptroller Paul Homan. Other Staff members from the Comptroller's office were present and our discussion centered on the variety of points raised in that letter.

The letter of July 14 urged that we withdraw the conditions imposed upon the bank by Mr. Homan in a letter dated July 10, 1980 to the Board of Directors requiring an injection of \$1.5 million dollars in equity capital within 90 days. The bank contends that our current assessment of the condition of the bank is incorrect, that current management has successfully dealt with problems of restoring depositor confidence and employee morale, and that the Board has approved the sale of authorized and unissued shares of common stock to qualified investors at a price of \$11.50 per share to effect an increase in equity capital of \$548,975.

This letter reaffirms Mr. Homan's request of July 10, 1980 for \$1.5 million dollars in new equity capital. However, as a result of the meeting and the demonstration of good faith efforts by the Board to restore the bank to a sound operating footing with an adequate capitalization, I am agreeable to modifying the letter of July 10, 1980, by removing the 90 day limitation under the following conditions:

1. Authorized but unissued stock as proposed is sold within 30 days from 7/17/80 for the specified \$548,975 and injected into the bank as equity capital.
2. The bank will be examined as soon as possible, and a conclusion reached regarding its condition, including the adequacy of its capital, will be transmitted to the Board of Directors. If that conclusion results in the need for additional equity capital, the Board of Directors will be asked to submit a plan to accomplish it within a timeframe set by this office.

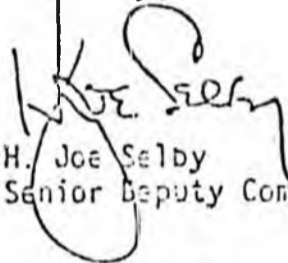
EXHIBIT "E"

3. If the authorized but unissued stock is not sold within the 30 day limitation the original time limitation stated in Mr. Homan's letter of July 10, 1980 is reinstated.

This modification of Mr. Homan's letter of July 10, 1980 in no way affects the ability of the Comptroller of the Currency to take steps as it deems necessary to protect the bank and its depositors. It does provide the Board of Directors with a reasonable time and plan to achieve the requirements of July 10, 1980.

If the modification and conditions under which it is proposed are satisfactory, please have an authorized official of the bank, under proper Board resolution, affix his signature on the attached copy of the letter, returning it to Regional Administrator M. B. Adams, 707 SW Washington Street, Room 900, Portland, Oregon 97205. We will accept the copy with the signature with each Board member.

Sincerely,



H. Joe Selby
Senior Deputy Comptroller for Operations

cc: ~~Bank File~~
Region 13
Martin
Homan
Selby
Baer
Serinc/Rivoir

THE SECURITY NATIONAL BANK

CHARTER NO. 16514

ARTICLES OF ASSOCIATION

For the purpose of organizing an Association to carry on the business of banking under the laws of the United States, the undersigned do enter into the following Articles of Association:

FIRST. The title of this Association shall be SECURITY NATIONAL BANK.

SECOND. The main office of the Association shall be in Anchorage, Greater Anchorage Area Borough, State of Alaska. The general business of the Association shall be conducted at its main office and its branches.

THIRD. The Board of Directors of this Association shall consist of not less than five nor more than twenty-five shareholders, the exact number of Directors within such minimum and maximum limits to be fixed and determined from time to time by resolution of a majority of the full Board of Directors or by resolution of the shareholders at any annual or special meeting thereof. Unless otherwise provided by the laws of the United States, any vacancy in the Board of Directors for any reason, including an increase in the number thereof, may be filled by action of the Board of Directors.

FOURTH. The annual meeting of the shareholders for the election of Directors and the transaction of whatever other business may be brought before said meeting shall be held at the main office or such other place as the Board of Directors may designate, on the day of each year specified therefor in the Bylaws, but if no election is held on that day, it may be held on any subsequent day according to the provisions of law; and all elections shall be held according to such lawful regulations as may be prescribed by the Board of Directors.

Nominations for election to the Board of Directors may be made by the Board of Directors or by any stockholder of any outstanding class of capital stock of the bank entitled to vote for election of directors. Nominations, other than those made by or on behalf of the existing management

of the bank, shall be made in writing and shall be delivered or mailed to the President of the bank and to the Comptroller of the Currency, Washington, D. C., not less than 14 days nor more than 50 days prior to any meeting of stockholders called for the election of directors, provided, however, that if less than 21 days' notice of the meeting is given to shareholders, such nomination shall be mailed or delivered to the President of the bank and to the Comptroller of the Currency not later than the close of business on the seventh day following the day on which the notice of meeting was mailed. Such notification shall contain the following information to the extent known to the notifying shareholder: (a) the name and address of each proposed nominee; (b) the principal occupation of each proposed nominee; (c) the total number of shares of capital stock of the bank that will be voted for each proposed nominee; (d) the name and residence address of the notifying shareholder; and (e) the number of shares of capital stock of the Bank owned by the notifying shareholder. Nominations not made in accordance herewith may, in his discretion, be disregarded by the chairman of the meeting, and upon his instructions, the vote tellers may disregard all votes cast for each such nominee.

FIFTH. The authorized amount of capital stock of this Association shall be 150,000 shares of common stock of the par value of Seven Dollars (\$7.00) each; but said capital stock may be increased or decreased from time to time, in accordance with the provisions of the laws of the United States.

No holder of shares of the capital stock of any class of the corporation shall have any pre-emptive or preferential right of subscription to any shares of any class of stock of the corporation, whether now or hereafter authorized, or to any obligations convertible into stock of the corporation, issued or sole, nor any right of subscription of any thereof other than such, if any, as the Board of Directors, in its discretion, may from time to time determine and at such price as the Board of Directors may from time to time fix.

SIXTH. The Board of Directors shall appoint one of its members President of this Association, who shall be Chairman of the Board, unless the Board appoints another director to be the Chairman. The Board of Directors shall have the power to appoint one or more Vice Presidents; and to appoint a Cashier and such other officers and employees as may be required to transact the business of this Association.

The Board of Directors shall have the power to define the duties of the officers and employees of the Association; to fix the salaries to be paid to them; to dismiss them; to require bonds from them and to fix the penalty thereof; to regulate the manner in which any increase of the

capital of the Association shall be made; to manage, and administer the business and affairs of the Association; to make all By-laws that it may be lawful for them to make; and generally to do and perform all acts that it may be legal for a Board of Directors to do and perform.

