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Alaska State Legislature

Senate Committee on State Affairs

Vic Fischer, Chair • Pouch V


Juneau, Alaska 99811

(907) 465-4954

Official Business

MEMORANDUM

TO: All Senators

FROM: Senator Vic Fischer 

RE: Permanent Fund Investment in Alaska

DATE: February 10, 1984

Attached is information on what the Alaska Permanent Fund Corporation is doing in the area of Alaska investments.

It looks to me as if the Fund is moving in the right direction, and the Board appears to be aware of the need to meet public expectations with at least some significant investments within the state.



Alaska Permanent Fund Corporation

Pouch 4-1000 Juneau, Alaska 99802

TEL 907/465-2047 TLX 099-46-323

February 7, 1984

The Honorable Vic Fischer
Alaska State Senate
Pouch V
Juneau, Alaska 99811

Dear Senator Fischer:

You have inquired as to what programs are in place--and what is planned for the future--with respect to Alaska Permanent Fund Corporation investments in Alaska.

Programs in Place

1. The Trustees have allocated \$80 million for investments in home mortgages (owner occupied, one to four units). These are offered at market rates, thirty-year term, floating rate adjusted once annually. Currently, about \$30 million has been utilized and \$50 million is available. The program has been in existence for about two years. Use of the program has been minimal since the Alaska Housing Finance Corporation provides subsidized rather than market rates. Our program is popular with those seeking housing loans over AHFC limits and with those wishing to avoid AHFC step-up rates and the AHFC shorter maturity.
2. The Fund is a purchaser of AHFC taxable bonds backed by Alaskan home mortgages. When market yields are satisfactory, we have purchased up to ten percent of an AHFC bond issue. Our current holdings are \$25 million. The Fund cannot buy foreign bonds and cannot participate in AHFC Eurobond transactions.

Senator Vic Fischer
February 7, 1984
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New Program - March 1984

The Trustees have been working on a program which could place up to \$200 million in Alaskan banks for use in our local economy. Under this plan, the Fund would purchase certificates of deposit from banks and would accept Alaska loans as collateral. The program has been finalized and will be before the Trustees for adoption at their next meeting on March 23, 1984. Action on this program was tabled from the last meeting when representatives of one of Alaska's largest banks testified that most banks were awash with funds and the program would not be used. The Trustees believe the program should be put into place now, even though major banks do not need the funds, so that when funds are needed, a well designed rather than "baling wire" program will be available.

On the Drawing Board

The Trustees have retained a consultant to draw a comprehensive plan for real estate investing. A component of the plan will address Alaskan properties. It is anticipated that a preliminary report will be available at the March meeting. Hopefully, we will be able to address ways of investing which (1) will not compete with private sector Alaskan investors; (2) will not create new projects (shopping centers and office buildings) which, through competition, will force marginal producers into financial stress; (3) will not create glut which could result in poor earnings to both the Fund and the private sector.

Standby Program

The Fund can be a purchaser of those portions of loans which are federally guaranteed (i.e., it could buy 90% of an SBA loan--the guaranteed portion). To date the Alaska Industrial Development Authority has an active program and is meeting the total statewide need. If AIDA could no longer solely meet the need, the Fund could assist on a participating basis with AIDA.

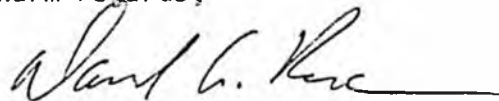
I am sure you appreciate our desire to invest within Alaska in such a manner that (1) we do not destroy the long-term formation of capital and along with it the banking system; (2) we do not destroy the equilibrium of the competitive private sector; or (3) we do not utilize the Fund as a social or political tool through hidden subsidization rather than utilize it as a sound, economics-driven savings account for all of our people.

Senator Vic Fischer
February 7, 1984
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Investing in Alaska is a challenge which will be met. It will take time and the exercise of great care. I'm confident that we can do it.

Please contact me if I can be of further assistance.

Warm regards,

A handwritten signature in cursive script, appearing to read "David A. Rose", with a long horizontal flourish extending to the right.

