

HB206

HOUSE COMMITTEE REPORT

(11)

Date Referred: April 10, 1991

FURTHER REFERRALS:

Date of Committee Action: 5/3/91

The FINANCE Committee considered:

HB 206

HOUSE BILL NO. 206

AIDEA LOAN GUARANTEES AND LOAN AUTHORITY

"An Act revising the loan authority of the Alaska Industrial Development and Export Authority, and amending the requirements relating to the authority's loan guarantee program; and providing for an effective date."

RECOMMENDATIONS:

be replaced with AS HB 206 (FIN) the same title a new title

have attached amendments(s)

do pass

do not pass

no recommendations

individual recommendations

additional referral to the _____ Committee

ADOPTS: _____ letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) _____

APPROVES PREVIOUS: (Dept/Date) _____

fiscal impact DCE D

fiscal note(s) _____

zero fiscal note _____

zero fiscal note(s) _____

SIGNING <u>DO PASS</u>	DP	OTHER RECOMMENDATIONS	DNP	NR	AM
Eileen MacLean ^{MacLean}	✓				
Mike Savane ^{NAVARRE}	✓				
Mark Boyer ^{Boyer}	X				
Ray Brewer ^{Brewer}	✓				
Jack Koponen ^{Koponen}					
George Barnes ^{JACKO Barnes}	X				
Ben Sharp ^{Sharp}	✓				
Ross Phillips ^{Phillips}	✓				
Ronald Larson ^{Larson}	X				
Mike ^{Mike}	✓				

Mike Savane Eileen P. MacLean
 CHAIRMAN'S SIGNATURE
 NAVARRE MacLean

FISCAL NOTE

STATE OF ALASKA
1991 LEGISLATIVE SESSION

BILL NO. ¹¹² CS 206 (L&C)

Revision Date: April 15, 1991 Department Affected: Commerce & Economic Dev.
 Title: An Act revising the loan authority of the AK Industrial Dev. & Export Authority BRU: AK Industrial Dev. & Export Authority
 Authority: Choquette, Baker Component: _____
 Sponsor: _____
 Requestor: _____

COMPONENT SERIAL NO.	1	2	3	4
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Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL	25,000	25,000	25,000	25,000	25,000	25,000
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REVENUE	25,000	25,000	25,000	25,000	25,000	25,000
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FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER	25,000	25,000	25,000	25,000	25,000	25,000
TOTAL						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year impact: _____

ANALYSIS: (Attach a separate page if necessary.)

SEE ATTACHED

Prepared By: Bertram L. Wagnon, Executive Director Phone: (907) 561-8050
 Division: AK Industrial Dev. & Export Authority Date: April 15, 1991

Approved by Commissioner: Glenn A. Olds
 Agency: Department of Commerce & Economic Development Date: 4/30/91

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

FISCAL NOTE - CSSB 206 (L&C)

ANALYSIS:

Raising the loan limits from \$10 to \$15 million will tend to increase the amounts loaned and, in conjunction with shorter amortization on the originators' (banks) part, increase the number of loans. The new language restricting the program to "new business ventures" will tend to decrease usage of the program. The preparer's best estimate is that the net effect will result in the \$25 million range subject, of course, to external economic factors which impact lending.

Note: All funds are available for these purposes and require no appropriation from the Legislature.

CS FOR HOUSE BILL NO. 206 (FINANCE)
 IN THE LEGISLATURE OF THE STATE OF ALASKA
 SEVENTEENTH LEGISLATURE - FIRST SESSION

BY THE HOUSE FINANCE COMMITTEE

Offered:
 Referred:

Sponsor(s): REPRESENTATIVES CHOQUETTE, Baker

A BILL

FOR AN ACT ENTITLED

1 "An Act revising the loan authority of the Alaska Industrial Development and Export
 2 Authority, and amending the requirements relating to the authority's loan guarantees under
 3 its business assistance program; and providing for an effective date."