SEVENTH. The Board of Directors shall have the power to change the location of the main office to any other place within the limits of the City of Anchorage, State of Alaska, without the approval of the shareholders but subject to the approval of the Comptroller of the Currency; and shall have the power to establish or change the location of any branch or branches of the Association to any other location, without the approval of the shareholders but subject to the approval of the Comptroller of the Currency.

EIGHTH. The corporate existence of this Association shall continue until terminated in accordance with the laws of the United States.

NINTH. The Board of Directors of this Association, or any three or more shareholders owning, in the aggregate, not less than 25 percent of the stock of this Association, may call a special meeting of shareholders at any time. Unless otherwise provided by the laws of the United States, a notice of the time, place and purpose of every annual and special meeting of the shareholders shall be given by first-class mail, postage prepaid, mailed at least ten days prior to the date of such meeting to each shareholder of record at his address as shown on the books of this Association.

TENTH. Any person, his heirs, executors, or administrators, may be indemnified or reimbursed by the Association for reasonable expenses actually incurred in connection with any action, suit or proceeding, civil or criminal, to which he or they shall be made a party by reason of his being or having been a director, officer, or employee of the Association or of any firm, corporation, or organization which he served in any such capacity at the request of the Association: Provided, however, that no person shall be so indemnified or reimbursed in relation to any matter in such action, suit, or proceeding as to which he shall finally be adjudged to have been guilty of or liable for gross negligence, willful misconduct or criminal acts in the performance of his duties to the Association: And, provided further, that no person shall be so indemnified or reimbursed in relation to any matter in such action, suit, or proceeding which has been made the subject of a compromise settlement except with the approval of a court of competent jurisdiction, or the holders of record of a majority

of the outstanding shares of the Association, or the Board of Directors, acting by vote of directors not parties to the same or substantially the same action, suit, or proceeding, constituting a majority of the whole number of directors. The foregoing right of indemnification or reimbursement shall not be exclusive of other rights to which such person, his heirs, executors, or administrators, may be entitled as a matter of law.

The Association may, upon the affirmative vote of a majority of its Board of Directors, purchase insurance for the purpose of indemnifying its directors, officers and other employees to the extent that such indemnification is allowed in the preceding paragraph. Such insurance may, but need not, be for the benefit of all directors, officers, or employees.

ELEVENTH. These Articles of Association may be amended at any regular or special meeting of the shareholders by the affirmative vote of the holders of a majority of the stock of the Association, unless the vote of the holders of a greater amount of stock is required by law, and in that case by the vote of the holders of such greater amount.

IN WITNESS WHEREOF, we have hereunto set our hands this 11th day of July, 1974.

George A. Dickson
Richard W. Fischer
Charles A. Blomfield
Arlon R. Tussing
William J. Rader

GEORGE A. DICKSON

RICHARD W. FISCHER

CHARLES A. BLOMFIELD

ARLON R. TUSSING

WILLIAM J. RADER

FILED

AUG 1 1974

OFFICE OF THE
COMPTROLLER OF THE CURRENCY

LETTER TO THE BOARD OF DIRECTORS

Continued loan losses and further deterioration of the loan portfolio threaten the very existence of your bank. Survival is dependent on the immediate strengthening and collection of loans and the injection of capital. The Chief Executive Officer and the entire Board must provide their prompt and undivided attention to this serious situation. Your actions to remedy the numerous problems of the bank will require strong guidance and leadership, effective administration and dedication.

The need for capital is imperative. The outlook for immediate injection does not appear promising. Management reports that new parties are interested in purchasing the authorized but unissued stock but the price may have to be reduced. Without an injection of capital very soon, the bank cannot remain solvent, and unless loan problems are stemmed, even additional capital may not alleviate the situation. The Board should seek alternative solutions to avoid insolvency such as merger or sale.

A review of previously identified problem credits, delinquencies and new loans over \$40M revealed an even more severe condition than the previous examination. Classified assets total \$3,332M (294% of Gross Capital Funds), a substantial increase over last examination of \$2,881M (165% of Gross Capital Funds). Delinquencies amount to \$3,928M or nearly 40% of total loans - a staggering figure and up from \$3,623M last examination.

Commercial loans previously identified as problems have shown some improvement and are the primary responsibility of Don Norton. However, two large credits mentioned last examination have regressed and are now considered Substandard - English Alaska Foresters at \$150M and Director George Dickson, et al, at \$159M. It is extremely disheartening to note the inordinate amount of newly criticized assets. A summary of the commercial loans classified is listed below:

	Criticized Last Examination	Balance This Visitation	Newly Criticized Loans
OAEM	\$ 625M	0	\$ 260M
Substandard	1,374M	\$1,110M	752M
Doubtful	195M	198M	20M
Loss	248M	0	30M
	<u>\$2,442M</u>	<u>\$1,308M</u>	<u>\$1,062M</u>

Almost three quarters of your RE loan portfolio is delinquent. Much of this is the result of a failure to bill for interest since February. Classified assets in the RE construction account are \$526M, none of which were previously criticized. Also distressing are the mounting losses in the instalment, security reserve, and repossession accounts. These total \$124M and can be attributed to not following delinquencies when identified.

Collection of charge offs since the first of the year totals only \$20M. This amount represents an insignificant portion of the \$725M charged off in 1979. Replenishment of the Reserve for Possible Loan Losses to the year-end level is required based on the declining quality of the loan portfolio.

The lending staff has been reduced by the resignation of Rod DeCristafaro, leaving the already overburdened and unguided staff overworked, confused and distraught. It would appear that the Chief Executive Officer, Roger Moore, devotes most of his efforts to the lending area by providing support to the remaining staff on a daily basis. Of course additional qualified lending and collection persons will be required if any meaningful recovery can begin.

Violations of the lending limit persist. These are serious and represent a potential liability to the directors. Other violations have received little attention.

LETTER TO THE BOARD OF DIRECTORS

Earnings for the first three months of 1980 show only a nominal profit of \$12M. It is evident that legal and collection expenses will continue to mount, and combined with current loan losses, any profit to date would be eliminated. The sale of \$6.4 million in RE loans has allowed the bank to invest in high yielding Federal Funds which provided the only significant change in earnings for the bank.

It was noted that information contained in the Board of Director packets was incomplete and parts of it were inaccurate. The Board should insist on accurate and complete information so it can be fully informed on the condition of the bank.

