

CSSB 8

Original sponsors: Zharoff and Eliason

1 IN THE SENATE BY THE FINANCE COMMITTEE

2 CS FOR SENATE BILL NO. 8 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the Commercial Fishing and Agri-  
7 culture Bank; and providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 \* Section 1. AS 44.81.010(a) is amended to read:

10 (a) There is established the Alaska Commercial Fishing and  
11 Agriculture Bank. The exercise by the bank of the powers conferred by  
12 this chapter is considered to be for a public purpose. [EXCEPT AS  
13 OTHERWISE PROVIDED IN THIS CHAPTER, AND EXCEPT THAT ANY FILING FEES  
14 SHALL BE WAIVED, THE BANK IS SUBJECT TO THE PROVISIONS OF AS 10.15  
15 (ALASKA COOPERATIVE CORPORATION ACT).] The bank is exempt from the  
16 provisions of AS 06.05 (Alaska Banking Code) and AS 10.15 (Alaska  
17 Cooperative Corporation Act) in the exercise of powers granted by this  
18 chapter.

19 \* Sec. 2. AS 44.81.020(a) is amended to read:

20 (a) The bank shall be managed by a board of directors consisting  
21 of seven members. Five [AT LEAST ONE MEMBER OF THE BOARD SHALL BE AN  
22 ALASKA FARMER WITH AT LEAST 10 YEARS OF ALASKAN FARM EXPERIENCE.  
23 INITIAL APPOINTMENTS TO THE BOARD SHALL BE MADE BY THE GOVERNOR. TWO  
24 OF THE INITIAL APPOINTMENTS SHALL BE MADE AT THE TIME OF THE FIRST  
25 ANNUAL MEMBERSHIP MEETING OF THE BANK. THEREAFTER, FIVE] board mem-  
26 bers shall be elected by the members of the bank, with at least one of  
27 the elected board members being an Alaska farmer [WITH AT LEAST 10  
28 YEARS OF ALASKAN FARM EXPERIENCE], and two board members shall be  
29 appointed by the governor until the repurchase of all the nonvoting,

1 preferred shares initially issued by the bank and purchased by agen-  
2 cies of the state. After repurchase is completed, all board members  
3 shall be elected by the members of the bank. The board members shall  
4 annually elect a chairman from among themselves. The purpose of the  
5 board is to manage the assets of the bank.

6 \* Sec. 3. AS 44.81.090 is amended to read:

7 Sec. 44.81.090. TERM OF OFFICE AND REMOVAL. The members of the  
8 board shall serve for terms of three years, and they may serve succes-  
9 sive terms. Terms shall be staggered. An elected member of the board  
10 who releases confidential information in violation of AS 44.81.260,  
11 commits serious ethical misconduct that relates to the member's fit-  
12 ness to serve as a member of the board, or maintains a chronically and  
13 irredeemably substandard borrowing relationship with the bank may be  
14 removed from the board by affirmative vote of a majority of the mem-  
15 bers of the board [INITIAL TERMS OF THE FIRST FIVE MEMBERS APPOINTED  
16 TO THE BOARD SHALL BE TWO MEMBERS SERVING UNTIL THE FIRST ANNUAL  
17 MEMBERSHIP MEETING OF THE BANK, TWO MEMBERS SERVING UNTIL THE SECOND  
18 ANNUAL MEMBERSHIP MEETING OF THE BANK, AND ONE MEMBER SERVING UNTIL  
19 THE THIRD ANNUAL MEMBERSHIP MEETING OF THE BANK. INITIAL TERMS OF THE  
20 TWO MEMBERS APPOINTED AT THE TIME OF THE FIRST ANNUAL MEMBERSHIP  
21 MEETING OF THE BANK SHALL BE ONE MEMBER SERVING UNTIL THE SECOND  
22 ANNUAL MEMBERSHIP MEETING OF THE BANK AND ONE MEMBER SERVING UNTIL THE  
23 THIRD ANNUAL MEMBERSHIP MEETING OF THE BANK].

24 \* Sec. 4. AS 44.81.210(a)(20) is amended to read:

25 (20) make loans to individual commercial fishermen for  
26 limited entry permits; a loan under this paragraph may be made only to  
27 an individual commercial fisherman who has been a state resident for a  
28 continuous period of two years immediately preceding the date of  
29 application for the loan [AND WHO HAS HAD A CREWMEMBER OR COMMERCIAL

1 FISHING LICENSE UNDER AS 16.05.48C OR A PERMIT UNDER AS 16.43 FOR THE  
2 YEAR IMMEDIATELY PRECEDING THE DATE OF APPLICATION AND ANY OTHER TWO  
3 OF THE PAST FIVE YEARS, AND WHO HAS ACTIVELY PARTICIPATED IN THE  
4 FISHERY DURING THAT PERIOD]; loans made under this paragraph are  
5 subject to [THE PROVISIONS OF] AS 44.81.230;

6 \* Sec. 5. AS 44.81.210(a)(22) is amended to read:

7 (22) accept the pledge of a limited entry permit as security  
8 for a loan made under this chapter [FOR THE REPAIR, RESTORATION, OR  
9 IMPROVEMENT OF A COMMERCIAL FISHING VESSEL OR COMMERCIAL FISHING GEAR,  
10 OR FOR THE CONSTRUCTION OR PURCHASE OF A COMMERCIAL FISHING VESSEL,]  
11 subject to the conditions set out in AS 44.81.230 - 44.81.250 on  
12 pledges of limited entry permits;

13 \* Sec. 6. AS 44.81 is amended by adding a new section to read:

14 Sec. 44.81.235. LIMITATIONS ON PLEDGE OF PERMITS. (a) The bank  
15 may issue a loan secured by a limited entry permit for

16 (1) purchase, repair, restoration, or improvement of a  
17 commercial fishing vessel or commercial fishing gear;

18 (2) construction of a commercial fishing vessel;

19 (3) working capital, including insurance premiums, fuel,  
20 bait, and boat storage and launching expenses; or

21 (4) purchase and improvement of set net sites and associ-  
22 ated equipment.

23 (b) A limited entry permit may be used as security for more than  
24 one loan if each loan meets the requirements of (a) of this section.

25 (c) A limited entry permit may be used as security for a loan to  
26 refinance existing debts if the proceeds of each original loan were  
27 used in accordance with (a) of this section.

28 \* Sec. 7. AS 44.81.270 is amended by adding new subsections to read:

29 (b) The bank shall be audited annually by independent outside

1        auditors. The legislative auditor may confer with the outside audi-  
2        tors and review the workpapers of the audit. At the direction of the  
3        Legislative Budget and Audit Committee under AS 24.20.271, the legis-  
4        lative auditor may conduct an audit of the bank.

5            (c) The state bank examiners shall perform an annual qualitative  
6        examination and evaluation of the bank. The commissioner of commerce  
7        and economic development shall assess the bank a fee established under  
8        AS 06.01.010(b) for the actual expenses incurred by the Department of  
9        Commerce and Economic Development in connection with the examination.  
10       The examiners shall report to the board of directors on the examina-  
11       tion. The examiners shall prepare a summary report evaluating the  
12       bank's loan portfolio quality on a statistical basis and addressing  
13       the appropriateness and effectiveness of the bank's policies, prac-  
14       tices, and management within the context of the bank's statutory  
15       purposes. The examiners shall distribute copies of the summary report  
16       to the bank, the legislature, and the governor.

17       \* Sec. 8. This Act takes effect immediately under AS 01.10.070(c).

# HOUSE COMMITTEE REPORT

Date referred: 5/1/87

FURTHER REFERRALS:

DATE: 5-14-87

The Finance Committee has considered CSSB 8(Fin)

"An Act relating to the Commercial Fishing and Agriculture Bank; and providing for an effective date."

**RECOMMENDS:**

- replace with \_\_\_\_\_  the same title
- attached amendment(s)  a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the \_\_\_\_\_ Committee

**ADOPTS:**  \_\_\_\_\_ letter of intent

**ATTACHES NEW FISCAL NOTE(S):**

- fiscal impact  same as previous fiscal note published \_\_\_\_\_
- zero fiscal note  same as previous zero fiscal note published \_\_\_\_\_
- zero with analysis

**SIGNING DO PASS:**

\_\_\_\_\_  
*Pat Fancher*  
 \_\_\_\_\_  
*Ronald D. Jann*  
 \_\_\_\_\_  
*Ch. Small*  
 \_\_\_\_\_  
*Steve Meyer*  
 \_\_\_\_\_  
*Mark*  
 \_\_\_\_\_  
*Michael*  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

**SIGNING OTHER RECOMMENDATIONS:**

\_\_\_\_\_  
*Al Adams - No Rec.*  
 \_\_\_\_\_  
*Rita Jann*  
 \_\_\_\_\_  
*Mark Boyer no rec.*  
 \_\_\_\_\_  
*Ray Wallis no rec*  
 \_\_\_\_\_  
*Jay Brown NO REC*  
 \_\_\_\_\_  
~~\_\_\_\_\_~~  
 \_\_\_\_\_  
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\_\_\_\_\_  
*Al Adams*  
 \_\_\_\_\_  
 Chairman's signature

STATE OF ALASKA 1987 LEGISLATIVE SESSION  
FISCAL NOTE

Bill Version: SSB 8 (FIN)  
Publish Date: \_\_\_\_\_

REQUEST: \_\_\_\_\_

Revision Date: \_\_\_\_\_  
Title: Relating to the Commercial  
Fishing & Agriculture Bank  
Sponsor: Zharoff & Eliason  
Requestor: Senate Labor & commerce

Agency Affected: Department of Revenue  
BRU: Treasury  
Components: \_\_\_\_\_

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
<b>OPERATING</b>						
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	-	-	-	-	-
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
<b>TOTAL OPERATING</b>	-	-	-	-	-	-
<b>CAPITAL</b>	-	-	-	-	-	-
<b>REVENUE</b>	-	-	-	-	-	-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
<b>TOTAL</b>	-	-	-	-	-	-

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS: Attach a separate page for analysis.

Prepared By: Milt Barker *MB*  
Division: Treasury  
Approved by Commissioner: *H. Mulca*  
Agency: Department of Revenue

Phone: 465-2350  
Date: January 26, 1987  
Date: 1/26/87

- Distribution (by preparer):
- Legislative Finance
  - Legislative Sponsor
  - Requestor
  - Office of Management and Budget
  - Impacted Agency(ies)
  - Senate Secretary



**SENATOR FRED F. ZHAROFF**  
**ALASKA STATE LEGISLATURE**

P.O. BOX 405, KODIAK, ALASKA 99615 (907) 486-5259

DURING SESSION:


P.O. BOX V, JUNEAU, ALASKA 99811 • (907) 485-3473 • 485-3474

DISTRICT N

ALASKA PENINSULA • ALEUTIAN CHAIN • BRISTOL BAY • KODIAK ISLAND • LAKE CLARK/LAKE ILIAMNA • PRIBILOF ISLANDS • SHUMAGIN ISLANDS

MEMORANDUM

TO: Rep. Al Adams  
Chairman  
House Finance Committee

FROM: Senator Fred F. Zharoff 

DATE: May 1, 1987

RE: CS For SB 8 (Finance) -- "An Act relating to the Commercial Fishing and Agriculture Bank; and providing for an effective date."

I respectfully request you to schedule CSSB 8 for a hearing before the House Finance Committee at your earliest convenience. The bill passed the Senate April 30 by a 14-0 vote.

CSSB 8 clarifies and makes a variety of changes in the statutes that govern the Alaska Commercial Fishing and Agriculture Bank (CFAB). In the years since CFAB's creation in 1978, a number of points have been identified in statute that, if amended, would aid CFAB in fulfilling its purpose and would more accurately reflect the actual situations CFAB confronts.

The following background information is attached:

1. Sectional Analysis.
2. Fiscal Note.
3. Letter that initiated legislation from Mr. Ed Crane, CFAB president, to Sen. Zharoff.
4. CFAB 1986 Annual Report.
5. CFAB statutes.



# SENATOR FRED F. ZHAROFF

## ALASKA STATE LEGISLATURE

P.O. BOX 405, KODIAK, ALASKA 99615 (907) 486-5259

DURING SESSION:

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### DISTRICT N

ALASKA PENINSULA • ALEUTIAN CHAIN • BRISTOL BAY • KODIAK ISLAND • LAKE CLARK/LAKE ILIAMNA • PRIBILOF ISLANDS • SHUMAGIN ISLANDS

### SECTIONAL ANALYSIS

#### CS FOR SENATE BILL NO. 8 (Finance)

"An Act relating to the Commercial Fishing and Agriculture Bank; and providing for an effective date."

#### SECTION 1

44.81.010(a): Exempts CFAB from the provisions of the Alaska Cooperative Corporation Act (AS 10.15), as the act was not written to apply to cooperative banking institutions such as CFAB. CFAB is governed by its own separate statute (Title 4, Chapter 81), but could be subject to possible amendments to AS 10.15. CFAB is already exempt from the Alaska Banking Code (AS 06.05).

#### SECTION 2

44.81.020(a): Deletes language that at least one of the Alaska farmer members of the board have "at least 10 years of Alaskan farm experience". Requirement is difficult to meet and, based on CFAB's experience, unnecessary. Deletes outdated language pertaining to board appointments.

#### SECTION 3

44.81.090: Amends statute to allow for removal of members of the board of directors who release confidential information in violation of AS 44.81.260 (Confidentiality of CFAB records), who commit "serious ethical misconduct", or who maintain "a chronically and irredeemably substandard borrowing relationship with the bank". Removal occurs upon a majority vote of the remaining members of the board. Deletes outdated language pertaining to board appointments.

#### SECTION 4

44.81.210(a)(20):

Deletes loan eligibility language duplicated from state loan program statutes so CFAB can have flexibility to make loans based mainly on applicants' credit standing, fishing experience, and ability to repay. State eligibility criteria is somewhat restrictive and can interfere with CFAB's ability to make what otherwise would be good loans.

SECTION 5

44.81.210(a)(22):

Deletes unnecessary language. The conditions regarding the acceptance of a pledge of a limited entry permit as security for a loan are spelled out in Section 6.

SECTION 6

44.81.235:

New section. Expands the purposes for which a limited entry permit may be accepted as collateral. Currently, a permit may be pledged as security on a loan to purchase a permit; on a loan for the repair, restoration, or improvement of a commercial fishing vessel or commercial fishing gear; and on a loan for the construction or purchase of a commercial fishing vessel. Language added to reorganize and expand the provisions to read: (1) "purchase, repair, restoration, or improvement of a commercial fishing vessel or commercial fishing gear;" (2) "construction of a commercial fishing vessel;" (3) "working capital, including insurance premiums, fuel, bait, and boat storage and launching expenses;" and (4) "purchase and improvement of set net sites and associated equipment". Allows a permit to be used as security for more than one loan, and to refinance existing debt on the items listed above. Allows a fisherman to use a permit for one fishery to secure funds to use in another fishery. Expands slightly the exception CFAB was granted to AS 16.43.150, which prevents anyone (except the state or CFAB) from legally seizing a permit-holder's permit. This section would allow fishermen more flexibility in their business plans. Under limited circumstances, they would have a new asset to use to leverage funds for their operations. The circumstances are limited because CFAB -- with its special statutory relationship to the fishing industry -- would still be the only private institution with the ability to accept permits as collateral.

