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HOUSE COMMITTEE REPORT

(7)

Date Referred: May 6, 1990

FURTHER REFERRALS:

Date of Committee Action: 5/6/90

The LABOR & COMMERCE Committee considered: CSSB 551(LABOR & COMMERCE)

CS SB NO. 551 (L&C) INVESTMENTS OF FINANCIAL INSTITUTIONS

"An Act relating to the investments of financial institutions; and providing for an effective date."

RECOMMENDATIONS:

- [] be replaced with _____ [] the same title
[] have 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):
(Dept)

APPROVES PREVIOUS: Senate (Date/Dept)

- [] fiscal impact _____
[] zero fiscal note _____
[] zero with analysis _____

- [] fiscal note(s) _____
[] zero fiscal note(s) DC+ED 5/2/90
[] zero fn/analysis _____

SIGNING DO PASS:

SIGNING:
(Check approp. column)

Do Not Pass
No Rec
Amend

	Do Not Pass	No Rec	Amend
<u>W. C. Boucher</u>			
<u>W. H. Greenberg</u>			
<u>W. H. Boyer</u>			
<u>David Donley</u>			
<u>Collins</u>			

David Donley
Chairman's Signature

FISCAL NOTE

REQUEST:

Revision Date: _____
 Title: Relating to the investments
of financial institutions
 Sponsor: Senate Transportation Committee
 Requestor: Senate Labor & Commerce

Agency Affected: Commerce & Economic Dev.
 BRU: Banking, Securities and
Corporations
 Components: Banking

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0


FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)



Prepared by: Willis F. Kirkpatrick, Director Phone: 465-2521
 Division: Banking, Securities and Corporations Date: _____

Approved by Commissioner: Larry Mercurieff SM Date: 5/1/90
 Agency: Department of Commerce & Economic Development

Distribution (by preparer):

Legislative Finance
 Legislative Sponsor) Changes in CSSB551 (L+C)
 Requestor) have no fiscal impact. This
 Office of Management and Bud) fiscal note is appropriate.
 Impacted Agency(ies)) Projections of no fiscal impac
 would continue through 1996.

FISCAL NOTE

REQUEST:

Revision Date: _____
Title: Relating to the investments
of financial institutions
Sponsor: _____
Requestor: _____

Agency Affected: Commerce & Economic Dev.
BRU: Banking, Securities and
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GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL	0	0	0	0	0	0
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REVENUE	0	0	0	0	0	0
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FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Prepared by: Willis F. Kirkpatrick, Director Phone: 465-2521
Division: Banking, Securities and Corporations Date: _____
Approved by Commissioner: Larry Mercurieff SM Date: 4/30/90
Agency: Department of Commerce & Economic Development

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

ALASKA STATE LEGISLATURE

While in Ketchikan
352 Front Street
Ketchikan, AK 99901
907-225-9675



While in Juneau
P.O. Box V
Juneau, AK 99811
907-465-3743

Senator Lloyd Jones

April 30, 1990

MEMORANDUM

To: Representative Donley
From: Senator Jones *LJJ*
Subj: Request by state chartered banks to amend Alaska Statutes

I was just informed by a state chartered commercial bank in Ketchikan that recent federal legislation concerning the Savings and Loan bailout (FIRREA) will keep this category of institution from participating in the Federal Home Loan Bank programs for low and middle income housing loans.

The new law requires participating institutions to purchase stock in the FHLB, and current Alaska Statute doesn't allow this. This affects the three state chartered commercial banks -- First Bank of Ketchikan, Key Bank and Denali Bank.

The six word change in the statute is supported by all affected state chartered commercial banks, the Alaska Banker's Association and the Director of Banking, Willis Kirkpatrick.

Although it is very late in the session, I would like to attempt to address this problem before we adjourn in May. I would appreciate it if we could meet on this matter as soon as possible to discuss any options in regard to removing this roadblock.

