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SENATE LABOR & COMMERCE COMMITTEE
BILL FILE

BILL NUMBER: SB 92

BILL TITLE: LEADING AUTHORITY IN LOANS COMM FISH & AL BANK

SPONSOR: ZILANOFF

RECEIVED: 1/30/91

WRITTEN REQUEST TO SCHEDULE: DATE _____ FROM _____
SECTIONAL ANALYSIS RECEIVED: DATE _____ FROM _____
FISCAL NOTE REQUESTED: DATE _____ FROM _____
FISCAL NOTE RECEIVED: DATE _____ FROM _____
FISCAL NOTE CS REQUESTED: DATE _____ FROM _____
FISCAL NOTE CS RECEIVED: DATE _____ FROM _____
FISCAL NOTE CS REQUESTED: DATE _____ FROM _____
FISCAL NOTE CS RECEIVED: DATE _____ FROM _____
FISCAL NOTE CS REQUESTED: DATE _____ FROM _____
FISCAL NOTE CS RECEIVED: DATE _____ FROM _____

FIVE DAY NOTICE GIVEN:
COMMITTEES OF REFERRAL: FIRST: L & C SECOND: Res THIRD: FIN

DATE	COMMITTEE ACTION
_____	_____
_____	_____
_____	_____
_____	_____

HEARING NOTIFICATION LIST

- | | |
|------------|-----------|
| 1. SPONSOR | 6. _____ |
| 2. AGENCY | 7. _____ |
| 3. _____ | 8. _____ |
| 4. _____ | 9. _____ |
| 5. _____ | 10. _____ |

STATE OF ALASKA
1991 LEGISLATIVE SESSION

BILL NO. SB 92

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

1	2	3	3
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Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
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: Willis F. Kirkpatrick, Director Phone: 465-2521
 Division: Banking, Securities & Corporations Date: 3/26/91
 Approved by Commissioner: Glenn A. Olds *[Signature]* Asst Comm
 Agency: Department of Commerce & Economic Development Date: 3-26-91

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



SENATOR FRED F. ZHAROFF

ALASKA STATE LEGISLATURE

P. O. BOX 405, KODIAK, ALASKA 99815 (907) 488-5259

DURING SESSION:

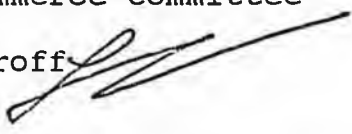
P. O. BOX V, JUNEAU, ALASKA 99811 • (907) 465-3473 • 465-3474

DISTRICT N

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

MEMORANDUM

TO: Senator Drue Pearce
Chair
Senate Labor and Commerce Committee

FROM: Senator Fred F. Zharoff 

DATE: March 8, 1991

RE: Senate Bill 92 - "An Act relating to the lending authority and loans of the Commercial Fishing and Agriculture Bank; and providing for an effective date."

I respectfully request that Senate Bill 92 be scheduled for a hearing before the Senate Labor and Commerce Committee at the committee's earliest convenience.

SB 92 would allow the Alaska Commercial Fishing and Agriculture Bank to develop a small loan program specifically targeted at rural commercial fishermen.

CFAB is a cooperative lending institution that was created by the Alaska Legislature in 1978 to serve Alaska's commercial fishing and agriculture industries. In recently evaluating CFAB's effectiveness, the officers concluded the institution was not doing as good a job as it could in Western Alaska and the Arctic-Yukon-Kuskokwim area. The commercial fishermen in these regions generally are engaged in relatively low income fisheries in which a relatively small capital investment is required for participation.

Financing for these fisheries operations, in general, has been difficult to obtain because of the regions' remoteness (all business must be transacted by phone or mail), language difficulties, less exposure to financial systems and institutions, the fishermen's lack of alternate income, and the annual fluctuations in salmon returns and income.

To serve these people, CFAB plans to start a program for small loans of less than \$25,000. CFAB envisions establishing relationships with rural businesses and agencies (village corporations, Native associations, etc.) for originating and servicing these small loans.

CFAB could set up the program for small loans without legislation. The program is included in the bill so the legislature will have a full understanding of what is being proposed. The operative change CFAB requires in statute to go forward with its plans is in (b)(1) of Section 1, an exemption from CFAB's membership requirement.

As a cooperative, CFAB requires its borrowers to become members/owners. This involves the purchase of capital stock, extensive documentation, and a recordkeeping/communication burden. The administrative requirements are complicated and costly for both CFAB and its borrowers, and an impediment to small loans.

Through SB 92, CFAB is requesting the legislature to make the small loans program more feasible -- both for CFAB and the borrowers -- by granting a membership exemption under the limited circumstances proposed in the bill.

SB 92 also makes clarifying changes in CFAB's existing statute by confirming that using permits for collateral, nominating another person to assume a note, and instituting legal action to recover deficiencies applies to CFAB loans for fishing-related needs as well as loans for the purchase of entry permits.