SECTION 7

44.81.270:

Adds new subsections.

(b)

Requires an annual independent audit. Legislative auditor may confer with and review the workpapers of the independent auditor. Legislative auditor may only conduct an audit at the direction of the Legislative Budget and Audit Committee (AS 24.20.271).

(c)

Requires state bank examiners to perform "an annual qualitative examination and evaluation of the bank", for the standard fee. Outlines what the examination and evaluation shall include.

SECTION 8

Effective date.



2550 Denali Street, Suite 1201  
P.O. Box 4-2070  
Anchorage, Alaska 99509-2070  
(907) 276-2007

March 19, 1986

Senator Fred F. Zharoff  
Alaska State Legislature  
Box V (M.S. 3100)  
Juneau, Alaska 99811

Dear Senator Zharoff:

Thank you for your comments and for the constructive interest in CFAB which you expressed during the recent hearing on SB410.

It is unfortunate that such focused discussions as we had might leave an onlooker with the thoughts that Alaska is populated by only two kinds of fishermen/borrowers, either "good" or "poor"; that if a fisherman isn't one he must be the other; and that the "poors" naturally gravitate to CFAB while the "goods" have more attractive alternatives. Such is not the case. However, if a traditional financial institution with, say, \$50.0 million of loanable funds has made a risk-limiting policy decision to have no more than 10 percent of its loan portfolio invested in the Alaska commercial fishing industry, that institution can (and should) be very selective and competitive in determining which segments or which individual members of the industry it will finance. Its management's basic responsibility is to protect and enhance the interests of the stockholders and depositors rather than to serve the industry.

CFAB's only mission in life, on the other hand, is to serve that industry, along with agriculture. Accordingly, it must attempt to -- at best -- attract and accommodate a broad cross-section of the industry. Its policies and practices must be structured to exclude the lowest percentiles (in terms of creditworthiness) of the industry; conversely, they cannot be designed to allow or encourage a "skimming" off the top. All of us lapse into expressions of qualitative judgments when discussing or contrasting CFAB's activities and performance with those of other institutions. In reality, however, the "competition" is illusory because of the great divergence of objectives, purposes, and resources. As a final thought on that matter, I would argue that perhaps one of CFAB's most significant services is that rendered to the "top of the list" operators who do not borrow from it; were it not for CFAB's existence, there would be no motive for other lenders to offer attractive terms to that group.

A major thought expressed at the Resources Committee hearing was that there may well be other features of CFAB's statute which could be constructively modified, and I was invited to address the matter. That is the primary reason for this letter.

Senator Fred F. Zharoff  
March 19, 1986  
Page 2 of 8

In my view, the CFAB statute was a creative and visionary response to a worthy need. It is true that the legislature did not necessarily invent the perfect mousetrap the first time around -- there are some points which can hopefully be addressed -- but my strong personal opinion is that CFAB's basic problems have arisen in the implementation process and are not really evidence of a faulty concept. Some of the most damaging events have involved specific instances of poor judgment, flamboyance and speculative growth policies, etc. The more general and pervasive problems, though, appear to stem from a broadbased failure to recognize the genuine uniqueness of CFAB's combination of origin, structure, limitations, objectives, markets, and pressures. That charge of "failure" is not offered as condemnation of anybody. CFAB is unique -- there was no precedent, no pattern, no body of experience to call upon. There is no real reason to believe that those of us involved with CFAB today are any more insightful than our predecessors; we have the benefit and advantage of experience over five eventful years.

The existing statute does give CFAB broad authorities and powers; broader than we have ever used. The only general restriction which tends to be self-defeating is that which is being addressed in SB410. As CFAB's CEO, whose most fundamental responsibility is to work toward the stability and healthy growth of the institution itself, I would subjectively prefer a total removal of the restrictions addressed by SB410, and would justify that by the argument, "What's good for CFAB is good for the State." However, I am realistic enough to recognize that the business of CFAB must be affected by the politics of its creation and heritage, and I am quite pleased with SB410 and its promise.

Before going further with discussion of specific statute features, I would like to address other points which were raised at the hearing and also to stress that the only thing which would help CFAB to deal with its immediate problems is cash (or an interest-earning cash equivalent). I offer that as a matter of fact - not as a plea for cash. The fundamental problem is illiquidity, manifested by the imbalance between interest-bearing debt and interest-earning assets. We did make great strides during 1985 toward curing that imbalance, principally through the liquidation of non-earning assets. Over that year, CFAB reduced its interest-bearing debt by \$32.3 million, but its interest-earning assets were reduced by only \$19.5 million: Effectively, we created \$12.8 million of liquidity and/or earning ability out of the 12-31-84 non-earning assets. In addition, for 1986 we have reduced our operating budget by about \$1.0 million, which has the same effect as creating about another \$7.0 million of earning assets. We can not, and do not, project improvement at the same rate during 1986 -- "easiest" problems get solved first, and we are working our way into the hard core which is much more difficult to deal with!

Senator Fred F. Zharoff  
March 19, 1986  
Page 3 of 8

The easiest solution to the immediate problems (from CFAB's standpoint) would be for the State to invest another \$6.0 to \$8.0 million in CFAB, in return for a long-term commitment from our lender as well as that lender's subordination to the State with respect to the future proceeds from \$10.0 or \$12.0 million of non-earning assets in order to secure repayment to the State. That does not appear to be realistic, and I am not certain it would be best just because it would be easiest. On the other hand, there were concepts embodied in some of the committee discussion -- particularly in Senator Coghill's comments -- which I believe are worthy of exploration and which bear potential benefit to both the State and to CFAB. CFAB has an administrative and operational infrastructure which is presently underutilized. Also, we are continuing to build a professional credit staff which, out of necessity, is primarily oriented to difficult situations. It occurs to me, given the current and projected State budget constraints as well as the frequent (but not universal) expressions of sentiment for limiting or eliminating State-funded direct loan programs, that there may well be opportunities for CFAB to act on an agency or contract basis for the State in administering, modifying, or phasing out particular programs. While this is probably something to be addressed administratively rather than through the legislature, it seems appropriate to acknowledge it as relevant to our recent discussion.

There was also some discussion about the status of, and repayment prospects of, the State's \$31.8 million investment in CFAB. We have from time to time heard expressions from various sources that the State should consider abandoning or "writing off" that investment. My personal view is that that action would be inappropriate, for a variety of reasons:

1) CFAB needs to be held accountable for its actions, policies, and results; and ownership by the State imposes accountability. It is true that the State's stock is non-voting, while the borrower-members have the theoretical authority and ability to influence the institution through exercise of their voting rights. However, CFAB is still a new institution without a "mature" body of members; while those members have a common interest in general, the most significant interest is one which is specific to each individual; and it would be a very costly and time-consuming effort for a small group of members to work toward correction of a perceived problem -- the most effective control element for members is probably through the election of quality directors. Even though we at CFAB might chafe at the frustrations and imperfections of communicating with legislators and administrators, the practical fact is that the accountability imposed by State investment is probably the greatest possible protection for all parties involved.

2) As a citizen, I can think of no reason the state should abandon the investment. The present value may be nominal -- that was, of course, known when the investment was made -- but I'm sure the State has made hundreds

Senator Fred F. Zharoff  
March 19, 1986  
Page 4 of 8

of other capital investments of various kinds "for a public purpose" and which have limited financial value.

3) As discussed earlier, a non-cash transaction would not assist CFAB in dealing with immediate problems; there would simply be a re-classification in the equity portion of our balance sheet. On the other hand, if there should be a dramatic worsening of CFAB's immediate problems and if CFAB were forced into a bankruptcy and/or liquidation, there is every reason to believe the State would ultimately recover a significant part of its investment. The State should not forego that opportunity.

4) While the \$31.8 million does appear to be an investment of capital, it bears at least one of the elements of debt (a due date). In general, an abandonment of capital has no significant tax implications, but a forgiveness of debt creates a taxable gain. Such an action should be carefully analyzed beforehand, in order that CFAB not be confronted with a horrendous Federal tax liability!

Notwithstanding all of the foregoing, it would seem appropriate that this legislature recognize and address the realities of that investment and the prospects for retirement on the present schedule. As I mentioned the other day, we at CFAB view the obligation very soberly and recognize the clock is running. However, we are doing today what any illiquid individual or entity does; we are committing all available cash to those obligations which have the ability to put us out of business today. As a matter of fact, since the Spokane Bank for Cooperatives holds a lien on all cash proceeds (as well as on most other assets) we could not fund a repayment plan. While there may be no compelling and immediate reason to change the requirement today, we do now have the benefit of over five years of experience and can recognize that a requirement which seemed realistic in 1978 and 1979 is no longer achievable. In CFAB's view it would be more reasonable for the legislature to change the retirement date to, perhaps, July 1, 2010. An alternative might be to set the retirement "at the call of the legislature but in no event prior to July 1, 2010." It would not be unreasonable -- at least in theory -- to attach a sinking fund requirement, but that might involve some difficult negotiations with CFAB's lender depending upon how the requirement were structured.

\* \* \* \* \*

Following are the other specific points in CFAB's statute (AS 44.81) which we believe could be constructively addressed:

Sec. 44.81.010.(a) The reference to AS 10.15.005-10.15.600 (the basic cooperative statute) should be eliminated. CFAB is unique, and AS 44.81 provides a specific and comprehensive organic foundation. AS 10.15 is subject

Senator Fred F. Zharoff  
March 19, 1986  
Page 5 of 8

to change without regard for its impact on CFAB, and a basic necessity for a credit institution, especially one involved in long-term loans, is stability in every form. There was an abortive effort in 1984-85 to develop sweeping changes in AS 10.15; that effort had merit within its own context, but many of the proposed changes did not recognize the possible existence of a statewide cooperative whose relationship to members is purely financial.

Sec. 44.81.010.(b) & (c) A modified requirement for repurchase of State capital should be addressed here.

Sec. 44.81.020.(a) & (b) The requirement that at least one board member be an Alaska farmer is constructive. However, the proviso that he/she have "at least 10 years of Alaskan farm experience" (whatever that means!) creates a situation which is probably not in the best interests of members. Since each elected director must also be a current or recent CFAB borrower, it appears there are less than five individuals in the entire state eligible for this position. Other directors don't need to be 10-year fishermen, etc., and a second farmer director does not need to meet the 10-year requirement. Why limit the members' choice of directors in this way?

Also, there should be a provision for removal of an elected director as a result of a unanimous finding by the remaining directors of a "serious conflict of interest or a chronically and irremedially substandard borrowing relationship." We have received a legal opinion, based on the existing statute, to the effect that only the members of CFAB can remove or recall an elected director -- however, since the statute elsewhere prohibits disclosure to members (or anyone else) of information regarding a borrower (including directors), a Catch-22 situation exists.

Finally, this section should also make clear that the five elected directors are accountable as individuals to the members only. They should not be subject to the same requirements, standards, etc., as are the gubernatorial appointees. Each director candidate must literally "campaign" for election, and the members have ample opportunity to apply whatever standards they choose.

Secs. 44.81.200, 44.81.260.(b)(1), 44.81.270, & 44.81.280 Section 44.81.200, by implication, requires CFAB to have an annual financial audit by independent outside auditors. That may be sufficient, but it would not hurt for that requirement to be specific. To avoid costly redundancy while retaining opportunity for legislative oversight, it would be well to provide that the Legislative Audit Division is authorized to confer with, and to review the audit workpapers of, CFAB's outside auditors and could make its own audit only after a recommendation to, and direction by, the Budget and Audit Committee.

A far more important and necessary provision, from our viewpoint, would be for an annual qualitative examination and evaluation by the State's

Senator Fred F. Zharoff  
March 19, 1986  
Page 6 of 8

bank examiners. CFAB's directors and management are greatly desirous of the discipline imposed by an independent and professional examination. More important, and because CFAB's loan portfolio comprises about 84 percent of its total assets, the State should be vitally interested in a periodic qualitative evaluation. We urge that such an examination be statutorily directed, and that the examiners be required to provide both the legislature and the governor (as well as CFAB's board) with a summary report which expresses loan portfolio quality on a statistical basis and which also addressed the appropriateness and effectiveness of the institution's policies, practices, and management within the context of its statutory purpose.

Secs. 44.81.21C.(a)(20) & (22) These paragraphs deal with the bases and circumstances under which CFAB may accept the pledge of a limited entry permit as security for a loan. We recognize the matter of limited entry permits in general is subject to diverse political and emotional overtones; CFAB's subjective view, however, relates strictly to the business asset aspects of permits. It is also premised on the concept that a viable loan is one which is structured to meet the reasonable business needs of both lender and borrower and which preserves the relative risk positions of owner and creditor. An all-too-common perception among non-credit people is that lending is some kind of game of wits which creates either "bank wins/borrower loses" or "bank loses/borrower wins" situations!

Paragraph (20) sets forth requirements which are identical to those of the Commercial Fishing Loan Act administered by the State itself. We have no particular concern with the two-year residency requirement expressed in (20) but, since CFAB was created to serve a broader group than the State's own program, we do not understand why CFAB should be limited to the other requirements in (20) -- they are essentially eligibility requirements, and may or may not have any relevance to objective credit standards a lender might apply. Within the context of "service to Alaska fishermen," an entry permit will only be sold by a limited entry permit holder who is presumably motivated to sell. If CFAB can finance a qualified buyer, which party is getting the benefit of CFAB's existence?

Paragraph (22) is much more difficult for CFAB as a lender. We have been advised frequently by counsel that a restrictive provision such as this will always be construed strictly, rather than liberally, by the courts; consequently, we flatly avoid making loans that we would otherwise be willing to make. Again notwithstanding the complex and controversial history of the limited entry program itself, we do not understand why this asset which is a critical and integral element of any fisherman's operation should have such unique status. The restrictions do not necessarily work to a fisherman's advantage. Consider the hypothetical case of an individual who has managed to accumulate \$50,000 in cash but has no other significant resources; he has arranged to lease a vessel and gear if he can buy a \$50,000 permit and have

Senator Fred F. Zharoff

March 19, 1986

Page 7 of 8

\$35,000 of working capital. If he buys the permit for cash and comes to CFAB for a \$35,000 working capital loan, he probably won't get it. On the other hand, if he has presence of mind enough to come to CFAB first, we might very likely finance \$35,000 of the permit purchase (and on a term basis, rather than on a seasonal working capital basis) and let him use his own funds for working capital. Same individual; all other credit factors the same; but, obviously, paragraph (22) affects his ability to fish.

