

HB

|||

ALASKA STATE LEGISLATURE
REPRESENTATIVE MIKE NAVARRE

Co-Chair
House Finance Committee
P.O. Box V
Juneau, Alaska 99811
(907) 465-3779

April 11, 1991

Memorandum

TO: Representative Cliff Davidson, Chairman House Resources

FROM: Representative Mike Navarre 

SUBJECT: House Bill 111 An Act relating to the lending authority and loans of the Commercial Fishing and Agriculture Bank; and providing for an effective date.

.....

I would like to request a hearing on HB 111 at your earliest convenience. It passed out of Labor and Commerce on April 5, with 3 do pass and 3 no recommendation.

Under current statute CFAB can only extend loans to its members. This change in statute will allow CFAB to make small loans (under \$25,000) to non-members.

This bill will allow CFAB to serve the financial needs of Alaska commercial fisherman in Western Alaska and in fisheries such as Aluetian-Yukon-Kuskokwim fisheries.

Membership in CFAB involves the purchase of capital stock, extensive documentation, and a recordkeeping and communications burden which are costly to all involved. This bill reduces this dramatically.

This bill also expands the ability to use entry permits as collateral to proposed small loans. This has been a longstanding practice with CFAB.

DISTRICT 5

34824 K-Beach Road • Soldotna, Alaska 99669 • (907) 262-7642



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HB 111: "An Act relating to the lending authority and loans of the Commercial Fishing and Agriculture Bank; and providing for an effective date."

The department encourages the intent to foster further development of our commercial fisheries industry, especially geographic areas which may discourage normal lending sources. It is our understanding that this type of development activity is the foundation upon which CFAB was built.

We do question, but are not opposed to, the exemption provisions of membership to be qualified for a loan. One of the fundamental elements in the well-being of any cooperative is the support of its members and, in turn, the coop's membership service. It may be in the best interest of not only the success of CFAB but fisheries development to expand membership rather than dilute it.

The department encourages passage of HB 111.

Glenn A. Olds Spec. Asst. #

Glenn A. Olds, Commissioner
Date: 2-28-91

**DIVISION OF LEGAL SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA**

P.O. Box Y, Juneau, Alaska 99811
(907) 465-3867 or 465-2450
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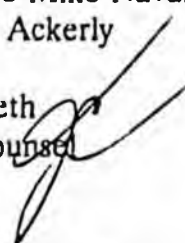
Deliveries to: 240 Main Street
Court Plaza, Room 500
Mail Stop 3101

MEMORANDUM

February 22, 1991

SUBJECT: House Bill 111, expanding the lending authority of the Commercial Fishing and Agriculture Bank -- sectional analysis

TO: Representative Mike Navarre
ATTN: Tom Ackerly

FROM: Jack Chenoweth
Legislative Counsel 

Under current law, the Commercial Fishing and Agriculture Bank issues membership stock and the bank's authority to make loans extends only to its members.

Bill section 1 adds a new section to the statutes establishing the Commercial Fishing and Agriculture Bank to authorize the bank to make small loans to qualified borrowers who are not bank members. The loans are authorized "to facilitate the development of commercial fisheries in geographic areas in which factors . . . do not encourage normal lending activities." A small loan authorized by the section may not exceed \$25,000, and the total amount of bank assets that may be made available as small loans may not exceed 8% of the bank's capital. Small loans may be made for any purpose for which the bank is currently allowed to make loans. Because of probable limited loan demand from residents of sparsely populated areas, the section authorizes the bank to contract for the servicing of these loans and sets parameters as to whom the bank may contract with.

*

The remaining changes include both collateral amendments and changes requested by the bank (or recommended by this office) to change the statutes applicable to the bank to improve its lending practices.

As a prerequisite to a Commercial Fishing and Agriculture loan for the purchase of a limited entry permit under current law, the Commercial Fishery Entry Commission must first certify that the borrower qualifies as a permit transferee. Bill section 2

Representative Mike Navarre
February 22, 1991
Page 2

extends that requirement to limited entry permits that would be purchased under the proposed small loan program.

Current law spells out conditions under which a limited entry permit may be used as loan collateral. The amendment made by bill section 3 adding a reference to "AS 44.81.225" expands the ability to use entry permits as collateral to proposed small loans. (The inclusion of reference in the same bill section to "AS 44.81.235" is remedial and is intended to expand the existing procedure under which the bank acquires a permit lien to the statute under which the bank may make loans for fishing-related needs other than for the purchase of a limited entry permit. The other word changes set out in the bill section are by way of clean-up.)

