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ADMITTED
AS
06.05.307(L)
EXEMPTION
ADMITTED
MOVED
LS-AM

5-2095B
Cook
4/20/88

Original sponsor: Finance Committee

1 IN THE SENATE

BY THE LABOR AND
COMMERCE COMMITTEE

2 CS FOR SENATE BILL NO. 502 (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 relating to the economic stabilization pro-
7 gram; and providing for an effective date."

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

9 * Section 1. FINDINGS AND PURPOSE. (a) The legislature finds that

10 (1) financial institutions that are chartered in the state and
11 have a principal place of business in the state provide a substantial
12 portion of consumer, housing, and small business loans in the state and are
13 an important source of financing for the state's small businesses;

14 (2) these financial institutions have, in the last two years,
15 lost a portion of their capital due to some circumstances not of their mak-
16 ing;

17 (3) some of these financial institutions are having problems
18 adequately serving the communities in which they maintain branches and
19 fulfill their historic role of providing an alternative source of financing
20 in the state's marketplace;

21 (4) the state can invest money in these financial institutions,
22 thereby reducing the risk of future problems in the real estate market;

23 (5) these financial institutions will be able to increase their
24 lending by a factor of at least 10 times the amount of money received by
25 them from the state investments.

26 (b) The purpose of the legislature in establishing the economic
27 stabilization program is to provide a source of money that can be invested
28 in financial institutions that are chartered in the state and have a prin-
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1 creased. The legislature intends to achieve this purpose by authorizing
2 the Alaska Industrial Development and Export Authority to invest in inter-
3 est-bearing debentures of these financial institutions which shall be
4 repaid or redeemed at maturity.

5 * Sec. 2. ECONOMIC STABILIZATION PROGRAM. (a) The economic stabi-
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7 Export Authority. Under this program the authority is authorized to use up
8 to \$15,000,000 for investments in debentures issued by a financial institu-
9 tion with

10 (1) a charter issued by the state;

11 (2) its principal office located in the state; and

12 (3) assets that totaled on December 31, 1987, less than
13 \$150,000,000 when combined with assets of all its affiliates.

14 (b) The Alaska Industrial Development and Export Authority may not
15 make an investment under this section until

16 (1) at least one public hearing has been held on the proposed
17 investment; and

18 (2) the authority and the director of banking, securities and
19 corporations make a written finding that the proposed investment is in the
20 public interest.

21 (c) The Alaska Industrial Development and Export Authority may charge
22 a fee in connection with investments under this section that the authority
23 considers to be reasonable. The authority may only invest in debentures
24 that

25 (1) pay interest quarterly or more often;

26 (2) bear interest at a rate established by the authority that is
27 not less than one and one-half percent above the prime rate as determined
28 by the authority; in establishing interest the authority shall consider the
29 cost of brokered deposits;

1 (3) are due for repayment 10 years after the date of issue, but
2 may be repaid sooner at the discretion of the issuer;

3 (4) are secured by the full faith and credit of the issuing
4 institution and other collateral as required by the authority;

5 (5) create rights of payment superior to rights of stockholders
6 of the financial institution, as determined by the authority;

7 (6) will be fully repaid before any dividends are paid to stock-
8 holders; and

9 (7) comply with other requirements that may be established by
10 the authority.

11 (d) The amount of debentures that may be purchased by the Alaska
12 Industrial Development and Export Authority under this section from an
13 institution may not exceed the amount of that institution's capital, sur-
14 plus, and undivided profits on December 31, 1985, as certified by the
15 director of banking, securities and corporations. The combined amount that
16 may be purchased from a holding company and its subsidiary bank may not
17 exceed the amount of capital, surplus, and undivided profits of the sub-
18 sidiary bank on December 31, 1985, as certified by the director of banking,
19 securities and corporations.

20 (e) Notwithstanding AS 06.05.307(a), debentures purchased by the
21 Alaska Industrial Development and Export Authority under this section may
22 be issued without regard to the principal amount of the notes and deben-
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24 authority may only purchase debentures under this section after the direc-
25 tor of banking, securities and corporations certifies that the issuance of
26 the debentures otherwise complies with AS 06.05.307 and that the purchase
27 meets the requirements of this section.

28 (f) The Alaska Industrial Development and Export Authority may pur-
29 chase debentures under this section only from an institution that agrees to

1 invest at least 15 percent of the purchase price in areas of the state
2 outside of metropolitan areas within three years after receipt of the
3 purchase price. The authority shall by regulation define "metropolitan
4 areas" for purposes of this subsection.

5 * Sec. 3. This Act is repealed July 1, 1990.

6 * Sec. 4. This Act takes effect immediately under AS 01.10.070(c).
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§ 06.05.307 BANKS AND FINANCIAL INSTITUTIONS § 06.05.307

liability of the stockholders is valid until it is approved by the department.

(c) If a state bank fails to maintain its total adjusted capital accounts and reserves in an amount equal to the substandard assets as reported by the Federal Deposit Insurance Corporation or the state in a bank's latest report of examination, the department shall consider the failure as endangering the safety of the depositor and may direct the bank's directors to increase the capital accounts in an amount sufficient to cover substandard assets. (§ 3.202 ch 129 SLA 1951; am § 11 ch 230 SLA 1968; am §§ 6, 7 ch 63 SLA 1969; am § 21 ch 169 SLA 1978)

Effect of amendment. — The 1978 amendment substituted "paid-in capital" for "a paid-up capital," "\$250,000" for "\$100,000," "paid-in surplus" for "a paid-up surplus," and "of paid-in capital" for "of paid-up capital" in subsection (a), added the language beginning "and it is unlawful" to the end of subsection (a), deleted former subsection (b), designated former subsections (c) and (d) as present subsections (b) and (c), rewrote the second sentence of present subsection (b), and substituted "Federal Deposit Insurance Corporation" for "FDIC" in subsection (c).
Editor's note. — Section 55, ch. 169, SLA 1978, contains a severability clause.
C.J.S. reference. — 9 C.J.S. Banks and Banking § 58.

Sec. 06.05.307. Capital notes or debentures. (a) A bank organized under the laws of this state may, with the approval of stockholders owning two-thirds of the stock of the bank entitled to vote or without this approval if authorized by its articles of incorporation, issue convertible or nonconvertible capital notes or debentures with the written consent of the department. The principal amount of notes and debentures outstanding at any time may not exceed 33 1/3 per cent of the capital stock and surplus fund of the bank at the date of issue. The rate and term are subject to the approval of the department but in no event may the term be more than 20 years after the date of issue.

(b) No bank may retire capital notes or debentures if the retirement creates an impairment of its capital. Capital notes and debentures are subordinated in right of payment in the event of insolvency or liquidation of the bank to the prior payment of all deposits and all claims of other creditors except the holders of securities on a parity with the capital notes and debentures and the holders of securities expressly subordinated to the capital notes and debentures.

(c) Bank assets may not be pledged to secure capital notes and debentures but the bank may, for the security and the protection of the holders of the capital notes and debentures, agree through its board of directors to restrict the payment of dividends.

(d) The amount of outstanding notes and debentures not maturing within one year shall be added to the capital surplus account, and undivided profits of the issuing bank for the purpose of determining the maximum amount that may be loaned by the bank as provided in § 205 of this chapter.