We are told that a major rationale for the sacrosanctity of limited entry permits is that, "foreclosure of a permit takes away the borrower's ability to fish." We would agree with that. We would hasten to add, however, that no responsible lender -- including CFAB -- lends money in anticipation of acquiring the security pledged. There are many, often misunderstood, reasons for requiring collateral to a loan. In the final analysis, it is a stop-loss feature and/or one which permits a degree of leverage. The courts do not permit a lender to acquire collateral without an often costly and time-consuming showing of clear proof that the borrower cannot and/or will not conform to the loan contract to which he agreed. If a borrower is unwilling to risk his/her legal ability to fish in order to have the financial ability to fish, why should CFAB put other people's money (including the State's) at risk?

As a final example of the impact of paragraph (22), we would cite "gear" loans, for which there is frequent demand. Gear is almost valueless for collateral purposes. An applicant for a gear loan is held by CFAB to essentially the same standards as are applied to an unsecured borrower -- this means very few applicants can qualify. Effectively, CFAB is denying credit to a large body of applicants because an unidentifiable, but small, number of them will not perform. If, however, those applicants could put their permits at risk to secure a gear loan, many more gear loans could be made -- and we expect borrowers would take a much more serious approach to servicing those loans!

We believe paragraph (22) should be rewritten to provide:

(1) Loans made should be restricted to enabling the fisherman to better compete in the fishery for which he holds the pledged permit. In other words, a loan to purchase a drag boat should not be secured by a salmon permit; and,

(2) The authorized loan purpose should be expanded to include:

(a) purchase of fishing gear.

Senator Fred F. Zharoff

March 19, 1986

Page 8 of 8

(b) working capital, including insurance premiums, fuel, bait, boat storage and launching expenses.

(c) purchase and improvement of set net sites and associated equipment.

(3) A provision should be added allowing CFAB to take a permit pledge on more than one loan, provided each loan purpose is authorized for such a pledge.

(4) Refinance of existing debt or debts provided the original loan purpose(s) authorized a permit pledge.

\* \* \* \* \*

Again, we appreciate the constructive interest expressed by you and your colleagues on March 12. All of us at CFAB -- Directors, management, and staff -- are very much aware of the general and specific obligations CFAB holds toward the State, the public at large, and its mandated constituency. We regret the difficult circumstances of the recent past, and we are committed to restoring CFAB to a position of genuine service to Alaska and its citizens.

Sincerely,



Edward E. Crane  
President

EEC:1077V

## Executive Message

As we review the developments and results of CFAB's 1986 operations, and prepare to discuss them with members, we are reminded of the question, "Is the glass half-empty or is it half-full?"

For CFAB, the question must be, "Was 1986 a partial success or was it a partial failure?" Many objectives were attained or exceeded in 1986, and there is no doubt that by any conventional measurement CFAB is financially stronger today than a year ago. However, some goals were not met, and the effort to provide financing and services to members at a currently reasonable cost remains a difficult challenge. In these next few pages, we will share with you the major events and developments of the past year.

***"The Board of Directors has concluded to return 40 percent of the 1986 margins to its 1986 patrons in the form of a cash patronage refund."***

A particular point of satisfaction is the 1986 net operating results — a margin of \$535,780. While that is not a large amount, it compares favorably with the disastrous 1984 loss of \$10.0 million and the modest \$114,000 margin of 1985. Because CFAB is a cooperative and its net margins are applied to the benefit of the borrower-owners whose patronage produces those margins, we do not operate CFAB toward an objective of large net margins; nevertheless, it is critical that policies established and implemented throughout the entire year be directed toward assuring that there be some net margin, however modest, remaining at December 31.

Consistent with the foregoing and with CFAB's Bylaws, the Board of Directors has concluded to return 40 percent of the 1986 margins to its 1986 patrons in the form of a cash patronage refund. Checks totaling \$214,312 and equal to about 3-1/2 percent of the 1986 interest paid will be mailed to affected borrower-owners by April 1, 1987. The remainder of the 1986 margins has been applied to reduce the unallocated and undistributed patronage loss remaining from 1984 operations.

***"Actual operating expenses totaled \$1,931,000, the lowest of any of the six full years of operations."***

It is not possible to identify single and specific events or circumstances which created the 1986 margin; it is the result of many interrelated developments. However, it is possible and rational to identify many factors without which the margin would not have been achieved. One such factor is CFAB's operating expenses, or "overhead." A year ago we reported that those expenses for 1985 had been reduced by nearly \$400,000 from CFAB's four-year average of \$3.2 million, and said that for 1986, "...we are striving for a further reduction of \$500,000 to \$600,000..." Our objective was \$2.2 to \$2.3 million — actual operating expenses totaled \$1,931,000, the lowest of any of the six full years of operations. While the Board of Directors and management of CFAB provide basic direction and leadership in pursuit of such objectives, they cannot be achieved or exceeded without the constant and committed efforts of every CFAB staff member. We applaud the performance of CFAB's employees; they are worthy of high regard by all borrower-owners.

***"There is no more pervasive and negative influence on CFAB and on the demands it must make of its performing, interest-paying, borrowers than the level of non-performing loans."***

A major 1986 disappointment was CFAB's inability to significantly reduce the dollar level of non-earning loans. (A non-earning loan is one on which a contractual payment is delinquent by 90 days or more and/or which CFAB's management has reason to believe represents a continuing and serious problem.) Non-earning loans totaled \$15,653,345 at December 31, 1985, and \$17,323,385 a year later. The relative closeness of those numbers suggests inactivity and is somewhat misleading. The actual changes which occurred are better illustrated by the following reconciliation:

\$15,653,345	Non-earning loans at December 31, 1985
6,909,039	Balances which became non-earning during 1986
(594,663)	Balances charged off during 1986
(4,644,336)	Balances collected or restructured during 1986
<u>\$17,323,385</u>	Non-earning loans at December 31, 1986

There is no more pervasive and negative influence on CFAB and on the demands it must make of its performing, interest-paying, borrowers than the level of non-performing loans. That aggregate balance effectively represents funds which CFAB has borrowed and on which it must pay monthly interest in cash — since CFAB's only source of cash income is interest on performing loans, there is no alternative but to maintain interest rates at a level which is perceived by many borrowers as excessive. Whether or not that perception is realistic, it is a cause for many difficult discussions between CFAB and its members.

***"The single greatest concern of CFAB's borrower-owners is its interest requirement."***

We characterize those discussions as "difficult" because, first, we understand and are totally sympathetic to members' points of view. On the other hand, we are unable to offer a response other than to say that CFAB is totally committed to correcting the problems which impose the current burdens on its operations. There are no external sources of relief to which CFAB can turn, or which it can share with its members. Rehabilitation of CFAB can only be achieved through the liquidation or restructuring of its non-earning assets. While that purpose receives constant attention, a frustrating reality is that, in general, results cannot be obtained through CFAB's efforts alone: other parties or processes hold a great deal of control. The \$17.3 million of non-performing balances involves a total of 67 loans, but over \$13.1 million of it is in 23 loans to only ten individual borrowers! In most of the cases, the borrowers are currently under the protection of a Bankruptcy Court or are otherwise embroiled in complex litigation. CFAB's attention to these accounts is both necessary and costly; but that attention by itself cannot force the resolution of the matters involved.

This aspect of CFAB's circumstances is addressed at some length because it is clear that the single greatest concern of CFAB's borrower-owners is its interest requirement. That interest requirement is directly related to the amount and status of non-earning loans. For example, if only half of the \$13.1 million in the 23 loans mentioned above were restored to an earning status, CFAB's interest requirement on an annualized basis could be translated into an overall rate reduction of as much as 2-1/2 percent! There is no mystery or complexity involved; and there is no other response we can offer to borrower-owners' concerns.

***"At December 31, 1986, CFAB's investment in SBC totaled nearly \$5.4 million dollars."***

Another serious and unforeseen threat to CFAB's recovery efforts appeared during 1986, related to circumstances far from Alaska and not at all associated with CFAB's own markets. It relates to the trends and developments in U.S. agriculture generally and, in particular, within the Federal Farm Credit System which has provided credit to agriculture for 70 years. CFAB was established and structured specifically to seek its financing from that System. Since 1980, CFAB has obtained a major part of its loanable funds through borrowings from the Spokane Bank for Cooperatives (SBC), one of 37 banks of the System. SBC is itself a cooperative, and CFAB has been required to invest capital in SBC in the same manner as borrowing members invest in CFAB.

At December 31, 1986, CFAB's investment in SBC totaled nearly \$5.4 million dollars. Under the circumstances which have prevailed in the past, CFAB would expect that amount to be returned to it in cash in the years subsequent to 1988. However, the dramatic and rapid deterioration of the Farm Credit System as a whole during 1984 to 1986, coupled with the effects of legislation passed by the U.S. Congress in December 1985, suggests that the liquidity of the Spokane Bank for Cooperatives has been or soon will be drastically affected. This will not only affect SBC's ability to retire capital as in the past, but will also tend to force it to maintain interest rates — and therefore CFAB's costs — at a relatively high level.

***"...The first investment of true equity by members."***

1986 also brought more satisfying and promising developments to discuss with members. Effective January 1, 1986, CFAB's revised Class B Preferred Stock program was established and has been well received. Borrower-owners actually purchased \$342,500 of Class B Preferred Stock during 1986. That is perhaps a modest amount in total, but it is the first investment of true equity by members; and the amount will increase substantially as CFAB grows over the next few years.

Another new program for 1986 which has proven especially useful and attractive is that which involves a modified level payment plan for term loans. In the past, repayment of term loans was usually structured to involve equal annual increments of principal plus an interest payment. It was difficult for the borrower to project an annual payment amount more than a year ahead, and it also resulted in the highest payments required in the earliest years of what was often a new venture. Under the modified level payment plan, payments are fixed in three-year increments throughout the life of the loan. The resulting ease of budgeting for the borrower has made this program even more successful than was contemplated at its introduction.

CFAB also in 1986 introduced and refined a differential interest rate program. This program incorporates a careful and objective analysis of each individual applicant's creditworthiness within the context of his specific loan request. Every applicant is evaluated against identical standards; to the extent that an applicant's history and circumstances clearly represent a better-than-average credit risk, he is offered an interest rate somewhat lower than CFAB's normal rate. This program is available to, and has been applied to, existing loan accounts as well as to new applicants.

Effective June 1, 1986, CFAB's base interest rate — and therefore the interest rate on most CFAB loans — was reduced by 1/2 percent. Coupled with the cash patronage refund mentioned earlier, 1986 patrons' net costs of borrowing were reduced in a meaningful way from those of 1985.

***"The 1987 Annual Meeting will be held in three sessions, also, in October — at Sitka, Anchorage, and Kodiak. We urge your attendance!"***

CFAB's 1986 Annual Meeting was held in three sessions — one each in Ketchikan, Anchorage, and Cordova. The basic purpose of that format was to permit and encour-

age attendance by a broader range of members than is possible with a single meeting date and location. The meeting sessions themselves were relatively informal and the members in attendance were able to participate with constructive and challenging questions and observations to the Board of Directors and CFAB's management. Although it was clear that many members (relative to CFAB's total membership) are not yet inclined to take advantage of this unique opportunity to exercise the rights and privileges of their ownership of CFAB, we were encouraged by the participation. The 1987 Annual Meeting will be held in three sessions, also, in October — at Sitka, Anchorage, and Kodiak. We urge your attendance!

One of the important items of business transacted in the 1986 Annual Meeting was the adoption of amendments to CFAB's Articles of Incorporation. The most significant part of that was a re-expression of the powers and authorities of CFAB. The original language of that section was essentially a repetition of the provisions of CFAB's statute (AS44.81); this created, or had the potential for creating, inconsistencies if and as that statute is amended. The revised language now provides for CFAB to engage in essentially "whatever businesses and activities the law permits."

***"In terms of numbers, there was also a significant change to CFAB's Board of Directors in 1986."***

In terms of numbers, there was also a significant change to CFAB's Board of Directors in 1986. In February, Governor Sheffield appointed Anchorage businessman Henry Kim to fill the longstanding vacancy in one of the two appointed seats. In April, the Governor also appointed Gil Gunderson of Juneau to replace Bob Waldrop of Ketchikan, whose term had expired. Also in April, Founding Director and former Chairperson Roseleen Moore of Homer resigned from her elected seat. The Board appointed Mr. Waldrop to serve in Mrs. Moore's position until the Annual Meeting. Due to coincidental circumstances, all five of the elected Director positions were subject to contest at the 1986 Annual Meeting. Director Tommy Thompson, Sitka, and Founding Director

Dale Pihlman of Ketchikan had declined nomination for re-election to their seats. At the Annual Meeting, Mr. Waldrop and Harvey Samuelsen, Dillingham, were elected to three-year terms; Dean Paddock of Juneau and Paul Huppert, Palmer, were elected to two-year terms; and Alan Otness of Petersburg was elected to a one-year term. The stature and total number of candidates were gratifying. The net effect is the loss to members of the experience and commitment of Mrs. Moore, Mr. Pihlman, and Mr. Thompson, with the gain of the dedication and new perspectives of Messrs. Kim, Gunderson, Paddock, and Otness. In its own annual organizational process, the Board elected Mr. Gunderson Secretary-Treasurer of CFAB, Mr. Waldrop to the position of Vice Chairman, and Mr. Huppert to once again serve as Chairman.

*"One of its critical needs is for...the philosophies and attitudes of 'owners of a business'..."*

CFAB is a cooperative. Its owners are its customers, and only its customers can become owners. That structure lends itself to pronouncements and philosophical expressions which are often dismissed as trite. Moreover, because CFAB is a credit cooperative, its relationship with each customer is pervasive, highly subjective, and precise — measured to the last penny! The rights, privileges, and responsibilities of ownership are much more difficult to define and to pursue. There are no immediate and measurable benefits or other results to the exercise of ownership rights. Nevertheless, unless there is a viable and active ownership base in place able and willing to express its directions and expectations to CFAB's Board of Direc-

tors and management with regard to the total operations of the institution, the only guidance available to us is the language of a statute written nine years ago.

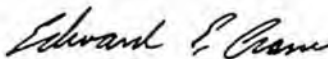
CFAB is in a period of change and of accommodating the realities which have become apparent during its brief life: a period of recovering from adversity while attempting to generate from within the resources to build for the future. One of its critical needs is for a body of members with the philosophies and attitudes of "owners of a business" rather than of "customers with a vote." Again, we urge you to participate in the election of a director later in 1987, to attend an Annual Meeting session in Sitka, Anchorage, or Kodiak, and to seek and take advantage of opportunities to communicate with your directors and management about CFAB as a business. Whether or not you are personally acquainted with one or more of CFAB's Directors, please do not hesitate to contact any of them to discuss your concerns, questions, or observations about CFAB.