1

Mel Ekstrom

INFORMATION

INTRODUCTION

THIS NBSS BANK PERFORMANCE REPORT COVERS THE OPERATIONS OF YOUR BANK AND THAT OF A COMPARABLE GROUP OF PEER BANKS. IT IS PROVIDED FOR YOUR USE AS A MANAGEMENT TOOL BY THE COMPTROLLER OF THE CURRENCY. DETAILED INFORMATION CONCERNING THIS REPORT IS PROVIDED IN A USER'S GUIDE FOR THE NBSS BANK PERFORMANCE REPORT FORWARDED TO YOUR BANK UNDER SEPARATE COVER.

YOUR PEER GROUP # 14
INCLUDES NATIONAL BANKS AND ALL OTHER FEDERAL RESERVE MEMBER BANKS HAVING ASSETS BETWEEN \$25 AND \$40 MILLION AT 12/31/79, WITH NO FULL SERVICE BRANCHES, AND LOCATED IN AN AREA CONSIDERED TO BE A HIGH-DENSITY POPULATION AREA (SMSA).

ADDRESSEE

CHIEF EXECUTIVE OFFICER
SECURITY NATIONAL BANK
880 H STREET
POUCH 7-777
ANCHORAGE, ALASKA

99501

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EXHIBIT "H"

THIS BANK	ANNUAL DATA				YEAR TO DATE	
	1976	1977	1978	1979	3/31/79	3/31/80
AVERAGE ASSETS	\$ 8004	\$ 18813	\$ 29915	\$ 30810	\$ 30634	\$ 27684
NET INCOME	\$ -173	\$ 196	\$ 195	\$ -1045		
RETURN ON AVERAGE ASSETS	-2.16 01	1.04 66	.65 16	-3.39 00		
ADJUSTED RETURN ON AVERAGE ASSETS	-2.09 01	.60 75	.52 11	-2.79 00		
PRE-TAX NET OPER INCOME - TAX EQ./AA	-2.29 01	.93 26	.74 11	-3.37 00		
NET INTEREST EARNINGS/AVERAGE ASSETS	7.11 98	6.90 98	6.14 94	5.26 52		
OTHER EARNINGS/AVERAGE ASSETS	.91 68	.91 59	.99 70	1.21 75		
NON-INTEREST EXPENSE/AVERAGE ASSETS	10.21 99	6.78 97	5.91 98	7.00 99		
PROV POSS LOAN LOSSES/AVERAGE ASSETS	.10 31	.10 29	.48 79	2.83 98		
CHANGE IN ASSET MIX (YEAR TO YEAR)	63.08 97	26.69 82	11.69 40	17.29 69	4.95 08	78.00 97
CHANGE IN LOAN MIX (YEAR TO YEAR)	101.30 98	16.21 62	15.06 64	12.23 50	2.01 04	46.83 96
CHANGE IN LIABILITY MIX (YEAR TO YEAR)	40.78 96	33.24 97	17.60 73	13.87 69	20.16 86	7.30 01
ASSET GROWTH RATE	317.29 99	76.99 97	24.49 82	-15.85 01	12.12 68	8.32 57
LOAN GROWTH RATE	726.57 99	112.53 99	15.87 40	-22.22 01	-1.81 31	-177.15 00
EQUITY GROWTH FROM RETAINED EARNINGS	-10.35 04	13.05 74	11.20 47	-54.71 00		
TOTAL EQUITY CAPITAL/TOTAL ASSETS	10.55 87	6.91 46	6.09 20	3.03 00	5.68 11	3.01 01
PEER GROUP 14 (170 BANKS)						
RETURN ON AVERAGE ASSETS	.67	.81	.96	1.04		
ADJUSTED RETURN ON AVERAGE ASSETS	.63	.79	.94	1.05		
PRE-TAX NET OPER INCOME - TAX EQ./AA	1.22	1.42	1.78	1.97		
NET INTEREST EARNINGS/AVERAGE ASSETS	4.41	4.51	4.83	5.07		
OTHER EARNINGS/AVERAGE ASSETS	.75	.76	.79	.84		
NON-INTEREST EXPENSE/AVERAGE ASSETS	3.63	3.54	3.47	3.55		
PROV POSS LOAN LOSSES/AVERAGE ASSETS	.36	.35	.36	.40		
CHANGE IN ASSET MIX (YEAR TO YEAR)	19.07	17.15	15.59	15.81	14.91	17.28
CHANGE IN LOAN MIX (YEAR TO YEAR)	22.20	15.52	14.51	15.75	15.07	14.57
CHANGE IN LIABILITY MIX (YEAR TO YEAR)	14.55	10.48	11.55	11.97	11.73	31.89
ASSET GROWTH RATE	16.31	19.93	14.76	13.76	4.65	7.20
LOAN GROWTH RATE	19.67	25.73	21.29	9.23	7.12	2.68
EQUITY GROWTH FROM RETAINED EARNINGS	6.96	9.25	11.49	12.00		
TOTAL EQUITY CAPITAL/TOTAL ASSETS	7.99	7.81	7.73	7.86	7.91	8.10

CAPITAL ANALYSIS (DOLLARS IN THOUSANDS)

	YEAR END				INTERIM	
	12/31/78	12/31/77	12/31/78	12/31/79	3/31/79	3/31/80
CAPITAL COMPOSITION:						
PREFERRED STOCK	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
COMMON STOCK	\$ 700	\$ 712	\$ 716	\$ 716	\$ 716	\$ 716
SURPLUS	\$ 700	\$ 731	\$ 740	\$ 740	\$ 740	\$ 740
UNDIVIDED PROFITS & CAPITAL RESERVES	\$ 102	\$ 298	\$ 454	\$ -655	\$ 380	\$ -644
TOTAL EQUITY CAPITAL	\$ 1502	\$ 1741	\$ 1910	\$ 801	\$ 1836	\$ 812
SUBORDINATED NOTES & DEBENTURES	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
TOTAL CAPITAL	\$ 1502	\$ 1741	\$ 1910	\$ 801	\$ 1836	\$ 812

CHANGES IN EQUITY CAPITAL:

BALANCE BEGINNING OF PERIOD	\$ 1672	\$ 1502	\$ 1702	\$ 1910	\$ 1910	\$ 801
NET INCOME	\$ -173	\$ 196	\$ 195	\$ -1045		
SALE OR PURCHASE OF CAPITAL	\$ 0	\$ 43	\$ 13	\$ 0		
MERGER & ADSORPTION CHANGES	\$ 0	\$ 0	\$ 0	\$ 0		
LESS: CASH DIVIDENDS DECLARED	\$ 0	\$ 0	\$ 0	\$ 0		
NET OTHER INCREASE (DECREASE)	\$ 3	\$ 0	\$ 0	\$ -66		
EQUITY CAPITAL AT END OF PERIOD	\$ 1502	\$ 1741	\$ 1910	\$ 801	\$ 1836	\$ 812