The Department of Commerce and Economic Development prepared a position paper in support of the House companion version of this bill, HB 111. SB 92 has no fiscal cost for the state government.

The following backup information is attached:

1. A sectional analysis.
2. CFAB's 1990 annual report.
3. CFAB statutes.



SENATOR FRED F. ZHAROFF

ALASKA STATE LEGISLATURE

P. O. BOX 405, KODIAK, ALASKA 99615 (907) 486-5250

DURING SESSION:

P. O. BOX V, JUNEAU, ALASKA 99811 • (907) 465-3473 • 465-3474

DISTRICT N

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

SECTIONAL ANALYSIS

SENATE BILL 92

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

SECTION 1

Adds a new section to statutes, AS 44.81.225, authorizing the Alaska Commercial Fishing and Agriculture Bank (CFAB) to make small loans to qualified borrowers who are not bank members.

- (a) Explains the reason for the program.
- (b) (1) Allows the small loan borrower to be exempt from the CFAB membership requirement.
- (b) (2) Limits the amount that may be loaned to each borrower under this program to no more than \$25,000.
- (c) Limits the total amount of money that may be used for small loans to no more than eight percent of CFAB's total capital. CFAB's capital is presently about \$37 million, so the amount available for small loans at the present time would not exceed \$2,960,000.
- (d) Allows CFAB to contract with a public agency or legal entity to service small loans.

SECTION 2

Amends 44.81.230(a) to include a reference to 41.81.225. 44.81.230(a) is an existing requirement for the Commercial Fisheries Entry Commission to certify that a fisherman who borrows for the purchase of a limited entry permit qualifies as a permit transferee under the limited entry statutes and regulations.

SECTION 3

Amends 44.81.230(b) -- which lists the requirements for pledging an entry permit as collateral for a loan -- to include a reference to 44.81.225. Also, by including a reference to 44.81.235, confirms that a permit lien can apply to loans made for fishing-related needs other than the purchase of limited entry permits.

SECTION 4

Amends 44.81.230(f) -- which allows a loan debtor to avoid foreclosure on an entry permit by nominating another person to assume the note -- to include a reference to 44.81.225. Also, by including a reference to 44.81.235, confirms that this method of avoiding foreclosure is applicable to CFAB loans for other fishing-related needs.

SECTION 5

Amends 44.81.250(d) -- which allows CFAB to institute legal action to recover deficiencies -- to include a reference to 44.81.225, thereby extending this section to cover the small loans program. Also, by including a reference to 44.81.235, confirms this section applies to loans for other fishing-related needs.

SECTION 6

Immediate effective date.

SB 92: "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 SB 92.

Glenn A. Olds Ass. Comm.

Glenn A. Olds, Commissioner

Date: 3-24-91

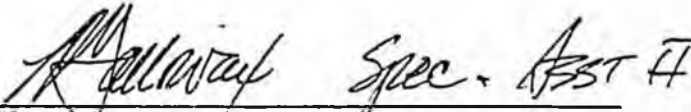
Identical companion bill to SB 92

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, Commissioner

Date: _____

2-28-91

FISCAL NOTE

STATE OF ALASKA
1991 LEGISLATIVE SESSION

BILL NO. HB 111

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 *See Asst JT*
 Agency: Department of Commerce & Economic Development Date: 2-28-91

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OM3, & Impacted Agency(ies).



2550 Denali Street, Suite 1201
P. O. Box 92070
Anchorage, Alaska 99509-2070
(907) 276-2007

February 19, 1991

Senator Drue Pearce
Chair, Senate Labor and Commerce Committee
Alaska State Legislature
Post Office Box V (M.S. 3100)
Juneau, Alaska 99811

Dear Senator Pearce,

We have been told that among the casualties of current budget reduction efforts in the Department of Commerce's Division of Business Development is an amount of about \$200,000 which had been provided annually in the recent past to partially fund activities of the Alaska Business Development Center, Inc., and the Fairbanks Native Association.

We cannot, and do not, presume to be in a position to second-guess the individuals who must make cost-cutting decisions, and that is not the spirit of this letter. We would like to say for the record, however, that -- if the \$200,000 number is accurate -- it appears to be an extremely effective expenditure in terms of making valuable services available to needful rural Alaskans.

I suspect that at CFAB we see only the tip of the iceberg with regard to the work of ABDC; we have considered about 20-30 loan applications in the past year from fishermen who had sought counseling assistance from ABDC. We have also referred a number of rejected applicants and other inquirers to the Center for counseling, and we do so with great confidence. In addition, CFAB officers frequently encounter Center personnel taking an active and constructive part in seminars, workshops, panels, etc., in rural Alaska. Our loan officers are unanimous in the collective view that the Alaska Business Development Center has been a consistently positive force in helping individuals and small businesses confront the often formidable challenges of financial planning and orderliness.