Thank you for considering this request.

enclosures



**FIRST
BANK**

APR 27 1990

26 April 1990

Senator Lloyd Jones

Dear Lloyd:

I hate to bother you this late in the session with a request like this, and I am sure you hate to get letters that start like this, but we need some help.

What we need is a minor, technical amendment to the Alaska Banking Statutes to allow state chartered commercial banks to own stock in the Federal Home Loan Bank. More specifically, we need the language "or a Federal Home Loan Bank" added to paragraph (10) of subsection (a) of AS Sec. 06.05.270. Investments. I have attached a copy of the current statute with the appropriate section highlighted and the requested language written in. The Director of Banking, Willis Kirkpatrick, has told us that his department will support this change.

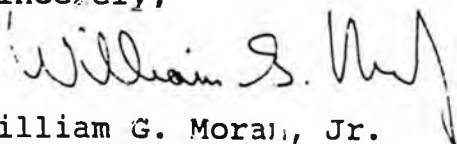
By way of background, the S & L bailout legislation known by the acronym FIRREA that was passed at the national level last fall contains a provision that allows commercial banks that meet certain qualifying asset tests to join the Federal Home Loan Bank system. However, membership in the system requires an investment in Federal Home Loan Bank stock. This is a common requirement for programs of this nature, and is the reason for the current section of State law that allows ownership of stock in a Federal Reserve Bank or the Federal National Mortgage Association.

We have several reasons why we want to join the Federal Home Loan Bank system, and why we think it will be of significant benefit to the communities we serve in Southeast Alaska. First of all, one of the primary functions of the FHLB is to finance and support the development of affordable housing for moderate and low-income families. There is no question of the need for programs of this nature in Southeast Alaska and the rest of the state. Second, the FHLB provides its members with extensive correspondent services that include providing reliable sources of short and long term funds at favorable rates, expanded residential lending opportunities, and an array of programs that improve opportunities for management of interest rate risk. In this regard, I have enclosed some supporting material that describes the benefits of membership in some detail.

I have sent this same letter to Representatives Robin Taylor and Cheri Davis. I apologize for bringing this matter up this late in the session and certainly understand that it may be too late to do anything this year. However, there shouldn't be any controversy associated with the proposed amendment, and if we can get it through this year we could start taking advantage of some of these programs this summer.

Thank you in advance for your consideration of this matter. Once you have had a chance to review this material, please let me know what your thoughts are.

Sincerely,

A handwritten signature in cursive script that reads "William G. Moran, Jr." with a long, sweeping flourish extending downwards and to the right.

William G. Moran, Jr.
President

Enclosures

MAY 2 1990

05/02/90

11:43

KEY BANK AK.

NO. 004

002

Key Bank of Alaska

A KeyCorp Bank

101 West Benson Boulevard
Post Office Box 100420
Anchorage, Alaska 99510-0420
(907) 564-0250



Michael J. Burns
President and
Chief Operating Officer

May 2, 1990

The Honorable Lloyd Jones
Alaska State Legislature
P. O. Box V
Juneau, Alaska 99811

Dear Senator Jones:

As Legislative Chairman of the Alaska Bankers' Association, I am pleased to inform you that at today's meeting the Association enthusiastically and unanimously voted to support SB 551, "Investments of Financial Institutions."

If you have any questions regarding the Association's position, please feel free to contact either Wes Coyner or me directly.

Sincerely,

Michael J. Burns
Chairman
Alaska Bankers Association

MJB:jr

Affordable Housing

Finance Programs and Technical Assistance Services

FEDERAL HOME LOAN BANK OF SEATTLE

APRIL 1990

The Federal Home Loan Bank of Seattle is a private, wholesale bank serving lenders in the 12th District, which includes Alaska, Hawaii, Idaho, Montana, Oregon, Utah, Washington, Wyoming and the Territory of Guam. With assets of nearly \$10 billion, the FHLB of Seattle promotes housing finance by advancing mid- and long-term, triple-A rated credit to its member financial institutions. The FHLB of Seattle currently has advanced more than \$8 billion to housing lenders in the 12th District.