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11 *state chartered financial institution* bank, savings bank, or bank holding company with.

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- 13 (2) its principal office located in the state; and
- 14 (3) assets that totaled on December 31, 1987, less than
15 \$150,000,000 when combined with assets of all its affiliates.

16 (b) The Alaska Industrial Development and Export Authority may only
17 invest in debentures under this section that

- 18 (1) pay interest quarterly or more often;
- 19 (2) *provides for loan fees and* bear interest at a rate that is at least 50 basis points
20 above the average cost of a bond of similar maturity issued by a municipal-
21 ity at the time the debenture is issued, as determined by the authority;
- 22 (3) are due for repayment ¹⁰ years after the date of issue, but
23 may be repaid sooner at the discretion of the issuer; and
- 24 (4) are secured by the full faith and credit of the issuing
25 institution.

26 (c) *(5) are limited, under this program, to an aggregate total of \$15,000,000.*
27 The amount of debentures that may be purchased by the Alaska
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(5) places the repayment of the debenture in a superior position to shareholder and the payment of dividends.

state chartered financial institution

cost of funds

1 1/2% 12 months

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*1 1/2%
100% return
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Number 334

Willis Kirkpatrick, Director, Division of Banking and Securities, Department of Commerce & Economic Development, came forward to testify and answer questions. Mr. Kirkpatrick stated that he had observations that he would like to make. It is the responsibility of the Division of Banking to do what it can to provide and safe and sound financial institution system in the State of Alaska. He stated that he is in a position where in some instances that he has asked certain financial institutions to increase their capital account primarily due to erosion of the capital accounts. In that scenario he finds himself in the position where it is necessary for them to raise capital. In the determination to which capital is available there is a determination both by the Legislature and the state to make some assumptions where that capital should come from. As a regulator of financial institutions that has some institutions in need of capital he is not opposed to this bill. There are certain things that they may wish to consider in this and some of them are if a financial institution in the State of Alaska and especially a state chartered financial institution if it is serving a clientele maybe they should be also considered in this type of legislation. If any financial institution fails whether it is a credit union, savings or loan, commercial bank, or a mutual savings bank if they are serving a constituency and they are having particular problems and it may result

in some disfranchising their customers and all of our constituents maybe they should also be considered in this type of legislation, at least to some degree. It has been suggested that we have to space this legislation at the department level and it is also suggested that if funds are used to shore up the capital accounts of financial institutions that possibly not only making it available to other institutions, state chartered, but also at a rate high enough that it would discourage those who are not necessarily in need of capital assistance not to apply so that it would increase the cost of funds. It has also been suggested within the department that any funds dispersed or issued to to financial institutions carry collateral other than collateral for stock such as any facilities real estate that the bank may own and its fixed assets as additional collateral.

Senator Kelly asked if they can do that and it would still count at capital. Mr. Kirkpatrick stated that we would have to change that section of law that prohibits it. But in considering this law that would be an amendment to this bill.

Senator Kelly asked what would that amendment say. Mr. Kirkpatrick responded that it would delete the prohibition of not counting a pledge of assets to the bond as far as using it for the capital account.

Senator Kelly asked what result would that have on the ability of the banks to function. Mr. Kirkpatrick said that it would be the question of whether or not the bank would have enough capital then to function rather than not having enough capital which would jeopardize the existence of the financial institution. Senator Kelly stated that in your judgment you think even if they were forced to collateralize the bonds with assets they could still function. It could be counted as capital and they could still function. Mr. Kirkpatrick concurred. The only hesitance I have Mr. Chairman is whether or not the accounting profession would allow that to be counted as capital. As far as the regulatory capital within the state structure that provision would be deleted out so the state would recognize it as capital.

Number 412

Senator Fahrenkamp stated that she was confused. If that collateral area is changed by the amendment are we changing what we are trying to do in this legislation. Mr. Kirkpatrick responded that there is a provision of law that states that banks assets, and this is under capital notes and debentures under Title 6, may not be pledged to secure capital notes and debentures but the bank may for security and the protection of the holders of the capital notes and debentures agree through its board of directors to restrict

the payment of dividends. What he is saying here is a prohibition of allowing the pledging of assets for the debentures. The repeal of this under the subtitle of capital notes and debentures would allow it.

Senator Kelly asked if it is possible to restrict the payment of dividends until this subordinated debenture is paid off. Mr. Kirkpatrick responded yes, that is in the system now. Senator Kelly asked if that is adequately covered in the measure that is in front of the committee. Mr. Kirkpatrick replied yes. Senator Kelly asked is it quite clear that there will be no dividends issued until such time as these are paid off. Mr. Kirkpatrick responded that he didn't believe that it is stated firmly in this but in investing in this that certain expenses of the financial institution would be under scrutiny to the investor that this should be a consideration, this and other types of expenses.

Number 442

Senator Kelly asked what do we have to do in this legislation to make absolutely certain that the state comes first in terms of coming before shareholders and payers of dividends if the state invests capital in these organizations. Mr. Kirkpatrick suggested that the state provide a policy statement in this that would say that AIDA

would have to make sure that certain guidelines are set forth and that the state would recover their funds before any other types of expenses would be considered and that could range from limitations on increases of salaries, bonuses, expenses, dividends. The general type of expenses that aren't needed for the operation of a financial institution but are generally recognized as rewards for successful operation of a financial institution. If there is a statement in the legislation that that was the intent of the legislation then it would be quite clear upon regulations to spell out which one of those factors have to be considered before those expenses could be paid out i.e. dividends.

Number 460

Senator Fahrenkamp noted that one of the first things Mr. Kirkpatrick mentioned was the prevention of banks taking money when they don't need it. She stated that she understood that only two banks that weren't in serious trouble. Do you really think that we need to amend this to correct two banks. Mr. Kirkpatrick replied that they have some financial institutions that they have on their "watch list." In other words, they have certain conditions in their financial statement that gives them some concern. They also have several financial institutions that are not on the "watch list." They have more than three on their

"watch list" but they have more that are not. What he is trying to say that there are financial institutions out there that would not want or need the use of this law.

Senator Fahrenkamp asked if that means that we would be undoing what we are trying to do by adding a higher interest rate to debenture bonds.

5-2095B
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7 Export Authority. Under this program the authority is authorized to use up
8 to \$15,000,000 from the Alaska Industrial Development and Export Authority
9 revolving fund (AS 44.88.060) for investments in debentures issued by a
10 financial institution with

11 (1) a charter issued by the state;

12 (2) its principal office located in the state; and

13 (3) assets that totaled on December 31, 1987, less than
14 \$150,000,000 when combined with assets of all its affiliates.

15 (b) The Alaska Industrial Development and Export Authority may not
16 make an investment under this section until

17 (1) at least one public hearing has been held on the proposed
18 investment; and

19 (2) the authority and the director of banking, securities and
20 corporations make a written finding that the proposed investment is in the
21 public interest.

22 (c) The Alaska Industrial Development and Export Authority may not
23 pay any processing or other fee in connection with an investment under this
24 section and may only invest in debentures that

25 (1) pay interest quarterly or more often;

26 (2) bear interest at one and one-half percent above the prime
27 rate at the time the debenture is issued, as determined by the authority;

28 (3) are due for repayment 10 years after the date of issue, but
29 may be repaid sooner at the discretion of the issuer;

5-2095BV

Cook
4/19/88

B

Original sponsor: Finance Committee

1 IN THE SENATE

BY THE LABOR AND
COMMERCE COMMITTEE

2 CS FOR SENATE BILL NO. 502 (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 relating to the economic stabilization pro-
7 gram; and providing for an effective date."