The cash-flow patterns and pressures of life in rural Alaska are clearly much more daunting than anything faced by those of us who are blessed by a salaried consumer lifestyle, and the services of Alaska Business Development Center in that area seem to be totally consistent with

Alaska Commercial Fishing and Agriculture Bank

Senator Drue Pearce
February 19, 1991
Page 2

Governor Hickel's expressed desire to spend public money in ways which can maximize the private sector's contribution to Alaska. In summary, we respectfully urge that this item be objectively and comprehensively considered as the Department's budget priorities are established.

Very truly yours,



Edward E. Crane
President

EEC:dmv

cc: Dr. Glenn Olds, Commissioner
Department of Commerce and Economic Development
Jamie Parsons, Director
Division of Business Development
Gary Selk, President
Alaska Business Development Center, Inc.

March 22, 1991

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
1577 'C' Street Plaza, Suite 304/Anchorage, Alaska 99501, 907-274-5400

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



Alaska Commercial Fishing and Agriculture Bank

1990 Annual Report

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Statements of Net Proceeds	7
Statements of Changes in Capital and Patronage	8
Statements of Cash Flows	10
Notes to Financial Statements	12
Board of Directors and Staff	15

For more information contact:

Alaska Commercial Fishing and
Agriculture Bank
2550 Denali Street, Suite 1201
Anchorage, Alaska 99503
1907/ 276-2007 or (800) 544-2228

Executive Message to Members

May 31, 1990, marked the end of the 11th year of CFAB operations. We believe that in some respects, though, it's appropriate to view Fiscal 1990 as the first year of "normal" operations. From 1980 on into 1984, CFAB's activities and results were influenced in part by its immaturity, by both internal and external exuberance in implementation of a unique concept, and by an aggressiveness in keeping with the inflationary trends of the time and with the trend of Alaska's economy in general.

The mid-80's were marked by the effects of crippling loan losses to CFAB; policies, practices, and financial results were dramatically influenced by the need to retrench and recover. At best, those years can be characterized as a "holding period."

Fiscal 1988 and 1989 were brighter. The significant distortions to CFAB's activities and financial results were generally favorable, reflecting recoveries which were the results of prior years' efforts. Fiscal 1989 was a particular example of that with over 50 percent of its gross income and about 80 percent of its net proceeds attributable to the efforts and events of prior years.

There were very few elements such as the above, and none which were extreme, affecting operations and financial results in Fiscal 1990. We are pleased by the short-term trends and inferences which can be drawn from such limited experience.

New Loan Activity

There were 102 new members of CFAB in Fiscal 1990, the largest number, by far, in any twelve-month period since 1983. These are individuals, partnerships, and corporations who turned to CFAB for the first time to meet their respective financing needs.

Excluding seasonal loans to processors (to avoid confusing distortions), CFAB made 171 new loans in Fiscal 1990; they involved advances of over \$14.0 million. One hundred of those loans, totaling about \$8.8 million, were to new members. The remaining 71 were repeat loans to "old" members and involved about \$5.5 million.

Neither CFAB's Board of Directors nor its management are inclined to guide the institution on a course of "bigness for bigness' sake." Nevertheless, we are heartened by the indications that CFAB is providing service to new segments, or new generations, in the Alaska seafood industry; by the gradually reducing average loan balance (which tends to limit CFAB's vulnerability to localized adverse developments); and by the continuing diversity of its loan portfolio among major fisheries.

Financial Condition

We invite your attention to CFAB's financial statements, and its independent auditors' opinion letter, elsewhere in this Annual Report. CFAB's total assets increased about \$10.8 million during the year, slightly less than the \$11.2 million increase in net loans and receivables outstanding. Further analysis of the latter change, aided by a review of NOTE B to the financial statements, discloses that CFAB's gross earning loans and receivables increased by about \$12.9 million. This increase, offset in part by an increase of only \$9.2 million in interest-bearing debt, implies an enhancement of future opportunities for net proceeds. This in turn made possible a reduction in the interest rate charged on all variable rate loans; that reduction was made effective June 1, 1990.

CFAB's net equity increased about \$1.8 million in Fiscal 1990. Much of that increase is related to the retention of net proceeds, but over \$700,000 is the result of new borrowers' direct investment in Class B Preferred Stock. There was a small net reduction of about \$3,000 in outstanding Class A Membership Stock. This arose through the retirement of the Class A Stock of about 400 members who had been inactive for three or more years. In most cases, the \$10 par value was paid to those members; in the few instances involving members who had previously defaulted on obligations to CFAB, the par value was transferred to CFAB's unallocated surplus account.