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

5 * Section 1. AS 44.88.155(d) is amended to read:

6 (d) A loan purchased in whole or in part by the authority with assets of the enterprise
 7 development account or with proceeds of bonds secured by assets of the enterprise development
 8 account, other than a loan which is financed with the proceeds of bonds of the authority and
 9 secured only by a project applicant or a project,

10 (1) may not exceed \$15,000,000 [\$10,000,000];

11 (2) may not exceed the cost of the project or 75 percent of the appraised value
 12 of the project, whichever is less, unless the amount of the loan in excess of this limit is federally
 13 insured or guaranteed or is insured by a qualified mortgage insurance company;

14 (3) may not be for a term longer than three-quarters of the authority's estimate

1 of the life of the project or 25 years from the date the loan is made, whichever is earlier;

2 (4) shall contain [COMPLETE] amortization provisions; the amortization
3 provisions

4 (A) must be complete and satisfactory to the authority and require
5 [REQUIRING] periodic payments by the borrower;

6 (B) may allow the loan originator to amortize the portion of the loan
7 retained by the loan originator using a shorter amortization schedule than the
8 amortization schedule for the portion of the loan held by the authority if

9 (i) in the authority's opinion, the project financed can support
10 the increased debt service; and

11 (ii) the accelerated amortization schedule is required to induce
12 the originator to make the loan;

13 (5) shall be in the form and contain the terms and provisions with respect to
14 insurance, repairs, alterations, payment of taxes and assessments, default reserves, delinquency
15 charges, default remedies, acceleration of maturity, secondary liens, and other matters the
16 authority prescribes;

17 (6) shall be secured as to repayment by a mortgage or other security instrument
18 in the manner the authority determines is feasible to assure timely repayment under a loan
19 agreement entered into with the borrower;

20 (7) may not be made unless

21 (A) the project applicant is not, or, if the applicant is not a single
22 proprietorship, all members of the business enterprise or enterprises constituting the
23 project applicant are not, in default on another loan made by the state or by a
24 public corporation of the state; and

25 (B) with respect to the loan.

26 (i) at least 20 percent of the principal amount of the loan is
27 retained by the loan originator [OF THE LOAN AS LONG AS THE LOAN IS
28 OUTSTANDING]; or

29 (ii) [(B)] 100 percent of the principal amount of the loan is
30 guaranteed by the United States or an agency or instrumentality of the United
31 States;

- 1 (8) must be
2 (A) financed from the proceeds of bonds; or
3 (B) expected by the authority to be financed from the proceeds of bonds.

4 * Sec. 2. AS 44.88.535(a) is amended to read:

5 (a) The authority may guarantee a loan under AS 44.88.500 - 44.88.599 if the

6 (1) loan

7 (A) is commercially reasonable;

8 (B) [,] contains amortization provisions satisfactory to the authority;

9 (C) [,] is secured by adequate collateral; however, the authority may
10 waive on a case-by-case basis the requirement of collateral for a loan guarantee of
11 \$50,000 or less for which the proposed loan amortization period does not exceed five
12 years, but the ability to waive the requirement of this subparagraph or the grant of
13 a waiver does not prevent the financial institution that holds the loan guaranteed by
14 the authority from requiring reasonable collateral for the loan:

15 (2) [AND THE] net cash flow from the borrower provides adequate coverage for
16 the debt service on the loan;

17 (3) [(2)] term of the loan does not exceed 20 years;

18 (4) [(3)] loan is originated with and serviced by a state chartered or federally
19 chartered financial institution;

20 (5) [(4)] portion of the loan not guaranteed by the authority is held by the
21 originating financial institution or another financial institution approved by the authority;

22 (6) [(5)] loan is made to a business with a majority interest held by state
23 residents; and

24 (7) [(6)] loan guarantee provides a benefit to the borrower.

25 * Sec. 3. AS 44.88.535(b) is amended to read:

26 (b) The authority may provide a guarantee from the fund

27 (1) of 80 percent of a loan of \$50,000 or less that qualifies under
28 AS 44.88.500 - 44.88.599;

29 (2) for up to 80 percent of a loan of more than \$50,000 that qualifies under
30 AS 44.88.500 - 44.88.599; the [. THE] ratio of the guarantee to the outstanding principal of the
31 loan may not increase over the term of the loan.

1 * Sec. 4. LOAN RATIOS NOT TO BE INCREASED. For a loan of \$50,000 or less for which a loan
2 guarantee was made from the business assistance fund of the Alaska Industrial Development and Export
3 Authority before the effective date of this Act, the authority may not increase the ratio of the guarantee
4 to the outstanding principal of the loan in effect on the effective date of this Act over the term of the
5 loan.

