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STATE OF ALASKA
THE LEGISLATURE

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POUCHY - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

May, 1988

Copies of minutes listed below were originally included in this file. The minutes are available on the STAIRS database CMPR. In order to save space copies of minutes have not been left in the files.

Mary Van Nimwegen

House L³C:

May 5, 1988

May 6, 1988

HOUSE COMMITTEE REPORT

(7)

Date referred: 4/15/88

FURTHER REFERRALS: Finance

DATE: 5/6/88

The Labor & Commerce Committee has considered CSSB 471(Fin)am

"An Act establishing a program in the Alaska Industrial Development and Export Authority to guarantee business loans, and limiting the Authority's ability to issue bonds; and providing for an effective date."

RECOMMENDS:

- replace with HCS CSSB 471 (L+C) 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 4/8/88
- zero fiscal note same as previous zero fiscal note published _____
- zero with analysis

SIGNING DO PASS:

Cliff Davidson

[Signature]

[Signature]

SIGNING OTHER RECOMMENDATIONS:

[Signature]

[Signature] (no REC)

[Signature]

Chairman's signature

5-1796Z

Chenoweth
5/5/88

Original sponsors: Halford, Faiks,
Uehling, et al.

BY THE LABOR AND
COMMERCE COMMITTEE

1 IN THE SENATE

2 HOUSE CS FOR CS FOR SENATE BILL NO. 471 (L&C)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act establishing a program in the Alaska Indus-
7 trial Development and Export authority to guarantee
8 business loans, and limiting the Authority's ability
9 to issue bonds; and providing for an effective date."

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

11 * Section 1. AS 44.88.090 is amended by adding a new subsection to
12 read:

13 (i) After January 1, 1990, the authority may not issue bonds,
14 other than refunding bonds, without securing the prior approval of the
15 legislature.

16 * Sec. 2. AS 44.88 is amended by adding new sections to read:

17 ARTICLE 6A. BUSINESS ASSISTANCE PROGRAM.

18 Sec. 44.88.500. BUSINESS ASSISTANCE FUND. (a) The business
19 assistance fund is established in the authority from money in the
20 authority's reserves designated by the authority for the purpose.
21 Subject to the requirements of AS 44.88.500 - 44.88.599, the authority
22 may use money in the fund

23 (1) to guarantee new loans; and

24 (2) to guarantee loans made to refinance existing loans.

25 (b) The holder of a debt instrument for a loan guaranteed by the
26 authority does not have recourse to the assets of the authority beyond
27 those designated by the authority from its reserves for the purpose.

1 under AS 44.88.500(a)(1).

2 (b) The authority may establish additional applicant qualifica-
3 tions by regulation. These qualifications may vary depending upon the
4 type of business the applicant is engaged in.

5 Sec. 44.88.510. APPLICATION FOR NEW LOAN GUARANTEE. An appli-
6 cant for a new loan guarantee shall provide information that the
7 authority may require by regulation. The authority may require sub-
8 mission of an economic benefit analysis prepared by a person accept-
9 able to the authority.

10 Sec. 44.88.515. QUALIFICATIONS OF APPLICANT FOR DEBT REFINANCING
11 GUARANTEE. A business enterprise may apply under AS 44.88.500(a)(2)
12 to guarantee the refinancing of existing debt.

13 Sec. 44.88.520. APPLICATION FOR DEBT REFINANCING GUARANTEE. An
14 applicant for a debt refinancing guarantee shall provide the informa-
15 tion that the authority may require by regulation.

16 Sec. 44.88.525. CONDITIONS OF DEBT REFINANCING GUARANTEE. The
17 authority may not guarantee refinanced debt

18 (1) unless the refinancing

19 (A) is necessary to extend substantial debt payments
20 over a longer period of time, thereby improving the applicant's
21 net cash flow and working capital position consistent with the
22 useful life of the assets being refinanced;

23 (B) assists with short-term debt or cash expenditures
24 when lenders will not extend reasonable longer terms to the
25 applicant; and

26 (C) creates additional economic opportunity or im-
27 proves the viability of the borrower rather than just reducing
28 the liability of the lender; or

1 permanent loan subsequent to an interim loan for financing
2 construction of the project.