Financial Results of Operations

CFAB's statement of net proceeds for Fiscal 1990 shows some major changes from the prior year, primarily in the areas of gross revenues and net proceeds. As mentioned earlier, this is because in Fiscal 1989 CFAB received large amounts of long-overdue interest income while Fiscal 1990 was essentially a "normal" operating year.

There are several categories of operating expenses, as reported, which reflect relatively large increases from the prior year and which merit comment. "Salaries and benefits" increased nearly \$95,000. That amount does in fact include modest and "normal" increases in compensation to CFAB's employees as well as significantly higher health insurance costs. The majority of the increase, however, is related first to the recording of the cash value of accrued vacation leave (\$35,000) at May 31, 1990, to conform with accounting rules; and, second, to the fact that Fiscal 1989's reported expenses had been reduced by receipt of proceeds (\$40,200) from termination of a supplemental retirement plan.

There was an increase of about \$35,000 in "Advertising and promotion" expenses. This arose primarily from (1) the one-time expense of CFAB's 10th Anniversary Open House, (2) the introduction of radio advertising, (3) broader use of newspaper advertising, and (4) increased participation in trade shows, etc. Evaluation of the effectiveness of the latter three activities is ongoing, and related expenditures are likely to fluctuate in amount. We do believe that increased loan activity in Fiscal 1990 was due — at least in part — to CFAB's promotional efforts.

"Professional fees" were about \$25,000 greater than in Fiscal 1989. Most of that arose from CFAB's defense of a lawsuit emanating from a 1982 personnel action. We believe that suit has no merit. In fact, CFAB has been granted summary judgment, but the matter is still embedded in the appeal process.

Member Note Program

In CFAB's 1989 Annual Report, and in subsequent newsletters, the Member Note Program was announced. That program makes it possible for members to effectively utilize short-term funds through the purchase of unsecured CFAB notes. To date, the program has not been used by a wide range of CFAB members. For those members who have participated, though, it seems to be an attractive arrangement — over the 9-month course of its availability, notes totaling \$1,008,000 were sold.

CFAB Staff

There were no changes in CFAB's 18-person fulltime employee group during Fiscal 1990. We are pleased with the staff's stability and commitment, which result in clear and definite benefits to existing member-borrowers and which contribute to the growth trends as well.

Board Changes

At CFAB's 1989 Annual Meeting, Bristol Bay fisherman Glenn Gustafson of Anchorage and Prince William Sound fisherman C. Ross Mullins of Cordova were elected to CFAB's Board of Directors. They replaced Harvey Samuelsen and Bob Waldrop, each of whom had declined to seek reelection. Mr. Samuelsen was one of CFAB's original Directors (and the last to serve as an active Director), and he and Mr. Waldrop together represented over 17 years' experience with CFAB. All of CFAB's members have benefitted from the dedication and contributions of these longtime Directors.

1990 Annual Meeting

One three-year Director's term is subject to election in 1990, and a call for nominations will have been issued prior to distribution of this Annual Report. In addition, it will be necessary to seek candidates for completion of the unexpired term of CFAB's "farmer" Director.

The number and percentage of eligible members voting in Director elections and on other CFAB business have continued to increase in recent years. However, actual attendance at Annual Meetings has continued to be minimal even though a variety of approaches — including sectional meetings in coastal communities — has been attempted. Therefore, the Board has concluded to hold the 1990 Annual Meeting on Friday, October 26, in CFAB's own quarters and with limited special features in order to minimize the cost. Official notices will be mailed in September.

Statewide Fishermen's Conference

CFAB has been invited to participate with a broad group of Anchorage and Southcentral businesses to present a trade show and conference for Alaska fishermen in late November at Anchorage's Egan Convention Center. We have taken particular interest in the conference itself, which is being structured to give fishermen insight into the dramatically changing market forces which affect Alaska seafood, especially salmon. Fishermen tend naturally to focus their attention and energies on production and production-related factors. We believe the direct effects on fishermen's incomes from competitive market developments are equally worthy of attention and understanding, and we expect to vigorously promote and support CFAB member attendance at the November conference.



Gil Gunderson
Chairman, Board of Directors



Edward E. Crane
President

**Independent Auditor's Report**

Board of Directors
Alaska Commercial Fishing
and Agriculture Bank
Anchorage, Alaska

We have audited the balance sheets of Alaska Commercial Fishing and Agriculture Bank as of May 31, 1990 and 1989, and the related statements of net proceeds, changes in capital and patronage, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Alaska Commercial Fishing and Agriculture Bank as of May 31, 1990 and 1989, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Deloitte & Touche