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

AH. AMENDMENT #1
- 30/91
HB 206

AMENDMENT

BY REPRESENTATIVE CHOQUETTE

TO: CSHB 206 (L&C)

* WAS NOT BROUGHT UP FOR
VOTE. 4/30/91

I Page 2, line 8, following "or":

insert "at the option of the loan originator"

This amendment is offered to assuage the concerns of AIDEA expressed in their fiscal note and their amendment regarding required amortization by the banks in at most 10 years. This amendment will allow banks to amortize their portion of the loan over a period of time greater than 10 years, if they so choose.

II Page 2, line 17:

Delete 7 (a)

Inclusion of 7 (a) in this section of the bill will limit the ability of AIDEA to refinance existing loans; a valuable option in most cases. Acceptance of the amendment will provide AIDEA with the authority to finance new loans and refinance existing loans as long as a project applicant or all members of a business enterprise constituting a project applicant are not currently in default on another loan made by the state.

III Page 3, lines 6-9:

Delete "except that security may not be required for a guarantee that is no more than \$50,000 for which the proposed loan amortization period does not exceed five years;

(2) [AND THE]"

Insert "; the authority may not require security for a loan guarantee of \$50,000 or less for which the proposed loan amortization period does not exceed five years, but the limitation of this subparagraph does not prevent the financial institution that holds the loan guaranteed by the authority from requiring reasonable collateral for the loan;

(2) [,AND THE]"

By Bert WAGNON

AK. Inv. Dir. & Exp. M.H.

ATTACHMENT # 2

4/30/91

1113200

Proposed AIDEA Amendment to HB 206 (L & C)

* WAS NOT BROUGHT UP FOR VOTE 4/30/91

Section 1. AS 44.88.155(d) is amended by deleting paragraph (4)(B) and adding a new paragraph (4)(B) to read:

(B) may allow the loan originator to amortize the portion of the loan retained by the loan originator on a shorter amortization schedule than the amortization schedule for the portion of the loan held by the authority when;

(i) the project financed can support the increased debt service in the authority's opinion; and

(ii) the accelerated amortization schedule is required to induce the originator to make the loan.

and by deleting paragraph (7)(A)

A M E N D M E N T

OFFERED IN THE HOUSE
TO: CSHB 206 (L&C)

BY REPRESENTATIVE CHOQUETTE

Page 3, lines 6 - 9:

Delete "except that security may not be required for a guarantee that is no more than \$50,000 for which the proposed loan amortization period does not exceed five years;

(2) [AND THE]"

Insert "; the authority may not require security for a loan guarantee of \$50,000 or less for which the proposed loan amortization period does not exceed five years, but the limitation of this subparagraph does not prevent the financial institution that holds the loan guaranteed by the authority from requiring reasonable collateral for the loan;

(2) [, AND THE]"

CS HB 206 (L&C): An Act revising the loan authority of the Alaska Industrial Development & Export Authority

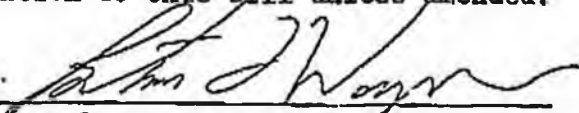
The Authority is concerned about the impacts CS HB 206 (L&C) will have on the Authority.

Page 1, line 10, raises the loan limit from \$10 to \$15 million. While this in and of itself is not unreasonable, when taken in conjunction with the second change on page 2, lines 6 thru 8, the potential for assuming a significant high level of risk is present. This second change mandates that on a participation loan the banks portion will never exceed 10 years no matter how long the loan term. As an example, if this bill passed as drafted a \$15 million, 20 year loan would have the bank paid out in 10 years and only the Authority exposed for years 10 thru 20. Staff strongly recommends that this section be amended to perhaps allow differential amortization but not make it mandatory in all cases.

The House Labor & Commerce also made an amendment on page 2, line 17, that will create problems. The new language mandates that a loan not be made unless the project applicant is a new business venture. It is hard to understand how a newly created start-up firm could qualify for a \$15 million loan and as written would exclude any existing businesses from qualifying for a loan.

Other changes on page 3 & 4 relate to denying loans to applicants who have defaulted on previous loans and amendments to the loan guaranty programs. As drafted the bill could be constructed to mandate an 80% guaranty of loans of \$50,000 or less which is currently set at 60%.