With its addition of a reference to "AS 44.81.225," bill section 4 expands the remedy of current law by which a loan debtor may avoid foreclosure of a limited entry permit given as security for a bank loan by nominating another person to assume the note to entry permits offered as collateral for small loans. (Again, the inclusion of reference in the same bill section to "AS 44.81.235" is intended to make the foreclosure-avoidance remedy applicable to bank loans for fishing-related needs other than for the purchase of a limited entry permit.)

The principal purpose of bill section 5 is to extend the bank's general deficiency collection rights to small loans made under AS 44.81.225. (In addition, as a recommended drafting change, by the inclusion of reference to "AS 44.81.235," this bill section would confirm the bank's collection rights to bank loans for fishing-related needs other than for the purchase of a limited entry permit.)

Bill section 6 gives the measure an immediate effective date.

JC:gc
91-088.glc

FISCAL NOTE

No. 1
 Bill Version CSHB 111(L&C)
 (H) Publish Date: 4/5/91

STATE OF ALASKA
 1991 LEGISLATIVE SESSION

Revision Date: _____ Department Affected: Commerce & Economic Dev.
 Title: An Act relating to the lending BRU: Banking, Securities & Corporations
authority and loans of CFAB Component: Banking & Securities
 Sponsor: Rep. Navarre
 Requestor: _____ COMPONENT SERIAL NO.

1	2	3	3
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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	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						

Estimate of current year impact:

ANALYSIS: (Attach a separate page if necessary.)

Prepared By: William F. Kirkpatrick, Director Phone: 465-2521
 Division: Banking, Securities & Corporations Date: 2/28/91
 Approved by Commissioner: Glenn A. Olds *Glenn A. Olds* Spec. Asst. IT
 Agency: Department of Commerce & Economic Development Date: 2-28-91

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



UNITED FISHERMEN OF ALASKA

211 4th Street, Suit 112
Juneau, AK 99801
907-586-2820
Fax# 907-463-2545

February 26, 1991

POSITION PAPER IN SUPPORT OF HOUSE BILL 111

MEMBER ASSOCIATIONS

Alaska Crab Coalition
Alaska Independent Fishermen's
Marketing Association
Alaska Longline Fisherman's
Association
Alaska Trollers Association
Bering Sea Fishermen's Association
Bristol Bay Driftnetters Association
Concerned Area 'M' Fishermen
Cook Inlet Aquaculture Association
Copper River Fishermen's Cooperative
Cordova District Fishermen United
Kenai Peninsula Fishermen's Association
North Pacific Fisheries Association
Northern Southeast Regional
Aquaculture Association
Peninsula Marketing Association
Petersburg Vessel Owners Association
Prince William Sound
Aquaculture Association
Prince William Sound Seiners Association
Seafood Producers Cooperative
Southeast Alaska Seiners
Southern Southeast Regional
Aquaculture Association
United Cook Inlet Drift Association
United Southeast Alaska Gillnetters
Western Alaska Cooperative
Marketing Association

The United Fishermen of Alaska
wholeheartedly supports House Bill 111.

This proposed legislation would broaden the
lending capabilities of the commercial
Fishing and Agriculture Bank, from the
standpoint that for loans under \$25,000, the
small borrower would not have to become a
member of this cooperative bank.

The simplification of the lending procedure
would be particularly beneficial to the
fishing industry in Western Alaska where the
potential borrower might be intimidated by
the involved concept and paper work involved
in becoming a member of the bank. It would
also provide a needed service to the fishing
industry where loans are not always readily
available for necessary improvements.

The eight percent cap provided in the
legislation would prevent CFAB from adverse-
ly affecting the other commercial lending
institutions while providing a needed
service to Alaskan commercial fishermen.

The United Fishermen of Alaska urge you to
support this needed service to the commer-
cial fishing industry.

March 22, 1991

FOR COMPANION BILL IN THE
SENATE

Senator Fred Zharoff
Post Office Box V
Juneau, Alaska 99811

Dear Senator Zharoff,

For the Community Enterprise Development Corporation of Alaska and its members, I wish to voice our support for Senate Bill No. 92. This Bill, if passed, would allow the Alaska Commercial Fishing & Agriculture Bank to make \$25,000 commercial fishing loans.

Please allow me to tell you something about Community Enterprise Development Corporation of Alaska (CEDC). CEDC, formed by the Federal Government in 1968, is a non-profit organization designed to promote economic development in rural Alaska. We have 168 rural organizations who are members of CEDC, and the geographic areas which our members come from range from Sitka to Barrow.