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

9 * Section 1. FINDINGS AND PURPOSE. (a) The legislature finds that

10 (1) financial institutions that are chartered in the state and
11 have a principal place of business in the state provide a substantial
12 portion of consumer, housing, and small business loans in the state and are
13 an important source of financing for the state's small businesses;

14 (2) these financial institutions have, in the last two years,
15 lost some portion of their capital due to circumstances not of their mak-
16 ing;

17 (3) these financial institutions are having problems adequately
18 serving the communities in which they maintain branches and fulfill their
19 historic role of providing an alternative source of financing in the
20 state's marketplace;

21 (4) the state can invest money in these financial institutions,
22 thereby reducing the risk of future problems in the real estate market;

23 (5) these financial institutions will be able to increase their
24 lending by a factor of at least 10 times the amount of money received by
25 them from the state investments.

26 (b) The purpose of the legislature in establishing the economic
27 stabilization program is to provide a source of money that can be invested
28 in financial institutions that are chartered in the state and have a prin-
29 cipal place of business in the state so that their capital can be in-

1 creased. The legislature intends to achieve this purpose by authorizing
 2 the Alaska Industrial Development and Export Authority to invest in inter-
 3 est-bearing debentures of these financial institutions which shall be
 4 repaid or redeemed at maturity.

5 * Sec. 2. ECONOMIC STABILIZATION PROGRAM. (a) The economic stabi-
 6 lization program is established in the Alaska Industrial Development and
 7 Export Authority. Under this program the authority is authorized to use up
 8 to \$15,000,000 from the Alaska Industrial Development and Export Authority
 9 revolving fund (AS 44.88.060) for investments in debentures issued by a
 10 financial institution with

- 11 (1) a charter issued by the state;
- 12 (2) its principal office located in the state; and
- 13 (3) assets that totaled on December 31, 1987, less than
 14 \$150,000,000 when combined with assets of all its affiliates.

15 (b) The Alaska Industrial Development and Export Authority may not
 16 make an investment under this section until

- 17 (1) ~~at least one~~^a public hearing has been held on the proposed
 18 investment; and
- 19 (2) the authority and the director of banking, securities and
 20 corporations make a written finding that the proposed investment is in the
 21 public interest.

22 (c) The Alaska Industrial Development and Export Authority may not
 23 pay any processing or other fee in connection with an investment under this
 24 section and may only invest in debentures that

- 25 (1) pay interest quarterly or more often;
- 26 (2) bear interest at ^{NOT LESS THAN} one and one-half percent above the prime
 27 rate [at the time the debenture is issued], as determined by the authority; ~~*~~
- 28 (3) are due for repayment 10 years after the date of issue, but
 29 may be repaid sooner at the discretion of the issuer;

1 (4) are secured by the full faith and credit of the issuing
2 institution; and

3 (5) create rights of payment superior to rights of stockholders
4 of the financial institution, as determined by the authority.

5 (d) The amount of debentures that may be purchased by the Alaska
6 Industrial Development and Export Authority under this section from an
7 institution may not exceed the amount of that institution's capital, sur-
8 plus, and undivided profits on December 31, 1985, as certified by the
9 director of banking, securities and corporations. The combined amount that
10 may be purchased from a holding company and its subsidiary bank may not
11 exceed the amount of capital, surplus, and undivided profits of the sub-
12 sidiary bank on December 31, 1985, as certified by the director of banking,
13 securities and corporations.

14 (e) Notwithstanding AS 06.05.307(a), debentures purchased by the
15 Alaska Industrial Development and Export Authority under this section may
16 be issued without regard to the principal amount of the notes and deben-
17 tures of the institution that are outstanding on the date of issuance. The
18 authority may only purchase debentures under this section after the direc-
19 tor of banking, securities and corporations certifies that the issuance of
20 the debentures otherwise complies with AS 06.05.307 and that the purchase
21 meets the requirements of this section.

22 (f) The Alaska Industrial Development and Export Authority may pur-
23 chase debentures under this section only from an institution that agrees to
24 invest at least 15 percent of the purchase price in areas of the state
25 outside of metropolitan areas within three years after receipt of the
26 purchase price. The authority shall by regulation define "metropolitan
27 areas" for purposes of this subsection.

28 * Sec. 3. This Act is repealed July 1, 1990.

29 * Sec. 4. This Act takes effect immediately under AS 01.10.070(c).



**FEDALASKA
FEDERAL
CREDIT UNION**

April 18, 1988

Senator Tim Kelly
P.O. Box V
Juneau, AK 99311

Dear Senator Kelly:

I am writing to voice my opposition to Senate Bill 502, known popularly as the "Small Bank Bailout." It's my opinion, and I expect the opinion of most of FedAlaska's 34,000 members, that legislation of this sort will benefit a very limited number of individuals at the expense of everyone else.

First, it seems inconceivable to me that the state would consider a bailout of only a portion of an industry. There are nearly 40 financial institutions in Alaska and all of them have suffered from the downturn in our economy. Those who were especially greedy during the good times made loans that were imprudent by anybody's standards. Now they come to the state with their hands out looking for a subsidy. I'm sure the stockholders and employees of First Interstate, Alaska National Bank of the North, Peninsula Savings and the other failed institutions are going to feel just a little regret that no one came to their rescue.

And what of those of us who suffered yet made tough decisions and have survived? Quite frankly, I didn't lay off friends and associates of many years and spend countless sleepless nights just to be in competition with a state supported bank. It's bad enough watching the federally propped up Alliance Bank's million dollar ad campaign on television.

FedAlaska will celebrate it's 40th Anniversary this November. Our nine branches in Juneau, Fairbanks, Kodiak and Anchorage survived this recent unpleasantness and will be here another 40 years.

Do us a favor, Senator Kelly, and oppose this legislation. Your opposition may create a handful of losers, but thousands of Alaskan consumers will benefit.

Sincerely,

Roger Aldrich
President

cc: Commissioner Tony Smith
Governor Steve Cowper
Senator Rick Halford
Representative Sam Cotten
Representative Randy Phillips



ALASKA CREDIT UNION LEAGUE

SUITE 650, 4000 CREDIT UNION DRIVE
ANCHORAGE, ALASKA 99503-8647
(907) 562-1255

April 19, 1988

APR 19 1988

The Honorable Tim Kelly
PO Box V
Juneau, Alaska 99811

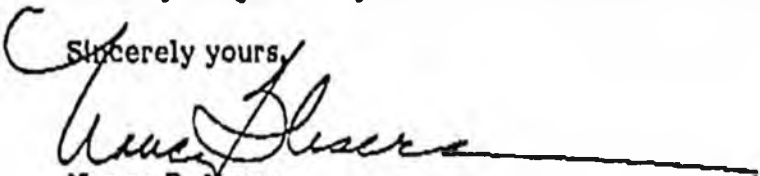
Dear Senator Kelly:

Thank you for the opportunity to testify on SB 502. I regret the teleconference at the Anchorage end was very sporadic and we did not get a clear understanding of the committee's intent. However, I would like to reiterate the credit unions' position on this issue. We oppose SB 502, not because we were excluded from the legislation, but because we strongly feel it is bad public policy for the state to artificially and selectively "bail-out" private enterprises.