Staff of the Authority recommends opposition to this bill unless amended.


 Bertram L. Wagnon, Executive Director
 Alaska Industrial Development and
 Export Authority

Date: April 15, 1991

Alaska State Legislature
House of Representatives



INTERIM

3111 C Street
Anchorage, Alaska 99503
(907) 561-2032

SESSION

P.O. Box V
Juneau, Alaska 99811
(907) 465-2995

Representative Dave Choquette

April 29, 1991

To: Representative Eileen MacLean
Representative Mike Navarre
Co-Chairs, Finance Committee

From: Representative Dave Choquette
Representative Larry Baker

Re: CSHB 206, An Act revising the loan authority of the
Alaska Industrial Development and Export Authority
(AIDEA)

Representative Baker and myself introduced HB 206, an act revising the loan authority of the Alaska Industrial Development and Export Authority (AIDEA), for two reasons. First, to increase bank participation in AIDEA programs, and, second, to foster a small business loan guarantee program better suited to meet the needs of this sector of the economy.

CSHB 206 has four components.

- a. It sets up a differential amortization schedule for banks participating in the commercial loan program so that they may liquidate their debt prior to the authority.
- b. It increases the size of loans that may be made under the commercial loan program from \$10 million to \$15 million.
- c. It provides that AIDEA may increase the loan guarantee from 60% to 80% for loans of \$50,000 or less.
- d. It provides that AIDEA may remove the security requirement for loans of \$50,000 or less provided the loans do not amortize for longer than 5 years. Discretion is left in the hands of the bank to determine a reasonable collateral requirement.

A more detailed overview follows.



AIDEA BACKGROUND

The Alaska Industrial Development and Export Authority (AIDEA) is a public corporation of the State of Alaska, and a political subdivision within the Department of Commerce and Economic Development (DCED). It maintains a separate and independent legal existence from DCED. AIDEA's objective is to promote, develop, and advance the general prosperity of Alaskans. It serves this end by financing industrial, manufacturing, and other business enterprises located within the state, and by developing projects that will provide employment and economic development opportunities.

AIDEA activities are funded through the revolving fund established in the authority. The fund consists of legislative appropriations, money or assets transferred to the revolving fund by the authority, and unrestricted payments on loans made or purchased by the authority.

The activities of the AIDEA revolving fund are accounted for in the Enterprise Development Account and the Economic Development Account. Both accounts were established by the Legislature for separate and distinct purposes. The Enterprise Development Account is a trust fund established to finance industrial, manufacturing, and business enterprises not owned or operated by AIDEA.¹ The Economic Development Account is used only to finance, acquire, manage, and operate development projects that AIDEA intends to own or operate.

A. The commercial loan program

¹ According to AIDEA's 1990 Annual Report, since July 1, 1980, this account consists of:

a. \$32,212,300 in appropriations

b. all rights, title, and interest in loans, with principal balances totalling approximately \$166,000,000 at the date of transfer, previously held by the Department of Revenue and the Department of Commerce and Economic Development.

c. assets and liabilities of the Alaska State Development Corporation, the Small Business Development Corporation, and the Alaska Toll Bridge Authority, with a fund balance of \$2,554,055.

The commercial loan program is funded within the Enterprise Development Account. At present, money within the account may be used to purchase loans or to secure bonds issued to finance the purchase of loans for commercial projects. At present, a loan may be secured by bond or purchased so long as it:

1. does not exceed, \$10,000,000:
2. does not exceed the cost of the project or 75% of the appraised value of the project, whichever is less, unless the amount in excess of this limit is federally insured or guaranteed or insured by a qualified mortgage insurance company;
3. is not for a term longer than 3/4 of the authority's estimate of the life of the project, or for 25 years from the date of the loan, whichever is earlier;
4. contains complete amortization provisions, these provisions set the schedule for liquidation of a debt by installment payments; and
5. contains provisions with respect to insurance, repairs, alterations, payment of taxes and assessments, etc.

Additionally:

repayment is to be secured by mortgage, or another security instrument;

at least 20% of the principal amount of the loan is required to be retained by the originator of the loan, or 100% of the principal is to be guaranteed by the United States;

and the loan should be financed or expected to be financed from the proceeds of bonds.