David A. Rose
Executive Director

DAR/aef
Enclosures

POSTPONED
BY TRUSTEES
MEETING

RESOLUTION OF THE BOARD OF TRUSTEES
OF THE ALASKA PERMANENT FUND CORPORATION
PERTAINING TO INITIATION OF A CERTIFICATE OF DEPOSIT PURCHASE
PROGRAM FOR ALASKAN FINANCIAL INSTITUTIONS

RESOLUTION 83-13

WHEREAS, a portion of the Permanent Fund portfolio is generally invested in short-term United States Treasury Bills; and

WHEREAS, this asset allocation provides acceptable yields to the Fund; and

WHEREAS, the same return can be generated by initiation of a collateralized certificate of deposit purchase program; and

WHEREAS, such a program may assist economic development of the State of Alaska while providing market rates of return and minimal risk;

NOW THEREFORE BE IT RESOLVED that the Trustees adopt the attached guidelines which set forth an "ALASKA BANK CERTIFICATES OF DEPOSIT PROGRAM"; and

BE IT FURTHER RESOLVED that the Trustees direct the Executive Director to implement said program; and

BE IT FURTHER RESOLVED that the Trustees will address the amount of funds to be allocated to the program as part of each quarterly investment review.

PASSED AND APPROVED by the Board of Trustees of the Alaska Permanent Fund Corporation, this 2nd day of December, 1983.

Steve Cowder, Chairman
Board of Trustees
Alaska Permanent Fund Corporation

ATTEST:

David A. Rose, Executive Director

ALASKA PERMANENT FUND
ALASKA BANK CERTIFICATES OF DEPOSIT PROGRAM

POLICY

The Alaska Permanent Fund will purchase certificates of deposit issued by Alaskan banks at floating interest rates for certificates of deposit for a three-year term. Amount of certificates of deposit to be purchased and interest rate paid are predetermined by established guidelines. Floating rates are utilized to provide maximum protection in volatile markets to the Fund.

PURPOSE

To make funds available to Alaskan banking institutions, as required, on an open and continuous basis in an effort to make funds available to accommodate an expansion of the Alaska economy. It is not intended that these funds will be used for arbitrage operations, although it is recognized that a portion may be temporarily utilized for that purpose. While not mandatory, this program envisions that banks will make floating rate loans which minimize risks to banks and borrowers.

PROGRAM GOALS

1. Funds will be available on a continuous basis. The program is open ended without a determined termination date.
2. Certificates of deposit will be issued by banks and purchased by the Fund for a specific period of three years.
3. Interest rates will float quarterly throughout the three-year period.

4. Interest rates will be established to reflect the average Treasury coupon equivalent rate published in the Wall Street Journal for the first three-month U. S. Treasury Bills auctioned in each calendar quarter, plus 50 basis points.
5. Interest will be paid annually.
6. Funds will not be made available in increments less than \$1,000,000.
7. All certificates of deposit will be 100% collateralized.
8. All collateral will be delivered versus funds at a Trustee bank.
9. Trustee bank will mark all collateral to market and will institute additional collateral calls as necessary. Collateral will be released to the degree that mark to market warrants, and if requested by issuing bank.
10. Substitution of collateral will be permitted by the Trustee bank.
11. At maturity, all funds (principal and interest) will be delivered to Trustee versus collateral.
12. Trustee will liquidate collateral after three working days in the event of a failure to pay either principal or interest when due.
13. Collateral must be in the form of any or a combination of any of the following; at market value:
 - a) obligations of, or obligations insured by or guaranteed by, the United States or agencies or instrumentalities of the United States;
 - b) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member;
 - c) corporate debt securities which are rated AA or better by a nationally recognized rating service;

- d) the guaranteed portion of Federal Small Business Administration loans;
- e) the portion of first lien real estate mortgages guaranteed by the Federal Veterans Administration;
- f) the portions of business and industrial loans made under the Rural Development Act of 1972 which are guaranteed by the Farmer's Home Administration;
- g) the guaranteed portion of Farmer's Home Administration loans;
- h) notes secured by mortgages granting a first lien on commercial or residential real estate improved by completed buildings if the mortgages are insured by a private mortgage insurance corporation which is authorized to do business in Alaska and has combined capital and surplus aggregating at least \$20,000,000, and if loan-to-value ratios do not exceed 75 percent for commercial mortgages and 90 percent for residential mortgages; however,
 - (1) no mortgage insurance is necessary for commercial loans having loan-to-value ratios of less than 50 percent and the minimum coverage of other commercial loans shall be 10 percent for those having a loan-to-value ratio of 50-60 percent and 15 percent for those having a loan-to-value ratio greater than 60 percent but no more than 75 percent, and
 - (2) no mortgage insurance is necessary for residential loans having a loan-to-value ratio of less than 70 percent and the minimum coverage of other residential loans shall be 10 percent for those having a loan-to-value ratio greater than 70 percent but less than 90 percent and 20 percent for those having a loan-to-value ratio of 90 percent;
- (i) notes secured by mortgages granting a first lien on commercial real estate improved by completed buildings if the originating financial institution retains at least 25% of the mortgage until maturity;

NOTE: Uninsured loans or uninsured portions of loans [see (h) and (i) above] will be valued at 75% of the outstanding principal balance. Delinquent, default or extended loans will not be acceptable collateral.