One of the programs which we have, and is perhaps the most visible one in rural Alaska is our EDA Boat Loan Program. CEDC inherited this program from the Alaska Native Foundation in 1983. It is now the most creditable Federal Loan Program in rural Alaska. This program gives Western Alaska Fishermen, who otherwise could not qualify for a commercial bank loan, alternative financing for their boats. Since 1983, ninety four fishermen received financing worth \$1,123,973 for boats and gear from CEDC.

Our program has, and will continue to have a positive economic impact in Western Alaska. However, we do have restrictions with this program, and this is why we support Senate Bill No. 92.

Our loan fund is small, and on an average we can only make 10 new boat loans per year. We cannot make loans outside of Western Alaska. Also, because we can not take fishing permits as collateral, we do not make permit loans. Within our service area the average fishing permit is worth from \$12,000-\$25,000.



CEDC


Community Enterprise Development Corporation of Alaska

Based on the number of inquiries that we get from fishermen outside of our service area. And due to limitations in our program. We can see there is adequate need for small fishing boats, and fishing permit financing in and outside of our service area.

CEDC and CFAB share a common interest with commercial fishermen. We both would like to see fishermen meet their goal of self-sufficiency. If this bill passes, this goal will be more attainable for the small boat fishermen.

Sincerely,

COMMUNITY ENTERPRISE DEVELOPMENT
CORPORATION OF ALASKA



Perry R. Eaton
President & CEO

What is CFAB?

Alaska Commercial Fishing and Agriculture Bank (CFAB) began operations in 1980. Its sole mission is to provide financing of all kinds to the commercial fishing industry and the agriculture industry (including timber) in Alaska.

What kinds of loans and repayment programs are available from CFAB?

CFAB can make loans for almost any fishing-related or farming-related purpose. The most common purposes are the purchase, modification, or refinancing of a vessel; purchase of a limited entry permit; gear, engine, or equipment replacement or upgrade; general operating capital; and fish processing, etc. There are no "standard" repayment terms or programs — we work with each applicant to determine a repayment schedule appropriate to that particular loan transaction.

Who may borrow from CFAB?

In order to be eligible for consideration as a CFAB borrower, an applicant must be commercially involved in one of the industries mentioned earlier. An individual applicant must be a bona fide Alaska resident. A partnership must be comprised of Alaska residents. If the applicant is a corporation, the majority ownership and control must rest with Alaskans. There are some exceptions to the latter rule for companies which are involved in shorebased fish processing.

Eligibility, however, is only a first step. To obtain a CFAB loan, an applicant must be found by CFAB to be capable and creditworthy within the context of the specific loan request. The standards used by CFAB are essentially the same as those of any responsible lender. However, CFAB's specialized purposes, and the experience we have gained, may permit us to consider a broader range of applicants than do most other lenders.

Who owns CFAB?

CFAB is a cooperative. This means that each borrower becomes an owner through a modest purchase of CFAB stock when a loan is made. The State of Alaska is also an owner. CFAB was established by a special Alaska statute, and the State made an initial investment of "seed money" — that money is expected to be returned to the State as borrowers' ownership grows.

Does that mean the State operates CFAB?

CFAB's statute provides for it to be operated as a private cooperative rather than as a State agency. Its basic policies and directions are established by a seven-person Board of Directors, which hires professional management and staff to operate the business. Five of the Directors must be borrower-owners of CFAB and are elected by the total borrower-ownership. The other two Directors are appointed by the Governor of Alaska. All Directors' terms are for three years. CFAB holds an ownership meeting each year - borrower-owners have the opportunity to vote on important matters, to receive reports from Directors and management, and to elect Directors. The State's stock is non-voting, although CFAB provides periodic reports to State officials.

Where does CFAB get its money to loan?

CFAB is not limited as to its source of funds. Since its inception, CFAB has borrowed funds for re-lending from the Federal Farm Credit System.

What is CFAB's interest rate and how is it set?

Although CFAB occasionally makes fixed rate loans, the vast majority of its loans are on a variable rate basis. That is, the rate will change — up or down — as CFAB's costs change. There is no single initial rate — the initial rate is based on the kind of loan involved. Most important, we use a procedure to objectively analyze the credit-worthiness of each individual applicant, which permits us to offer the most favorable interest rates to the most desirable risks. CFAB's interest rates overall are set to provide sufficient income to pay its own interest costs and operating expenses and to provide a small margin. Since CFAB is a cooperative, any margin which is actually produced is either returned to the borrower-owners or otherwise used to their benefit.