3 Sec. 44.88.530. APPLICABILITY OF PROVISIONS. AS 44.88.535 -
4 44.88.560 apply to

5 (1) new loan guarantees under AS 44.88.500(a)(1); and

6 (2) debt refinancing guarantees under AS 44.88.500(a)(2).

7 Sec. 44.88.535. CONDITIONS OF LOAN GUARANTEE. (a) The author-
8 ity may guarantee a loan under AS 44.88.500 - 44.88.599 if the

9 (1) loan is commercially reasonable, contains amortization
10 provisions satisfactory to the authority, is secured by adequate
11 collateral, and the net cash flow from the borrower provides adequate
12 coverage for the debt service on the loan;

13 (2) term of the loan does not exceed 20 years;

14 (3) loan is originated with and serviced by a state char-
15 tered or federally chartered financial institution;

16 (4) portion of the loan not guaranteed by the authority is
17 held by the originating financial institution or another financial
18 institution approved by the authority;

19 (5) loan is made to a business with a majority interest
20 held by state residents; and

21 (6) loan guarantee provides a benefit to the borrower.

22 (b) The authority may provide a guarantee from the fund for up
23 to 70 percent of a loan that qualifies under AS 44.88.500 - 44.88.599.
24 The ratio of the guarantee to the outstanding principal of the loan
25 may not increase over the term of the loan.

26 (c) The authority may not guarantee the payment of interest on
27 the guaranteed portion of a loan.

28 Sec. 44.88.540. LIMITATIONS OF GUARANTEES FROM THE FUND. The

1 (1) a total of more than \$50,000,000 of loans;

2 (2) more than \$25,000,000 of loans in which the amount of
3 the loan guarantee exceeds \$500,000.

4 Sec. 44.88.545. LIMITATIONS OF GUARANTEES WITH RESPECT TO BOR-
5 ROWERS. The authority may not guarantee

6 (1) a loan of more than \$1,000,000;

7 (2) loans to an individual borrower that cumulatively
8 exceed \$1,000,000 of indebtedness.

9 Sec. 44.88.550. INTEREST ON GUARANTEED LOAN. The maximum inter-
10 est rate on a loan guaranteed by the authority is

11 (1) for a loan guarantee that exceeds 65 percent of the
12 loan, one and one-half percentage points above the prime rate on the
13 day the loan guarantee is made; and

14 (2) for a loan guarantee that is equal to or less than 65
15 percent of the loan, two and three-quarters percentage points above
16 the prime rate on the day the loan guarantee is made.

17 Sec. 44.88.555. SERVICING OF GUARANTEED LOANS. (a) The finan-
18 cial institution that holds a loan guaranteed by the authority under
19 AS 44.88.500 - 44.88.599 shall

20 (1) service the loan;

21 (2) exercise diligence in collecting amounts due under the
22 loan; and

23 (3) comply with all requirements of the loan guarantee
24 agreement.

25 (b) Amounts received toward satisfaction of a default on a loan
26 guaranteed under AS 44.88.500 - 44.88.599 shall be allocated between
27 the lender and the fund according to the guaranteed percentage of the
28 loan until the principal balance has been repaid.

1 (1) adopt regulations to implement AS 44.88.500 - 44.88.-
2 599;

3 (2) establish terms and conditions for loan guarantees and
4 refinancing agreements subject to the requirements of AS 44.88.500 -
5 44.88.599;

6 (3) make and execute contracts and other instruments to
7 implement AS 44.88.500 - 44.88.599;

8 (4) charge one percent of the amount guaranteed as a one
9 time fee for the service it provides under AS 44.88.500 - 44.88.599;

10 (5) acquire real or personal property by purchase, trans-
11 fer, or foreclosure when the acquisition is necessary to protect an
12 interest in the fund; and

13 (6) exercise any other power necessary to implement AS 44.-
14 88.500 - 44.88.599.

15 Sec. 44.88.570. DISTRIBUTION OF LOANS. The authority shall
16 distribute guarantees of new loans and guarantees of loans made to
17 refinance existing loans under AS 44.88.500 - 44.88.599 to all regions
18 of the state in an equitable manner.