Credit unions do not wish to be included in this legislation and we will make every effort to oppose its adoption.

Thank you again for your consideration of our views.

Sincerely yours,


Nancy B. Usera
President

NBU/tc
cc: Senate Labor & Commerce
Senate Finance
Commissioner Tony Smith





Denali Federal Credit Union

April 15, 1987

Senator Tim Kelly
Alaska State Legislature
P.O. Box V (MS 3100)
Juneau, AK 99811

RE: Senate Bill to provide state financial assistance
for state-chartered banks

Dear Senator Kelly,

I would like to express strong opposition to a new Senate bill, introduced by the Finance Committee, that would provide state financial assistance for state-chartered banks. We all know the economy is weak and many companies and industries are taking a real beating right now, including the average homeowner. In light of this, it would be wrong for state government to invest in, and support in effect, one select group of financial institutions so as to be better able to compete against the other financial institutions that have not asked for assistance.

Alaska has too many financial institutions for the size of the market as it is. Why disrupt normal competition in the market place by investing in one select group. All the financial institutions, including us, chose to make the lending decisions that we did. We will live with the consequences; should the others not do the same?

If the state is going to invest or bail out private industry, how should it be done? To be really fair the state would need to invest in or bail out the construction industry, the oil support companies, merchants, and let us not forget the average homeowner who has really had it tough. The state of course can not bail out every one so why start giving financial assistance to one special interest group.

If the legislature is going to seriously consider this bill, I ask that you please give it full and public hearings. Almost 70 percent of all Alaskans belong to a credit union and we would like to hear how the legislature proposes to invest our state money in one select group of banks when we are sitting with negative equity in our homes, failing businesses and struggling to keep our credit union competitive and financially strong. We have over 17,000 members in Alaska with branches in Fairbanks and Anchorage. We have served our member's financial needs for many years and plan to continue doing so in the future the Alaskan way; on our own, without state assistance.



**FRONTIER
ALASKA
STATE CREDIT UNION**

MAIN OFFICE:

3500 EISEN STREET
ANCHORAGE, AK 99502
583-3788

DIMOND BRANCH:

300 E. DIMOND BLVD.
ANCHORAGE, AK 99515
344-5144

SOLDOTNA BRANCH:

131-A WAREHOUSE
SOLDOTKA, AK 99669
262-7600

EAGLE RIVER BRANCH:

16516 CENTERFIELD DRIVE
EAGLE RIVER, AK 99577
894-0447

CAMPUS BRANCH:

2801 PROVIDENCE DRIVE
ANCHORAGE, AK 99508
851-3181

April 14, 1988

The Honorable Tim Kelly
State Capitol
Mail Stop 3100, Room 101
P.O. Box V
Juneau, AK 99811

Dear Senator Kelly:

I am writing to you to express my opposition to SB 502, a bill we in the Credit Union business in a not so fond manner refer to as the "bank bailout bill."

As the President of Frontier Alaska State Credit Union, and the Chairman of the Alaska Credit Union League's Governmental Affairs Committee, I am extremely distressed that the legislature would contemplate an infusion of state money in the form of subordinated debentures into state chartered banks. I feel strongly that the action I just described is a poor public policy and gives the general public the impression that the state is willing to randomly "bail out" selective businesses during the economic downturn.

A "bailout" of this nature puts the financial institutions that have good management and sound lending policies at a competitive disadvantage. Those institutions have also suffered losses because of the economy, however; those institutions have survived without government assistance because they have taken steps necessary, i.e., reducing staff, wage freezes, and branch closings necessary to maintain profitability and an adequate capital base. A state infusion of cash into ailing banks will allow those banks to continue their operations as they always have without making any of the changes necessary to survive during these depressed economic times.

SB 502
April 14, 1988
Page 2

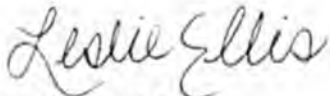
All Alaskan financial institutions are facing a challenge at this time. However, I feel strongly that the legislature should allow the market to settle and adjust without governmental interference. The financial institutions that make the hard decisions and are well managed will survive and prosper.

Admittedly, the end result may be fewer financial institutions, however the surviving institutions will be stronger and more efficient, which will result in reduced costs and better service to the consumers who utilize those institutions.

Again, I strongly urge you to oppose the passage of SB 502. If you would like to discuss this issue or desire any additional information, please feel free to contact me at the Credit Union's main office.

Thank you for your time and attention.

Sincerely,



Leslie Ellis
President

LE:am

TESTIMONY OF NANCY USERA, PRESIDENT
ALASKA CREDIT UNION LEAGUE
SL&C 4/18/88, SB 502

Nancy Usera, President, Alaska Credit Union League, testified via teleconference in opposition to SB 502.

The Alaska Credit Union League represents all state credit unions. There are two state chartered credit unions, 15 federally chartered. Their asset sizes range from half a million dollars to eight hundred and fifty million dollars. There are approximately 350,000 resident of Alaska who belong to credit unions, which are member owned and operated financial cooperatives.

The credit union movement in Alaska is opposed to this legislation. They are philosophically opposed to it from the standpoint that they don't believe that the state should be in the business of bailing out private enterprise. But specifically, they don't think that the state should selectively chose one type of enterprise over another. Its like blessing one child and condemning the other to an uncertain future. Contrary to the language of the bill they don't think that this proposal promotes fair competition but rather gives an advantage to those institutions that will be able to receive capital through this program. It's sort of the Burger King vs McDonalds analogy. How do you say, here are two competing institutions and the state chooses to help Burger King and

let McDonalds go it on their own through good management and the tough things that have to be done.

Recently they have had a lot of articles in the Anchorage papers and on television about some of the trials and tribulations that credit unions have gone through and its true that a fair portion, less than half, of the credit unions this year lost money for year end 1987. Because they are having the same affect and have to make the same decisions on their day to day basis, they are fighting the economy like the banks are. They have real estate losses and have to cut back staff, lower operating costs, and are doing all the tough things that have to be done to get through this tough time. They don't think that it is something that was unforeseen. As early as 1985 there were indicators that the real estate market would was turning. All the financial institutions were in the same position, they had to do the hard things that were going to be necessary to be able to survive in a down turned economy. Right now there are some 40 financial institutions in the State of Alaska, or 1 per 10,000 residents. Obviously there is an over saturation of the market. While they certainly don't want to see any of these financial institutions fail it does come down somewhat to a question of survival of the fittest. Those institutions that get mean and lean and can compete and provide a viable good service to the consumers are going to survive and those

that won't make those tough decisions aren't going to make it. They don't think that the state should be in the business of deciding who will and who will not. As a matter of fact the program of artificially propping up one institution over another will create debts. We may still have 40 financial institutions but they will be 40 weakened institutions instead of perhaps 35 strong ones. They don't know that all of the credit unions are going to make it through these. They don't know, they think that the hard decisions are going to be made but they understand that this is part of doing business and its part of taking the risks in private enterprise. Credit unions for the most part are directly competing with the smaller state chartered banks for the same deposits and for the same lending dollar. The credit unions, probably a good half of them, are in a position that they do make small business loans, to owner/operators, to individuals who have businesses that they need to keep going on a day to day basis. The difficult part is finding good loans. One of the reasons that everyone is in a tough position right now is when they made those loans they sure looked good but the market turned around on them. We are all in the same position. Credit unions have a lot of liquidity, they are ready, willing and able to make loans for worthwhile purposes to the residents of the State of Alaska. They don't want to come across opposing this legislation as "sour grapes." You know, gosh its not fair that they

should help them and not us. But rather they think that financial institutions should be allowed to succeed or fail based on their viability in the market place.