Certified Public Accountants
June 14, 1990

Balance Sheets

	May 31,	
	1990	1989
Assets:		
Cash	\$ 21,890	\$ 126,752
Loans and other receivables, net of allowance for loan losses of \$1,205,648 and \$1,471,399, respectively	45,300,534	34,107,728
Accrued interest receivable	1,944,488	1,661,180
Deferred income tax benefits	426,203	239,912
Investment in National Bank for Cooperatives	4,549,247	5,374,626
Bank premises, furniture and equipment, net	118,382	155,413
Acquired assets held for sale	133,395	133,406
Other assets	42,813	20,336
Prepaid income taxes	140,000	
	<u>\$ 52,676,952</u>	<u>\$ 41,819,353</u>
Liabilities:		
Accounts payable and accrued expenses	\$ 193,395	\$ 91,655
Accrued interest payable	229,367	186,449
Class B preferred stock subscriptions	99,077	28,249
Notes payable	16,359,128	7,190,780
Dividend payable	48,600	37,328
Income taxes payable		363,547
	<u>16,929,567</u>	<u>7,898,008</u>
Commitments and Contingent Liabilities (Note H)		
Capital:		
Share capital -		
Class C special preferred stock, \$10,000 par value, authorized 4,000 shares, outstanding 3,130 shares	31,800,000	31,800,000
Class B preferred stock, \$100 par value, authorized 400,000 shares, outstanding 28,187 and 26,261	2,818,700	2,626,100
Loans receivable on Class B preferred stock	(442,700)	(955,900)
Class A membership stock, \$10 par value, authorized 10,000 shares, outstanding 843 and 1,147	8,430	11,470
	<u>34,184,430</u>	<u>33,481,670</u>
Capital in excess of par value	111,600	102,420
Contributed capital	144,626	144,626
Unallocated surplus	1,306,729	192,629
	<u>35,747,385</u>	<u>33,921,345</u>
	<u>\$ 52,676,952</u>	<u>\$ 41,819,353</u>

See notes to financial statements.

Statements of Net Proceeds

	<u>Year ended May 31,</u>	
	<u>1990</u>	<u>1989</u>
Gross Loan Revenues:		
Interest and fees on loans and other receivables	\$ 4,701,341	\$ 8,103,810
Provision for allowance for loan loss	<u>204,500</u>	<u>132,300</u>
Net Loan Revenues	4,496,841	7,971,510
Interest expense	900,648	1,308,357
Net proceeds before other income, operating expenses, income tax expense and extraordinary credit	3,596,193	6,663,153
Other Income:		
Interest on temporary investments	2,379	231,113
Gain on sale of assets	798	425
Net income from acquired assets	<u>13,659</u>	<u>10,000</u>
	<u>16,836</u>	<u>241,538</u>
	3,613,029	6,904,691
Operating Expenses:		
Salaries and benefits	1,229,207	1,135,476
Occupancy expense	157,665	162,328
Advertising and promotion	119,014	83,937
Professional fees	93,829	68,679
Travel, lodging and meals	65,687	57,365
Office operations	47,783	46,807
Depreciation and amortization	46,116	75,142
Telephone and postage	31,822	30,184
Directors' fees	22,375	16,650
Miscellaneous	<u>25,581</u>	<u>22,612</u>
	<u>1,839,079</u>	<u>1,699,180</u>
Net proceeds before income tax expense and extraordinary credit	1,773,950	5,205,511
Income tax expense	<u>784,000</u>	<u>2,100,000</u>
Proceeds before extraordinary credit	989,950	3,105,511
Extraordinary credit — Utilization of net operating loss carryforward	<u>172,000</u>	<u>1,970,000</u>
Net Proceeds	<u>\$ 1,161,950</u>	<u>5,075,511</u>

See notes to financial statements.

Statements of Changes in Capital and Patronage

	<u>Share capital</u>	<u>Capital in excess of par value</u>
Balance, May 31, 1988	\$ 32,864,080	\$ 95,310
Allocation to unallocated undistributed loss		
Issuance (redemption) of stock during the year:		
Class B preferred stock, 5,026 shares, net	(502,600)	
Class A stock, 79 shares	790	7,110
Reduction in loans receivable on Class B preferred stock	1,119,400	
Net proceeds		
Amortization of unallocated patronage deficit		
Dividends declared		
Unallocated surplus		
Balance, May 31, 1989	33,481,670	102,420
Issuance (redemption) of stock during the year:		
Class B preferred stock, 1,926 shares, net	192,600	
Class A stock, 229 shares, net	(2,290)	9,180
Class A stock, 75 shares, cancelled	(750)	
Reduction in loans receivable on Class B preferred stock	513,200	
Net proceeds		
Dividends declared		
Unallocated surplus		
Balance, May 31, 1990	<u>\$ 34,184,430</u>	<u>\$ 111,600</u>

See notes to financial statements.