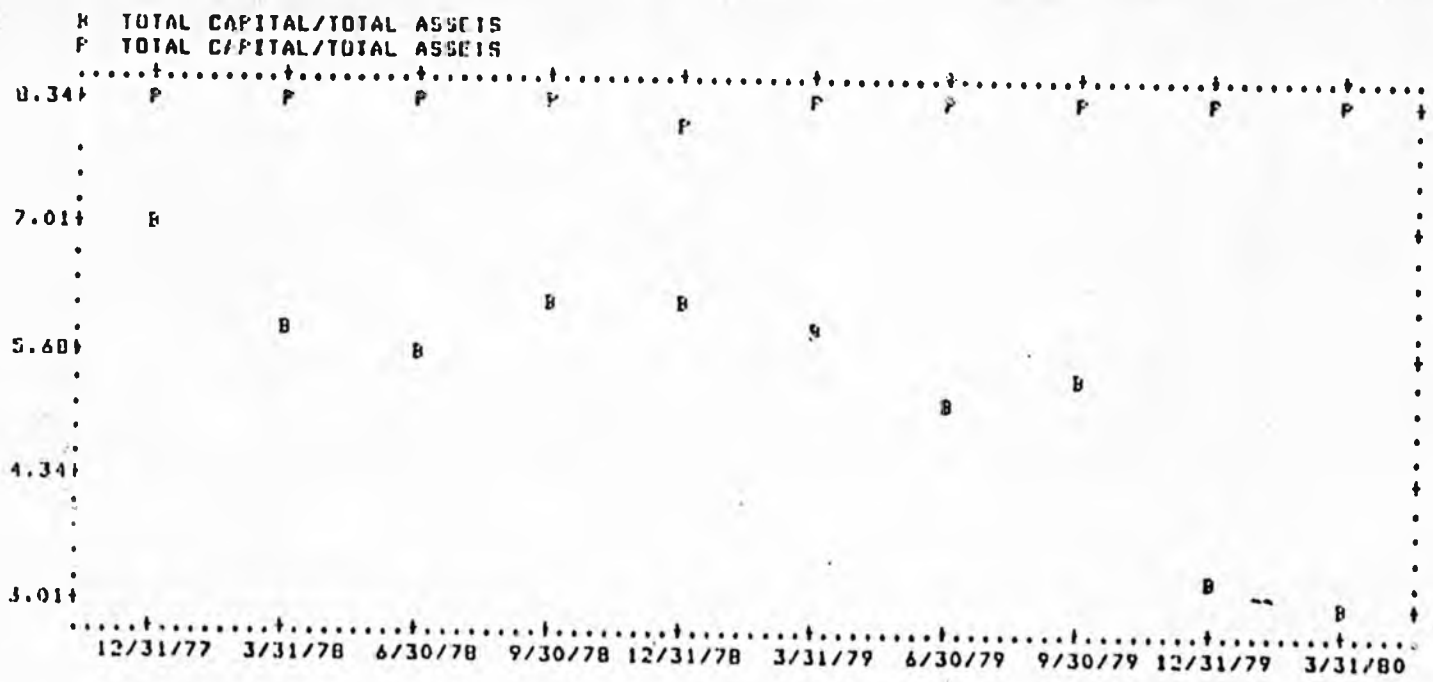
PERFORMANCE ANALYSIS RATIOS (FOR YEAR TO DATE)

RETURN ON AVERAGE EQUITY	-11.13 04	12.31 55	10.81 25	-68.52 00
	9.32	10.63	12.76	13.80
CASH DIVIDENDS/AVG EQUITY CAPITAL	.00 00	.00 00	.00 00	.00 00
	2.05	2.33	2.55	2.79
EQUITY GROWTH FROM RETAINED EARNINGS	-10.35 04	13.05 74	11.20 47	-54.71 00
	6.96	9.25	11.49	12.00

LEVERAGE ANALYSIS (END OF PERIOD)

EQUITY CAPITAL/TOTAL ASSETS	10.55 87	6.91 46	6.09 20	3.03 00	5.68 11	3.01 01
	7.99	7.81	7.73	7.86	7.91	8.10
TOTAL CAPITAL/TOTAL ASSETS	10.55 87	6.91 36	6.09 14	3.03 00	5.68 07	3.01 01
	8.25	8.10	7.98	8.09	8.17	8.34
ASSETS/TOTAL CAPITAL (X)	9.48 11	14.48 63	16.43 85	32.97 99	17.61 92	33.20 98
	13.16	13.68	13.40	13.13	13.04	12.81
NET LOANS/EQUITY CAPITAL (X)	6.04 40	11.00 93	11.65 94	21.34 99	12.10 96	11.54 97
	6.79	7.37	7.57	7.13	7.42	6.78
NET LOANS/TOTAL CAPITAL (X)	6.04 41	11.08 95	11.65 95	21.34 99	12.10 97	11.54 97
	6.42	7.07	7.25	6.87	7.09	6.53
RISK ASSETS/EQUITY CAPITAL (X)	6.07 18	11.11 78	12.15 87	22.27 99	12.63 90	12.17 95
	8.33	8.98	9.16	8.68	9.00	8.30
DEPOSITS/TOTAL CAPITAL (X)	8.46 11	13.27 65	15.06 85	30.43 99	15.48 87	30.55 98
	11.93	12.44	12.00	11.69	11.66	11.37