Paul A. Huppert



Chairman, Board of Directors

Edward E. Crane



President

## 1986 Loan Activity & Economic Impact

CFAB's only significant business activity is the extension and administration of loans to Alaska's fishing, farming, and timber industries. Each of CFAB's resources is committed to support that primary activity.

Over the past two years, the liquidation, restructuring, or other resolution of non-performing loans have absorbed a great deal of CFAB energy. Also, the very existence of such loans has created and imposed unusual requirements on performing borrowers. Those requirements have in turn resulted in the loss of loan accounts and opportunities in those instances in which the borrowers or applicants have alternative financing available. Those circumstances are discussed more comprehensively in the Executive Message of this Annual Report. The principal effect has been a sharp decline in CFAB's gross loan volume from \$94.8 million at December 31, 1984, to \$65.9 million a year later, and to \$44.4 million at the end of 1986.

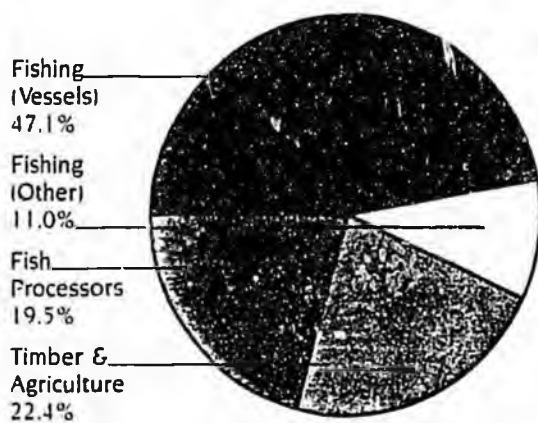
That net reduction is only part of the story, however. CFAB's new loan actions continued in 1986 at a pace much like that of 1985. There were 105 new loans made, totaling \$11,508,000. Of that amount, \$7,825,000 was "new" money, with the remainder being refinancing of loan balances already outstanding on CFAB's books. Slightly less than half, or 46, of the new loans were to new CFAB members; the other 59 new loans were to borrowers who already were, or had been, active CFAB members.

The graphics below show the relative composition of CFAB's loan portfolio at the two most recent year-ends. It continues to be clear that CFAB is an important source of

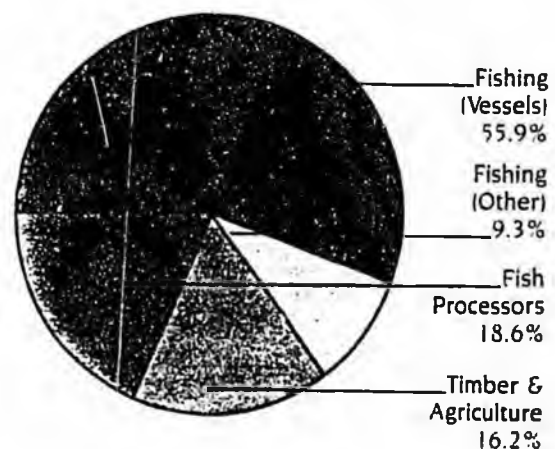
vessel financing for Alaska fishermen. There is also a noticeable increase in demand for the financing of Limited Entry Permit purchases, particularly for diversification into new fisheries. CFAB is the only private institution which has the legal authority to make such a loan and to accept the permit itself as security. Unfortunately, certain restrictions expressed in CFAB's statute and not related to credit considerations have severely limited the range of commercial fishermen to whom CFAB may make such loans.

As discussed in the 1985 Annual Report, CFAB cannot assert that its lending activities have broad effects on the industries it is mandated to serve. The effects tend to be localized and, more specifically, focused on individual borrowers. The most generalized implications of CFAB's presence and ability to offer financing are felt by all fishermen as a result of the competitive pressures imposed on alternative loan sources.

The charts below are somewhat distorted by the consolidation of "Timber & Agriculture" for the sake of simplicity. CFAB has had no new farm loan activity for the past two years. This appears to be the result of two primary factors: (a) The State's own agricultural loan program which offers subsidized financing, particularly for developmental activities; and (b) the relatively strong and stable circumstances of long-established farm operators, whose needs for short-term production financing are also served by the State's programs. The State's posture and capacities appear to be changing, and it seems possible that 1987 will present new agricultural financing opportunities and requirements for CFAB.



1985



1986

*Report Of Independent Accountants*

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Board of Directors  
Alaska Commercial Fishing and  
Agriculture Bank  
Anchorage, Alaska

We have examined the balance sheets of Alaska Commercial Fishing and Agriculture Bank as of December 31, 1986 and 1985, and the related statements of earnings, changes in capital and allocated/unallocated undistributed patronage earnings (loss), and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Alaska Commercial Fishing and Agriculture Bank as of December 31, 1986 and 1985, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

*Touche Ross & Co.*

Certified Public Accountants  
January 23, 1987  
(March 2, 1987 as to Note I)

**Balance Sheets**

	December 31,	
	1986	1985
<b>Assets</b>		
Cash .....	\$ 147,410	\$ 106,773
Temporary investments .....	4,150,000	3,200,000
Loans and other receivables, net of allowance for loan losses of \$3,291,026 and \$3,441,130 .....	41,130,799	62,495,806
Accrued interest receivable:		
Temporary investments .....	4,700	44,144
Loans and other receivables .....	1,302,252	2,071,202
	<u>1,306,952</u>	<u>2,115,346</u>
Investment in Spokane Bank for Cooperatives .....	5,390,548	5,252,423
Bank premises, furniture and equipment, net .....	351,874	471,503
Acquired assets held for sale .....	83,007	1,606,164
Other assets .....	28,997	90,563
	<u>\$52,589,587</u>	<u>\$75,338,578</u>
<b>Liabilities</b>		
Accounts payable and accrued expenses .....	\$ 191,979	\$ 308,016
Accrued interest payable .....	233,634	416,780
Class B preferred stock subscriptions .....	60,163	
Notes payable .....	25,002,539	48,268,294
	<u>25,488,315</u>	<u>48,993,090</u>
Commitments and Contingent Liabilities (Note H)		
<b>Capital and Patronage Earnings:</b>		
<b>Share capital—</b>		
Class C special preferred stock, \$10,000 par value, authorized 4,000 shares, outstanding 3,180 shares .....	31,800,000	31,800,000
Class B preferred stock, \$100 par value, authorized 400,000 shares, outstanding 40,410 and 65,845 shares .....	6,041,000	6,584,500
Loans receivable on Class B preferred stock .....	(3,698,500)	(6,584,500)
Class A membership stock, \$10 par value, authorized 10,000 shares, outstanding 975 and 931 shares .....	9,750	9,310
	<u>32,152,250</u>	<u>31,809,310</u>
C Stock retirement pool .....	184,930	92,152
Capital in excess of par value .....	86,940	82,980
Contributed capital .....	144,626	144,626
	<u>32,568,746</u>	<u>32,129,068</u>
Allocated undistributed patronage earnings .....	825,691	1,045,365
Unallocated undistributed patronage earnings .....	535,780	
Unallocated undistributed patronage loss .....	(6,828,945)	(6,828,945)
	<u>27,101,272</u>	<u>26,345,488</u>
	<u>\$52,589,587</u>	<u>\$75,338,578</u>

See notes to financial statements

**Statements of Earnings**

	Year Ended December 31,	
	1986	1985
<b>Interest Income:</b>		
Interest on loans and other receivables . . . . .	\$ 6,119,445	\$10,141,090
Interest on temporary investments . . . . .	165,143	362,767
	<u>6,284,588</u>	<u>10,503,857</u>
Interest expense . . . . .	3,765,900	6,267,003
Loss on assets held for sale . . . . .	1,347	91,127
Provision for loan losses . . . . .	50,470	1,234,930
	<u>3,817,717</u>	<u>7,593,060</u>
	<u>2,466,871</u>	<u>2,910,797</u>
<b>Other Expenses:</b>		
Salaries and benefits . . . . .	1,184,760	1,705,780
Occupancy expense . . . . .	203,379	252,300
Depreciation and amortization . . . . .	131,789	160,279
Professional fees . . . . .	110,181	150,191
Advertising and promotion . . . . .	67,861	79,922
Travel, lodging and meals . . . . .	66,219	136,675
Office operations . . . . .	62,722	126,717
Telephone and postage . . . . .	40,484	87,238
Miscellaneous . . . . .	36,522	50,554
Directors' fees . . . . .	27,174	46,954
	<u>1,931,091</u>	<u>2,796,610</u>
Unallocated undistributed patronage earnings before income tax expense and extraordinary credit . . . . .	535,780	114,187
Income tax expense . . . . .	<u>226,300</u>	<u>32,200</u>
Unallocated undistributed patronage earnings before extraordinary credit . . . . .	309,480	81,987
Extraordinary credit - utilization of net operating loss carryforward . . . . .	<u>226,300</u>	<u>32,200</u>
Unallocated undistributed patronage earnings . . . . .	<u>\$ 535,780</u>	<u>\$ 114,187</u>

See notes to financial statements

**Statements of Changes in Capital and Allocated / Unallocated Undistributed****Patronage Earnings (Loss)**

	<u>Share Capital</u>	<u>C Stock Retirement Pool</u>	<u>Capital In Excess Of Par Value</u>
Balance, January 1, 1985 .....	\$31,808.880	\$ 10,260	\$79.110
Issuance (redemption) of stock during the year:			
Class B preferred stock, 29,332 shares, net .....	(2,933.200)		
Class A stock, 43 shares .....	430		3.870
C stock retirement pool:			
Class B preferred stock assessments .....		171,398	
Assessments receivable .....		(89,506)	
Reduction in loan receivable on Class B preferred stock redemption .....	2,933.200		
Loan principal charged against allocated undistributed patronage earnings .....			
Unallocated undistributed patronage earnings .....			
Allocation to unallocated undistributed patronage loss .....			
Balance, December 31, 1985 .....	<u>31,809.310</u>	<u>92.152</u>	<u>82.980</u>
Issuance (redemption) of stock during the year:			
Class B preferred stock, 25,435 shares, net .....	(2,543.500)		
Class A stock, 44 shares .....	440		3.960
Reduction in loans receivable on Class B preferred stock redemption .....	2,886.000		
C stock retirement pool:			
Class B preferred stock assessments .....		70,966	
Assessments receivable .....		21,812	
Loan principal charged against allocated undistributed patronage earnings .....			
Unallocated undistributed patronage earnings .....			
Balance, December 31, 1986 .....	<u><u>\$32,152,250</u></u>	<u><u>\$184,930</u></u>	<u><u>\$86,940</u></u>

See notes to financial statements

<u>Contributed Capital</u>	<u>Allocated Undistributed Patronage Earnings</u>	<u>Unallocated Undistributed Patronage Earnings</u>	<u>Unallocated Undistributed Patronage Loss</u>	<u>Total</u>
\$144,626	\$4,514,237	\$ —	\$ (9,977,776)	\$26,579,337
				(2,933,200)
				4,300
				171,398
				(89,506)
				2,933,200
	(434,228)			(434,228)
		114,187		114,187
	(3,034,644)	(114,187)	3,148,831	
<u>144,626</u>	<u>1,045,365</u>		<u>(6,828,945)</u>	<u>26,345,488</u>
				(2,543,500)
				4,400
				2,886,000
				70,966
				21,812
	(219,674)			(219,674)
		535,780		535,780
<u>\$144,626</u>	<u>\$ 825,691</u>	<u>\$535,780</u>	<u>\$ (6,828,945)</u>	<u>\$27,101,272</u>

**Statements of Changes in Financial Position**

	Year Ended December 31,	
	1986	1985
<b>Source of Funds:</b>		
From Operations		
Unallocated undistributed patronage earnings . . . . .	\$ 535,780	\$ 114,187
Items not requiring the use of funds:		
Depreciation and amortization . . . . .	131,789	160,279
Provision for loan loss . . . . .	50,470	1,234,930
Loss (gain) on sale of assets . . . . .	683	(839)
Funds provided from operations . . . . .	<u>718,722</u>	<u>1,508,557</u>
Net proceeds from sale of assets . . . . .	2,032	20,924
Net proceeds from stock issuance . . . . .	4,400	4,300
Decrease in cash . . . . .		16,558
Decrease in temporary investments . . . . .		5,627,865
Decrease in acquired assets held for sale . . . . .	1,523,157	755,141
Decrease in loans . . . . .	21,515,111	28,869,727
Decrease in other assets . . . . .	61,566	411,485
Decrease in accrued interest receivable . . . . .	808,394	1,089,589
Increase in stock subscription payable . . . . .	60,163	
Increase in Class B preferred stock assessments, net . . . . .	92,778	81,892
Increase in Class B preferred stock . . . . .	342,500	
	<u>\$25,128,823</u>	<u>\$38,386,038</u>
<b>Use of Funds:</b>		
Loans charged off, net of recoveries . . . . .	\$ 200,574	\$ 3,111,420
Loan principal charged against allocated undistributed patronage earnings . . . . .	219,674	434,228
Increase in cash . . . . .	40,637	
Increase in temporary investments . . . . .	950,000	
Increase in investment in Spokane Bank for Cooperatives . . . . .	138,125	513,689
Increase in bank premises, furniture and equipment . . . . .	14,874	3,637
Decrease in accounts payable and accrued expenses . . . . .	116,038	64,000
Decrease in accrued interest payable . . . . .	183,146	1,953,073
Decrease in notes payable . . . . .	23,265,755	32,305,991
	<u>\$25,128,823</u>	<u>\$38,386,038</u>

See notes to financial statements

**Notes to Financial Statements****Years Ended December 31, 1986 and 1985****Note A — Summary of Significant Accounting Policies:**

*Operations:* The Alaska Commercial Fishing and Agriculture Bank (CFAB) was incorporated on May 4, 1979 to promote growth of Alaska agriculture and fishing by providing debt financing to resident-owned businesses engaged in harvesting, processing or marketing, and to promote its own growth as a strong user-oriented institution through cooperative ownership and self-governance.

CFAB is a cooperative corporation and intends to re-fund any allocated undistributed patronage earnings at such time as the Board of Directors finds that the financial condition of CFAB will so permit.

*Interest on loans:* The accrual of income on loans is discontinued when interest or principal is contractually past due more than 90 days.

*Patronage dividends:* Patronage dividends received from Spokane Bank for Cooperatives (SBC), of which CFAB is a member, reduce interest expense to SBC in the year declared.

*Allowance for loan losses:* The allowance for loan losses is based upon specific identification of uncollectible loans and a general reserve for those loans not specifically identified.

*Acquired assets held for sale:* Acquired assets held for sale include those assets acquired through foreclosure. These assets are carried at the lower of fair market value or the recorded investment in the related loan. Holding costs are expensed when incurred unless such costs increase the fair market value of the asset.