End of Testimony.



A PLAN TO MAINTAIN A STATE BANKING SYSTEM
AND PROVIDE ECONOMIC STABILITY
FOR ALASKA

An Overview

Historically, Alaskan owned and operated financial institutions have provided a substantial number of housing and business loans and have been an important source of financing for Alaska's small businesses. However, over the past few years, these institutions have experienced a major erosion of capital due, in large part, to circumstances outside their control.

As a result, these institutions can no longer fulfill their traditional role to provide an alternative source of financing in the state's marketplace. The failure of other financial institutions has disenfranchised many borrowers leaving them at the mercy of the FDIC, and unable to obtain innovative financing to survive in this economic downturn.

This proposal calls for an investment by the state to bolster the capital of state chartered banks.

- * No cash would be required from the state.
- * The state would receive a substantial cash profit over the life of the program.
- * Alaskan financial institutions will be able to multiply the state investment at least ten times injecting that amount of actual cash into the Alaskan economy.
- * The state's interest is safeguarded.

The result from the program will be one of stabilizing a shaky economy while protecting and preserving Alaskan businesses, jobs and the dual banking system Alaska has enjoyed for many years.

BANKING IN ALASKA: THE CURRENT STATUS

Historically, the State of Alaska has benefitted from two distinct banking systems;

(1) National Banks supervised by the Controller of the Currency and which are outside state supervision or regulation; and

(2) State chartered banks administered by the Alaska Department of Commerce, Division of Banking, which are fully responsive to state needs and regulations.

The banking industry has suffered a tremendous negative impact in just over a year's time. Five banks have failed. Three were closed, and two were merged into a new FDIC controlled bank. The merger consolidated United Bank Alaska and Alaska Mutual Bank into the new Alliance Bank. Two savings and loans and two credit unions also failed.

As a result of these events and the severe downturn in the economy, the majority of banking within Alaska is now controlled by two huge national banks and three banks which are fully controlled by outside interests!

National Banks

National Bank of Alaska
First National Bank of Alaska

Banks Controlled by Outside Interests

Ranier Bank Alaska
Controlled by Ranier Bank-Seattle and Security Pacific
Bank of Los Angeles

Key Bank of Alaska
Controlled by interests in Albany, New York

Alliance Bank
Controlled by the FDIC and by private interests centered in Monaco.

The remaining state banks are locally controlled.
They are:

Alaska Continental Bank	Anchorage
Alaska Statebank	Anchorage
Home Savings Bank	Anchorage
Denali State Bank	Fairbanks.
B.M. Behrends Bank	Juneau
First Bank in Ketchikan	Ketchikan

The only independent state institutions surviving in Anchorage are Alaska Continental Bank, Alaska Statebank and Home Savings Bank, all specializing in small business and home loans.

1987 was a disastrous year for all but two banks which are headquartered in Anchorage. Statistics from the Department of Commerce, Division of Banking and Securities illustrate the severe impact upon banks. (These figures do not include the assets controlled by the FDIC.)

12/31/86 to 12/31/87 CALL REPORT

Cash dropped	\$ 58.0 million
Loans dropped	\$704.9 million
Deposits dropped	
Individual	\$ 51.0 million
Government	\$ 4.7 million
State of Alaska	\$307.0 million
Checking accounts down	\$ 97.0 million
Savings accounts down	\$202.0 million

The net worth of all banks dropped to \$482.7 million even with the injection of \$360 million from the FDIC to assist the UBA-AMB merger into Alliance Bank. Without that assistance, total bank capital would have been reduced to \$122.7 million!

Other Real Estate Owned (OREO), not counting FDIC's, increased to \$129,108,000.

Total Past Due Loans - not counting FDIC.

38-89 days past due	\$126.0 million
Over 90 days and accruing	\$ 36.4 million
Non-accruing	\$305.4 million
 TOTAL non-performing loans	 \$467.8 million
OREO in bank portfolios	\$129.1 million
 <u>GRAND TOTAL</u>	 <u>\$596.9 million</u>

Total non-performing assets were 11.9 percent of all bank assets.

The impact of bank failures and reduced capital has been keenly felt by business owners statewide who are struggling to preserve their businesses and the jobs they create despite a severe economic downturn. The closure of several banks has left these entrepreneurs disenfranchised and their loans under the management of FDIC.

Without management by an Alaskan controlled bank attuned to the unique characteristics of the Alaskan economy, those disenfranchised can no longer obtain extensions, modifications or renewals of their loans, much less the ability to borrow new capital for continuation of their businesses.

One of our larger national banks continues to try and help those large disenfranchised borrowers while the other national bank has been forcefully reducing its loan portfolio and is not making new loans.

Alliance Bank, assisted by the FDIC, is now controlled by outside interests. With it's current problems, it is not able to respond to the needs of those borrowers. The other national bank and the other state banks which are all controlled from outside have turned "conservative" making few, if any, loans to new borrowers.

As a result, only three banks previously mentioned, Alaska Continental Bank, Alaska Statebank and Home Savings Bank remain as the small, locally-owned institutions which are trying hard to both survive the economic recession and service new borrowing needs.

Alaska Continental Bank's Role

Alaska Continental Bank has a unique niche in the community. When it opened in 1982, ACB's stated purpose was to be the bank for small businesses needing less than \$500,000 on a term basis with the support of the Small Business Administration Guaranty Loan program. ACB is now the leading lender in urban and rural Alaska in providing SBA term loans for the purchase, acquisition or refinancing of business assets.

ACB specializes in providing federally insured SBA loans having developed over \$40 million of this type of financing statewide representing over 930 commercial business loans. ACB is the 27th leading lender in the entire nation in providing this type of financing. ACB continues to be the only bank advertising for small business loans statewide.

The majority of loans provided are for working capital and have been made for business development in locations which include Anchorage, Bethel, Homer, Wasilla, Palmer, Soldotna, Juneau, Kodiak, Cantwell, Houston, Whittier, Fairbanks, Seward, Kenai, Talkeetna, Skwentna, Eagle River, the North Slope, Moose Pass and Aleknagik.

Alaska Continental Bank made a commitment and fulfilled a promise to Alaskans to help create new business and jobs for Alaskans statewide.

In contrast to ACB's focus on business, Home Savings Bank is required by its state charter to make 60 percent of all its loans for housing. It is the leading lender of home loans in the Matanuska-Susitna Borough and the greater Anchorage area,

Compounding the Problem: Loss of Capital

All but two banks in Anchorage have lost money in the last two years. Borrowers who have become unable or unwilling to pay their loans when due have impaired bank capital. State and federal agencies have followed their established regulations and have required those banks to write off non-performing loans that now may be undercollateralized.