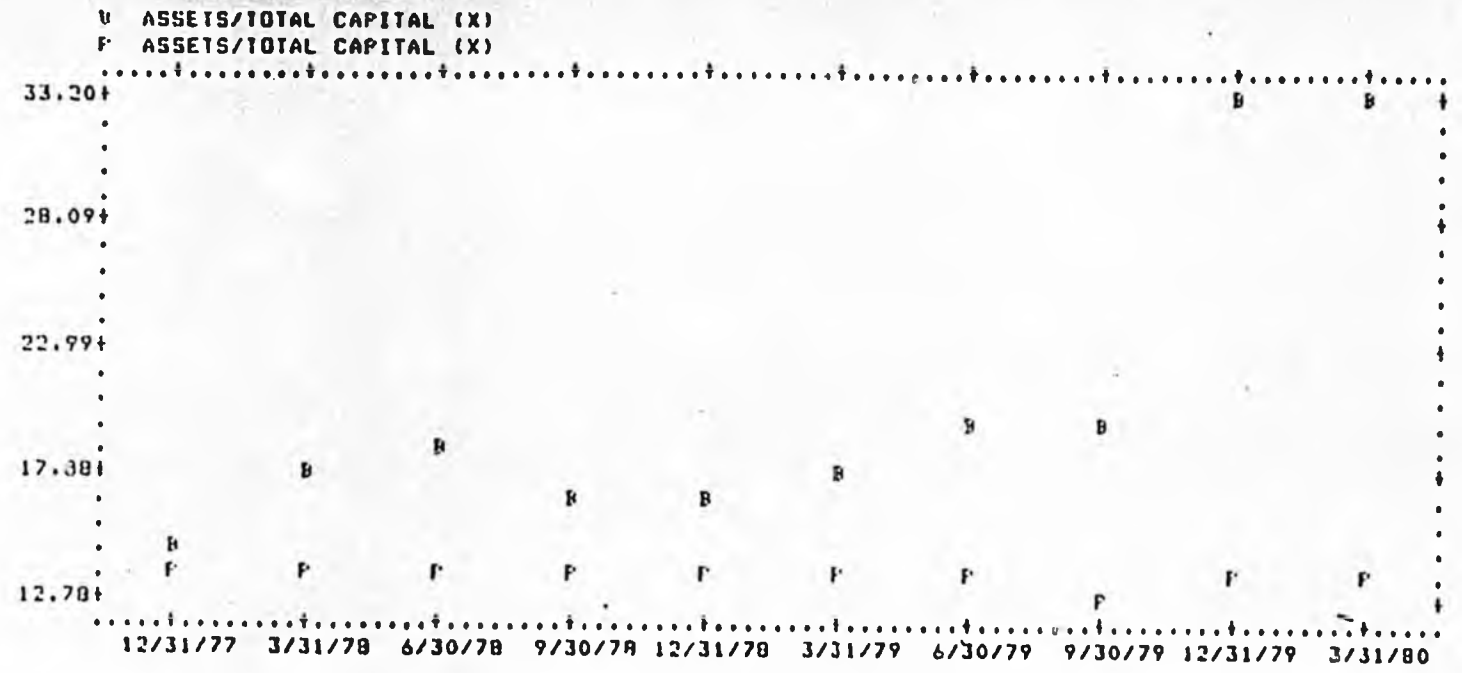
SECURITY NAT BANK ANCHORAGE
 BANK (B) TOTAL CAPITAL TREND VS. FEER (P) TOTAL CAPITAL TREND



ENTER FUNCTION:

EXHIBIT "I"

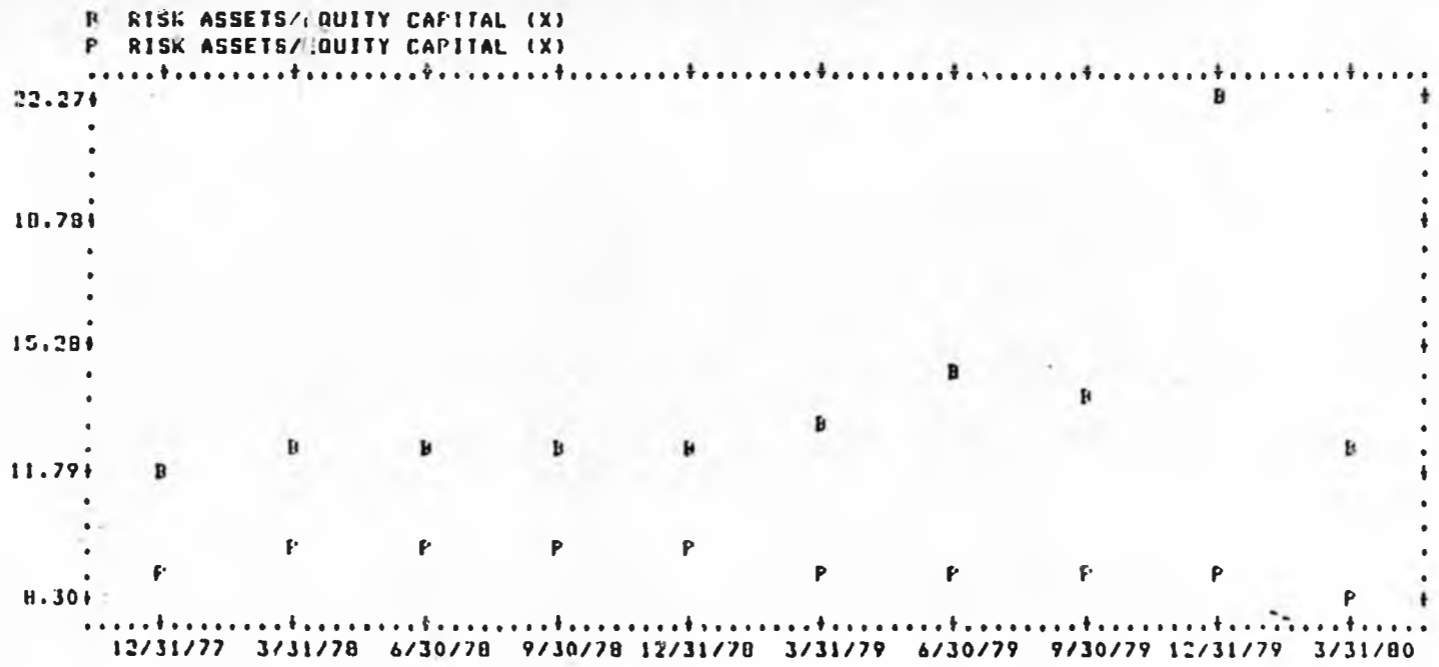
SECURITY NAT BANK ANCHORAGE
 BANK (B) -ASSETS/TOTAL CAPITAL(X) VS. PEER (P) -ASSETS/TOTAL CAPITAL(X)



ENTER FUNCTION:

EXHIBIT "J"

