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174

SENATE COMMITTEE REPORT

FIRST COMMITTEE OF REFERRAL

Date of 5-DAY NOTICE 2/23/89
IN ACCORDANCE WITH UNIFORM RULE 23

FURTHER FINANCE

**FISCAL NOTE(S) MUST BE ATTACHED
IN ACCORDANCE WITH AS 24.08.035

DATE TURNED INTO OFFICE 2/28/89

2/14/89

Mr. President:

L&C

Committee considered SB 174

letters of credit issued by banks

and recommended:

replace with CS _____ same title

attached amendment(s) and new title

_____ letter of intent adopted

do pass

do not pass

no recommendation

individual recommendations

further referral to _____

FISCAL NOTE(S) attached zero
 appropriation no FN attached

fiscal impact
 Gov. FN introduced w/ bill

MEMBERS SIGNING DO PASS

OTHER RECOMMENDATIONS

[Handwritten signatures]

[Handwritten signature]

Chairman signature and recommendation

Committee backup attached

FISCAL NOTE

REQUEST:

Revision Date: _____ Agency Affected: Commerce & Econ. Dev.
 Title: Relating to letters of credit
issued by banks BRU: Banking, Securities
and Corporations
 Sponsor: Sturgulewski and Pearce Components: Banking
 Requester: Senate Labor & Commerce

EXPENDITURES / REVENUES : (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
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
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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:

FULLTIME	0	0	0	0	0	0
PARTTIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary.)

Prepared by: Willis F. Kirkpatrick, Director Phone: 465-2521
 Division: Banking, Securities and Corporations Date: 2-22-89

Approved by Commissioner: Larry Mercurief Phone: _____
 Agency: Department of Commerce & Economic Development Date: 2/24/89

Distribution (by preparer):

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

SB 174: "An Act relating to letters of credit issued by banks."

The department urges passage of SB 174 as it will provide parity between state and nationally chartered banks in providing letters of credits. Banks operating with national charters have no time restrictions concerning letters of credit. SB 174 deletes the time restrictions from Alaska law.

Banks and their customers have been at a disadvantage when their business sometimes requires letters of credit for greater periods than one year. This may be a common requirement in governmental construction contracts and export transactions with long contract periods.

This type of bank function is considered lending and is regulated and examined for sound lending practices. Letters of credit do convey elements of risk but are generally provided to a bank's customers with long-term satisfactory credit history.


Larry Mercurieff, Commissioner
Department of Commerce and Economic
Development

Date: 2/24/89

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022389a

Key Bank of Alaska

A KeyCorp Bank



Post Office Box 100420
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(907) 562-6100

February 23, 1989

Mr. Frank Homan
Professional Assistant
Office of
Senator Arliss Sturzelewski
P.O. Box V
Juneau, Alaska 99811

Re: SB 174 - Letters of Credit

Dear Mr. Homan:

This letter will describe briefly letters of credit and explain why we support SB 174 which amends Alaska Statute 06.05.275(a) to remove its durational limit on letters of credit issued by state banks.

A letter of credit is the undertaking by a bank to pay the person to whom the letter of credit is issued (the beneficiary) upon presentation of a draft or other documentary demand specified in the credit. The bank's customer (the account party) requests issuance of the letter of credit and specifies the terms of the credit, based on the beneficiary's requirements. If the letter of credit is drawn upon, the account party (the bank's customer) has an unqualified obligation to pay the bank.

Letters of credit fall into two general categories. Commercial letters of credit are the type which are frequently used in foreign trade. There, the bank agrees to pay upon receipt of a draft and accompanying documents which often represent title to goods in shipment. The bank compares the documents with the requirements of the letter of credit and, if they are in conformity, pays the draft. A standby letter of credit is usually issued so that the beneficiary has a source of payment if the account party defaults on some obligation to the beneficiary. It acts as security for some performance by the account party. Once again, the bank does not make any decision about the facts of the transaction, but simply pays if it receives a draft and documents (frequently a certification by the beneficiary) as required by the terms of the letter of credit. In either type, the dollar amount of the credit is limited.

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letters.cre

There exists a competitive inequality between national and state banks in durational limitations on standby and commercial letters of credit detrimental to state-chartered banks.