*Bank premises, furniture and equipment:* Bank premises, furniture and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are charged to operations by use of the straight-line method over estimated useful lives of three to ten years. Expenditures for maintenance and repairs are charged to operating expense as incurred. Expenditures for renewals or improvements which extend the life of an asset are capitalized at cost and depreciated as stated above. Upon sale, retirement or other dispositions of

property, the cost and accumulated depreciation are removed from the respective accounts and the resulting gain or loss recorded.

*Income taxes:* Amounts provided for income tax expense are based on earnings reported for financial statement purposes, rather than on the taxable income shown on the corporate income tax return. These amounts may differ because certain items are recorded as income or expense in different years for financial statement and tax return purposes.

**Note B — Loans:**

CFAB's loan portfolio by major category is as follows:

	<u>December 31,</u>	
	1986	1985
Vessels . . . . .	\$25,623,250	\$34,135,387
Fish processors . . . . .	8,702,504	14,172,810
Agriculture and timber . . . .	7,596,991	16,221,453
Gear, entry permits, and other . . . . .	4,371,442	7,697,386
Other receivables . . . . .	1,826,138	294,400
	<u>48,120,325</u>	<u>72,521,436</u>
Less loans receivable on Class B preferred stock .	<u>(3,698,500)</u>	<u>(6,584,500)</u>
	44,421,825	65,936,936
Less allowance for loan losses . . . . .	<u>(3,291,026)</u>	<u>(3,441,130)</u>
	<u>\$41,130,799</u>	<u>\$62,495,806</u>

The loan portfolio includes loans which have been classified as nonaccrual. Nonaccrual loans by major category are as follows:

	<u>December 31,</u>	
	1986	1985
Fish processors . . . . .	\$ 4,441,655	\$ 5,246,914
Vessels . . . . .	3,025,085	4,480,381
Agriculture and timber . . . .	7,569,743	3,740,558
Gear, entry permits and other . . . . .	2,286,902	2,185,492
	<u>\$17,323,385</u>	<u>\$15,653,345</u>

**Notes to Financial Statements** *continued*

Activity in the allowance for loan losses is as follows:

	<u>December 31,</u>	
	1986	1985
Balance at beginning		
of year . . . . .	\$ 3,441,130	\$ 5,317,621
Charged to expense . . . . .	50,470	1,234,929
Recoveries on loans		
previously charged off . .	<u>688,266</u>	<u>374,889</u>
	4,179,866	6,927,439
Loans charged off . . . . .	<u>(888,840)</u>	<u>(3,486,309)</u>
Balance at end of year . . . .	<u>\$ 3,291,026</u>	<u>\$ 3,441,130</u>

CFAB serves the financial needs of the commercial fishing and agricultural industries in the State of Alaska. These industries are subject to seasonal and cyclical fluctuations which could affect the borrowers' ability to repay loans on a timely basis.

*Loans to directors:* To qualify for election to the CFAB Board of Directors, an individual must be a borrowing member. Loans to members who serve on the Board of Directors must be approved by the SBC. Total loans to these members were \$141,247 and \$1,613,378 in 1986 and 1985, respectively.

**Note E — Notes Payable:**

Notes payable consisted of the following:

	<u>December 31,</u>	
	1986	1985
Spokane Bank for Cooperatives (SBC) long-term notes with interest rates ranging from 10.544% to 11.75% maturing at various dates to January, 1993 . . . . .	\$25,000,000	\$28,000,000
SBC short-term notes and seasonal loan with interest rates ranging from 8.7% to 10.25% maturing at various dates in 1986 . . . . .		20,220,081
Other notes payable and capitalized equipment leases with various interest rates and maturity dates . . . . .	<u>2,539</u>	<u>48,213</u>
	<u>\$25,002,539</u>	<u>\$48,268,294</u>

The loans are secured by substantially all CFAB assets

**Note C — Temporary Investments:**

Temporary investments consisted of \$4,150,000 of Farm Credit Bonds maturing at various dates in 1987, with interest rates ranging from 5.99% to 8.50% and certificates of deposit of \$3,200,000 with interest rates ranging from 8.45% to 8.52% at December 31, 1986 and 1985, respectively.

**Note D — Bank Premises, Furniture and Equipment:**

The following represents a classification of bank premises, furniture and equipment by major category:

	<u>December 31,</u>	
	1986	1985
Furniture, fixtures and		
equipment . . . . .	\$ 893,365	\$ 889,432
Leasehold improvements . .	<u>147,202</u>	<u>147,202</u>
	1,040,567	1,036,634
Less accumulated deprecia-		
tion and amortization . .	<u>(688,693)</u>	<u>(565,131)</u>
	<u>\$ 351,874</u>	<u>\$ 471,503</u>

**Notes to Financial Statements** *continued*

Principal payments required on notes payable are as follows:

<u>Year Ending December 31.</u>	<u>Amount</u>
1987	\$ —
1988	10,000,000
1989	10,000,000
1990	5,000,000

CFAB must invest in SBC's Class C stock in an amount equal to at least 5% of the cumulative average loan balance maintained with SBC. The amount of CFAB's investment in SBC's Class C stock and equity in allocated surplus was \$5,390,548 and \$5,252,423 at December 31, 1986 and 1985, respectively.

**Note F — Pension Plans:**

CFAB has pension plans covering substantially all employees. The total cost charged to operations for 1986 and 1985 was \$57,422 and \$58,372, respectively. The Board of Directors voted to terminate the floor retirement pension plan during 1986. The floor retirement plan provided for payments in the event the remaining pension plan was not sufficiently funded to meet actuarially computed retirement funding. As of December 31, 1985, the net assets available for benefits under the floor retirement plan was \$28,244. This amount will be refunded to CFAB upon the approval of termination by regulatory agencies. In accordance with generally accepted accounting principles, no gain will be recorded until the regulatory approval of the termination is obtained.

**Note G — Capital and Patronage Earnings:**

*Share Capital:* Shares purchased by the State of Alaska must be repurchased by CFAB on or before July 20, 2000.

Preferential shareholders' rights on dissolution are attached in the order of Class C, Class B and Class A.

The following rights apply to the three categories of stock:

- Class C - No voting or dividend rights. May only be issued to the State of Alaska.
- Class B - No voting rights. Class B stock may only be held by members of CFAB. Prior to December 31, 1985, all loans required a purchase of Class B stock in an amount equal to 10% of the loan balance; however, this purchase was not funded but was evidenced by notes. On loans made subsequent to December 31, 1985, each borrower is required to make a cash purchase of Class B stock in an amount equal to 5% of the total loan. This investment will remain in place until retired by the Board of Directors.
- Class A - No dividend rights. Each member of CFAB must own one share of Class A stock. Each share of stock carries one vote. To vote, a member must be engaged in commercial fishing or agriculture and must be a current borrower or have borrowed from CFAB during the preceding two years or have a minimum retained patronage earnings with CFAB of \$2,500.

**Notes to Financial Statements** *continued*

**Unallocated Undistributed Patronage Loss:** In accordance with Alaska Commercial Fishing and Agriculture Bank bylaws, the Board of Directors acted to reduce an unallocated undistributed patronage loss in the amount of \$9,977,776 as follows: 1) by allocating \$3,034,644 to allocated undistributed patronage earnings of prior years in 1985; and 2) by charging \$114,187 to 1985 unallocated undistributed patronage earnings. At December 31, 1986, the remaining unallocated undistributed patronage loss amount was \$6,828,945 (see Note I).

**Class C Stock Repurchase Plan:** In accordance with AS 44.81.010(b), on or before July 20, 2000, CFAB is required to repurchase its Class C stock issued to the State of Alaska. CFAB implemented a program requiring borrowers originating loans after December 12, 1983 to make an additional purchase of Class B stock for the assumed purpose of ultimately funding the repurchase of Class C stock. This plan was in effect until December 31, 1985. Notes originated after December 31, 1985, are not subject to this program but, are subject to new Class B stock requirements.

**Note H — Contingencies and Commitments:**

**Contingencies:** CFAB is a defendant in several legal actions arising from normal business activities including actions related to delinquent loans and foreclosures. CFAB reserves for potential losses on delinquent loans as described in Note A. As to litigation outside of delinquencies and foreclosures, management believes that those

actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect CFAB's financial position or its results of operations.

**Commitments:** CFAB has entered into certain noncancelable long-term operating lease agreements for buildings. Rental expense under these leases totaled \$192,450 and \$231,549 for the years ended December 31, 1986 and 1985, respectively. Minimum annual lease payments are as follows:

<u>Year Ending December 31.</u>	<u>Amount</u>
1987	\$201,000
1988	182,000
1989	174,000
1990	43,000

**Note I - Subsequent Event:**

On March 2, 1987, in accordance with Alaska Commercial Fishing and Agriculture Bank bylaws, the Board of Directors acted to reduce the unallocated undistributed patronage loss by charging \$321,468 to 1986 unallocated undistributed patronage earnings. The remaining unallocated undistributed patronage loss is \$6,507,477.

In addition, the Board of Directors approved an allocation of 1986 patronage earnings totaling \$214,312 to 1986 patrons. This allocation is to be distributed in cash on or before April 1, 1987.

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§ 44.81.010 STATE GOVERNMENT § 44.81.010

tion (a) inserted "(AS 18.66.010)" and substituted "1989" for "1985." The sixth 1985 amendment, effective January 1, 1986, in paragraph (3) of subsection (a) deleted "State" preceding "Board" and substituted "AS 33.16.020" for "AS 33.15.010" and "1989" for "1985."  
The fifth 1985 amendment, effective May 30, 1985, in paragraph (10) of subsection (a) substituted "1989" for "1985."

**Chapter 67. General State Policy.**

*[Renumbered as AS 44.99.100.]*

**Part 8. Independent State Boards, Associations, Commissions, and Corporations.**

**Chapter**

- 81. Commercial Fishing and Agriculture Bank (§§ 44.81.010, 44.81.030, 44.81.210)
- 83. Alaska Power Authority (§§ 44.83.162, 44.83.187, 44.83.224, 44.83.398, 44.83.425)
- 85. Alaska Municipal Bond Bank Authority (§§ 44.85.270, 44.85.410)

**Chapter 81. Commercial Fishing and Agriculture Bank.**

<b>Section</b>	<b>Section</b>
10. Alaska Commercial Fishing and Agriculture Bank	30. [Repealed]
	210. Powers of the bank

**Sec. 44.81.010. Alaska Commercial Fishing and Agriculture Bank.** (a) There is established the Alaska Commercial Fishing and Agriculture Bank. The exercise by the bank of the powers conferred by this chapter is considered to be for a public purpose. Except as otherwise provided in this chapter, and except that any filing fees shall be waived, the bank is subject to the provisions of AS 10.15 (Alaska Cooperative Corporation Act). The bank is exempt from the provisions of AS 06.05 (Alaska Banking Code) in the exercise of powers granted by this chapter.

(b) For the purpose of the funding of the bank's operations, the board of directors may issue nonvoting, preferred shares of stock in the bank and determine the value of each share. The State of Alaska, through appropriate agencies, may purchase the nonvoting, preferred shares issued by the bank. Shares purchased by the state shall be repurchased by the bank within 20 years after their purchase. If the bank fails to repurchase the shares within 20 years, the commissioner of commerce and economic development may dissolve the bank.

(c) After the board of directors has completed the necessary organizational matters described in AS 44.81.030 — 44.81.040, the commissioner of revenue may purchase with funds from the general fund up to \$2,000,000 of preferred stock of the bank during fiscal year 1979 at such time and with terms agreed upon by the commissioner and the board. (S 3 ch 159 SLA 1978; am § 1 ch 53 SLA 1979; am § 12 ch 122 SLA 1980; am § 1 ch 109 SLA 1981; am § 65 ch 21 SLA 1985)

**Effect of amendments.** — The 1985 amendment, effective May 10, 1985, inserted "and except that any filing fees shall be waived," preceding "the bank is subject" in the next-to-last sentence of subsection (a).

**Editor's notes.** — AS 44.81.030, referred to in subsection (c), was repealed by § 66, ch. 21, SLA 1985.

**Sec. 44.81.030. Articles of incorporation. [Repealed, § 66 ch 21 SLA 1985.]**

**Sec. 44.81.210. Powers of the bank.** (a) The bank may

(1) make variable rate or fixed rate loans to individuals who are residents and who are engaged in commercial agriculture or fishing, including harvesters, processors, suppliers and marketers, or to corporations, partnerships or joint ventures engaged in commercial agriculture or fishing, the majority interest of which is beneficially owned by residents of the state and a majority of the owners of which are residents of the state, if the recipient of the loan is a member of the bank; however, the bank may make a loan under this paragraph to a corporation, partnership, or joint venture for the purchase of a new or existing fishing vessel or for the repair or renovation of an existing fishing vessel, the primary purpose of which is to commercially harvest fishery resources, only if the corporation, partnership, or joint venture is wholly owned and controlled by residents of the state and if the recipient of the loan is a member of the bank;

(2) make and alter bylaws necessary or desirable to carry out its corporate functions;

(3) establish amortization plans for repayment of loans, which may include extensions for poor fishing or farming seasons, or for adverse market conditions for Alaskan products;

(4) enter into agreements with regional institutions of the federal farm credit system, private lending institutions, and other state agencies or agencies of the federal government, to carry out the purposes of this chapter;

(5) adopt, alter, and use a corporate seal;

(6) sue and be sued in the name of the bank;

(7) issue bonds to carry out any of its corporate purposes and powers;

(8) sell encumbe security has an in action is

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(8) sell, lease as lessor or lessee, exchange, donate, convey or encumber in any manner by mortgage or by creation of any other security interest, real or personal property owned by it, or in which it has an interest, when, in the judgment of the board of directors, the action is in furtherance of its corporate purposes;

(9) incur secondary liability by guaranty or endorsement of the obligations of another corporation or legal entity when, in the judgment of the board of directors, the action is in furtherance of its corporate purposes;

(10) make loans as provided in (1) of this subsection in participation with financial institutions, and establish and regulate the terms of the loans;

(11) make contracts and execute instruments necessary or convenient in the exercise of its corporate powers;

(12) acquire by purchase, lease, bequest, devise, gift, the satisfaction of debts, or the foreclosure of mortgages, and hold, maintain, use, operate, and convey real or personal property;

(13) borrow money and issue secured and unsecured evidence of indebtedness for a corporate purpose or to fund, refund, pay, or discharge outstanding obligations, and enter agreements and contracts concerning these obligations;

(14) secure the payment of its obligations by pledge or mortgage or other lien on its contracts, revenues, income, or property;

(15) appoint officers, employees, trustees for certificate holders, and agents, and prescribe their powers and duties;

(16) provide technical services to members of the bank; for the purpose of this paragraph, "technical services" includes services that will enhance the ability of the member to obtain financial assistance from the bank;

(17) make loans, as provided in (1) of this subsection, secured by liens subordinate to valid first liens and security agreements granted to a private lending institution;

(18) participate with state departments and agencies in formulating policy and in planning for the development of commercial fishing and agriculture in the state;

(19) do what is necessary or desirable to carry out the corporate purposes and powers expressed or implied in this chapter;

(20) make loans to individual commercial fishermen for limited entry permits; a loan under this paragraph may be made only to an individual commercial fisherman who has been a state resident for a continuous period of two years immediately preceding the date of application for the loan and who has had a crewmember or commercial fishing license under AS 16.05.480 or a permit under AS 16.43 for the year immediately preceding the date of application and any other two of the past five years, and who has actively participated in the fishery during that period; loans made under this paragraph are subject to the provisions of AS 44.81.230;

(21) indemnify directors, officers or employees of the bank and their heirs, executors and administrators against all liabilities and related expenses including, but not limited to, court costs and attorney fees, judgments, and the cost of reasonable settlements, incurred by them in connection with or arising out of an action or proceeding brought against them because of an act or omission in the performance of their official duties as directors, officers or employees of the bank regardless of whether they were directors, officers or employees at the time the expenses or liabilities are incurred;

(22) accept the pledge of a limited entry permit as security for a loan made under this chapter for the repair, restoration, or improvement of a commercial fishing vessel or commercial fishing gear, or for the construction or purchase of a commercial fishing vessel, subject to the conditions set out in AS 44.81.230 — 44.81.250 on pledges of limited entry permits.