Those write-offs have further eroded capital reserves. For example, three years ago a bank might have made a \$100,000 loan backed by \$130,000 in real estate. But, with the decline in real estate values, today that real estate collateral may be worth \$65,000, and the borrower is having difficulty meeting the payments. Even if the bank now reduces payments and interest rates, it would still be required to write off at least \$35,000 because of the drop in collateral values against capital.

As a bank's capital is reduced physically or through paper write-offs, the bank's ability to expand and initiate new deposits and investments is severely limited by regulation.

This relationship is at the heart of the current banking crisis and a potential solution to allow Alaskan banks to play an active and effective role in economic recovery.

Bank capital is like a three legged stool. In order to be in compliance with banking regulations, a bank is allowed to have \$12 in deposits and \$10 in loans for each \$1 of capital. As capital declines, so does the ability to generate deposits and make loans. Without profits to support losses, deposits and loans must be proportionately reduced to stay in compliance with regulatory guidelines.

Just when there is a need for Alaskan banks to help Alaskan businesses the most, the reduction in capital severely limits the amount of money which can be injected into the economy through loans. A bank is therefor unable to help borrowers refinance, obtain new credit or assist in obtaining a moratorium.

To provide this critically needed assistance, banks must increase capital.

One traditional way of increasing capital would be through additional sale of stock. ACB is in the process of spending \$75,000 to register with the State of Alaska and the Securities and Exchange Commission to conduct a \$7.5 million stock offering. However, as a result of the depressed market, all local bank stock is being offered at dramatically reduced prices compared to one year ago. This reduces the potential of a successful offering to raise the necessary capital for ACB or any other state chartered bank.

ACB will need to sell at least \$1.5-2 million of new stock to just stay even. The alternatives for ACB, if stock is not sold, are to either reduce bank size by approximately one half or to sell out to an outside bank. The state will then have lost control of another bank to outside interests. Those same consequences loom for other state chartered banks which face the same situation.

AN ALTERNATIVE AND SOLUTION

Increasing a bank's capital directly or indirectly will allow expansion of loan activity necessary for business owners to survive the current economic downturn.

To provide Alaskan chartered banks the ability to achieve that goal and to insure the continuity of a dual banking system, it has been suggested that the State of Alaska assist the state chartered banks with some form of capital assistance through the Alaska Industrial Development and Export Authority (AIDEA) or the Alaska Housing Finance Corporation (AHFC).

AIDEA's historical role is assisting the business community has been one of success. The Alaska Industrial Development and Export Authority was originally funded with \$166 million in loans from an emergency loan appropriation that Gov. Jay Hammond made in 1980. At that time he perceived tremendous need for emergency financing and saved the businesses of many people.

Two years later a portion of those funds were reappropriated to AIDEA which, through good management, had increased its net worth to \$519 million as of June 30, 1987 with government and short term investments of over \$420 million and profits for 1987 of over \$24 million. AIDEA has a net worth greater than all off the banks in the state combined. It is suggested that those loans still held unpledged by the Department of Commerce and Economic Development be delegated as a source of cash for payment of state notes to any bank if ever demanded by the FDIC.

How the Program Would Work

An alternative to an unsure stock sale and the risk of losing the few state controlled banks Alaska has is to grant the Department of Commerce, Division of Banking, the authority to invest in subordinated debentures of a bank up to the amount necessary to better meet federal regulatory capital guidelines or the amount of capital the bank had on December 31, 1985.

The beauty of this plan is that it would not require any cash to implement and the state would actually make money!

Using Alaska Continental Bank as an example, with such a program in place, ACB would have the ability to borrow \$3-3.5 million from the State of Alaska on a term basis with a fair rate of return back to the State. The state could invest in subordinated debentures by giving the bank a note due in 20 years at no interest but payable on demand if the demand is made by the FDIC.

No cash would physically be exchanged. In effect the state would issue a bank a note and, in return, the state would receive a certificate from the bank for that investment. The state, as an investor, would be paid annual 1% dividends.

The total amount of state participation would be less than \$25 million. The program should be open to all state administered institutions regardless of size with a limitation of \$6 million of capital assistance to any one state bank.

Notes would be payable in twenty years. At the end of the twenty year period, the note would be cancelled. While the state would never have actually spent any cash, it would have reaped the benefits of annual dividends, and a small paper investment would have resulted in millions of dollars in actual cash being injected into the Alaskan economy.

The State's Interest is Protected

Certainly, with state funds potentially at risk, the state would have an added interest in ensuring a bank holding a state note is run prudently and profitably. That protection is guaranteed and can be further strengthened.

If it's felt a bank is operating improperly, the Division of Banking and Securities has the power and authority to remove any state bank officer or director for unsafe or unsound banking practices. It also has the authority to request the FDIC to come in, liquidate a bank and pay off the depositors.

Additional protection can and should be built into this program as well. Any state bank requiring a loan such as this from the state must, by necessity, demonstrate to the Division of Banking and Securities that it has a viable plan to continue in operation. The applying bank would have to agree that no dividends could be paid to its shareholders while any funds are due the State.

Further, the bank would have to agree to pay the state immediately should the bank be sold to an outside bank holding company, and would have to agree to other reasonable conditions as may be developed by the Division of Banking and Securities.

THE BENEFITS

The State Earns a Profit

If the state did not request that action of the FDIC then the note the state gave the bank to pay for its subordinated debentures would never be called.

Assuming the full \$25 million set aside for state investment is utilized by state banks, and a 1% dividend is paid annually to the state over a period of ten years with compound interest, the state would earn a profit of \$3.75 million in cash at the end of the ten year period, even though no cash was physically paid out by the state to accomplish this program.

A Small Investment Will Create Many Times Its Worth

As previously noted, every \$1 in capital allows creation of \$12 in deposits and \$10 in loans. Using ACB as an example, the ability to draw only \$3 million of capital assistance from the state will enable it to increase:

Deposits: by at least \$30 million
Loans by \$24 million

And since ACE utilizes a significant amount of SBA guaranteed loans, \$24 million could be leveraged into over \$220 million of new loans or refinances, cash which would be injected into the economy and made available to assist Alaskans survive the economic downturn.

The Consequences of Failing to Act

Without the assistance of a capital investment from the state or one of its wholly owned corporations, the previously mentioned banks are not going to be able to help with the economic recovery. In fact, the necessary steps required of banks to remain in compliance with regulations to maintain adequate capital will further compound problems being experienced by Alaskan businesses.

As banks strive to maintain mandated capital reserves, this predicament could force many borrowers into liquidation or bankruptcy.

It will be a political decision whether or not to assist state chartered banks and to maintain the dual banking system. As it pertains to ACB, if the decision is made not to support the dual banking system, it will be next to impossible for ACB to continue to work with borrowers.

In an effort to survive, ACB will have to reduce its size by at least 50 percent. That means calling on borrowers to pay their notes in full immediately when they come due. Many people cannot do this, and ACB will be forced to compound the economic difficulty being experienced by businesses.

But, with state assistance of a capital investment, ACB will be able to provide the critical financing needed by business owners statewide.

The ability to provide innovative and unique loan repayment plans geared to a shifting economic picture will be provided. The future need for state assistance will be negated and the original goals and need for which ACB was established in 1982 can continue to be met.

