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January 28, 1987

Proposed amendment to SB 64, Section 7(c):

"(c) A participating banking organization is a banking institution operating under AS 06 or AS 44.81, an agency or branch of a foreign banking corporation licensed by the state, a national bank, federal savings and loan association, or federal credit union located in the state, that has been approved by the members of the authority to participate in guaranteed funding for an eligible export transaction."

This amendment effectively adds Alaska Commercial Fishing and Agriculture Bank (CFAB) to the many kinds of financial institutions which might be approved by the authority for participation.

The Legislative Findings and Purposes in connection with AS 44.81, which established CFAB, do not specifically address export activities but have an underlying theme of maximizing the development, utilization, and economic returns of CFAB's mandated industries. Export activities are of increasing significance to those industries, and the State of Alaska has invested \$31.8 in base capital of CFAB; it seems inconsistent with the State's interest and intents to exclude CFAB from a potential approval for participation in the program contemplated by SB 64.

1446V



SENATOR FRED F. ZHAROFF  
ALASKA STATE LEGISLATURE

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

DURING SESSION:

POUCH V, JUNEAU, ALASKA 99811 • (907) 485-3473 • 485-3474 • 485-3844 (Labor and Commerce Committee)

DISTRICT N

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

SECTIONAL ANALYSIS

Senate Bill No. 9 -- "An Act relating to financing of fish processors and agricultural and timber processors and harvestors by the Commercial Fishing and Agriculture Bank."

SECTION 1

LEGISLATIVE FINDINGS.

- (1) Fish processing, agricultural and timber facilities, regardless of ownership, are important to Alaska.
- (2) Regardless of ownership, they contribute to Alaska's economy.
- (3) Regardless of ownership, they provide jobs for Alaska residents.

SECTION 2

44.81.210(c): New subsection. Allows CFAB to make loans to businesses engaged in shorebased fish processing, timber processing or harvesting, or agricultural processing and harvesting that are not majority owned by Alaskan residents. CFAB would have access to a broader market in which to make loans. The companies, however, must be majority owned by U.S. residents, not foreign interests.

Prepared by Karl Ohls,  
Office of Senator Zharoff

# STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

**DEPARTMENT OF COMMERCE &  
ECONOMIC DEVELOPMENT**  
OFFICE OF COMMERCIAL FISHERIES DEVELOPMENT

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February 12, 1987

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Honorable Tim Kelly  
Chairman  
Senate Labor and Commerce  
Committee  
Alaska State Senate  
P.O. Box V  
Juneau, AK 99811

Dear Senator Kelly:

Re: SB 9 - Enlarging CFAB's lending base

CFAB was created to assist the development of the renewable resource industries, and its mission was initially limited to lending to Alaskan owned businesses. Since the initial legislation was passed, changes have been made to clarify CFAB's relationship to the state and to put it on its own two feet. It is now a cooperative bank with initial capitalization provided by the state which must be paid back in full. This office supports the expansion of CFAB's lending base for three major reasons.

First, CFAB serves an important function to the industry. Access to capital and financing are often impediments to fisheries development in Alaska, particularly to young, growing Alaskan processing companies. It is difficult to develop the necessary expertise. Those who do get involved limit their involvement to the most creditworthy applicants involved in the lowest risk fisheries. The recent crash in king crab has exacerbated that tendency. This makes it very difficult to finance developing fisheries, especially for Alaskans, who frequently don't have a lot of other assets to pledge.

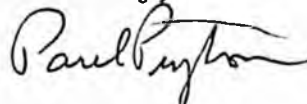
Few banks are active in the fishing industry, due to the risk involved and the complexity of the business. Yet, at one time or another, virtually every Alaskan owned processing company has had a loan with CFAB. CFAB has accumulated considerable experience in fisheries and is working to develop more. It is well positioned, if it can offer reasonable rates, to play a significant role in developing fisheries. It can, of course, adjust loan terms to account for risk. To do this, however, it needs a base of "surer" borrowers.

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Secondly, CFAB needs to lower its rates to attract the more credit-worthy borrowers who have alternatives. Right now, its rates are quite high by comparison. To provide reasonable cost loans to the industry, it must expand its lending base to larger loans, which have lower costs, and it must be able to attract lower cost lending capital. It is now dependent for lending capital on the Farm Credit system, which has many problems and expensive money. Commercial banks will lend CFAB money at lower rates but will want to see a broader lending base with larger and more proven companies than can be provided just using Alaskan owned operations. Thus, for CFAB to better serve the Alaskan sector of the industry, it needs access to more of the industry. Note that it would be limited to lending to shorebased operations only.

Third, CFAB needs to be given a chance to repay the state's investment. The limits the state has placed on the lending base will make it difficult for CFAB to either serve its intended clients or to repay the state its initial investment. That situation should clearly be rectified. Thus, though initially it appears contradictory for a state capitalized institution to provide services to nonresidents, it is necessary, if CFAB is to be a competitive and viable financial institution capable of serving those it was originally intended to serve.

Sincerely,



Paul Peyton  
Director

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