<u>Contributed capital</u>	<u>Unallocated surplus</u>	<u>Allocated undistributed patronage</u>	<u>Net proceeds</u>	<u>Unallocated patronage earnings (deficit)</u>	<u>Total</u>
\$ 144,626	\$ —	\$ 825,691	\$ —	\$ (5,671,245)	\$ 28,258,462
		(825,691)		825,691	
					(502,600)
					7,900
					1,119,400
			5,075,511		5,075,511
			(4,845,554)	4,845,554	
			(37,328)		(37,328)
	192,629		(192,629)		
144,626	192,629	—	—	—	33,921,345
					192,600
					6,890
	750				513,200
			1,161,950		1,161,950
			(48,600)		(48,600)
	1,113,350		(1,113,350)		
<u>\$ 144,626</u>	<u>\$ 1,306,729</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 35,747,385</u>

Statements of Cash Flows

	<u>Year ended May 31,</u>	
	<u>1990</u>	<u>1989</u>
Cash flows from operating activities:		
Interest received	\$ 4,208,059	\$ 8,441,456
Fees received	212,353	234,178
Payments for operating expenses	(1,748,486)	(1,677,811)
Interest paid	(857,730)	(1,556,634)
Income taxes paid	(1,301,838)	(6,365)
Cash Provided by Operating Activities	512,358	5,434,824
Cash Flows from Investing Activities:		
Loan originations, net of undisbursed funds and principal repayments on member loans	(11,362,521)	5,323,534
Required investment in National Bank for Cooperatives	(102,988)	(122,516)
Proceeds from retirement of investment in National Bank for Cooperatives	928,367	274,519
Proceeds from lease of acquired assets	13,659	10,000
Proceeds from sale of equipment	798	425
Satisfaction of lien on acquired assets held for sale	12	(47,817)
Payments for purchase of equipment	(9,085)	(1,749)
Net Cash Provided by (used in) Investing Activities	(10,531,758)	5,436,396
Cash Flows from Financing Activities:		
Additions (repayment) of notes payable, net	9,161,097	(11,508,891)
Repayment of capital lease	(12,749)	(8,872)
Proceeds from issuance of Class B stock	705,800	616,800
Proceeds from issuance of Class A stock, net	6,890	7,900
Proceeds from subscription for Class B stock	70,828	22,549
Payment of dividends to members	(37,328)	
Proceeds from member notes, net	20,000	
Net Cash Provided by (used in) Financing Activities	9,914,538	(10,870,514)
Net Increase (Decrease) in Cash	(104,862)	706
Cash, beginning of year	126,752	126,046
Cash, end of year	\$ 21,890	\$ 126,752

See notes to financial statements.

	Year ended May 31,	
	1990	1989
Reconciliation of Net Proceeds to Net Cash Provided by Operating Activities:		
Net Proceeds	\$ 1,161,950	\$ 5,075,511
Adjustments to reconcile net proceeds to cash provided by operating activities -		
Depreciation	46,116	75,142
Deferred tax benefit	(186,291)	(239,912)
Provision for loan losses	204,500	132,300
Lease income from assets held for sale	(13,659)	(10,000)
Gain on sale of assets	(750)	(425)
Foreclosure costs	(34,786)	(144,398)
Changes in assets and liabilities:		
Accrued interest receivable	(283,308)	340,711
Other assets	(22,477)	(6,947)
Accounts payable and accrued expenses	101,740	(46,827)
Accrued interest payable	42,918	(103,878)
Income taxes payable	(363,547)	363,547
Prepaid income taxes	(140,000)	
Total Adjustments	<u>(649,592)</u>	<u>359,313</u>
Net Cash Provided by Operating Activities	<u>\$ 512,358</u>	<u>\$ 5,434,824</u>
Supplemental Schedule of Noncash Investing and Financing Activities:		
Addition of a capital lease obligation for equipment		<u>\$ 58,840</u>

See notes to financial statements.

Notes to Financial Statements

Year Ended May 31, 1990 and 1989

Note A — Summary of Significant Accounting Policies:

Operations: The Alaska Commercial Fishing and Agriculture Bank (CFAB) was incorporated on May 4, 1979 to promote growth of Alaska agriculture and fishing by providing debt financing to resident-owned businesses engaged in harvesting, processing or marketing, and to promote its own growth as a strong user-oriented institution through cooperative ownership and self-governance.

Interest on loans: The accrual of income is suspended on loans for which the payment of interest is contractually past due more than 90 days.

Investment in National Bank for Cooperatives: The investment in National Bank for Cooperatives (NBC) is stated at cost plus noncash patronage notifications. No ready market exists for this investment. Patronage dividends from NBC reduce interest expense to NBC in the year declared.

Allowance for loan losses: The allowance for loan losses is based upon review and evaluation of nonaccrual loans, other delinquent loans, and large loans as well as application of a potential loss factor consistent with CFAB's experience.

Acquired assets held for sale: Acquired assets held for sale include those assets acquired through foreclosure. These assets are carried at the lower of fair value or the recorded investment in the related loan. Holding costs are expensed when incurred unless such costs increase the fair value of the asset.