We will either see a strengthening or the demise of our state banking system depending on the action or inaction of the Legislature and the Governor. While the examples outlined here refer to Alaska Continental Bank, the economic stabilization program proposed would benefit all state chartered institutions.

This proposal entails minimal risk to the State and will provide economic returns many times over allowing Alaskan businesses to remain viable thus preserving and protecting Alaskan jobs and the economic stability and independence of Alaskan families statewide.

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BEST STORAGE

2200 Gambell Street
Anchorage, Alaska 99503
(907) 274-7978

RECEIVED APR 5 1988

March 29, 1988

Senator Rick Halford
Alaska State Legislature
P.O. Box V (MS 3100)
Juneau, AK 99811

Dear Senator Halford:

I would like to ask you to help enact the Economic Stabilization Act of 1988 which authorizes the state to purchase income securities of certain Alaska banks.

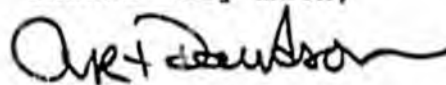
I have a small business which depends upon my bank's financial base and its ability to serve its customers. The fate of my business and everything I have worked for during my 25 years in Alaska is wrapped up in the fate of my bank. My business, Best Mini Storage, has served the community for 12 years. I am not asking for any kind of "bail-out" for either my bank or myself. I am simply asking that the state make a prudent investment in banks that will enable them to continue to meet their commitments and to otherwise serve their customers in these very difficult times.

I speak from the experience of someone who has personally suffered from an Alaska Bank failure. When First Interstate of Anchorage went under their loan commitment to me, my savings and years of my life went into the limbo land of FDIC. The loan for my business is now with Alaska State Bank which would be affected by the proposed legislation. In my case, I am not suffering from foolish business decisions. In fact, my business has showed steady gains over the past two years. However, I am vulnerable because sources of long term financing have disappeared. The Economic Stabilization Act of 1988 will enable my bank to continue to extend credit to me, and to others in my situation.

The point I want to emphasize is that this investment in banks will have a very direct impact on small businesses such as mine. This legislation will help prevent the financial ruin of people like myself who are long time Alaskans, have worked hard, tried to make a contribution to our community and who plan to stay here the rest of our lives.

Please contact me if you have any questions. Let me know if there will be a hearing on this legislation. And please -- please do what you can to get this legislation passed.

Thanks very much,



Art Davidson



A PLAN TO MAINTAIN A STATE BANKING SYSTEM
AND PROVIDE ECONOMIC STABILITY
FOR ALASKA

An Overview

Historically, Alaskan owned and operated financial institutions have provided a substantial number of housing and business loans and have been an important source of financing for Alaska's small businesses. However, over the past few years, these institutions have experienced a major erosion of capital due, in large part, to circumstances outside their control.

As a result, these institutions can no longer fulfill their traditional role to provide an alternative source of financing in the state's marketplace. The failure of other financial institutions has disenfranchised many borrowers leaving them at the mercy of the FDIC, and unable to obtain innovative financing to survive in this economic downturn.

This proposal calls for an investment by the state to bolster the capital of state chartered banks.

- * No cash would be required from the state.
- * The state would receive a substantial cash profit over the life of the program.
- * Alaskan financial institutions will be able to multiply the state investment at least ten times injecting that amount of actual cash into the Alaskan economy.
- * The state's interest is safeguarded.

The result from the program will be one of stabilizing a shaky economy while protecting and preserving Alaskan businesses, jobs and the dual banking system Alaska has enjoyed for many years.

BANKING IN ALASKA: THE CURRENT STATUS

Historically, the State of Alaska has benefitted from two distinct banking systems;

(1) National Banks supervised by the Controller of the Currency and which are outside state supervision or regulation; and

(2) State chartered banks administered by the Alaska Department of Commerce, Division of Banking, which are fully responsive to state needs and regulations.

The banking industry has suffered a tremendous negative impact in just over a year's time. Five banks have failed. Three were closed, and two were merged into a new FDIC controlled bank. The merger consolidated United Bank Alaska and Alaska Mutual Bank into the new Alliance Bank. Two savings and loans and two credit unions also failed.

As a result of these events and the severe downturn in the economy, the majority of banking within Alaska is now controlled by two huge national banks and three banks which are fully controlled by outside interests!

National Banks

National Bank of Alaska
First National Bank of Alaska

Banks Controlled by Outside Interests

Ranier Bank Alaska
Controlled by Ranier Bank-Seattle and Security Pacific
Bank of Los Angeles

Key Bank of Alaska
Controlled by interests in Albany, New York

Alliance Bank
Controlled by the FDIC and by private interests centered
in Monaco.

The remaining state banks are locally controlled.
They are:

Alaska Continental Bank	Anchorage
Alaska Statebank	Anchorage
Home Savings Bank	Anchorage
Denali State Bank	Fairbanks.
B.M. Behrends Bank	Juneau
First Bank in Ketchikan	Ketchikan

The only independent state institutions surviving in Anchorage are Alaska Continental Bank, Alaska Statebank and Home Savings Bank, all specializing in small business and home loans.

1987 was a disastrous year for all but two banks which are headquartered in Anchorage. Statistics from the Department of Commerce, Division of Banking and Securities illustrate the severe impact upon banks. (These figures do not include the assets controlled by the FDIC.)

12/31/86 to 12/31/87 CALL REPORT

Cash dropped	\$ 58.0 million
Loans dropped	\$704.9 million
Deposits dropped	
Individual	\$ 51.0 million
Government	\$ 4.7 million
State of Alaska	\$307.0 million
Checking accounts down	\$ 97.0 million
Savings accounts down	\$202.0 million

The net worth of all banks dropped to \$482.7 million even with the injection of \$360 million from the FDIC to assist the UBA-AMB merger into Alliance Bank. Without that assistance, total bank capital would have been reduced to \$122.7 million!

Other Real Estate Owned (OREO), not counting FDIC's, increased to \$129,108,000.

Total Past Due Loans - not counting FDIC.

38-89 days past due	\$126.0 million
Over 90 days and accruing	\$ 36.4 million
Non-accruing	\$305.4 million
TOTAL non-performing loans	\$467.8 million
OREO in bank portfolios	\$129.1 million
<u>GRAND TOTAL</u>	<u>\$596.9 million</u>

Total non-performing assets were 11.9 percent of all bank assets.

The impact of bank failures and reduced capital has been keenly felt by business owners statewide who are struggling to preserve their businesses and the jobs they create despite a severe economic downturn. The closure of several banks has left these entrepreneurs disenfranchised and their loans under the management of FDIC.

Without management by an Alaskan controlled bank attuned to the unique characteristics of the Alaskan economy, those disenfranchised can no longer obtain extensions, modifications or renewals of their loans, much less the ability to borrow new capital for continuation of their businesses.

One of our larger national banks continues to try and help those large disenfranchised borrowers while the other national bank has been forcefully reducing its loan portfolio and is not making new loans.

Alliance Bank, assisted by the FDIC, is now controlled by outside interests. With it's current problems, it is not able to respond to the needs of those borrowers. The other national bank and the other state banks which are all controlled from outside have turned "conservative" making few, if any, loans to new borrowers.

As a result, only three banks previously mentioned, Alaska Continental Bank, Alaska Statebank and Home Savings Bank remain as the small, locally-owned institutions which are trying hard to both survive the economic recession and service new borrowing needs.