19 Sec. 44.88.599. DEFINITIONS. In AS 44.88.500 - 44.88.599

20 (1) "fund" means the business assistance fund established
21 under AS 44.88.500;

22 (2) "prime rate" means the lowest money center prime rate
23 of interest that is published in the Wall Street Journal.

24 * Sec. 3. PROCEDURES GOVERNING PROGRAM REVIEW. (a) AS 44.66.050 and
25 44.66.060 apply to AS 44.88.500 - 44.88.599 (Business Assistance Program of
26 the Alaska Industrial Development and Export Authority).

27 (b) The Second Session of the Sixteenth Alaska State Legislature
28 shall conduct the legislative oversight proceedings...

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* Sec. 4. AS 44.88.500 - 44.88.599 are repealed July 1, 1991.

* Sec. 5. This Act takes effect immediately under AS 01.10.070(c).

STATE OF ALASKA
1988 LEGISLATIVE SESSION

BILL VERSION: CSSB 471 (Fin)
PUBLISH DATE: SENATE 4/8/88

FISCAL NOTE

REQUEST:

Revision Date: _____
Title: Act establishing a program
to guarantee business loans
Sponsor: _____
Requestor: Senate Finance Committee

Agency Affected: Dept. of Commerce
BRU: & Economic Development
Components: Alaska Industrial
Development Authority

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL	25 million	0	0	0	0	0
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REVENUE						
---------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER	25 million	0	0	0	0	0
TOTAL						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

The operating cost will be absorbed by the existing authority budget. The \$25 million represents funds that would be appropriated from existing authority funds to the Business Assistance Fund.

Prepared by: Bert Wagon Phone: 274-1651
Division: Alaska Industrial Development Authority Date: 4-7-88

Approved by Commissioner: _____ Date: _____
Agency: J. Anthony Smith, Commissioner
Dept. of Commerce & Economic Development

Distribution (by preparer):

Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

STATE OF ALASKA
THE LEGISLATURE

POUCH Y STATE CAPITOL
JUNEAU ALASKA 99811
907 465 3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

April 7, 1988

SUBJECT: Draft CSSB 471 (Finance)
TO: Senator Rick Halford
FROM: Jack Chenoweth
Legislative Counsel

I have redrafted the legislation based on yesterday's discussions.

As redrafted, the business assistance program is intended as a source of business loan guarantees and would not serve (as indicated in earlier drafts) as an independent source of money for refinancing existing loans.

Proposed AS 44.88.500(a) establishes the business assistance fund. The purpose of the fund is to serve as a source of (1) guarantees of new loans and (2) guarantees of loans used to refinance existing loans. Unlike earlier versions, proposed subsection (a) limits the source of money for the fund to the Industrial Development and Export Authority's own reserves; I have, therefore, abandoned the "appropriation" language of earlier versions and substituted "money in the reserves designated by the authority for the purpose." Subsection (b) of AS 44.88.500 is new: as suggested by Bert Wagon, it limits the recourse of holders of debt instruments to the reserves designated by the Authority for inclusion in the fund.

Proposed AS 44.88.505 and 44.88.510 are specifically applicable to new loan guarantees. These provisions follow similar provisions of the earlier draft.

Proposed AS 44.88.515, 44.88.520, and 44.88.525 are specifically applicable to debt refinancing guarantees. The first two sections follow earlier versions, with changes as were discussed yesterday. Note especially AS 44.88.525: it is a condition of obtaining a debt refinancing guarantee

Senator Rick Halford
Page2
April 7, 1988

that the applicant meet all of the conditions of paragraph (1)(A) - (C) or the condition of paragraph (2).

Proposed AS 44.88.530 - 44.88.560 apply to all loan guarantees to be considered for support from the fund. To clarify, I have included a new section, AS 44.88.530, that defines the applicability of those sections.

In proposed AS 44.88.535, I have made the revision requested in (b): a guarantee may not exceed 75 percent.

In proposed AS 44.88.550, I have made the related revisions, adjusting the interest rate payment break to 65 percent.