Bank premises, furniture and equipment: Bank premises, furniture and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are charged to operations by use of the straight-line method over estimated useful lives of three to ten years. Expenditures for maintenance and repairs are charged to operating expense as incurred. Expenditures for renewals or improvements which extend the life of an asset are capitalized at cost and depreciated as stated above. Upon sale, retirement or other dispositions of property, the cost and accumulated depreciation are removed from the respective accounts and the resulting gain or loss recorded.

Income taxes: CFAB qualifies as a cooperative taxable under Subchapter T of the Internal Revenue Code.

Deferred loan fees: Statement of Financial Accounting Standards (SFAS) No. 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating and Acquiring Loans and Initial Direct Costs of Leases," became effective for loan originations beginning January 1, 1988. SFAS No. 91 requires loan origination fees and direct loan origination costs, if material, to be capitalized and the net fee or cost to be amortized over the life of the related loan as an adjustment to yield. SFAS No. 91 was not applied because the effects were not material to the financial position or results of operations.

Net reporting of cash receipts and payments: Statement of Financial Accounting Standards (SFAS) No. 104, "Net Reporting of Certain Cash Receipts and Cash Payments and Classification of Cash Flows from Hedging Transactions," becomes effective June 15, 1990. SFAS No. 104 amends SFAS No. 95 to permit banks to report net amounts of cash receipts and cash payments for loans made to customers and principal collections of loans, and deposits accepted and repayments of deposits. As permitted, CFAB has elected early adoption of SFAS No. 104 and the 1989 financial statements have been restated.

Reclassification: Certain items in the 1989 financial statements have been reclassified to conform to 1990 presentation.

Note B — Loans:

CFAB's loan portfolio by major category is as follows:

	May 31,	
	1990	1989
Seafood harvesters	\$ 30,170,321	\$ 27,080,586
Fish processors	11,902,245	7,116,742
Agriculture and timber	3,409,048	588,386
Other receivables	1,457,268	1,749,313
	<u>46,948,882</u>	<u>36,535,027</u>
Less loans receivable on Class B preferred stock	442,700	955,900
	<u>46,506,182</u>	<u>35,579,127</u>
Less allowance for loan losses	1,205,648	1,471,399
	<u>\$ 45,300,534</u>	<u>\$ 34,107,728</u>

In accordance with its statutory mandate and authority, CFAB's financing activity is limited to the Alaskan commercial fishing and agriculture industries. This concentration of loans in resource-based industries results in an unusual level of risk exposure.

Notes to Financial Statements *continued*

The loan portfolio includes loans which have been classified as nonaccrual. Nonaccrual loans by major category are as follows:

	May 31,	
	1990	1989
Seafood harvesters	\$ 1,341,632	\$ 2,500,981
Fish processors	898,882	1,498,416
Agriculture and timber		233,385
Other receivables		129,352
	<u>2,240,514</u>	<u>4,362,134</u>
Less loans receivable on Class B preferred stock	<u>10,600</u>	<u>156,000</u>
	<u>\$ 2,229,914</u>	<u>\$ 4,206,134</u>

Activity in the allowance for loan losses is as follows:

	May 31,	
	1990	1989
Balance at beginning of year	\$ 1,471,399	\$ 2,197,140
Charged to expense	204,500	132,300
Recoveries on loans previously charged off	<u>317,950</u>	<u>27,400</u>
	1,993,849	2,356,840
Less loan amounts charged off	<u>788,201</u>	<u>885,441</u>
Balance at end of year	<u>\$ 1,205,648</u>	<u>\$ 1,471,399</u>

The allowance for loan losses is periodically evaluated by management and changes are recorded through the current period provision for loan losses.

Loans to Directors: To qualify for election to the CFAB Board of Directors, an individual must be a borrowing member or be an officer or principal of a corporation, partnership, or joint venture which is a borrowing member. Loans to these directors or their interests totalled \$323,485 and \$215,605 at May 31, 1990 and 1989, respectively.

Note C – Bank Premises, Furniture and Equipment:

Bank premises, furniture and equipment consists of the following:

	May 31,	
	1990	1989
Furniture, fixtures and equipment	\$ 902,865	\$ 897,781
Leasehold improvements	<u>147,202</u>	<u>147,202</u>
	1,050,067	1,040,983
Less accumulated depreciation and amortization	<u>931,685</u>	<u>885,570</u>
	<u>\$ 118,382</u>	<u>\$ 155,413</u>

Note D – Notes Payable:

Notes payable consists of:

	May 31,	
	1990	1989
NBC long-term notes with interest rate of 11.28%, maturing in January, 1993	\$ 5,000,000	\$ 5,000,000
NBC short-term notes and seasonal loan with interest rates ranging from 9.11% to 10.0%, maturing May 1, 1991	11,301,440	2,140,766
Member note with interest rate of 8.5% maturing August 26, 1990	20,424	
Other - Capital lease	<u>37,264</u>	<u>50,014</u>
	<u>\$ 16,359,128</u>	<u>\$ 7,190,780</u>

The NBC notes are secured by substantially all CFAB assets.