— EXCERPTED FROM A CFAB BROCHURE. —

Alaska State Legislature
House of Representatives

PO BOX 886
BETHEL AK 99559
(907) 543-3541

OURING SESSION
PO BOX V
JUNEAU, AK 99811
(907) 485-4527



COMMITTEES
CHAIRMAN
SPECIAL COMMITTEE ON
MILITARY & VETERANS AFFAIRS
MEMBER
LABOR & COMMERCE
RESOURCES

FINANCE SUBCOMMITTEES
MILITARY & VETERANS AFFAIRS
PUBLIC SAFETY

Representative Juan M. Juan

March 27, 1991

TO: REP. DAVID FINKELSTEIN, CHAIRMAN
LABOR AND COMMERCE COMMITTEE

FM: REP. IVAN M. IVAN *I/MJ*

RE: HB 111 Subcommittee

Reps. Parnell, Taylor, and I met on March 11, 1991, regarding HB 111 and following discussion recommend two amendments.

1. Section 1(a): delete "... in geographic areas in which factors such as..." and insert "where" in its place.
2. Section 1(d): add, "a profit or nonprofit Native corporation", to the sentence, "... the bank may contract or make other arrangements with a public agency, ..., or another legal entity..."

A committee substitute has been drafted with the recommended changes and Reps. Parnell, Taylor, and I recommend its adoption.

I believe the concerns regarding HB 111 at this level have been addressed and is ready for consideration by the full committee.

Copies: Labor & Commerce committee members
Reps. Parnell and Taylor

DISTRICT 25

AKIAGNAK, AKIAK, ATMAJUTLIAK, BETHEL, CHEFORNAK, EEK, GOODNEWS BAY, KASIGLUK, KIPNUK, KONGIQANAK, KWETHLUK, KWILLINGOOK, MEKOYAK, NAPAKIAK, NAPASKIAK, NEWTOK, NIGHTMUTE, NUNAPITCHUK, OSCARVILLE, PLATINUM, QUINHAGAK, TOOKSOOK BAY, TUNTUTULIAK, TUNUNAK

STATE OF ALASKA
1991 LEGISLATIVE SESSION

BILL NO. HB 111

Revision Date: _____ Department Affected: _____

Title: LEADING AUTHORITY + LAWS BRU: _____

OF CPAB Component: _____

Sponsor: REP. NAVARRE

Requestor: HOUSE LABOR + COMMERCE COMPONENT SERIAL NO.

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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	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	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

Estimate of current year impact: NONE

ANALYSIS: (Attach a separate page if necessary.) HB 111 AFFECTS THE ALASKA COMMERCIAL FISHING + AGRICULTURE BANK ONLY. NO FISCAL IMPACT TO ANY STATE AGENCY IS EXPECTED.

Prepared By: BILL HALL, BUSINESS DEV. SERVICES Phone: 276-2007

Division: CPAB Date: 2-25-91

Approved by Commissioner: A.J. Hall

Agency: ALASKA COMMERCIAL FISHING + AG. BANK Date: 2-25-91

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

ALASKA STATE LEGISLATURE
REPRESENTATIVE MIKE NAVARRE

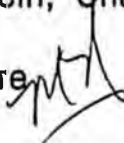
Co-Chair
House Finance Committee
P.O. Box V
Juneau, Alaska 99811
(907) 465-3779

February 22, 1991

Memorandum

TO: Representative David Finklestein, Chair L&C Committee

FROM: Representative Mike Navarre



SUBJECT: House Bill 111 An Act relating to the lending authority and loans of the Commercial Fishing and Agriculture Bank; and providing for an effective date.

.....
PURPOSE of HB 111

Under current statute CFAB can only extend loans to its members. This change in statute will allow CFAB to make small (under \$25,000.00) loans to non-members.

Benefits of this Legislation

- 1. Effective Service-** This legislation will allow CFAB to serv the financial needs of Alaska commercial fishermen in Western Alaska and in fisheries such as the Aluetian-Yukon-Kuskokwim fisheries.
- 2. Reduce Burden-** Membership in CFAB involves the purchase of capital stock, extensive documentation, and a recordkeeping and communications burden which are costly to all involved. This bill reduces this burden dramatically.
- 3. Confirm Longstanding Practice-** Expands the ability to use entry permits as collateral to proposed small loans. This has been a longstanding practice with CFAB.

DISTRICT 5

34824 K-Beach Road • Soldotna, Alaska 99669 • (907) 262-7842



PRINTED ON RECYCLED PAPER

February 21, 1991

Draft Background - Sectional Analysis Provided by CFAB
House Bill 111

The overall purpose and intent of Section 1 is to open up potential avenues and opportunities for CFAB to more effectively serve the financial needs of Alaska commercial fisherman in Western Alaska and in fisheries such as those known as the Aleutian-Yukon -Kuskokwim (AYK) fisheries. Those fisheries typically require a relatively small capital investment and the financing needs are commensurately modest. CFAB intends to offer to public, non-profit, and/or private agencies in those fisheries or geographic areas the opportunity to process, service, and/or participate in small loans to local commercial fisherman.