Proposed AS 44.88.555 is new. Subsection (a) is intended to relate the obligations of the participating financial institution in servicing the loan, aggressively collecting amounts due, and complying with the provisions of any loan guarantee agreement. The change of the first word of subsection (b) from "payments" to "amounts" follows the suggestion of Mr. Wagnon.

Proposed AS 44.88.560 carries forward the substance of an earlier provision. I have made adjustments, omitting reference to "designating agents and delegating powers" as unnecessary and adding a provision, referred to by Mr. Wagnon, authorizing the Authority to "charge fees for services [the Authority] provides."

Proposed AS 44.88.599 and bill sections 2, 3, and 4 are unchanged from the earlier draft.

Please contact me if this bill draft or memorandum prompts questions.

Thank you for the opportunity to sit with you, Commissioner Smith, Director Wagnon, and your staff in the analysis and revision of the committee substitute.

Enclosure

JBC:bb
b4/104

Senator Rick Halford



Senate District 1
Chugiak, Eagle River, East Anchorage, Fort Richardson

Senate Finance Committee
Co-Chairman

April 21, 1988

MEMORANDUM

TO: Representative Dave Donley, Chairman
House Labor and Commerce Committee

FROM: Senator Rick Halford, Co-Chairman
Senate Finance Committee

SUBJECT: Senate Bill 471 - AIDEA Loan Guarantee and Debt
Refinancing

Rick Halford

The committee substitute before your committee is a result of extensive work in the Economic Recovery Committee and represents comments received from committee members, the Alaska Industrial Development Authority, bankers, and the Small Business Administration.

The main differences between the original bill and the Finance Committee Substitute amended by the Senate are as follows:

- * The bill allows AIDEA to guarantee up to 70% of new loans made by financial institutions and to guarantee loans up to 70% made to refinance existing loans.
- * The bill restricts recourse to assets designated by the authority for the purpose in order to make it clear to the bond market that AIDEA's other assets are protected.
- * It sets a cap on the total amount of loan funds that can be guaranteed by AIDEA at \$50 million. Half of the cap is reserved for loan guarantees and refinancing of debt under \$500,000.
- * The bill also sets a limit on the amount any one individual can receive at \$1 million.
- * The bill has a sunset date of July 1, 1990 so the Legislature can review the program and determine how well it is working.

Page Two

* It stipulates that a loan guarantee has to provide a benefit to the borrower - not just the financial institution.

* It calls for a regional distribution for the guarantees.

* The bill allows AIDEA to charge 1% of the amount guaranteed as a one time service fee.

* After 1990 the bill restricts the Authority's ability to issue bonds without prior legislative approval.

ALASKA INDUSTRIAL DEVELOPMENT & EXPORT AUTHORITY
ENTERPRISE DEVELOPMENT FUND

Balance Sheets

June 30, 1987 and 1986

<u>Assets</u>	<u>1987</u>	<u>1986</u>
Cash	\$ 11,685	\$ 4,123
Investments, partially restricted (note 3)	278,329,162	204,458,429
Loans (note 4)	329,070,910	372,833,597
Less allowance for possible loan loss	<u>10,173,101</u>	<u>4,247,360</u>
Net loans	<u>318,897,809</u>	<u>368,586,237</u>
Accrued interest receivable	6,404,839	7,258,811
Unamortized bond issue costs	2,716,359	2,864,036
Other real estate owned	8,797,589	2,977,186
Other	<u>473,883</u>	<u>432,239</u>
	<u>\$615,631,326</u>	<u>\$586,581,061</u>
<u>Liabilities and Equity</u>		
Notes and bonds payable (note 6)	\$252,720,225	\$245,256,775
Accrued interest payable	6,283,633	6,135,818
Deposits from others	997,292	1,003,400
Other	<u>204,331</u>	<u>235,960</u>
	<u>260,205,481</u>	<u>252,631,953</u>
Equity:		
Contributed capital (note 1)	197,800,632	189,800,632
Retained earnings	<u>157,625,213</u>	<u>144,148,471</u>
Total equity	<u>355,425,845</u>	<u>333,949,103</u>
	<u>\$615,631,326</u>	<u>\$586,581,061</u>

Commitments (note 12)

See accompanying notes to financial statements.