14. The Permanent Fund is prepared to purchase three-year certificates of deposit issued by financial institutions as follows:
 - a. The program will be funded in such a manner that each institution will be assured that certificates will be purchased in a total amount which is not less than 25% of capitalization as determined by each institution's published annual or quarterly report (to include paid-in-capital, unencumbered reserves, and retained or undistributed earnings).
 - b. Additional funds made available for the program will be utilized to purchase certificates on a first-come, first-served basis regardless of capitalization.

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ALASKA PERMANENT
FUND CORPORATION

HOME
MORTGAGES

800 WEST 10th, Suite 302
POUCH 4-1000
JUNE 40, ALASKA 99802

TELEPHONE
(907) 465-3047

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The Alaska Permanent Fund Corporation provides residential real estate financing to all areas of Alaska by providing a secondary mortgage market for loans originated and serviced by private lending institutions. The commitment of the Alaska Permanent Fund Corporation is to provide a stable source of funding for credit-worthy, eligible borrowers.

HOW TO FIND OUT ABOUT
ALASKA PERMANENT FUND CORPORATION HOME MORTGAGES

Talk to any participating lender listed on the last page of this pamphlet for latest information.

HOW TO SECURE AN
ALASKA PERMANENT FUND CORPORATION MORTGAGE

The lender will determine if you are eligible for home mortgage financing and if your income is sufficient to make the monthly mortgage payment. All mortgages are originated for the Alaska Permanent Fund Corporation by participating lenders; the Alaska Permanent Fund Corporation does not make direct mortgage loans.

HOUSING ELIGIBLE FOR MORTGAGE FINANCING

The Alaska Permanent Fund Corporation finances only permanent mortgages on new or existing homes consisting of single-family, duplex, tri-plex and four plex. All housing financed must be owner-occupied.

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MORTGAGE AMOUNTS. TERM. AND DOWN PAYMENT

Maximum Term - 30 years. Minimum Term - 15 years.

10% down payment required for single-family dwelling loans up to \$150,000.00.

20% down payment required for single-family dwelling loans over \$150,000.00.

20% down payment required for two-plex, tri-plex, and four-plex dwelling loans regardless of amount.

ADJUSTABLE INTEREST RATE

Initial interest rate is the rate of the Federal Home Loan Bank Board Series of Loans Recently Closed on Existing Homes (FHLBB) prevailing at the time the Alaska Permanent Fund Corporation makes a final commitment to purchase, plus 1/2 of 1%.

The interest rate on a conventional adjustable rate mortgage purchased by the Alaska Permanent Fund Corporation will be adjusted once each year as of March 1 or September 1, whichever is nearer the anniversary of the loan closing date, on the basis of annual change of the FHLBB Series for Loans Recently Closed on Existing Houses; however, no change may increase or decrease the interest rate by more than 2%. When the annual change in the FHLBB index would result in a change of more than 2% in the interest rate, the excess change in the index will be carried over and used as a basis for a subsequent adjustment during any year when the adjustment to that interest rate would otherwise be less than 2%.

Other Information

- ° Lenders are permitted to charge an origination fee to borrowers.
- ° The Alaska Permanent Fund Corporation will charge a 1% commitment fee for a six-month commitment.
- ° Mortgages may not be assumed by another borrower.
- ° The selection of any mortgage will be made on the basis of its individual merits and its suitability as part of the investment portfolio.
- ° No refinancing.

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PARTICIPATING LENDERS

Alaska Bank of Commerce
Alaska Continental Bank
Alaska Federal Savings & Loan
Alaska Mutual Bank
Alaska National Bank of the North
Alaska Pacific Mortgage Co.
Alaska Statebank
B. M. Behrends Bank
City Mortgage Co.
Fedalaska Federal Credit Union
First Alaska Mortgage & Escrow
First Bank
First Federal Savings & Loan
First National Bank of Anchorage
First National Bank of Fairbanks
General Electric Mortgage Co.
Home Savings & Loan
Kissell Mortgage Co.
Lomas & Nettleton Mortgage Co.
Mt. McKinley Mutual Savings Bank
National Bank of Alaska
Peninsula Savings & Loan
Peoples Bank & Trust
Security National Bank
United Bank Alaska

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Information contained in this
pamphlet is subject to change.
Consult your participating
lender.