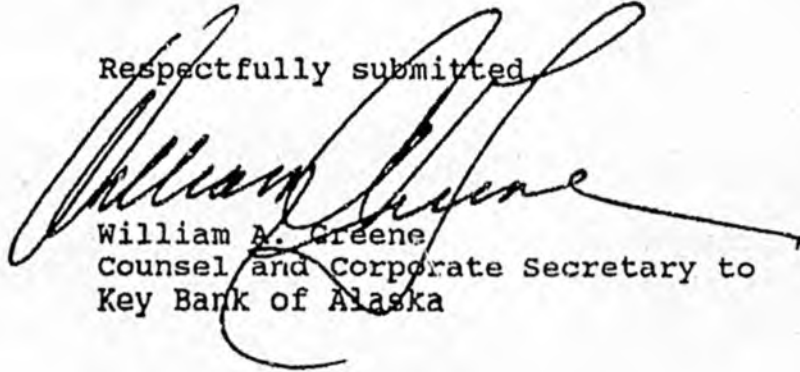
There is no durational limitation on letters of credit which national banks may issue, but AS 06.05.275(a) limits state-chartered banks' letters of credit to a duration of one year. It is interesting to note that the original legislative purpose in adopting this statute was "to improve the competitive balance between state and national banks." 1970 House Journal 1085.

It has been demonstrated that durational limits thwart competitive equality between state and national banks in the marketing and providing of letters of credit according to customer requirements. This is particularly true where the beneficiaries are government agencies, municipalities, the Alaska Court System, bonding, surety, and insurance companies. They are beneficiaries of letters of credit for a variety of reasons such as to secure completion of utility infrastructure construction on subdivisions, appeal bonds, and as security for cash flow requirements for debt service of term loans to operating businesses or income property construction projects. Those beneficiaries in particular have no reason to negotiate with state banks for letters of credit as they may simply go to national banks without having to address the issue of durational limitations. Further, most such beneficiaries are totally inflexible in their requirements and will not even consider durational requirements. They simply avoid the issue by obtaining their letters of credit elsewhere. As to commercial letters of credit, there are situations in which the one-year limitation would exclude their use in connection with manufactured goods and equipment and in connection with some export situation. Accordingly, state banks cannot always service their good customers as can national banks.

Letters of credit are extensions of credit not basically different than any loan or a loan commitment and are analyzed and underwritten like a loan or loan commitment. Most are secured. If not secured they are supported by adequate financial standing of the account party on whose behalf they are issued in the same manner as an unsecured loan. Adequate internal lending and underwriting policies and procedures, competent bank management, internal financial review and reporting requirements and procedures, and bank examinations by regulators are, like loans, the means of controlling and maintaining sound banking practices in issuing letters of credit. Durational limitations, however, are irrelevant to preventing unsound banking practices or to ensuring sound banking practices at the most critical times - when the letters of credit are issued and during the permitted period. They only shut the door after the horse is out at the expense of preventing state-chartered banks from competing equally with national banks.

Accordingly, it is recommended and urged that SB 174 be adopted to delete the second sentence of AS 06.05.275(a) as unnecessary and anticompetitive.

Respectfully submitted



William A. Greene
Counsel and Corporate Secretary to
Key Bank of Alaska

WAG/ag

Alaska Business News Summaries

Edited by Shehla A. Bradner

KeyBank Purchases Failed Alaska Statebank Assets

Key Bank of Alaska, the state's fourth largest bank, bought Alaska Statebank after its closure by state banking regulators. Statebank had \$8.8 million in negative worth, mostly due to problem loans. The bank's \$100 million in deposits and some loans were transferred to Key Bank, which will operate six Statebank branches. The transaction also includes a cash payment to KeyBank from the Federal Deposit Insurance Corporation. Key Bank Alaska assets will grow by \$100 million to \$700 million. Some 15,000 Statebank's depositors are protected by FDIC, including those with deposits above the federally insured limit of \$100,000. KeyBank will also purchase about \$67 million of Statebank's assets including \$2.6 million in small loans, not including problem loans. *Statebank President H. Derrell Smith said the bank tried to raise sufficient capital, but FDIC chose the more expensive alternative of liquidation. Smiths thinks the bank needed about \$25 million to clear up problem loans, and that FDIC will pay \$35 million or more to liquidate. FDIC has indicated it would advance Key Bank \$30 million as part of the deal.*

KEYBANK MAY BEGIN INTERNATIONAL OPERATIONS FROM ALASKA

KeyCorp, parent of KeyBank Alaska, is examining use of its Alaska operation as a center for international banking in the Pacific Northwest. Ivan Jacques, vice president of International Banking at Key Bank of Puget Sound is impressed with the state's trade opportunity in fishing and timber. Jacques, met recently with Key Bank of Alaska officials and will submit recommendations this summer to the bank's corporate headquarters in Albany, N.Y. KeyCorp, with assets of \$15 billion, operates banks in Alaska, Oregon, Washington and Idaho. KeyCorp expanded into western states because of the potential for a big future in the Pacific Rim countries. The Alaska banks already provide some international services, including letters of credit for companies doing business overseas. Besides fish and timber, oil, minerals and tourism are also good Alaska contenders for international markets, say local Key Bank officials.