ALASKA INDUSTRIAL DEVELOPMENT & EXPORT AUTHORITY
ENTERPRISE DEVELOPMENT FUND

Statements of Earnings and Retained Earnings

Years ended June 30, 1987 and 1986

	<u>1987</u>	<u>1986</u>
Revenues:		
Interest, net of servicing fees	\$ 47,880,777	\$ 53,832,444
Fees (note 7)	142,132	1,086,371
Miscellaneous	336,316	40,995
Total revenues	<u>48,359,225</u>	<u>54,959,810</u>
Expenses:		
Interest	25,712,539	24,208,747
Salaries and employee benefits	733,567	818,570
Professional fees	96,205	119,809
Travel	14,497	19,454
Rent	105,808	93,699
Furniture and equipment	28,576	62,267
Amortized bond issue costs	137,807	135,396
Provision for loan loss	6,450,000	323,515
Write-downs and loss on sale of assets	1,223,369	31,727
Other	380,114	271,425
Total expenses	<u>34,882,482</u>	<u>26,084,609</u>
Net earnings	13,476,743	28,875,201
Retained earnings at beginning of year	<u>144,148,470</u>	<u>115,273,269</u>
Retained earnings at end of year	<u>\$157,625,213</u>	<u>\$144,148,470</u>

See accompanying notes to financial statements.

ALASKA INDUSTRIAL DEVELOPMENT & EXPORT AUTHORITY
ENTERPRISE DEVELOPMENT FUND

Notes to Financial Statements

Allowance for Loan Loss

Management regularly reviews the loan portfolio and determines provision for loss based upon experience and management's estimate of potential loss.

Other Real Estate Owned

Other real estate owned represents property acquired through foreclosure on loans or a deed received in lieu of foreclosure. It is carried at the lower of the unpaid loan balance at the time of foreclosure or the estimated fair market value of the property. When the balance of the Authority's investment in the loan is greater than the fair market value of the property, the difference is charged to the allowance for loan losses.

Retirement Plan

All employees of the Authority participated in the State of Alaska Public Employees' Retirement System. The State's policy is to fund pension costs accrued.

Bond Issue Costs

When advanced by the Authority, costs of bond issues, including underwriters' fees and commissions, legal fees, bond insurance and printing, are amortized over the life of the bond issue on the straight-line method and are recovered from the borrowers primarily as a part of the interest rate charged. Current practice is to require borrowers to pay for bond costs at the time of funding.

Furniture and Equipment

Purchases of furniture and equipment are expensed, as such items are the property of the State of Alaska.

(3) Investments

At June 30, 1987, investments were in certificates of deposit, United States Government securities or commercial paper, yielding interest at 4.8% to 13.0% and maturing generally within one year, except \$5,479,261 in United States Treasury Notes maturing in subsequent years through 1992 for restricted purposes and \$6,305,000 in Seward C.O.P.'s maturing serially to 2000.

At June 30, 1986, all investments were in certificates of deposit, United States Government securities or commercial paper, yielding interest at 6.4% to 13.0% and maturing within one year, except United States Treasury Notes of which \$997,930 mature in 1987 and \$5,189,683 mature in subsequent years through 1992.

Certain invested funds are restricted by the terms of the Authority's bond resolutions and are held and invested by the trustees. A summary of these investments follows:

(Continued)

ALASKA INDUSTRIAL DEVELOPMENT & EXPORT AUTHORITY
ENTERPRISE DEVELOPMENT FUND

Notes to Financial Statements

Investment Summary

<u>Name</u>	<u>Restriction</u>	June 30	
		<u>1987</u>	<u>1986</u>
Loan participation funds	Committed loans not closed at June 30	\$ -0-	\$ 550,000
Capital reserve funds	Secure debt service payment - bonds	26,468,794	25,562,325
Debt service funds	Loan repayments and funds held for debt service - bonds	<u>28,815,638</u>	<u>21,437,070</u>
		<u>\$55,284,432</u>	<u>\$47,549,395</u>

The Capital Reserve Funds are maintained for the purpose of making principal and interest payments on the bonds payable if monies received by the Authority and available for the payment of bond principal and interest are insufficient to make the required debt service payments. The amounts held in the capital reserve funds are equal to the average of the amounts required to be paid for principal and interest in each future fiscal year until maturity of the outstanding bonds. On the first day of January, April, July and October of each year, the Authority must replenish the capital reserve funds to the required amounts or may withdraw any excess amounts.