Principal payments required on notes payable are as follows:

Year ending May 31,	Amount
1991	11,333,632
1992	11,768
1993	5,011,768
1994	1,960

Notes to Financial Statements *continued***Note E — Employee Benefit Plans:**

CFAB has an employee benefit plan as defined under Section 401(k) of the Internal Revenue Service Code covering substantially all employees.

An employee is allowed to contribute up to 15% of his/her earnings to the maximum limit allowed by the Code. Contributions by CFAB to the plan are at the discretion of the Board of Directors. Contributions by CFAB for the years ended May 31, 1990 and 1989 were \$56,279 and \$54,018, respectively.

Note F — Capital:

Share capital: Shares owned by the State of Alaska must be repurchased by CFAB on or before July 20, 2000.

Preferential shareholders' rights on dissolution are attached in the order of Class C, Class B and Class A.

The following rights apply to the three categories of stock:

Class C - No voting or dividend rights. May only be issued to the State of Alaska.

Class B - No voting rights. Class B stock may only be held by members of CFAB. Prior to December 31, 1985, all loans required a purchase of Class B stock in an amount equal to 10% of the loan balance; however, this purchase was not funded but was evidenced by notes. On loans made subsequent to December 31, 1985, each borrower is required to make a cash purchase of Class B stock in an amount equal to 5% of the total loan. This investment will remain in place until retired by the Board of Directors.

Class A - No dividend rights. Each member of CFAB must own one share of Class A stock. Each share of stock carries one vote. To vote, a member must be a current borrower or have borrowed from CFAB during the preceding two years or have minimum retained membership earnings and/or Class B stock with CFAB of \$2,500.

Note G — Income Taxes:

The provision for income taxes consists of the following:

	Year ended May 31.	
	1990	1989
Current payable - Federal	\$ 798,000	\$ 369,912
Deferred benefit - Federal	(186,000)	(239,912)
	<u>\$ 612,000</u>	<u>\$ 130,000</u>

The deferred income tax benefit relates principally to the timing difference arising from the effect of the Tax Reform Act of 1986 on the allowance for loan losses. For Alaska State income tax calculation purposes, CFAB has \$1,908,000 net operating loss carryforward available as of May 31, 1990, to offset future taxable earnings. The net operating loss carryforward expires May 31, 1998.

Note H — Commitments and Contingent Liabilities:

Commitments: CFAB leases office space under a non-cancelable operating lease agreement which expires in 1992 and for which the remaining lease obligation is \$265,609. Rental expense under this lease totalled \$151,844 and \$156,872 for the years ended May 31, 1990 and 1989, respectively.

Contingencies: CFAB is a litigant in several legal actions arising from normal business activities, primarily related to delinquent loans and foreclosures. CFAB reserves for potential losses on delinquent loans as described in Note A. As to litigation outside of delinquencies and foreclosures, management believes that those actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect CFAB's financial position or its results of operations.

Board of Directors and Staff

Board of Directors

Gilbert Gunderson, Chairman
Juneau

Alan Otness, Vice Chairman
Petersburg

Dean Paddock, Secretary-Treasurer
Juneau

Glenn Gustafson, Director
Anchorage

Hyoung "Henry" Kim, Director
Anchorage

C. Ross Mullins, Director
Cordova

Charles W. Trowbridge, Director
Palmer

Staff

Iver H. Amundsen
Assistant Vice President

Karl D. Barnard
Vice President

Dan A. Berkshire
Vice President

Cynthia D. Blush
Bookkeeper

Darleen S. Church
Senior Vice President

Robert H. Clark
Vice President

Wendy M. Clark
Administrative Secretary

Edward E. Crane
President

Elton E. Engstrom
Loan Officer Trainee

A. W. Hall
Business Development Officer

Lela F. Hart
Vice President

Isabelle R. Kautzky
Receptionist

Sharon A. Morgan
Administrative Support Secretary

Mary B. Ober
Documentation Assistant

David G. Rogers
Senior Vice President

Douglas W. Sindt
Data Processing Supervisor

Lora C. Smith-Thilmony
Senior Bookkeeper

Deborah A. Tosch-Price
Documentation Paralegal

Godelieve C. Van Lint
Administrative Support Clerk

DeLories M. vonGemmingen
Executive Secretary

Office Address: 2550 Denali St., Suite 1201 (Denali Towers), Anchorage

Mailing Address: P.O. Box 92070, Anchorage, AK 99509-2070

Telephone: (907) 276-2007; (800) 544-2228 (Outside Anchorage)

FAX: (907) 279-7913

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. —