Proposed Amendments to the Commercial Loan Program

The commercial loan guarantee program has not been a resounding success. Banks are reticent to participate in it. According to the Alaska Banker's Association, the loan program could better fulfill its purpose of providing capital to small and medium sized businesses by allowing banks participating in the AIDEA program to be paid back on a faster amortization schedule than AIDEA.

As it presently stands, the requirement that a bank retain at least 20% of the principal amount of the loan for as much as 25 years works against the capital structure under which banks operate.

Banks do not have a lot of capital available for long term lending because virtually all their cash, in the form of customer deposits, is short term. To tie up a disproportionate share of assets in long term loans would be detrimental to the banks, and would subject them to a high degree of scrutiny by bank examiners. AIDEA, on the other hand, is an instrument capable of maintaining long term loans.

The amendments proffered in Section 1 of the bill address this needed change. First, they allow the banks to amortize their portion of the loan over a time period less than the amortization period for the portion of the loan held by the authority; or for ten years, whichever is less. Second, they remove the requirement that at least 20% of the principal amount of the loan be retained by the bank for as long as the loan is outstanding.

Section One also increases the size of loans that AIDEA may purchase or finance from \$10 million to \$15 million. This increase will allow AIDEA to provide additional support to commercially sound projects. Funds within the Enterprise Development Account are quite sufficient to handle this increase.

Lastly, as a security to protect the financial well-being of the Enterprise Development Account, Section One requires that AIDEA may not guarantee a loan if the project applicant is currently in default on another loan made by the state or a public corporation of the state.

B. Business Assistance Program

AIDEA also operates a business assistance fund, commonly known as a loan guarantee program. The purpose of the loan guarantee program is to furnish up to an 80% guarantee of the principal balance to the financial institution making the loan. This added degree of support is intended to make project financing, refinancing, and working capital loans, available to borrowers that might not otherwise be financed.

The fund is established in the authority from money within the authority's reserves. By statute as much as \$50,000,000 may be reserved for the program, with at least \$25,000,000 of this amount reserved for loans of \$500,000 or less. At present, the authority only has \$3.6 million within the fund, and has only lent out \$500,000. The program is not filling the financing void it was created to alleviate.

Amendments to the Business Assistance Program

The business assistance program can be more successful if incentives can be created to make private banks more willing participants in the program. Just as importantly, it can be an effective vehicle for financing the programs and needs of Alaska's small business community. These amendments are an attempt to meet these ends. Additionally, they respond to the recommendations of

the 1989 Governor's Conference on Small Business on this matter.

Sections 2 through 5 of the bill lay out the amendments.

Section 2 addresses the conditions by which the authority may guarantee a loan under the business assistance program. At present, the authority may guarantee a loan made to a business with a majority interest held by state residents so long as that loan is: commercially reasonable; contains satisfactory amortization provisions; is secured by adequate collateral; so long as the net cash flow of the borrower provides adequate coverage for debt service; and so long as the borrower's credit check is satisfactory.

Section 2 amends the framework by providing that the authority may guarantee a commercially reasonable loan of \$50,000 or less that amortizes in five years without requiring security. Currently, AIDEA regulations place a difficult burden on Alaskan businesses attempting to get small loans. Namely, they provide that a bank will only get a guarantee on a loan if the business provides collateral for up to 75% of the requested amount. Despite the fact that the borrower's loan request may be commercially sound, that he or she may have adequate cash flow to service the debt, and that their credit history is satisfactory, many Alaskan small business owners simply cannot fulfill this collateral requirement. Resultingly, many cannot get an AIDEA guaranteed loan from the bank.

This amendment will allow the bank to more accurately weigh the security requirement for worthy loans of \$50,000 or less, and to accordingly set up differential collateral requirements.

Section 3 amends existent statute and provides that the authority may guarantee 80% of a loan of \$50,000 or less. By regulation, the authority guarantees only 60% of loans of this total.

Often banks finds that a small loan is not worth the time and expense of administering it. As a matter of practice, many small loans made to businesses for inventory, accounts receivable, or working capital do not exceed one year in duration. A bank manager generating this type of credit might turn down marginally qualifying loans due to time considerations and administrative costs.