Paragraphs (b) and (c) are to establish parameters and to make clear the intent that CFAB's activity under this section will be a limited portion of its total business and not a potential burden to the structure and purposes mandated by AS 44.81 in total. The amount of CFAB's total capital will vary (presumably upward) over time. It is presently about \$37.0 million, so the potential extent of this effort would not exceed approximately \$3,000,000.

Paragraph (b) (1) is the only part of this legislation which provides an opportunity or feature which CFAB does not now have. CFAB is structured as, and was intended by its founding legislation to be, a cooperative. AS

44.81 provides that each borrower must be "a member of the bank." Membership in (i.e., ownership of) CFAB involves the purchase of capital stock, extensive documentation , and a recordkeeping/communications burden which is costly for both CFAB and its borrower; those costs and burden are a very real impediment to small loans. Paragraph (b) (1) will relieve this small segment of CFAB's business of that impediment and enhance the feasibility of Small Loan Fund structure.

Section 2 provides that an individual wishing to purchase a limited entry permit, and whose purchase is to be financed by CFAB under section 1 of this legislation, must meet the basic permit holder standards expressed in the State's limited entry law.

Section 3 addresses the section of CFAB's statute that describes the procedure by which CFAB obtains a lien on a limited entry permit, and has a twofold purpose. First, the references to AS 44.81.225 will make it possible for a loan funded through section 1 of this legislation to be secured by a pledge of a limited entry permit.

The second purpose is to formally codify a longstanding practice and to remedy an existing technical deficiency. CFAB makes two general kinds of loans which may properly be secured by a limited entry permit. The first, based on the authority of AS 44.81.210(a)(20), is a loan to finance the purchase of a permit. The second, premised on AS 44.81.235, is a loan for almost any other fishing related need. While AS 44.81.230, as it now exists, provides a specific procedure through which the bank acquires permit lien for a loan to purchase a limited entry permit, CFAB's statute

is silent with regard to the procedure related to the second type of loan mentioned above. In practice, CFAB and the Limited Entry Commission have adhered to the same procedure for both kinds of loans; Section 3 will confirm that practice to be the Legislature's intent.

Section 4 and 5 correct a drafting error in previous legislation and also extend certain of CFAB's collection rights and borrowers' rights related to permit loans to loans which may be made under Section 1 of this legislation. With regard to the first point: AS 44.81.250(d), as it exists, refers to the loans under AS 44.81.210(a)(20) or 44.81.230. This is effectively redundant, in that both sections cited are related only to loans for the purchase of limited entry permits. The addition of "44.81.235" will standardize both CFAB's and its borrowers' rights for all loans secured by permit liens and which become in default.



UNITED FISHERMEN OF ALASKA

211 4th Street, Suit 112
Juneau, AK 99801
907-586-2820
Fax# 907-463-2545

February 26, 1991

POSITION PAPER IN SUPPORT OF HOUSE BILL 111

MEMBER ASSOCIATIONS

Alaska Crab Coalition
Alaska Independent Fishermen's
Marketing Association
Alaska Longline Fisherman's
Association
Alaska Trollers Association
Bering Sea Fishermen's Association
Bristol Bay Driftnetters Association
Concerned Area 'M' Fishermen
Cook Inlet Aquaculture Association
Copper River Fishermen's Cooperative
Cordova District Fishermen United
Kenai Peninsula Fishermen's Association
North Pacific Fisheries Association
Northern Southeast Regional
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Prince William Sound Seiners Association
Seafood Producers Cooperative
Southeast Alaska Seiners
Southern Southeast Regional
Aquaculture Association
United Cook Inlet Drift Association
United Southeast Alaska Gillnetters
Western Alaska Cooperative
Marketing Association

The United Fishermen of Alaska
wholeheartedly supports House Bill 111.

This proposed legislation would broaden the lending capabilities of the commercial Fishing and Agriculture Bank, from the standpoint that for loans under \$25,000, the small borrower would not have to become a member of this cooperative bank.

The simplification of the lending procedure would be particularly beneficial to the fishing industry in Western Alaska where the potential borrower might be intimidated by the involved concept and paper work involved in becoming a member of the bank. It would also provide a needed service to the fishing industry where loans are not always readily available for necessary improvements.

The eight percent cap provided in the legislation would prevent CFAB from adversely affecting the other commercial lending institutions while providing a needed service to Alaskan commercial fishermen.

The United Fishermen of Alaska urge you to support this needed service to the commercial fishing industry.