One important mission of the Bank is to finance and support the development of affordable housing for moderate- and low-income families in the 12th District. To meet this challenge, the Bank offers two specially priced advance programs to housing lenders, and provides an array of technical assistance services to financial institutions, local governments, and housing developers.

Advance Programs

The Bank's advance programs for affordable housing are the Community Investment Fund (CIF) and the Affordable Housing Program (AHP). Loans funded with CIF and AHP advances strengthen local communities and enhance lender compliance with the Community Reinvestment Act. Each one offers favorable interest rates on advances to member financial institutions that, in turn, are used to fund qualifying developments or home purchases. These programs are explained in detail on the following pages. Samples of housing developments funded by the CIF and the AHP are shown on the last page.

Technical Assistance

The Bank's Community Investment Officer provides technical assistance to financial institutions and community-based housing organizations that includes:

- Educational seminars on underwriting affordable housing and community investment loans;
- Conferences on the Community Reinvestment Act, often co-sponsored by federal financial regulators;
- *Solutions*, a quarterly newsletter addressing technical issues in community investment lending;
- Selected information on local housing markets, including properties in the Resolution Trust Corporation's (RTC) affordable housing inventory; and
- The Affordable Housing Clearinghouse to disseminate information to financial institutions about specific lending opportunities in affordable housing and community development.

For information about any of these programs or activities, please call:

Judith C. Chaney
Community Investment Officer
(206) 340-8737

Federal Home Loan Bank of Seattle

CORRESPONDENT

VOL. 4, NO. 1

MARCH 1990

First Commercial Bank Joins FHLB

The Federal Home Loan Bank of Seattle has had the first commercial bank join its membership since the passage of FIRREA, which opened the door to commercial bank and credit union membership.

The National Bank of Bremerton, a \$24 million asset community bank in Bremerton, Washington is the first of two

commercial banks to join the FHLB system nationwide.

According to Ed Sheldon, the president of National Bank of Bremerton, "We believe that FHLB membership gives us increased options and will enable us to serve our customers better."

Under FIRREA, membership eligibility in the FHLB system

was expanded to include credit unions and commercial banks having a minimum of 10 percent of their total assets in residential mortgage loans.

National Bank of Bremerton's "pioneering" paves the way for future membership recruitment. Gary Martin, FHLB Marketing Officer, is responsible for generating new membership in the Seattle FHLB. ✪

New TB-13 Analysis

The Bank's Investment Banking Services Group, headed by Senior Vice President Pat McJoynt, announced a new product offering recently: TB-13 Analysis. No, TB-13 is not a new form of tuberculosis, but it's focus (interest rate risk) can be equally life threatening for some institutions.

The Office of Thrift Supervision's Thrift Bulletin 13 re-

quires all institutions to implement a formalized quarterly review of interest rate risk exposure. The new TB-13 Analysis is designed to be an effective, reasonably priced management tool. It not only provides information needed to comply with TB-13, but also furnishes detailed analysis for active management of interest rate risk exposure.

With TB-13 Analysis, you receive a quarterly report which shows both changes in net interest income and the market value of your portfolio equity in rising and falling interest rate environments. The report is customized to your institution, and you receive an additional packet showing peer group averages for comparison purposes.

Timeliness of the information is important, so your quarterly TB-13 reports will be mailed to you no later than fifteen working days after your Thrift Financial Report is "clean."

Our TB-13 Analysis is available at a very reasonable cost to your institution. The first report is \$500, and \$450 for each quarter thereafter. Subscriptions to this service may be charged to your FHLB Demand Account.

If you would like to subscribe to or request additional information about the Bank's TB-13 Analysis, feel free to call John Zmolek at (206) 340-2472 or Robin Hyerstay at (206) 340-2471 in the Investment Banking Services Group. ✪

In This Issue:

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Making Housing Affordable

Ed. Note: The last issue of The Correspondent featured an article on our Community Investment Fund (CIF) advances. The Seattle FHLB has set aside \$250 million for this specially priced credit program for financing affordable housing and community development in the 12th District.