Increasing the guarantee to 80% is intended to offset this difficulty and to offer opportunities for credit to new businesses and marginally capitalized businesses that otherwise would have a difficult time obtaining credit. A 20% risk factor for most bankers would be sufficient for a bank to maintain quality standards. The collection of excess bad debts by a bank is a drain on profitability which they are not willing to undertake.

Section 4 provides that the authority may not increase its

guarantee of loan of \$50,000 or less for loans made before the effective date of these amendments.

Lastly, section 5 provides an immediate effective date.

C. Conclusion

House Bill 206 is an attempt to further AIDEA's resolve to advance the economic prosperity of the State. This is completed by increasing bank participation within the AIDEA framework and by responding to the call of Alaskan small businesses unable to secure loans of \$50,000 or less. We look forward to working with the committee to achieve these ends.

National Bank of Alaska



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

April 29, 1991

Alaska State Legislature
House Finance Committee

Re: Alaska Industrial Development and Export Authority

Dear Honorable Co-Chairman:

The Alaska Banker's Association recommended a proposal which we felt would make AIDEA a more viable enterprise for providing capital to small and medium sized businesses in the state of Alaska. Our proposal was based on a resolution from the Alaska Banker's Association which would support legislation and an ammendment to AIDEA's regulations which would allow their required participation in an AIDEA loan to be paid back on a faster amortization schedule than funds advanced by AIDEA. This concept was gleaned from the recent recommendations of the Institute of Social and Economic Research of the University of Alaska Anchorage which indicated that commercial banks and AIDEA have different capital structures which cause some conflict. They stated that "since banks abhor long-term financing, the joint financing could be arranged so that banks could be paid back more quickly and since AIDEA's main interest is long-term economic development, it could be paid back over a longer period, possibly accepting smaller principal payments at the start and higher ones as the cash flow was adequate."

We believe that such a program would facilitate the movement of long-term capital which is otherwise not available in the state of Alaska today to business enterprises throughout the state and secondarily enhance and strengthen the banking community, which was seriously shaken by the economic depression in Alaska to the late 1980s, which ultimately resulted in the failure of over half of the banking institutions.

Since the 1950s, NBA acted as a catalyst for attracting capital into the state from various sources. Until the introduction of Industrial Revenue Bond financing in the 1980s, NBA did not

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April 26, 1991
Page Two

generate for our own portfolio long-term real estate or development loans to any extent as we felt these loans did not match our capital structure and our inability to meet the long-term capital demands for development in the state.

We were able to attract labor union pension funds, state pension funds, insurance companies, and thrift institutions into investing in various projects. We also participated with such programs as the Farmer's Home Administration Business and Industrial Loan Program, the SBA Guaranteed Loan Program, the Bureau of Indian Affairs, and various government programs. In recent years, all of these programs except the Federal SBA and the BIA have dried up. In discussions with other commercial banks, I can find no recent instance where a major institutional investor has recently provided new long-term capital in the state. Robert Gray, President of NBA, in a recent talk indicated that he felt, due to the credit crunch in the United States, that Alaska would be the last state in the union to begin to attract long-term capital when the credit crunch relaxes, primarily due to the more attractive investment opportunities in other parts of the U.S. and problems lenders sustained during the 80s.

Alaska is rapidly coming out of an economic depression and once again seems poised for economic expansion without a ready source of long-term capital available for the development. The state does have the Alaska Industrial Development and Export Authority with a substantial capacity due to its credit rating and capital reserves to meet the needs of small and medium sized business expansion. Our loan policy of terms to ten years does not suit well with impact projects that generally relied on 20 to 25-year amortization. The recommended program should provide somewhat higher payments than a normal 20-year amortization but not substantially higher as can be demonstrated by the examples. We are aware of projects and commercial development waiting for suitable financing in Kenai, Kodiak, Anchorage, and Fairbanks.

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Page Three

What sort of effect on small and medium size businesses will the availability of long-term capital have? I have over 15 years of experience in economic development financing in the state of Alaska plus an additional seven years of banking experience in the state. Certainly, in the earlier years of my development experience we did not have long-term capital to provide. We used a combination of programs in attracting capital. Such projects as a fisheries plant in Homer created substantial employment that was not previously available in the community.