(b) The provisions of (a)(21) of this section do not authorize the bank to indemnify a director, officer or employee of the bank who is adjudged liable for negligence or misconduct in the performance of official duties.

(23) make a loan to a person, regardless of residency, if the board of directors of the bank determines that the loan is necessary to preserve the value of property held by the bank as security for a loan that was made under (1) of this subsection and that is in default. (§ 3 ch 159 SLA 1978; am § 4 ch 53 SLA 1979; am §§ 7—10 ch 51 SLA 1980; am § 6 ch 109 SLA 1981; am § 52 ch 113 SLA 1982; am § 17 ch 67 SLA 1983; am § 20 ch 79 SLA 1985)

*Effect of amendments.* — The 1985 amendment, effective July 1, 1985, added paragraph (23).

## Chapter 83. Alaska Power Authority.

### Article

4. Power Cost Equalization Program (§ 44.83.162)
6. General Provisions (§§ 44.83.187, 44.83.224)
9. Energy Program for Alaska (§§ 44.83.398, 44.83.425)

or vehicular way or area, as defined under AS 28.40.100, to be used for a special purpose, the state is not subject to legal action or recovery of damages for injury arising out of, or in any manner connected with the special purpose use. (§ 1 ch 65 SLA 1965; am § 19 ch 241 SLA 1976; am § 24 ch 144 SLA 1977)

## Part 8. Independent State Boards, Associations, Commissions, and Corporations.

### Chapter

81. Commercial Fishing and Agriculture Bank (§§ 44.81.010 — 44.81.350)  
82. Alaska Gas Pipeline Financing Authority (§§ 44.82.010 — 44.82.200)  
83. Alaska Power Authority (§§ 44.83.010 — 44.83.425)  
85. Alaska Municipal Bond Bank Authority (§§ 44.85.005 — 44.85.420)  
88. Alaska Industrial Development Authority (§§ 44.88.010 — 44.88.220)

### Chapter 81. Commercial Fishing and Agriculture Bank.

Section	Section
10. Alaska Commercial Fishing and Agriculture Bank	200. Reports and publications
20. Board of directors	210. Powers of the bank
30. Articles of incorporation	220. Transition
40. Bylaws	230. Loans for purchase of Alaska limited entry permits
50. Membership meetings	240. Default and foreclosure of loans for limited entry permits
60. Membership stock	250. Deficiencies and transfer of entry permits after foreclosure
70. President; officers and employees	260. Confidentiality of records; exceptions
90. Term of office	270. Audit of bank
100. Quorum	280. Prohibition on disclosure
110. Compensation of board members	350. Definitions
160. Pledge of the state	
190. Conflicts of interest	

Editor's notes. — As to legislative findings and the purposes of the enabling act, see §§ 1 and 2, ch. 169, SLA 1978,

respectively, in the 1978 Temporary and Special Acts and Resolves.

**Sec. 44.81.010. Alaska Commercial Fishing and Agriculture Bank.** (a) There is established the Alaska Commercial Fishing and Agriculture Bank. The exercise by the bank of the powers conferred by

this chapter is considered to be for a public purpose. Except as otherwise provided in this chapter, the bank is subject to the provisions of AS 10.15 (Alaska Cooperative Corporation Act). The bank is exempt from the provisions of AS 06.05 (Alaska Banking Code) in the exercise of powers granted by this chapter.

(b) For the purpose of the funding of the bank's operations, the board of directors may issue nonvoting, preferred shares of stock in the bank and determine the value of each share. The State of Alaska, through appropriate agencies, may purchase the nonvoting, preferred shares issued by the bank. Shares purchased by the state shall be repurchased by the bank within 20 years after their purchase. If the bank fails to repurchase the shares within 20 years, the commissioner of commerce and economic development may dissolve the bank.

(c) After the board of directors has completed the necessary organizational matters described in AS 44.81.030 — 44.81.040, the commissioner of revenue may purchase with funds from the general fund up to \$2,000,000 of preferred stock of the bank during fiscal year 1979 at such time and with terms agreed upon by the commissioner and the board. (§ 3 ch 159 SLA 1978; am § 1 ch 53 SLA 1979; am § 12 ch 122 SLA 1980; am § 1 ch 109 SLA 1981)

Revisor's notes. — Formerly AS 44.84.010. Renumbered in 1980.

Cross references. — As to legislative findings for amendments in 1981, see § 9, ch. 109, SLA 1981.

Effect of amendments. — The 1980 amendment deleted "initial" preceding "funding" near the beginning of subsection (b), substituted "may" for "shall" preceding "issue" near the beginning of subsection (b) and preceding "purchase" near the beginning of the second sentence of subsection (b), deleted "shall" preceding "determine" near the middle of the first sentence of subsection (b), and deleted "initially" following "preferred shares" near

the middle of the second sentence of subsection (b).

The 1981 amendment deleted the former second sentence of subsection (a) which read "The bank is a public corporation and government instrumentality in the Department of Commerce and Economic Development but has a legal existence independent of and separate from the state." The amendment also, in subsection (a), substituted "to be for a public purpose" for "an essential governmental function of the state" in the present second sentence and added the present fourth sentence of the subsection.

**Sec. 44.81.020. Board of directors.** (a) The bank shall be managed by a board of directors consisting of seven members. At least one member of the board shall be an Alaska farmer with at least 10 years of Alaskan farm experience. Initial appointments to the board shall be made by the governor. Two of the initial appointments shall be made at the time of the first annual membership meeting of the bank. Thereafter, five board members shall be elected by the members of the bank, with at least one of the elected board members being an Alaska farmer with at least 10 years of Alaskan farm experience, and two board members shall be appointed by the governor until the repurchase of all the nonvoting, preferred shares initially issued by the bank and purchased by agencies of the state. After repurchase is completed, all

board members shall be elected by the members of the bank. The board members shall annually elect a chairman from among themselves. The purpose of the board is to manage the assets of the bank.

(b) The governor shall designate the two members whose positions on the board will remain appointive for the period set out in (a) of this section. (§ 3 ch 159 SLA 1978; am § 2 ch 53 SLA 1979; am § 3 ch 51 SLA 1980)

Revisor's notes. — Formerly AS 44.51.020. Renumbered in 1980.

Effect of amendments. — The 1980 amendment substituted "members of the bank" for "shareholders" near the beginning and at the end of the fifth sentence in subsection (a).

Editor's notes. — Section 6, ch. 53, SLA

1979, provides: "For the purposes of AS 44.81.020 and 44.81.090, the five members of the board of directors of the Commercial Fishing and Agriculture Bank who were appointed before August 4, 1979 shall continue to serve on the board of directors until their terms expire as provided in AS 44.81.090."

**Sec. 44.81.030. Articles of incorporation.** Not later than November 1, 1978, the board of directors shall file with the commissioner of commerce and economic development articles of incorporation as provided in AS 10.15.340 — 10.15.355 except that any filing fees shall be waived. (§ 3 ch 159 SLA 1978)

Revisor's notes. — Formerly AS 44.51.030. Renumbered in 1980.

**Sec. 44.81.040. Bylaws.** The board of directors shall adopt the initial bylaws of the bank. The power to alter, amend or repeal the bylaws is vested in the board of directors. The bylaws may contain provisions for the regulation and management of the affairs of the bank not inconsistent with this chapter or other provisions of law. (§ 3 ch 159 SLA 1978)

Revisor's notes. — Formerly AS 44.54.040. Renumbered in 1980.

**Sec. 44.81.050. Membership meetings.** Upon filing the articles of incorporation, the board of directors, with the assistance of the commissioner of commerce and economic development or the commissioner's designee, may hold public meetings throughout the state for the purpose of explaining to members of the commercial fishing and farming industries the functions of the bank and to encourage membership in the bank. (§ 3 ch 159 SLA 1978)

Revisor's notes. — Formerly AS 44.54.050. Renumbered in 1980.

**Sec. 44.81.060. Membership stock.** (a) The board of directors shall issue shares of membership stock in the bank in the amounts and with value determined by the board and stated in the articles of incorporation.

(b) Loans made to members of the bank under the provisions of this chapter shall be in accordance with a schedule of maximum amounts adopted by the board of directors based upon proportional ownership of shares of capital stock. (§ 3 ch 159 SLA 1978; am § 4 ch 51 SLA 1980)

Revisor's notes. — Formerly AS 44.54.060. Renumbered in 1980.

Effect of amendments. — The 1980 amendment substituted "members" for

"shareholders" near the beginning of subsection (b), and added "of capital stock" at the end of subsection (b).

**Sec. 44.81.070. President; officers and employees.** (a) The board of directors shall employ a president. The president may not be a member of the board of directors. The president serves at the pleasure of the board of directors. The president is the chief executive officer of the bank.

(b) The board of directors shall appoint one or more vice-presidents, as prescribed in the bylaws of the bank, a secretary, a treasurer and other officers as the board of directors considers necessary. The board of directors may appoint one person to more than one of the positions described in this subsection. The officers described in this subsection are not required to be members of the board of directors.

(c) The president may hire employees of the bank reasonably necessary for the efficient performance of the functions of the bank. Subject to the approval of the board of directors, the president may also contract for and engage the services of professional and technical advisors. The board of directors shall prescribe the duties and compensation of employees of the bank. Employees of the bank are not employees of the state and are not considered to be employees of a public organization for the purposes of AS 39.30.150 — 39.30.180 or AS 39.35.010 — 39.35.690. (§ 3 ch 159 SLA 1978; am § 5 ch 51 SLA 1980; am § 2 ch 109 SLA 1981)

Revisor's notes. — Formerly AS 44.54.070. Renumbered in 1980.

Effect of amendments. — The 1980 amendment rewrote the section.

The 1981 amendment added the present third sentence of subsection (c).

**Sec. 44.81.080. Exempt status.** (Repealed, § 10 ch 109 SLA 1981. For current law see AS 44.81.070(c).)

**Sec. 44.81.090. Term of office.** The members of the board shall serve for terms of three years, and they may serve successive terms. Terms shall be staggered. Initial terms of the first five members appointed to the board shall be two members serving until the first

annual membership meeting of the bank, two members serving until the second annual membership meeting of the bank, and one member serving until the third annual membership meeting of the bank. Initial terms of the two members appointed at the time of the first annual membership meeting of the bank shall be one member serving until the second annual membership meeting of the bank and one member serving until the third annual membership meeting of the bank. (§ 3 ch 159 SLA 1978; am § 3 ch 53 SLA 1979)

Revisor's notes. — Formerly AS 44.54.100. Renumbered in 1980.

**Sec. 44.81.100. Quorum.** A majority of the members of the board constitutes a quorum for the transaction of business and the exercise of the powers and duties of the board. (§ 3 ch 159 SLA 1978)

Revisor's notes. — Formerly AS 44.54.100. Renumbered in 1980.

**Sec. 44.81.110. Compensation of board members.** Members of the board receive compensation not to exceed \$250 as determined by the board for each day the board meets if they attend the meeting. (§ 3 ch 159 SLA 1978; am § 3 ch 109 SLA 1981)

Revisor's notes. — Formerly AS 44.54.110. Renumbered in 1980.

Effect of amendments. — The 1981 amendment added "of the board" following "members," substituted "not to exceed \$250 as" for "at a rate" preceding "deter-

mined" and deleted "and are entitled to per diem and travel allowances as provided by law for members of state boards and commissions" following "if they attend the meeting."

**Secs. 44.81.120 — 44.81.150. Bonds of the bank; trust indentures and trust agreements; validity of pledges; nonliability on bonds.** [Repealed, § 10 ch 109 SLA 1981.]

**Sec. 44.81.160. Pledge of the state.** The state pledges to and agrees with any lender to the bank and with the federal agency or regional institution of the federal farm credit system that loans or contributes funds in respect of a project, that the state will not limit or alter the rights and powers vested in the bank by AS 44.81.010 — 44.81.350 to fulfill the terms of any contract made by the bank with the lender to the bank or federal agency or regional institution of the federal farm credit system, or in any way impair the rights and remedies of the lender to the bank or federal agency or regional institution of the federal farm credit system. The bank is authorized to include this pledge and agreement of the state, insofar as it refers to a lender to the bank in a contract with the maker of a loan, and insofar as it relates to a federal agency or regional institution of the federal farm

credit system, in a contract with a federal agency or regional institution of the federal farm credit system. (§ 3 ch 159 SLA 1978; am § 4 ch 109 SLA 1981)

Revisor's notes. — Formerly AS 44.54.160. Renumbered in 1980.

Effect of amendments. — The 1981 amendment substituted "any lender to the bank" for "the holders of the bonds issued under this chapter" preceding "and with the federal agency," substituted "lender to the bank" for "holders" preceding "or federal agency or regional institution," and substituted "lender to the bank or federal agency or regional institution of the federal farm credit system" for "holders until the bonds, together with

interest on them, with interest on unpaid installments of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of the holder," are fully met and discharged. Following "rights and remedies of the" in the first sentence. In the second sentence, the amendment substituted "a lender to the bank" for "holders of bonds of the bank" preceding "in a contract" and substituted "the maker of a loan" for "the holder" preceding "and insofar as"

**Secs. 44.81.170 — 44.81.180. Exemption from taxation; bonds legal investments for fiduciaries.** [Repealed, § 10 ch 109 SLA 1981.]

**Sec. 44.81.190. Conflicts of interest.** A member of the board of directors may not vote on a transaction of the bank under this chapter if the member is a party to the transaction. (§ 3 ch 159 SLA 1978)

Revisor's notes. — Formerly AS 44.54.190. Renumbered in 1980.