Continuing our focus on housing finance, this issue highlights the Affordable Housing Program.

What is the Affordable Housing Program?

The Affordable Housing Program is a Congressionally mandated program to make available credit, at below market rates, for the purchase, construction or rehabilitation of affordable housing.

How does it work?

The Affordable Housing Program, as established by FIRREA, requires each Federal Home Loan Bank to set aside 5% of its net income to subsidize advances to members who make loans on qualifying projects. The Federal Home Loan Bank of Seattle will have approximately \$4.066 million available for interest rate subsidies in 1990.

By 1995 the contribution will increase to 10% of our net income. The contribution is the total amount of the interest rate subsidy we'll be providing to our members on advances for funding affordable housing, not the total advances available.

Advances will be made to members at 200 to 500 basis points below standard advance rates. The maximum spread allowed the lender is 200 basis points, but normal fees may be charged.

How do I know if a project qualifies?

Advances subsidized through the Affordable Housing Program can be used to fund the purchase, construction, or rehabilitation of single or multi-family housing. In order to qualify, the homebuyers' income must not exceed 80% of area median income, or in the case of rental properties, a project must have at least 20% of the units set aside for very low-income families. All projects are approved by Judith Chaney, Community Investment Officer.

How can the FHLB help me promote the availability of these loans in my community?

The Board of Directors of each FHLB has appointed an Advisory Council from community-based housing organizations in its states. The Advisory Council meets quarterly and its responsibilities include: reviewing program policies, marketing the program to qualifying organizations, and sharing information on housing needs in their states.

The first Advisory Council meeting was held in early January. The Council recommended establishing specific amounts of the subsidy to be set aside for each state and for rural areas of Washington and Oregon. If the state set aside is not committed by September 30, 1990, the funds will be available to qualifying projects located elsewhere in the district.

My institution has enough liquidity. Can I still participate in the Affordable Housing Program if I don't borrow from the Bank?

Yes. Members who choose not to borrow from the FHLB may participate in the Affordable Housing Program by originating mortgages at below-market interest rates and completing an interest-rate swap with the Bank.

Who regulates the Affordable Housing Program?

The Affordable Housing Program is subject to regulation by the Federal Housing Finance Board, and the regulations should be available soon. These regulations will determine application and reporting requirements.

How can I apply?

We expect that the first applications will be due in early May, and we're requesting letters of interest from members and non-profit housing developers now. For more information on how the Affordable Housing Program can benefit your community, please contact Judith Chaney, Community Investment Officer at (206) 340-8737, or Kimberly Jenkins, Housing Analyst at (206) 340-8702. *

Federal Home Loan Bank of Seattle

Profile

Size: \$10 billion

Strength: 7% capital to assets; Triple A rated by Moody's and S&P;
Federal Agency status

Profitability: Dividends averaged 12.6% over last five years; 1990 dividends,
under current FHLB System policy, will be approximately 100
basis points over Fed funds

Mission: Promote housing finance through services to community-based
housing lenders

Ownership: Stock held by 101 member financial institutions

Services Offered: Fixed and variable rate credit up to 20 year terms; commitment
programs enabling member to lock in rates up to six months

Interest rate swaps and caps

Letters of credit

Community Investment Fund (CIF), Affordable Housing Program
loans, and other community investment programs

Overnight deposit accounts

Hard dollar interest bearing corporate demand accounts

Wire transfers

Certificate of deposits, 1 - 366 days

Securities safekeeping

Public funds collateral accounts

Retail check processing services

Official checks, money orders, cashier's checks

Federal Reserve settlement services

Management information services: financial services library,
economic and financial research, deposit market share and
other peer group reporting and seminars

Federal Home Loan Bank of Seattle

Organizational Structure

- Charter:

- One of twelve regional banks operating under federal charter. Privately owned by member financial institutions.