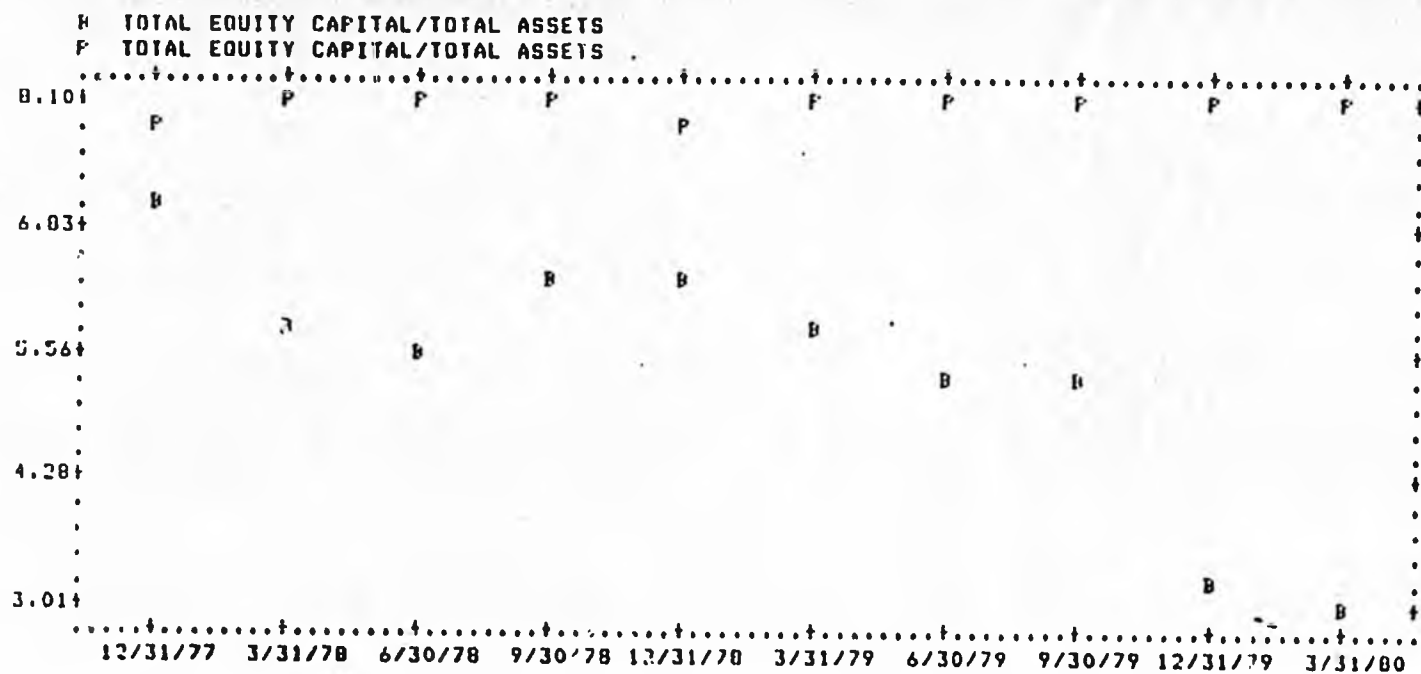
SECURITY NAT BANK ANCHORAGE .
 BANK (B) -RISK A/SETS/EQUITY CAPITAL(X) VS. PEER (P) -RISK ASSETS/EQUITY CAPITA



ENTER FUNCTIONS:

EXHIBIT "K"

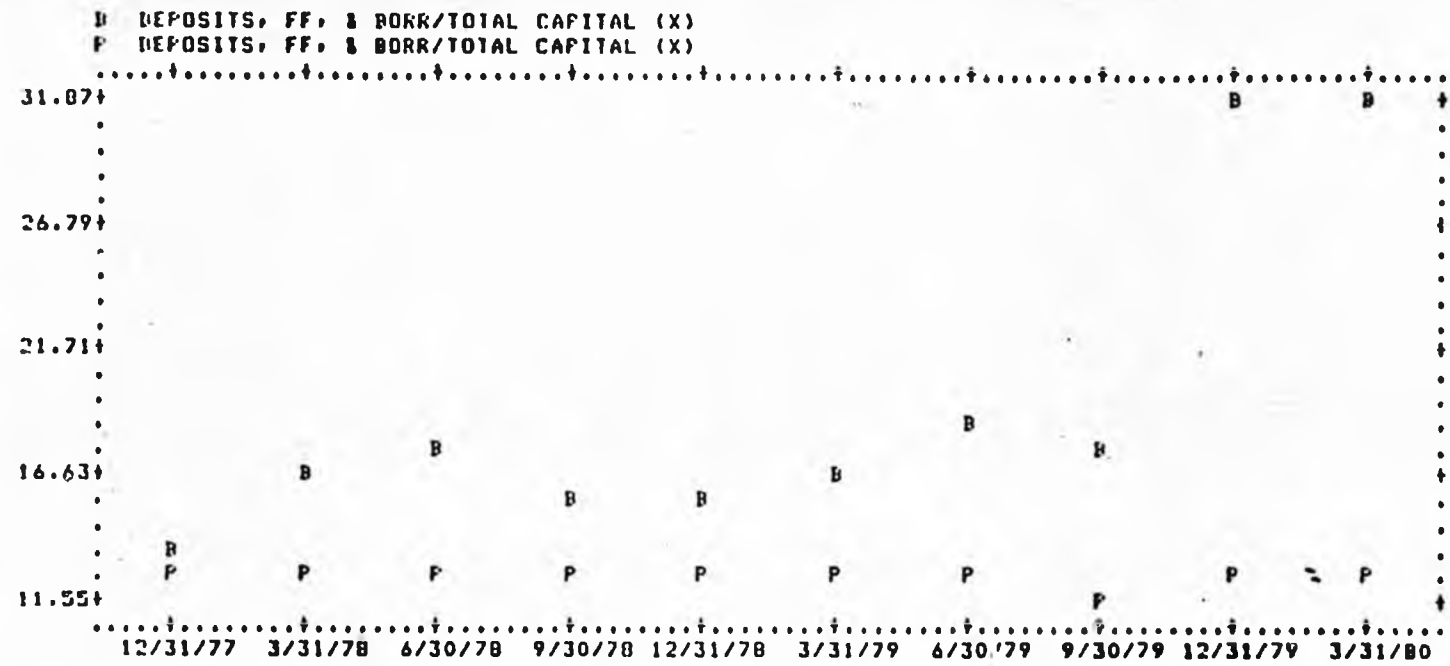
SECURITY NAT BANK ANCHORAGE
 BANK (B) EQUITY CAPITAL TREND VS. PEER (P) EQUITY CAPITAL TREND



ENTER FUNCTION:

EXHIBIT "L"

SECURITY NAT BANK ANCHORAGE
 BANK (B) VQ. PEER (P) - DEP., FED FUNDS/TOTAL CAPITAL (X)



ENTER FUNCTION:

EXHIBIT "M"



Comptroller of the Currency
Administrator of National Banks

Washington, D. C. 20219

HAND DELIVERED

July 10, 1980

Board of Directors
Security National Bank
Pouch 7-777
Anchorage, Alaska 95510

Members of the Board:

This is to again formally inform you of the critical condition of your bank and the vital need for acquiring additional equity capital. This need for capital has been the subject of numerous conversations, correspondence, and even a Normal Agreement issued under the Financial Institutions Supervisory Act. Your failure to respond to these requests and directions, coupled with the continued erosion of the bank's condition which is producing substantial losses, has resulted in the very survival of the institution being placed in jeopardy.