Alaska Continental Bank's Role

Alaska Continental Bank has a unique niche in the community. When it opened in 1982, ACB's stated purpose was to be the bank for small businesses needing less than \$500,000 on a term basis with the support of the Small Business Administration Guaranty Loan program. ACB is now the leading lender in urban and rural Alaska in providing SBA term loans for the purchase, acquisition or refinancing of business assets.

ACB specializes in providing federally insured SBA loans having developed over \$40 million of this type of financing statewide representing over 930 commercial business loans. ACB is the 27th leading lender in the entire nation in providing this type of financing. ACB continues to be the only bank advertising for small business loans statewide.

The majority of loans provided are for working capital and have been made for business development in locations which include Anchorage, Bethel, Homer, Wasilla, Palmer, Soldotna, Juneau, Kodiak, Cantwell, Houston, Whittier, Fairbanks, Seward, Kenai, Talkeetna, Skwentna, Eagle River, the North Slope, Moose Pass and Aleknagik.

Alaska Continental Bank made a commitment and fulfilled a promise to Alaskans to help create new business and jobs for Alaskans statewide.

In contrast to ACB's focus on business, Home Savings Bank is required by its state charter to make 60 percent of all its loans for housing. It is the leading lender of home loans in the Matanuska-Susitna Borough and the greater Anchorage area,

Compounding the Problem: Loss of Capital

All but two banks in Anchorage have lost money in the last two years. Borrowers who have become unable or unwilling to pay their loans when due have impaired bank capital. State and federal agencies have followed their established regulations and have required those banks to write off non-performing loans that now may be undercollateralized.

Those write-offs have further eroded capital reserves. For example, three years ago a bank might have made a \$100,000 loan backed by \$130,000 in real estate. But, with the decline in real estate values, today that real estate collateral may be worth \$65,000, and the borrower is having difficulty meeting the payments. Even if the bank now reduces payments and interest rates, it would still be required to write off at least \$35,000 because of the drop in collateral values against capital.

As a bank's capital is reduced physically or through paper write-offs, the bank's ability to expand and initiate new deposits and investments is severely limited by regulation.

This relationship is at the heart of the current banking crisis and a potential solution to allow Alaskan banks to play an active and effective role in economic recovery.

Bank capital is like a three legged stool. In order to be in compliance with banking regulations, a bank is allowed to have \$12 in deposits and \$10 in loans for each \$1 of capital. As capital declines, so does the ability to generate deposits and make loans. Without profits to support losses, deposits and loans must be proportionately reduced to stay in compliance with regulatory guidelines.

Just when there is a need for Alaskan banks to help Alaskan businesses the most, the reduction in capital severely limits the amount of money which can be injected into the economy through loans. A bank is therefore unable to help borrowers refinance, obtain new credit or assist in obtaining a moratorium.

To provide this critically needed assistance, banks must increase capital.

One traditional way of increasing capital would be through additional sale of stock. ACB is in the process of spending \$75,000 to register with the State of Alaska and the Securities and Exchange Commission to conduct a \$7.5 million stock offering. However, as a result of the depressed market, all local bank stock is being offered at dramatically reduced prices compared to one year ago. This reduces the potential of a successful offering to raise the necessary capital for ACB or any other state chartered bank.

ACB will need to sell at least \$1.5-2 million of new stock to just stay even. The alternatives for ACB, if stock is not sold, are to either reduce bank size by approximately one half or to sell out to an outside bank. The state will then have lost control of another bank to outside interests. Those same consequences loom for other state chartered banks which face the same situation.

AN ALTERNATIVE AND SOLUTION

Increasing a bank's capital directly or indirectly will allow expansion of loan activity necessary for business owners to survive the current economic downturn.

To provide Alaskan chartered banks the ability to achieve that goal and to insure the continuity of a dual banking system, it has been suggested that the State of Alaska assist the state chartered banks with some form of capital assistance through the Alaska Industrial Development and Export Authority (AIDEA) or the Alaska Housing Finance Corporation (AHFC).

AIDEA's historical role is assisting the business community has been one of success. The Alaska Industrial Development and Export Authority was originally funded with \$166 million in loans from an emergency loan appropriation that Gov. Jay Hammond made in 1980. At that time he perceived tremendous need for emergency financing and saved the businesses of many people.

Two years later a portion of those funds were reappropriated to AIDEA which, through good management, had increased its net worth to \$519 million as of June 30, 1987 with government and short term investments of over \$420 million and profits for 1987 of over \$24 million. AIDEA has a net worth greater than all off the banks in the state combined. It is suggested that those loans still held unpledged by the Department of Commerce and Economic Development be delegated as a source of cash for payment of state notes to any bank if ever demanded by the FDIC.

How the Program Would Work

An alternative to an unsure stock sale and the risk of losing the few state controlled banks Alaska has is to grant the Department of Commerce, Division of Banking, the authority to invest in subordinated debentures of a bank up to the amount necessary to better meet federal regulatory capital guidelines or the amount of capital the bank had on December 31, 1985.

The beauty of this plan is that it would not require any cash to implement and the state would actually make money!

Using Alaska Continental Bank as an example, with such a program in place, ACB would have the ability to borrow \$3-3.5 million from the State of Alaska on a term basis with a fair rate of return back to the State. The state could invest in subordinated debentures by giving the bank a note due in 20 years at no interest but payable on demand if the demand is made by the FDIC.

No cash would physically be exchanged. In effect the state would issue a bank a note and, in return, the state would receive a certificate from the bank for that investment. The state, as an investor, would be paid annual 1% dividends.

The total amount of state participation would be less than \$25 million. The program should be open to all state administered institutions regardless of size with a limitation of \$6 million of capital assistance to any one state bank.

Notes would be payable in twenty years. At the end of the twenty year period, the note would be cancelled. While the state would never have actually spent any cash, it would have reaped the benefits of annual dividends, and a small paper investment would have resulted in millions of dollars in actual cash being injected into the Alaskan economy.

The State's Interest is Protected

Certainly, with state funds potentially at risk, the state would have an added interest in ensuring a bank holding a state note is run prudently and profitably. That protection is guaranteed and can be further strengthened.

If it's felt a bank is operating improperly, the Division of Banking and Securities has the power and authority to remove any state bank officer or director for unsafe or unsound banking practices. It also has the authority to request the FDIC to come in, liquidate a bank and pay off the depositors.

Additional protection can and should be built into this program as well. Any state bank requiring a loan such as this from the state must, by necessity, demonstrate to the Division of Banking and Securities that it has a viable plan to continue in operation. The applying bank would have to agree that no dividends could be paid to its shareholders while any funds are due the State.

Further, the bank would have to agree to pay the state immediately should the bank be sold to an outside bank holding company, and would have to agree to other reasonable conditions as may be developed by the Division of Banking and Securities.

THE BENEFITS

The State Earns a Profit

If the state did not request that action of the FDIC then the note the state gave the bank to pay for its subordinated debentures would never be called.

Assuming the full \$25 million set aside for state investment is utilized by state banks, and a 1% dividend is paid annually to the state over a period of ten years with compound interest, the state would earn a profit of \$3.75 million in cash at the end of the ten year period, even though no cash was physically paid out by the state to accomplish this program.

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