- Oversight Agency for FHLB Seattle and other eleven FHLBs:

- Federal Housing Finance Board (FHFB)

- FHLB of Seattle Board of Directors:

- Nine CEOs elected from member institutions
- Six public interest directors appointed by FHFB

*(from AK
Ed van Batten AK Fed)*

Balance Sheet (\$ in millions)

	<u>12/31/89</u>	<u>12/31/88</u>
Advances (Member borrowings)	\$9,005	\$9,628
Cash & Investments	1,819	1,101
Other	110	113
Total Assets	\$10,934	\$10,842
Consolidated Obligations	\$9,074	\$9,067
Member Deposits	921	661
Other Liabilities	206	249
Total Liabilities	\$10,201	\$9,977
Equity	\$733	\$865

(b) A creditor of a bank may not obtain any preference in the payment of or security for the creditor's debt by attachment, garnishment or other legal proceedings. All attachments, garnishments and judicial proceedings levied or taken against a bank shall be considered to be for the benefit of all creditors alike.

(c) A pledge, assignment or transfer of any of the assets of a bank in violation of this section is null and void against the creditors of the bank. (§ 3.172 ch 129 SLA 1951; am § 1 ch 108 SLA 1953; am § 5 ch 63 SLA 1969)

Sec. 06.05.265. Liability of directors for excessive loans. A loan in violation of AS 06.05.200 — 06.05.260 makes the officers and directors of the bank jointly and severally liable to the bank for the loan. (§ 3.162 ch 129 SLA 1951)

Sec. 06.05.270. Investments. (a) In addition to loans and acquisitions expressly authorized by this chapter, a state bank may deal in, underwrite, and invest in for its own account

(1) direct or guaranteed obligations of the United States, either directly or in the form of securities of, or other interests in, an open-end management type investment company or investment trust registered under 15 U.S.C. 80a-1 — 80a-64 (Investment Company Act of 1940), if

(A) the portfolio of the investment company or investment trust is limited to obligations of the United States government and repurchase agreements fully collateralized by the obligations; and

(B) the investment company or investment trust takes delivery of the collateral directly or through an authorized custodian;

(2) general obligations of the State of Alaska and its political subdivisions;

(3) general obligations of a state of the United States or its political subdivisions;

(4) revenue obligations of the State of Alaska or its political subdivisions subject to the limitation of (b) of this section;

(5) revenue obligations of a state of the United States or its political subdivisions subject to the limitation of (b) of this section;

(6) obligations of instrumentalities of the United States government including, but not limited to Federal Intermediate Credit Banks, Federal Land Banks, the Federal National Mortgage Association, and Banks for Cooperatives;

(7) commercial paper of prime or equivalent quality as rated by a recognized national rating service subject to the limitation of (b) of this section;

(8) secured corporate obligations rated within the three highest grades of a national rating service subject to the limitation of (b) of this section;

(9) obligations of the International Bank for Reconstruction and Development, the Inter-American Development Bank, or the African Development Bank, subject to the limitation of (b) of this section;

(10) stock in the Federal National Mortgage Association or a Federal Reserve Bank.

(b) A state bank may not underwrite or invest for its own account an amount exceeding 15 per cent of its combined capital, surplus and undivided profits in any one issue of securities authorized in (a) (4) and (5) of this section or with any one obligor of the securities authorized in (a) (7), (8) and (9) of this section.

(c) A state bank may purchase or sell, without recourse, any security upon the order of a customer and for the customer's account. (§ 1 ch 205 SLA 1968; am §§ 5, 6 ch 56 SLA 1971; am § 19 ch 169 SLA 1978; am § 2 ch 7 SLA 1988)

Effect of amendments. — The 1988 amendment, in subsection (a), substituted "Development, the Inter-American Development Bank, or the African Development Bank" for "Development or the Inter-American Development Bank" in

paragraph (9) and, in paragraph (1), added subparagraphs (A) and (B) and added the language at the end of the introductory paragraph beginning with "either directly."