(4) Loans

Loans outstanding at June 30, 1987 and 1986 are classified as follows:

<u>Loan Type</u>	<u>1987</u>		<u>1986</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Appropriated & purchased	549	\$ 75,353,222	626	\$ 89,319,047
Federally guaranteed	63	11,278,600	174	34,097,213
Bond sale	<u>396</u>	<u>242,439,088</u>	<u>423</u>	<u>249,417,337</u>
	<u>1,008</u>	<u>\$329,070,910</u>	<u>1,223</u>	<u>\$372,833,597</u>

An aging of loans as of June 30, 1987 and 1986 follows:

(Continued)

FISCAL NOTE

REQUEST:

Revision Date: _____
Title: Act establishing a program
to guarantee business loans
Sponsor: _____
Requestor: Senate Finance Committee

Agency Affected: Dept. of Commerce
BRU: & Economic Development
Components: Alaska Industrial
Development Authority

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	25 million	0	0	0	0	0
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER	25 million	0	0	0	0	0
TOTAL						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

The operating cost will be absorbed by the existing authority budget. The \$25 million represents funds that would be appropriated from existing authority funds to the Business Assistance Fund.

Prepared by: Bert Wagnon Phone: 274-1651
Division: Alaska Industrial Development Authority Date: 4-11-88

Approved by Commissioner: _____ Date: _____
Agency: J. Anthony Smith, Commissioner
Dept. of Commerce & Economic Development

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



OFFICIAL BUSINESS

Alaska State Legislature
Senate

RECEIVED MAR 18 1988

POUCH V
CAPITOL BUILDING
JUNEAU, ALASKA 99811

SENATE JOINT COMMITTEE ON ECONOMIC RECOVERY

TO: Senator Jan Faiks
Senate President

FROM: Senator Arliss Sturgulewski, Co-Chairman
Senator Lloyd Jones, Co-Chairman
Senate Joint Committee on Economic Recovery

RE: SB 471

DATE: March 17, 1988

During the meeting of the Senate Joint Committee on Economic Recovery on March 16, 1988, the Committee unanimously endorsed the concepts contained in SB 471 - "An Act establishing a program in the Alaska Industrial Development and Export Authority to guarantee loans and to refinance debt..." and recommends that it proceed through the standing committee hearing process.

cc: Max Gruenberg, Chairman
House Joint Committee on Economic Recovery

SSSB471 - Senator Halford - "An Act establishing a program in the Alaska Industrial Development and Export Authority to guarantee business loans and to refinance debt; and providing for an effective date."

Status: Senate Finance

Endorsement qualifications:

The committee endorsed this legislation at the March 16, 1988 and adopted the following intent at its meeting on March 22, 1988. "The bill needs further refinement in the Senate Finance Committee and the SJCFER recommends that the Finance Committee review setting a cap or maximum limit on the total amount of loan funds that can be guaranteed by AIDEA. This will prevent uncontrollable liability at some future date. The committee also recommends that AIDEA develop guidelines for allowing private financial institutions to offer refinanced debt packages as well as guidelines for new business loans that will stimulate economic growth. Finally, in order to evaluate its progress, the committee suggests a sunset date on the AIDEA loan guarantee program."

SSSB474 - Senator Halford - "An Act increasing property exemptions; and providing for an effective date."

Status: Senate Finance

SB476(CRA) - Senator Halford - "An Act creating the Supplemental Municipal Assistance Fund for Railbelt communities; and providing for an effective date."

Status: Senate Finance

SB477 - CRA Committee - "An Act making a special appropriation to the Department of Community and Regional Affairs for supplemental municipal assistance to Railbelt communities; and providing for an effective date."

Status: Senate Finance

Endorsement qualifications:

The committee adopted an amendment that reduces the appropriation amount to \$25,000,000.