Due to the combining of various capital sources and guaranteed programs, we were able to provide the company with a market interest rate loan comparable to other rates available and created a facility that in itself employs in excess of 200 people in season. Such a plant also creates a substantial multiplier effect in the employment of fishermen, local merchants, and the supply and transportation industry.

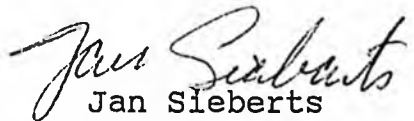
The reason for this recommendation for a change in the law was the general differences in corporate structures between commercial banks which are predominate in Alaska and AIDEA which was created with the intent to provide long-term capital which is lacking in the state of Alaska. Our internal policies consider a long-term financing as amortizing over 10 years. We therefore would strongly support a resolution that has been prepared by the Alaska Bankers Association to the effect to amend AIDEA's laws and regulations which would allow the banks required participation's in AIDEA's various loan programs to be paid on a faster amortization schedule than funds advanced by AIDEA. The risk to AIDEA should decrease as actual equity build up in loans would increase.

During the 1990 legislature, AIDEA obtained changes to the law which changed the bank participation requirements under Section 44.88.155(7)(A) to "at least 20% of the principal amount of the loan is retained by the originator of the loan as long as the loan is outstanding. This change increased the bank participation from 10% to 20% and required the bank to retain that percentage as long as the loan is outstanding." AIDEA also made changes in their regulations under Section 3AAC 99.350(a) to read "the originator of the loan shall retain at least a 20% share of the principal amount of the loan as loan as the loan is outstanding." Due to these changes in the last legislature, it would seem that a change in the law and regulations is required to bring about the changes we request.

Alaska State Legislature
House Finance Committee
April 26, 1991
Page Four

If you have any questions, please feel free to contact me at
265-2991 or my fax number 263-2582.

Sincerely yours,

A handwritten signature in cursive script that reads "Jan Sieberts".

Jan Sieberts
Senior Vice President

mlc

edd
KENAI PENINSULA BOROUGH
ECONOMIC
DEVELOPMENT
DISTRICT, INC.

March 19, 1991

To: House Labor and Commerce Committee

From: Mike Tagliavento, Executive Director, Kenai Peninsula
Borough Economic Development District

RE: HB 206, Act Revising Loan Authority of AIDEA

Our organization is working very closely with local entrepreneurs to create employment through the retention, expansion and creation of small businesses. I applaud the efforts of this bill's sponsors to find creative ways to overcome the problems small businesses are having in accessing capital.

AIDEA has the potential of contributing to the capital needs of small businesses to a greater extent than it has in the past. HB 206 provides new options for AIDEA in this regard, and I would urge your support.

MBT/ss

Post-It™ brand fax transmittal memo 7671		# of pages > /
To	DAVE / JOAN	From
Co.		V. SAMSON
Dept.		Phone #
Fax #	465-2244	FAX #
		278-5891

To: Rep. Dave Choquette

From: Virginia Samson, (Former) Executive Director
Governor's Conference on Small Business

Date: March 17, 1991

Subject: HB 206

Thank you for your follow up on the Recommendations from the 1989 Governor's Conference on Small Business and for asking me to comment on HB 206. Also, thanks to Rep. Baker for co-sponsoring the bill.

HB 206 responds to Problem 4A: "Small business requires better access to loans from \$10,000 to \$100,000". Within that problem area, this bill seems to address Recommendations:

1. The State guaranteed loan program should be simplified and have less costly documentation process; and
3. The State should provide incentives to banks to make \$10,000 - \$100,000 loans to small businesses in rural communities.

The main thrust of the bill seems to be to expand and clarify AID&EA's involvement with loan guarantees by allowing 80% guarantee for a qualifying loan under \$50,000 and allows the option of no security for an amortization period under 5 years.

To the extent that AID&EA will work with and provide incentives to private banks to make funds available to small businesses around the state, this bill will help. But, if the banks continue to think that "it's not worth the trouble to do small loans" (ie they can't make enough money for the time and paperwork it takes), no bill will help.

Administrative follow up is still needed on Recommendation 3: "The State needs to provide for the dissemination of information broadly throughout the state." Lack of knowledge about what financing programs are available through or assisted by the state is a big problem.

In summary, I support the general idea of HB 206 as a great step in the right direction to help make small loan amounts available to small businesses.