We believe that the serious volume of problems confronting the bank has created a high probability that your bank will fail unless you take prompt and vigorous action to raise the needed additional equity capital. We estimate that at a minimum \$1,500,000 in equity is needed. In the absence of the injection of such funds within ninety (90) days of the date of this letter, the Office of the Comptroller of the Currency will take such additional steps as it deems necessary to protect the bank and its depositors.

Please advise Regional Administrator M. B. Adams, on a bi-weekly basis, of the efforts in obtaining the needed capital.

Sincerely,

Paul M. Homan
Senior Deputy Comptroller
for Bank Supervision

UNITED STATES OF AMERICA
 DEPARTMENT OF THE TREASURY
 OFFICE OF THE COMPTROLLER OF THE CURRENCY

IN THE MATTER OF THE)
 SECURITY NATIONAL BANK OF ANCHORAGE)
ANCHORAGE, ALASKA)

NOTICE OF CHARGES

TO: The Security National Bank of Anchorage, Anchorage, Alaska

TAKE NOTICE THAT, on the 20th day of September, 1979, a hearing pursuant to the Financial Institutions Supervisory Act of 1966, as amended (12 U.S.C. §1818(b)), will commence at 10:00 a.m. in the United States Courthouse for the District of Alaska at Anchorage, into the charges set forth herein, in order to determine whether an Order to Cease and Desist should be issued against the Security National Bank of Anchorage, Anchorage, Alaska (hereinafter the "BANK").

After examination and other investigation of the BANK, the Comptroller of the Currency of the United States of America (hereinafter the "COMPTROLLER") is of the opinion that the persons upon whom this Notice of Charges is served are engaging, have engaged, or are about to engage in an unsafe or unsound practice in conducting the business of the BANK, or are violating, have violated, or are about to violate a law, rule, or regulation.

Therefore, pursuant to the authority conferred upon him by the above named statute, the COMPTROLLER hereby CHARGES:

ARTICLE I

(1) The BANK is a national banking association chartered and examined by the Comptroller pursuant to the National Banking Act of 1864, as amended (12 U.S.C. §1 et seq.).

(2) The COMPTROLLER is the "appropriate Federal banking agency" with respect to the BANK for the purposes of 12 U.S.C. §1818.

(3) The BANK is an insured bank and is subject to the

ARTICLE II

(4) Contrary to 12 U.S.C. §§71 and 71a, the BANK is not being managed by at least five directors, and the BANK's Board of Directors does not consist of at least five directors.

ARTICLE III

(5) Contrary to safe and sound banking practice, the BANK is operating without a president or other senior management necessary to properly conduct the affairs of the BANK.

ARTICLE IV

(6) Contrary to safe and sound banking practice, and contrary to its responsibilities and duties under the National Bank Act, (12 U.S.C. §§24(5) and (6), and 12 U.S.C. §73) the Board of Directors failed to appoint Mr. Thom Wolek as president as an authorized action of the Board of Directors, and allowed that function to be usurped by a single member of the Board.

ARTICLE V

(7) Contrary to safe and sound banking practice, the BANK has accumulated assets of approximately \$1,977,000, which represent approximately 102% of its gross capital funds which have been classified by the Comptroller's National Bank Examiner as substandard, doubtful or loss. In addition, the BANK has accumulated assets of approximately \$119,000, which represent approximately 6% of the BANK's gross capital funds, which the Comptroller's National Bank Examiner has criticized as "Other Assets Especially Mentioned."

ARTICLE VI

(8) Contrary to safe and sound banking practice, the BANK is operating with inadequate capital. The ratio of total deposits to total capital funds is 15.3, the ratio of net loans and direct lease financing to total capital funds is 11.5, and

ARTICLE VII

(9) Contrary to safe and sound banking practice, the BANK has extended credit in an amount equal to \$2,419,000 or 11% of gross loans, which are not supported by adequate current credit information.

ARTICLE VIII

(10) Contrary to safe and sound banking practice, the BANK has accumulated overdue loans in an amount equal to \$1,694,000, which represent approximately 7.6% of gross loans.

ARTICLE IX

(11) Contrary to safe and sound banking practice, the BANK is operating with an inadequate Allowance For Possible Loan Losses.

ARTICLE XI

(12) Contrary to safe and sound banking practice, the BANK has placed an excessive dependence upon rate sensitive deposits. Rate sensitive deposits represent approximately 47.8% of the BANK's total deposits.

THEREFORE, the COMPTROLLER hereby commands the BANK to file an answer to the above charges pursuant to and in accordance with 12 C.F.R. Part 19 with the Deputy Comptroller of the Currency for Administration, Administrator of National Banks, Washington, D.C. 20219, within twenty days from the date of service of this Notice of Charges.

IN WITNESS WHEREOF, I have hereunto set my hand and the official seal of the Office of the Comptroller of the Currency, given at Washington, D.C., this 10th day of August, 1979.

HCS SB 19 by Rodey. relating to rates of interest.
Means that places such as Beneficial Finance may charge
whatever interest they want on loans above \$25,000 -
changes the amount from \$100,000. Rodey doesn't want
to combine HB 524 with his bill.

SB 524 small loans. adjusts the maximum amounts that may be
loaned according to the consumer price index annually.
allows the charge of a late payment fee of not more than 10%
of the payment which is due or \$15, whichever is less.

SB 278 savings associations - ups the amount on loans that can
be made

SB 279 general powers of the Dept. of Commerce & Econ. Dev.

SB 280 credit unions. gives DCED same powers as state-chartered
credit unions

Rodey says ok to combine the three; amend title, add an effective
date. [Tom Sofo]

draft all 4

Unrattles bank law proposal

But individual states are expected to override the federal law to accept out-of-state bank holding corporations. A change in state law regarding the deal has been expected for several weeks in Anchorage through a quiet but intense lobbying effort ended by Rainier. Public hearings have been held on the proposal.

The House Rules Committee is the last stop before bills reach the House floor, and the panel normally doesn't consider any changes to legislation.

Today's hearing ostensibly is on a Senate bill (SB19) proposing changes in the state's loan interest laws. But Committee Chairwoman Sally Smith, D-Fairbanks, confirmed Tuesday that the panel also would listen

to proponents of the Rainier amendment.