U.S. POSTAL SERVICE REVENUES INCREASE IN 1988:

The U.S. Postal Service has escaped the economic downturn plaguing most of Alaska, showing increases in almost every revenue-producing service in 1988. Revenue from postage and fees was up 8 percent, from \$66,250,000 in 1987 to \$71,642,394. Express Mail rose 5 percent from \$4,227,734 in 1987 to \$4,459,219 in 1988. Volume was up for the oft-used first-class letter; the Anchorage Division processed 1 percent more first class mail in 1988. Most mail comes to Alaska by ship or plane and it cost the Postal Service \$70,825,969 in 1988 to move that mail within the state, including a \$5 million retroactive rate payment. The cost of shipping mail throughout the state is expected to rise by about \$4 million in 1989. The post office also disbursed \$84,367,477 in salaries to its 2,100 employees in Alaska.

ALASKA RAILROAD POSTS \$5.8 MILLION PROFIT:

A 14 percent increase in freight revenues and a marked decline in expenses helped the Alaska Railroad show a profit of \$5.8 million in 1988. About 10 percent of the profits, or \$620,000, was distributed as bonuses to employees. The bonuses, said railroad officials, were justified because the employees had taken pay cuts of 10 percent for seven months of 1987 and deserved to share in 1988's prosperity. The profits will help the corporation reduce borrowing and finance major improvements of road beds and tracks. Railroad officials expect 1989 results to be as good as 1988. The corporation has cut \$10 million from its annual budget since its transfer to the state in 1985.

TEXAS GROUP WILL BUY LUXURY THEATRES:

Act 3, a San Antonio, Texas group, will purchase Luxury Theatres, Alaska's largest chain of movie houses. Ticket prices will remain the same. But the new owners will spiff up some of the Anchorage theaters, bring first run movies quicker and perhaps even show controversial movies, such as the "Last Temptation of Christ," banned by the former owner. Act 3 is in the process of acquiring 87 movie houses nationwide.

Alaska journal of Commerce

Volume 13, Number 3, 24 Pages 1/16/89

KeyCorp picks Alaska for first

By IMRE NEMETH

Just as Alaska became its first entry on the West Coast, Key Corp has chosen the state to launch its foray into the realm of international banking.

The Albany, N.Y. based bank plans to use its Alaska locations to spearhead a plan officials hope will unlock commercial trade opportunities and profitable business ties with financially active Pacific Rim markets.

Ivan Jock, vice president of international banking at Key Bank of Puget Sound, says the Alaska is a natural site to begin the effort. With its location and current ties in the fishing and timber industries, the state is considered by bank leaders to have enormous potential, he adds.

"Certainly they've come to realize that Alaska's ties with the Pacific Rim are so large and important," Jock said from his Seattle office last week. "They are looking now at how best to approach the market and support it."

"It didn't take too much to see the potential in Alaska with the Pacific Rim."

Since the purchase of the Alaska contingent (formerly known as Alaska Pacific Bank), KeyCorp has moved into five other states in the Pacific Northwest, including Washington, Oregon and Idaho.

Jock said Alaska's importance is quite well known. To support the

See INTERNATIONAL, Page 2



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Industrial St

INTRODUCTION OF BILLS (Senate)

SB 173 (cont'd)

been recalled cannot be appointed to fill a vacant seat in the office from which the person was recalled.

The bill takes effect 90 days after it is signed by the Governor.

Introduced February 14, 1989 and referred to Community & Regional Affairs; State Affairs; Finance.

Letters of Credit

SENATE BILL NO. 174, by Senators Sturgulewski and Pearce. Amends AS 06.05.275(a) (Alaska Banking Code. Miscellaneous and incidental banking practices) to read: "(a) A bank may issue and confirm letters of credit authorizing the principal or beneficiary to draw upon the institution or its correspondents." The section currently reads: "(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."

The bill takes effect 90 days after it is signed by the Governor.

Introduced February 14, 1989 and referred to Labor & Commerce; Finance.

Consumption of Alcohol During Pregnancy

SENATE BILL NO. 175, by Senators Binkley, Adams, Zharoff, Pourchot, Frank and Pearce. Will require the holder of a license or permit that allows a person to sell or serve alcohol to post signs warning patrons that ". . . Drinking alcoholic beverages such as beer, wine, wine coolers, and other distilled spirits during pregnancy can cause birth defects." The signs will have to be displayed ". . . in a manner that will make them conspicuous to a person purchasing or consuming alcoholic beverages on the designated premises. . ." The Alcoholic Beverage Control Board (ABC Board) will have to determine how many signs have to be displayed, and whether they are sufficiently conspicuous after they are posted.

The ABC Board will furnish signs, and peace officers and ABC Board employees can issue citations for violations of this law. A person who is found guilty of a violation can be punished by a fine of not less than \$20 and not more than \$300. Each day a violation continues after a citation has been issued, constitutes a separate violation.

The bill takes effect 90 days after it is signed by the Governor.

Introduced February 15, 1989 and referred to Health, Education & Social Services; Finance.