Sec. 06.05.275. Miscellaneous and incidental banking practices. (a) A bank may issue and confirm letters of credit authorizing the principal or beneficiary to draw upon the institution or its correspondents. A letter of credit shall expire by its terms within one year of date of issuance, but may be renewed on written request of the principal.

(b) A bank may discount, invest in, negotiate and issue trade acceptances and bank acceptances if

(1) the terms of the draft require presentation for payment within 180 days of issuance, exclusive of days of grace, and it is drawn to finance the purchase of goods with maturity and payment in accordance with the terms of the purchase agreement;

(2) the terms of the draft require presentation for payment within 180 days of issuance, exclusive of days of grace, and it is secured by shipping documents transferring or securing title to goods, or by receipt of a licensed or bonded warehouse securing title to readily marketable goods;

(3) the draft is drawn by a bank outside the continental limits of the United States for the purpose of furnishing dollar exchange for trade and its terms require presentation for payment within 90 days of issuance.

(c) A bank may make available its data processing equipment or perform data processing services on such equipment for other banks and bank customers if the bank is adequately insured against any additional liability incurred through the sale of the services. (§ 10 ch 157 SLA 1970)

Sec. 06.05.005. General powers of department. The department may

(1) implement by regulation any provision of this chapter, and define any term not defined in this chapter, but a regulation may not conflict with any law;

(2) restrict the withdrawal of deposits from a state bank where the department finds that extraordinary circumstances make restriction necessary for the proper protection of the depositors;

(3) authorize a state bank

(A) to participate in a public agency created under the laws of this state or of the United States, for the purpose of affording advantages or safeguards to banks or to depositors and to comply with all requirements and conditions imposed upon such participants;

(B) [Repealed, § 54 ch 169 SLA 1978.]

(4) [Repealed, § 54 ch 169 SLA 1978.] (§ 2.104 A ch 129 SLA 1951; am § 1 ch 157 SLA 1970; am § 54 ch 169 SLA 1978)

Cross references. — For other powers of the department, see AS 06.01.020 and 06.01.030. **Collateral references.** — 10 Am. Jur. 2d, Banks, § 1 et seq. 9 C.J.S. Banks and Banking § 1 et seq.

Sec. 06.05.010. Notice and hearing. [Repealed, § 54 ch 169 SLA 1978. For current law, see AS 06.01.030.]

Sec. 06.05.015. Powers over state banks. The department may require a state bank to

(1) maintain its accounts in accordance with regulations it may adopt, considering the size of the organization;

(2) observe methods and standards which it may adopt for determining the value of various types of assets;

(3) charge off the whole or part of an asset which has not been lawfully acquired;

(4) write down an asset to its market value;

(5) record liens and other interests in property;

(6) obtain a financial statement from a prospective borrower to the extent that the bank can do so;

(7) obtain insurance against damage to real estate taken as security;

(8) search, or obtain insurance of, the title to real estate taken as security;

(9) maintain adequate insurance against other risks as the department determines necessary and appropriate for the protection of depositors and the public;

(10) charge off that portion of an asset classified as loss in the FDIC report of examination or the state report of examination;

(11) charge off all debts owed to the bank in which interest due has been unpaid for a period of six months unless the debt principal is

[collection -
3AAL 01.210]

STATE OF ALASKA

DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

OFFICE OF THE COMMISSIONER

STEVE COWPER, GOVERNOR

F O BOX D
JUNEAU, ALASKA 99811-0800
PHONE: (907) 465-2500

April 30, 1990

Honorable Lloyd Jones
Alaska State Senate
P.O. Box V
Juneau, AK 99811

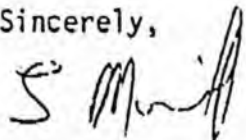
Attention Charlie Miller

Dear Senator Jones:

Re: A Senate Bill Entitled: "An Act relating to
the investments of financial institutions."

To our knowledge, the above-proposed legislation would only affect the program administered by the Division of Banking, Securities and Corporations, within the Department of Commerce and Economic Development.

Sincerely,



Larry Merculieff
Commissioner

LM/WFK/mst1512m
043090a