Smith said she is only planning to hear out the Rainier proposal and not to tack the measure on to the Senate bill.

"It's just a hearing. I didn't say that it would be a mark-up session," she said.

But Smith acknowledged that the amendment could be added to the Senate bill if a

majority of the nine rules committee members favor such action.

With the legislative session nearing an end, Smith said she believes "it's a little late in the year for us to be considering something as major as this."

Smith said she is not even sure enough committee mem-

See Back Page, HOUSE

Unrattles proposed banking law change SB19

expect to vote for it," Smith said.

House Minority Leader Joe Smith, R-Anchorage and another panel member, said he made up his mind on Tuesday to support the Rainier proposal.

"I'm not just going to listen to arguments and make my own mind up," he said.

Alaska banking officials

have opposed the proposal, contending it would allow Rainier, with its superior financial clout, to dominate the state banking industry. Several Anchorage banking officials reportedly were planning to testify at the Rules Committee hearing.

Rainier will be represented at the meeting by Bill Howe, an officer in the bank's Seattle headquarters. Howe could not be reached for comment Tuesday evening.

The amendment proposed by Rainier would change Alaska's banking code to allow out-of-state bank holding companies to "acquire and own all or any portion of the voting shares or other capital stock of a state bank," provided that the state bank was in financial distress.

To qualify, a state bank would have to be capital deficient and show a net loss on four of its previous five financial reports.

VOL. XXVI, NO. 150 60 PAGES Anchorage, Alaska, Wednesday, June 3, 1981 PRICE 25 CENTS

House panel tackles bank law proposal

By BOB SHALLIT
and JON MATTHEWS
Daily News reporters

A last-minute change in state law that would allow Rainier Bancorporation of Seattle to take over Security National Bank of Anchorage will be considered today in Juneau by the House Rules Committee.

The proposal, which has drawn the ire of the Alaska

□ Senate may push to ban practice of piggybacking bills, Page A-3.

Bankers Association, would allow Rainier and other Outside bank holding companies to enter the Alaska market for the first time.

Federal law prohibits bank holding companies from acquiring banks outside their home

states. But individual states can vote to override the federal law and accept out-of-state banking corporations.

The change in state law required for the deal has been promoted for several weeks in Juneau through a quiet but high-priced lobbying effort engineered by Rainier.

No public hearings have been held on the proposal.

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to proponents of the Rainier amendment.

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"It's just a hearing. I didn't say that it would be a mark-up session," she said.

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See Back Page, HOUSE

House panel tackles proposed banking law change SB19

Continued from Page A-1

bers will show up at the 8 a.m. meeting to make a quorum and allow official business to occur.

House Finance Chairman Sam Cotten, D-Eagle River and a member of the rules panel, also said he doesn't expect the committee to act today on the proposal.

"I'm not committed to adding an amendment, and I

don't expect to vote for it," Cotten said.

House Minority Leader Joe Hayes, R-Anchorage and another rules panel member, said he hasn't made up his mind on whether to support the Rainier proposal.

"I'm just going to listen to the arguments and make my decision," he said.

Alaska banking officials

have opposed the proposal, contending it would allow Rainier, with its superior financial clout, to dominate the state banking industry. Several Anchorage banking officials reportedly were planning to testify at the Rules Committee hearing.

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To qualify, a state bank would have to be capital deficient and show a net loss on four of its previous five financial reports.



FRONTIER ORGANIZERS—Board chairman Gerald Stinson (left) and board member Harvey Marlin, two of the

organizers of Frontier Savings and Loan Association.

(Staff photos by Mike Litt)

Frontier reprieve given

By **SUSAN FISHER**
Staff Writer

Frontier Savings and Loan Association has won a one-year extension in its efforts to open a new Fairbanks bank, but the reprieve also carries some requirements the association must meet by Aug. 1.

Willis Kirkpatrick, director of the state's Division of Banking, Securities and Corporations, said he decided to give the extension because of the strong support subscribers gave in wanting to continue.

There are some subscribers (investors) who want their money back, though, and they will have an opportunity to withdraw.

Kirkpatrick's order includes a requirement that Frontier send letters of rescission to all subscribers by Aug. 1, allowing them to withdraw and get their money returned with interest.

Also by Aug. 1, the association's board must amend Frontier's prospectus, or offering circular.

When Frontier meets those requirements, it may resume selling stock. Kirkpatrick said he will not consider requests to pay salaries until after the total subscriptions have been paid in.

Frontier's operating funds have been frozen since last October. The Division of Banking has been ordered by Kirkpatrick to free those funds when the association meets the above requirements.

That is important to Frontier

which is without funds to hire and pay a professional bank manager.

Copies of Kirkpatrick's order were put in the mail from Juneau late Wednesday afternoon and are enroute to the Frontier board and all subscribers.

Kirkpatrick heard lengthy testimony during a May 26 hearing in Fairbanks to decide if he would order the association to dissolve.

"It was hard not to (extend) in the fact that the only protestants we had were those who wrote letters and did not appear at the hearing," Kirkpatrick said this morning, adding that "the total amount of those who were protesting the continuance was such a small minority."

"In other words, there were people who wanted their money back, only because they wanted their money back," he said, and not because they wanted Frontier dissolved.

Frontier Savings and Loan Association began organization in 1978, with plans to open bank doors that year.

But there were a number of hurdles. Last fall, the association was denied federal account insurance, which it must have to protect customers' accounts. The state then froze the association's operating money, and the bank's manager resigned.

All that led to the dissolution hearing May 26.

Gerald Stinson, Frontier's board



WILLIS KIRKPATRICK

chairman, said this morning the organizers are pleased with the decision.

Stinson said the association plans to have the rescission letters and amended prospectus out this month, well before the Aug. 1 deadline, and that a candidate for the bank managerial position was in Fairbanks today for an interview.

Kirkpatrick's order is that the association must meet all requirements and obtain its state charter by July 1, 1982.

Sally:

SB 19

re: SB19 - spoke to a Mr. Wills, who is sitting in for M.B. Adams, Regional Administrator, Comptroller of the Currency - no, they will not participate in a conference call - it is illegal for them to discuss anything concerning the banks - the only info I was able to get concerned regulatory jurisdictions, which he said depends on the types of banks involved - if it is a holding company attempting to purchase a bank then the federal reserve might get involved - if the purchase/sale involves two national banks, then the Comptroller of Currency has jurisdiction - FDIC would be involved in either case because they insure both types of banks

C
6/3