**Sec. 44.81.200. Reports and publications.** The board of directors shall publish an annual report to the bank's members. The report shall be made available to the public and shall include financial statements audited by independent outside auditors, a statement of the bank's investments, a description of the bank's loan activity during the period covered by the report, an analysis of economic and other effects of loan decisions on the state's commercial fishing and agriculture industries, and any other information that the board believes would be of interest to the governor, the legislature, and the public, or that the legislature requests the board to include. The board may also publish other reports it considers desirable to carry out its purposes. (§ 3 ch 159 SLA 1978; am § 5 ch 109 SLA 1981)

Revisor's notes. — Formerly AS 44.54.200. Renumbered in 1980.

Effect of amendments. — The 1981 amendment substituted "members" for "shareholders" at the end of the first sentence and deleted "a statement of the amount of money received by the bank from each source during the period

"covered" following "independent outside auditors," substituted "loan" for "investments" twice, added "that" preceding "the board believes" and added "or that the legislature requests the board to include" following "and the public" in the second sentence.

**Sec. 44.81.210. Powers of the bank.** (a) The bank may

(1) make variable rate or fixed rate loans to individuals who are residents and who are engaged in commercial agriculture or fishing, including harvesters, processors, suppliers and marketers, or to corporations, partnerships or joint ventures engaged in commercial agriculture or fishing, the majority interest of which is beneficially owned by residents of the state and a majority of the owners of which are residents of the state, if the recipient of the loan is a member of the bank; however, the bank may make a loan under this paragraph to a corporation, partnership, or joint venture for the purchase of a new or existing fishing vessel or for the repair or renovation of an existing fishing vessel, the primary purpose of which is to commercially harvest fishery resources, only if the corporation, partnership, or joint venture is wholly owned and controlled by residents of the state and if the recipient of the loan is a member of the bank;

(2) make and alter bylaws necessary or desirable to carry out its corporate functions;

(3) establish amortization plans for repayment of loans, which may include extensions for poor fishing or farming seasons, or for adverse market conditions for Alaskan products;

(4) enter into agreements with regional institutions of the federal farm credit system, private lending institutions, and other state agencies or agencies of the federal government, to carry out the purposes of AS 44.81.010 — 44.81.350;

(5) adopt, alter, and use a corporate seal;

(6) sue and be sued in the name of the bank;

(7) issue bonds to carry out any of its corporate purposes and powers;

(8) sell, lease as lessor or lessee, exchange, donate, convey or encumber in any manner by mortgage or by creation of any other security interest, real or personal property owned by it, or in which it has an interest, when, in the judgment of the board of directors, the action is in furtherance of its corporate purposes;

(9) incur secondary liability by guaranty or endorsement of the obligations of another corporation or legal entity when, in the judgment of the board of directors, the action is in furtherance of its corporate purposes;

(10) make loans as provided in (1) of this section in participation with financial institutions, and establish and regulate the terms of the loans;

(11) make contracts and execute instruments necessary or convenient in the exercise of its corporate powers;

(12) acquire by purchase, lease, bequest, devise, gift, the satisfaction of debts, or the foreclosure of mortgages, and hold, maintain, use, operate, and convey real or personal property;

(13) borrow money and issue secured and unsecured evidence of indebtedness for a corporate purpose or to fund, refund, pay, or dis-

charge outstanding obligations, and enter agreements and contracts concerning these obligations;

(14) secure the payment of its obligations by pledge or mortgage or other lien on its contracts, revenues, income, or property;

(15) appoint officers, employees, trustees for certificate holders, and agents, and prescribe their powers and duties;

(16) provide technical services to members of the bank; for the purpose of this paragraph, "technical services" includes services that will enhance the ability of the member to obtain financial assistance from the bank;

(17) make loans, as provided in (1) of this section, secured by liens subordinate to valid first liens and security agreements granted to a private lending institution;

(18) participate with state departments and agencies in formulating policy and in planning for the development of commercial fishing and agriculture in the state;

(19) do what is necessary or desirable to carry out the corporate purposes and powers expressed or implied in AS 44.81.010 — 44.81.350;

(20) make loans to individual commercial fishermen for limited entry permits; a loan under this paragraph may be made only to an individual commercial fisherman who has been a state resident for a continuous period of two years immediately preceding the date of application for the loan and who has had a crewmember or commercial fishing license under AS 16.05.480 or a permit under AS 16.43 for the year immediately preceding the date of application and any other two of the past five years, and who has actively participated in the fishery during that period; loans made under this paragraph are subject to the provisions of AS 44.81.230;

(21) indemnify directors, officers or employees of the bank and their heirs, executors and administrators against all liabilities and related expenses including, but not limited to, court costs and attorney fees, judgments, and the cost of reasonable settlements, incurred by them in connection with or arising out of an action or proceeding brought against them because of an act or omission in the performance of their official duties as directors, officers or employees of the bank regardless of whether they were directors, officers or employees at the time the expenses or liabilities are incurred; -

(22) accept the pledge of a limited entry permit as security for a loan made under AS 44.81.010 — 44.81.350 for the repair, restoration, or improvement of a commercial fishing vessel or commercial fishing gear, or for the construction or purchase of a commercial fishing vessel, subject to the conditions set out in AS 44.81.230 — 44.81.250 on pledges of limited entry permits.

(b) The provisions of (a)(21) of this section do not authorize the bank to indemnify a director, officer or employee of the bank who is adjudged

liable for negligence or misconduct in the performance of official duties. (§ 3 ch 159 SLA 1978; am § 4 ch 53 SLA 1979; am §§ 7—10 ch 51 SLA 1980; am § 6 ch 109 SLA 1981; am § 52 ch 113 SLA 1982; am § 17 ch 67 SLA 1983)

Revisor's notes. -- Formerly AS 11.54.210. Renumbered in 1980.

Effect of amendments. — The 1980 amendments in paragraph (1) of subsection (a), inserted "suppliers" following "harvesters, processors" and deleted "primarily" following "or joint ventures" near the beginning and substituted "member" for "shareholder" near the middle and near the end. The amendment also substituted "members of the bank" for "shareholders" and "member" for "shareholder" in paragraph (16) of subsection (a), added paragraph (21) of subsection (a), and added subsection (b).

**Sec. 44.81.220. Transition.** Notwithstanding the provisions of AS 10.15.005, upon the repurchase of all the nonvoting, preferred shares initially issued by the bank and purchased by agencies of the state, the provisions of AS 44.81.010 — 44.81.350 lapse and the bank may proceed to operate solely as a private cooperative corporation under the terms of its bylaws and the provisions of AS 10.15.010 — 10.15.600. (§ 3 ch 159 SLA 1978; am § 7 ch 109 SLA 1981)

Revisor's notes. — Formerly AS 44.54.220. Renumbered in 1980.

Effect of amendments. — The 1981 amendment substituted "Notwithstanding the provisions of AS 10.15.005, upon" for "Upon" near the beginning of the section,

The 1981 amendment added paragraph (22) of subsection (a).

The 1982 amendment, in subsection (a), added "or for adverse market conditions for Alaskan products" to the end of paragraph (3).

The 1983 amendment, in paragraph (20) of subsection (a) substituted "two years" for "five years" and substituted "the year immediately preceding the date of application and any other two" for "any one" preceding "of the past five years."

added "solely" preceding "as a private cooperative corporation," deleted "subject to" preceding "the provisions" and substituted "AS 10.15.010 — 10.15.600" for "AS 10.15.005 — 10.15.600" at the end of the section.

**Sec. 44.81.230. Loans for purchase of Alaska limited entry permits.** (a) A loan under AS 44.81.210(a)(20) for the purchase of a limited entry permit may be made only upon certification by the commission that the fisherman is a person who qualifies as a transferee for the permit under AS 16.43 and the regulations adopted by the commission.

(b) Upon approval by the bank, the permit to be purchased may be pledged as security for a loan under (a) of this section, if

- (1) the certificate for the pledged permit lists the bank as the legal owner of the permit;
- (2) the certificate for the pledged permit lists the debtor as the equitable owner of the permit;
- (3) all annual permit cards issued under the pledged permit list the name of the debtor;
- (4) all obligations and responsibilities of a permit owner are assumed by the debtor;

(5) co-signers or other sureties for performance under the note are not vested with any rights in the pledged permit and their obligation is limited to satisfaction of the note and payment of costs directly incurred by the bank in administering the loan

(c) Upon satisfaction of the note by the debtor, the bank shall certify to the commission that the note has been satisfied.

(d) Upon certification as provided in (c) of this section, the commission shall amend the permit certificate to list the debtor as the legal owner. (§ 5 ch 53 SLA 1979; am §§ 11—13 ch 51 SLA 1980)

Revisor's notes. — Formerly AS 44.54.230. Renumbered in 1980.

Effect of amendments. — The 1980 amendment substituted "commission" for "Alaska Commercial Fisheries Entry

Commission" (AS 16.43.020) in subsection (a), deleted "the executive director of" following "permit lists" in paragraph (1) of subsection (b), and substituted "bank" for "executive director" in subsection (c).

**Sec. 44.81.240. Default and foreclosure of loans for limited entry permits.** (a) If the debtor defaults upon a note for which a limited entry permit has been pledged as security under AS 44.81.230, the bank shall provide the debtor, by registered or certified mail sent to the debtor's last known address on file with the bank, with a notice of default which includes

- (1) a description of the security given for the note including the number assigned to the pledged permit by the commission;
- (2) the date upon which the default occurred;
- (3) the amount of arrearages as of the date of the notice, the total amount remaining on the note less unearned interest, and the amount of daily interest;
- (4) a statement that the debtor may, within 15 days of the postmark date of the notice, request a hearing at which the debtor may submit evidence showing the debtor has not defaulted;
- (5) a statement that the note may be reinstated if brought current within 60 days from the postmark date of the notice;
- (6) a statement that the note may be paid in full less unearned interest within 90 days from the postmark date of the notice;
- (7) the place where reinstatement or payment in full may be made; and
- (8) a notice in at least 10-point bold type stating: "IMPORTANT: YOUR FAILURE TO REINSTATE OR PAY THIS NOTE IN FULL BY THE DATE SPECIFIED WILL RESULT IN A FORFEITURE OF ALL RIGHTS TO THE PERMIT AND THE POSSIBILITY OF LEGAL ACTION BEING INSTITUTED AGAINST YOU."

(b) Upon the debtor's failure to reinstate or satisfy the note within the time specified in (a) of this section, the debtor's equitable interest is terminated by operation of law without further notice. Any entry permit cards issued to the debtor under the permit shall be canceled immediately upon receipt by the commission of a certificate of termina-

transactions, and conditions, and may require and compel the production of records, books, papers, contracts, or other documents by court order if not voluntarily produced. (§ 8 ch 109 SLA 1981)

**Sec. 44.81.280. Prohibition on disclosure.** The legislative auditor and the auditor's employees may not disclose information acquired by them in the course of an audit of the bank concerning the particulars of the business or affairs of a borrower of the bank or another person, unless the information is required to be disclosed by law or under a court order. (§ 8 ch 109 SLA 1981)

**Sec. 44.81.350. Definitions.** In this chapter

(1) "bank" means the Alaska Commercial Fishing and Agriculture Bank;

(2) "commission" means the Alaska Commercial Fisheries Entry Commission (AS 16.43.020);

(3) "member of the bank" includes a holder of a share of membership stock of the bank or a patron of the bank with retained patronage earnings of \$2,500 or more to the patron's credit;

(4) "supplier" means a person whose main source of income is from providing goods or services that are directly related to commercial fishing or agriculture to individuals, corporations, partnerships or joint ventures engaged in commercial fishing or agriculture. (§ 18 ch 51 SLA 1980)

Revisor's notes. -- Formerly AS 44.51.250. Renumbered in 1980.

## Chapter 82. Alaska Gas Pipeline Financing Authority.

Section	Section
10. Creation of authority	115. Nomination of a member of the board
20. Membership	120. Trust indentures and trust agreements
30. Officers and quorum	130. Nonliability on bonds
40. Compensation	140. Pledge of the state
50. Staff	150. Exemption from taxation
60. Legal counsel	160. Bonds legal investments for fiduciaries
70. Purpose of authority	170. Regulations
80. General powers	180. Annual audit
90. Bonds of the authority	190. Annual report
100. Submission of financial and Alaska impact plan	200. Definitions
110. Legislative approval	

Cross references. -- As to exemption of employees of the Alaska Gas Pipeline Financing Authority from the provisions of the State Personnel Act, see AS 39.25.110-114A.

Editor's notes. -- As to legislative findings relating to the passage and amendment of AS 44.82, see § 1, ch. 90, SLA 1978, in the 1978 Temporary and Special Acts and Resolutions and § 4, ch. 31,

SLA 1979, in the 1979 Temporary Acts and Resolves.

**Sec. 44.82.010. Creation of authority.** There is created the Alaska Gas Pipeline Financing Authority. The authority is a public corporation of the state. It is an instrumentality of the state within the Department of Revenue, but has a legal existence independent of and separate from the state. Exercise by the authority of the powers conferred by this chapter is an essential governmental function of the state. (§ 2 ch 90 SLA 1978)

Revisor's notes. -- Formerly AS 44.55.010. Renumbered in 1980.

**Sec. 44.82.020. Membership.** The membership of the authority consists of the commissioner of revenue, the commissioner of commerce and economic development, and the commissioner of natural resources. The commissioner of revenue is chairman of the authority. If a member is unable for any reason to attend a meeting of the authority, the member may, by a written instrument filed with the authority, designate a person within the member's department to act in the member's place at the meeting. For all purposes of this chapter, the designee is a member of the authority at the meeting. (§ 2 ch 90 SLA 1978)

Revisor's notes. -- Formerly AS 44.55.020. Renumbered in 1980.

**Sec. 44.82.030. Officers and quorum.** The members of the authority may elect other officers. Two members constitute a quorum. Action may be taken and motions and resolutions adopted by the authority at a meeting by the affirmative vote of at least two members. (§ 2 ch 90 SLA 1978)

Revisor's notes. -- Formerly AS 44.55.030. Renumbered in 1980.

**Sec. 44.82.040. Compensation.** The members of the authority serve without compensation but are entitled to the same travel pay and per diem as provided by law for board members who are state employees. (§ 2 ch 90 SLA 1978)

Revisor's notes. -- Formerly AS 44.55.040. Renumbered in 1980.