National Bank of Alaska

Corporate Headquarters P.O. Box 100600 • Anchorage, Alaska 99510-0600 • (907) 276-1132

March 8, 1988

Senator Lloyd Jones, Co-Chair
Alaska State Legislature
Senate Joint Economic Recovery Committee
P.O. Box V
Juneau, AK 99811

Dear Senator Jones:

It was an honor to be invited to Juneau to speak on economic issues and on Senate bill 471. We believe this bill is in the best interest of the people of Alaska and an important tool for creating new jobs and saving existing ones. The major points of my testimony were as follows:

1. A guarantee program will offer confidence to a shaken state banking system and encourage banks to actively participate in the lending process.
2. A guarantee program will share risk in lending which could encourage surviving banks to deal with borrowers whose credits are currently hung up in FDIC loan portfolios. Without sharing of risk, banks may be reluctant to solicit these credits.
3. A loan guarantee program will encourage local banks to put existing capital to work within Alaska without further risk to the state banking system; otherwise, these resources may otherwise be utilized in government securities or loans outside the state.
4. AIDEA has been primarily a conduit to the national bonding markets. Issuances of bonds by AIDEA and Alaska Housing on an uncontrolled basis may ultimately affect the State's credit rating as they carry the moral obligation of the State. Utilizing non-bonding sources of funds which are readily available within the state will have no effect in the long run on the State's bonding capacity.
5. A guaranteed loan program should decrease the cost of money to the consumers. AIDEA has issued commitments at extremely high rates with commitment fees of 4% of the loan which is no bargain. (AIDEA has lowered their rates in the past week as a result of this criticism.) We believe that interest rates and fees to the consumer will decrease with such a program; however, with the bonding program remaining in place, if it is more advantageous for a consumer to utilize the bond approach, they would still have the opportunity.

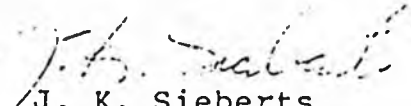
6. A guarantee program would reduce the loss exposure to AIDEA. Under a bond program if AIDEA takes a loss on a loan, they take a double loss: an initial loss after the liquidation of assets and a subsequent loss on the bonds. That is, AIDEA locked itself into long-term bonds, in many cases at high interest, which they have to continue making payments on even if a customer stops making payments.
7. We believe the banks under a guaranteed program will be able to work with the consumers on a more flexible and competitive manner. Under such a program the banks in the state can compete on rates, fees, and flexibility in terms. Under AIDEA's bond program the rates, fees, and terms are generally as quoted by AIDEA. If a consumer has problems due to a change in the economy, AIDEA has tended to be inflexible in their dealing with the public.
8. A guaranteed loan program will add liquidity to the state's banking system. This would be an advantage to little banks as well as large banks. Banks could hold the loan in their own portfolio or sell the loan to other participating financial institutions. They could use the guarantee as security for deposits of municipalities and State agencies and other large depositors. Such a program should overall increase the health of the financial system within the state.
9. Perhaps the most important feature is that we believe such a guarantee program will encourage lenders to participate in new projects in basic industries in Alaska which will create new jobs as well as save existing jobs in the state.
10. The refinance part of the bill provides a tool for the state's businesses to restructure debt at lower interest rates. This may enable many businesses to survive. Nationwide the trend of interest rates from 1981 has been down. It is very difficult to attract long-term capital from lenders into Alaska; therefore, Alaskans are often stuck at higher interest rates.

Senator Lloyd Jones, Co-Chair
March 8, 1988
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We all know what effect the reduction in jobs has had in the Railbelt in recent years; however, this phenomenon has not been centrally located to one region in the state, but economic recessions have been a fact of life in Southeast Alaska and other rural communities in past times as well.

There are other important issues in the state, but we feel this one piece of legislation would be one small part to be used in a recovery from our overall economic situation. If there are any comments I can provide in the future, please feel free to call me at 265-2991.

Sincerely yours,


J. K. Sieberts
Senior Vice President

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cc: Jan Faiks
Rick Halford
Jack Coghill
Dick Eliason
Fred Zharoff
Joe Josephson