**Sec. 44.82.050. Staff.** The authority may employ an executive director who may, with the approval of the authority, select and employ

Original sponsors: Zharoff and Eliason

1 IN THE SENATE BY THE FINANCE COMMITTEE

2 CS FOR SENATE BILL NO. 8 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the Commercial Fishing and Agri-  
7 culture Bank; and providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 \* Section 1. AS 44.81.010(a) is amended to read:

10 (a) There is established the Alaska Commercial Fishing and  
11 Agriculture Bank. The exercise by the bank of the powers conferred by  
12 this chapter is considered to be for a public purpose. [EXCEPT AS  
13 OTHERWISE PROVIDED IN THIS CHAPTER, AND EXCEPT THAT ANY FILING FEES  
14 SHALL BE WAIVED, THE BANK IS SUBJECT TO THE PROVISIONS OF AS 10.15  
15 (ALASKA COOPERATIVE CORPORATION ACT).] The bank is exempt from the  
16 provisions of AS 06.05 (Alaska Banking Code) and AS 10.15 (Alaska  
17 Cooperative Corporation Act) in the exercise of powers granted by this  
18 chapter.

19 \* Sec. 2. AS 44.81.020(a) is amended to read:

20 (a) The bank shall be managed by a board of directors consisting  
21 of seven members. Five [AT LEAST ONE MEMBER OF THE BOARD SHALL BE AN  
22 ALASKA FARMER WITH AT LEAST 10 YEARS OF ALASKAN FARM EXPERIENCE.  
23 INITIAL APPOINTMENTS TO THE BOARD SHALL BE MADE BY THE GOVERNOR. TWO  
24 OF THE INITIAL APPOINTMENTS SHALL BE MADE AT THE TIME OF THE FIRST  
25 ANNUAL MEMBERSHIP MEETING OF THE BANK. THEREAFTER, FIVE] board mem-  
26 bers shall be elected by the members of the bank, with at least one of  
27 the elected board members being an Alaska farmer [WITH AT LEAST 10  
28 YEARS OF ALASKAN FARM EXPERIENCE], and two board members shall be  
29 appointed by the governor until the repurchase of all the nonvoting,

1 preferred shares initially issued by the bank and purchased by agen-  
2 cies of the state. After repurchase is completed, all board members  
3 shall be elected by the members of the bank. The board members shall  
4 annually elect a chairman from among themselves. The purpose of the  
5 board is to manage the assets of the bank.

6 \* Sec. 3. AS 44.81.090 is amended to read:

7 Sec. 44.81.090. TERM OF OFFICE AND REMOVAL. The members of the  
8 board shall serve for terms of three years, and they may serve succes-  
9 sive terms. Terms shall be staggered. An elected member of the board  
10 who releases confidential information in violation of AS 44.81.260,  
11 commits serious ethical misconduct that relates to the member's fit-  
12 ness to serve as a member of the board, or maintains a chronically and  
13 irredeemably substandard borrowing relationship with the bank may be  
14 removed from the board by affirmative vote of a majority of the mem-  
15 bers of the board [INITIAL TERMS OF THE FIRST FIVE MEMBERS APPOINTED  
16 TO THE BOARD SHALL BE TWO MEMBERS SERVING UNTIL THE FIRST ANNUAL  
17 MEMBERSHIP MEETING OF THE BANK, TWO MEMBERS SERVING UNTIL THE SECOND  
18 ANNUAL MEMBERSHIP MEETING OF THE BANK, AND ONE MEMBER SERVING UNTIL  
19 THE THIRD ANNUAL MEMBERSHIP MEETING OF THE BANK. INITIAL TERMS OF THE  
20 TWO MEMBERS APPOINTED AT THE TIME OF THE FIRST ANNUAL MEMBERSHIP  
21 MEETING OF THE BANK SHALL BE ONE MEMBER SERVING UNTIL THE SECOND  
22 ANNUAL MEMBERSHIP MEETING OF THE BANK AND ONE MEMBER SERVING UNTIL THE  
23 THIRD ANNUAL MEMBERSHIP MEETING OF THE BANK].

24 \* Sec. 4. AS 44.81.210(a)(20) is amended to read:

25 (20) make loans to individual commercial fishermen for  
26 limited entry permits; a loan under this paragraph may be made only to  
27 an individual commercial fisherman who has been a state resident for a  
28 continuous period of two years immediately preceding the date of  
29 application for the loan [AND WHO HAS HAD A CREWMEMBER OR COMMERCIAL

1 FISHING LICENSE UNDER AS 16.05.480 OR A PERMIT UNDER AS 16.43 FOR THE  
2 YEAR IMMEDIATELY PRECEDING THE DATE OF APPLICATION AND ANY OTHER TWO  
3 OF THE PAST FIVE YEARS, AND WHO HAS ACTIVELY PARTICIPATED IN THE  
4 FISHERY DURING THAT PERIOD]; loans made under this paragraph are  
5 subject to [THE PROVISIONS OF] AS 44.81.230;

6 \* Sec. 5. AS 44.81.210(a)(22) is amended to read:

7 (22) accept the pledge of a limited entry permit as security  
8 for a loan made under this chapter [FOR THE REPAIR, RESTORATION, OR  
9 IMPROVEMENT OF A COMMERCIAL FISHING VESSEL OR COMMERCIAL FISHING GEAR,  
10 OR FOR THE CONSTRUCTION OR PURCHASE OF A COMMERCIAL FISHING VESSEL,]  
11 subject to the conditions set out in AS 44.81.230 - 44.81.250 on  
12 pledges of limited entry permits;

13 \* Sec. 6. AS 44.81 is amended by adding a new section to read:

14 Sec. 44.81.235. LIMITATIONS ON PLEDGE OF PERMITS. (a) The bank  
15 may issue a loan secured by a limited entry permit for

16 (1) purchase, repair, restoration, or improvement of a  
17 commercial fishing vessel or commercial fishing gear;

18 (2) construction of a commercial fishing vessel;

19 (3) working capital, including insurance premiums, fuel,  
20 bait, and boat storage and launching expenses; or

21 (4) purchase and improvement of set net sites and associ-  
22 ated equipment.

23 (b) A limited entry permit may be used as security for more than  
24 one loan if each loan meets the requirements of (a) of this section.

25 (c) A limited entry permit may be used as security for a loan to  
26 refinance existing debts if the proceeds of each original loan were  
27 used in accordance with (a) of this section.

28 \* Sec. 7. AS 44.81.270 is amended by adding new subsections to read:

29 (b) The bank shall be audited annually by independent outside

1        auditors. The legislative auditor may confer with the outside audi-  
2        tors and review the workpapers of the audit. At the direction of the  
3        Legislative Budget and Audit Committee under AS 24.20.271, the legis-  
4        lative auditor may conduct an audit of the bank.

5                (c) The state bank examiners shall perform an annual qualitative  
6        examination and evaluation of the bank. The commissioner of commerce  
7        and economic development shall assess the bank a fee established under  
8        AS 06.01.010(b) for the actual expenses incurred by the Department of  
9        Commerce and Economic Development in connection with the examination.  
10       The examiners shall report to the board of directors on the examina-  
11       tion. The examiners shall prepare a summary report evaluating the  
12       bank's loan portfolio quality on a statistical basis and addressing  
13       the appropriateness and effectiveness of the bank's policies, prac-  
14       tices, and management within the context of the bank's statutory  
15       purposes. The examiners shall distribute copies of the summary report  
16       to the bank, the legislature, and the governor.

17       \* Sec. 8. This Act takes effect immediately under AS 01.10.070(c).

Original sponsors: Zharoff and Eliason

1 IN THE SENATE BY THE RESOURCES COMMITTEE  
2 CS FOR SENATE BILL NO. 8 (Resources)  
3 IN THE LEGISLATURE OF THE STATE OF ALASKA  
4 FIFTEENTH LEGISLATURE - FIRST SESSION

5 A BILL  
6 For an Act entitled: "An Act relating to the Commercial Fishing and Agri-  
7 culture Bank; and providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 \* Section 1. AS 44.81.010(a) is amended to read:

10 (a) There is established the Alaska Commercial Fishing and  
11 Agriculture Bank. The exercise by the bank of the powers conferred by  
12 this chapter is considered to be for a public purpose. [EXCEPT AS  
13 OTHERWISE PROVIDED IN THIS CHAPTER, AND EXCEPT THAT ANY FILING FEES  
14 SHALL BE WAIVED, THE BANK IS SUBJECT TO THE PROVISIONS OF AS 10.15  
15 (ALASKA COOPERATIVE CORPORATION ACT).] The bank is exempt from the  
16 provisions of AS 06.05 (Alaska Banking Code) and AS 10.15 (Alaska  
17 Cooperative Corporation Act) in the exercise of powers granted by this  
18 chapter.

19 \* Sec. 2. AS 44.81.020(a) is amended to read:

20 (a) The bank shall be managed by a board of directors consisting  
21 of seven members. Five [AT LEAST ONE MEMBER OF THE BOARD SHALL BE AN  
22 ALASKA FARMER WITH AT LEAST 10 YEARS OF ALASKAN FARM EXPERIENCE.  
23 INITIAL APPOINTMENTS TO THE BOARD SHALL BE MADE BY THE GOVERNOR. TWO  
24 OF THE INITIAL APPOINTMENTS SHALL BE MADE AT THE TIME OF THE FIRST  
25 ANNUAL MEMBERSHIP MEETING OF THE BANK. THEREAFTER, FIVE] board mem-  
26 bers shall be elected by the members of the bank, with at least one of  
27 the elected board members being an Alaska farmer [WITH AT LEAST 10  
28 YEARS OF ALASKAN FARM EXPERIENCE], and two board members shall be  
29 appointed by the governor until the repurchase of all the nonvoting,

1 preferred shares initially issued by the bank and purchased by agen-  
2 cies of the state. After repurchase is completed, all board members  
3 shall be elected by the members of the bank. The board members shall  
4 annually elect a chairman from among themselves. The purpose of the  
5 board is to manage the assets of the bank.

6 \* Sec. 3. AS 44.81.090 is amended to read:

7 Sec. 44.81.090. TERM OF OFFICE AND REMOVAL. The members of the  
8 board shall serve for terms of three years, and they may serve succes-  
9 sive terms. Terms shall be staggered. An elected member of the board  
10 who releases confidential information in violation of AS 44.81.260,  
11 commits serious ethical misconduct that relates to the member's fit-  
12 ness to serve as a member of the board, or maintains a chronically and  
13 irredeemably substandard borrowing relationship with the bank may be  
14 removed from the board by unanimous vote of the remaining members of  
15 the board [INITIAL TERMS OF THE FIRST FIVE MEMBERS APPOINTED TO THE  
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24 \* Sec. 4. AS 44.81.210(a)(20) is amended to read:

25 (20) make loans to individual commercial fishermen for  
26 limited entry permits; a loan under this paragraph may be made only to  
27 an individual commercial fisherman who has been a state resident for a  
28 continuous period of two years immediately preceding the date of  
29 application for the loan [AND WHO HAS HAD A CREWMEMBER OR COMMERCIAL

1 FISHING LICENSE UNDER AS 16.05.480 OR A PERMIT UNDER AS 16.43 FOR THE  
2 YEAR IMMEDIATELY PRECEDING THE DATE OF APPLICATION AND ANY OTHER TWO  
3 OF THE PAST FIVE YEARS, AND WHO HAS ACTIVELY PARTICIPATED IN THE  
4 FISHERY DURING THAT PERIOD]; loans made under this paragraph are  
5 subject to [THE PROVISIONS OF] AS 44.81.230;

6 \* Sec. 5. AS 44.81.210(a)(22) is amended to read:

7 (22) accept the pledge of a limited entry permit as security  
8 for a loan made under this chapter [FOR THE REPAIR, RESTORATION, OR  
9 IMPROVEMENT OF A COMMERCIAL FISHING VESSEL OR COMMERCIAL FISHING GEAR,  
10 OR FOR THE CONSTRUCTION OR PURCHASE OF A COMMERCIAL FISHING VESSEL,]  
11 subject to the conditions set out in AS 44.81.230 - 44.81.250 on  
12 pledges of limited entry permits;

13 \* Sec. 6. AS 44.81 is amended by adding a new section to read:

14 Sec. 44.81.235. LIMITATIONS ON PLEDGE OF PERMITS. (a) The bank  
15 may issue a loan secured by a limited entry permit for

16 (1) purchase, repair, restoration, or improvement of a  
17 commercial fishing vessel or commercial fishing gear;

18 (2) construction of a commercial fishing vessel;

19 (3) working capital, including insurance premiums, fuel,  
20 bait, and boat storage and launching expenses; or

21 (4) purchase and improvement of set net sites and associ-  
22 ated equipment.

23 (b) A limited entry permit may be used as security for more than  
24 one loan if each loan meets the requirements of (a) of this section.

25 (c) A limited entry permit may be used as security for a loan to  
26 refinance existing debts if the proceeds of each original loan were  
27 used in accordance with (a) of this section.

28 \* Sec. 7. AS 44.81.270 is amended by adding new subsections to read:

29 (b) The bank shall be audited annually by independent outside

1        auditors. The legislative auditor may confer with the outside audi-  
2        tors and review the workpapers of the audit. At the direction of the  
3        Legislative Budget and Audit Committee under AS 24.20.271, the legis-  
4        lative auditor may conduct an audit of the bank.

5            (c) The state bank examiners shall perform an annual qualitative  
6        examination and evaluation of the bank. The commissioner of commerce  
7        and economic development shall assess the bank a fee established under  
8        AS 06.01.010(b) for the actual expenses incurred by the Department of  
9        Commerce and Economic Development in connection with the examination.  
10       The examiners shall report to the board of directors on the examina-  
11       tion. The examiners shall prepare a summary report evaluating the  
12       bank's loan portfolio quality on a statistical basis and addressing  
13       the appropriateness and effectiveness of the bank's policies, prac-  
14       tices, and management within the context of the bank's statutory  
15       purposes. The examiners shall distribute copies of the summary report  
16       to the bank, the legislature, and the governor.

17       \* Sec. 8. This Act takes effect immediately under AS 01.10.070(c).

1 IN THE SENATE

BY ZHAROFF AND ELIASON

2

SENATE BILL NO. 8

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

6 For an Act entitled: "An Act relating to the Commercial Fishing and Agri-  
7 culture Bank."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 \* Section 1. AS 44.81.010(a) is amended to read:

10 (a) There is established the Alaska Commercial Fishing and  
11 Agriculture Bank. The exercise by the bank of the powers conferred by  
12 this chapter is considered to be for a public purpose. [EXCEPT AS  
13 OTHERWISE PROVIDED IN THIS CHAPTER, AND EXCEPT THAT ANY FILING FEES  
14 SHALL BE WAIVED, THE BANK IS SUBJECT TO THE PROVISIONS OF AS 10.15  
15 (ALASKA COOPERATIVE CORPORATION ACT).] The bank is exempt from the  
16 provisions of AS 06.05 (Alaska Banking Code) and AS 10.15 (Alaska  
17 Cooperative Corporation Act) in the exercise of powers granted by this  
18 chapter.

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1 preferred shares initially issued by the bank and purchased by agen-  
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