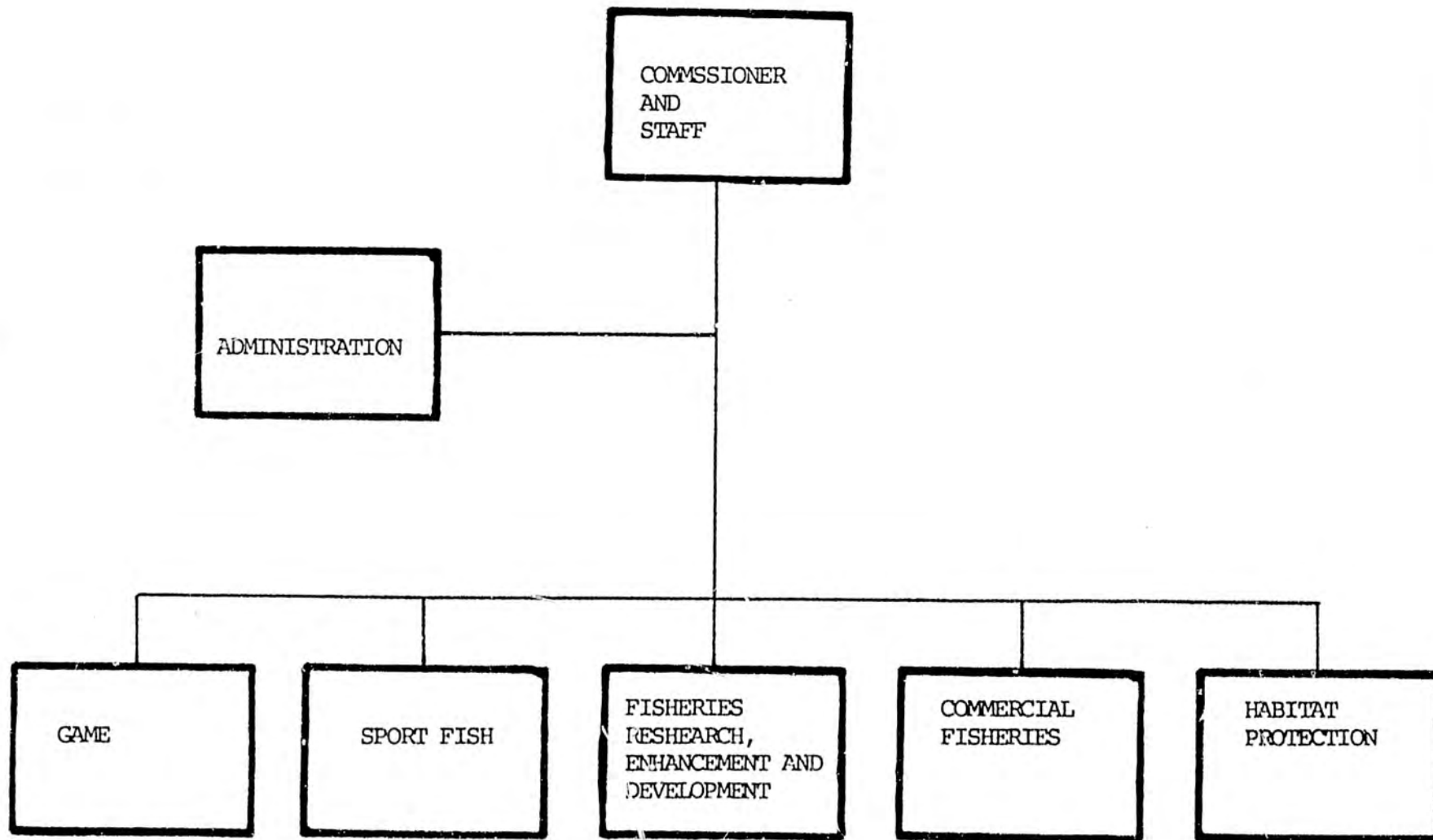


ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

413 SCOMM10: LOCAL GOVERNMENT STUDY 1979

FISH AND GAME DEPARTMENT



Fish and Game Department

The Department is responsible for managing the State's fish and game resources. The Department has 875 employees, with 364 employees working outside the three large urban communities.

The Department is regionalized in large Fairbanks, Anchorage, and Juneau offices. The Department has six basic divisions: 1) Game, 2) Sport Fish, 3) Research, Enhancement, Development, 4) Commercial Fisheries, and 5) Habitat Protection.

The Department previously was under the policy direction of one 'Fish and Game Board', but was recently segmented into a Board of Fisheries and a Board of Game. The Department has been under steady pressure for further reorganization into regional game boards. Presently, the Department operates a series of advisory boards in small communities.

The Department is heavily rural-related due to management decisions which may impact subsistence needs of rural communities.

The best way to make contact with the Department is through regional Directors in Fairbanks and Anchorage, or through the Office of the Commissioner in Juneau.

DEPARTMENT OF PUBLIC SAFETY

COMMISSIONER

ADMINISTRATION

OPERATIONS

ADMIN
SERVICES

SECURITY

TRAINING

HIGHWAY
SAFETY
PLANNING

COMMUN-
CATIONS

FIRE
PREVEN-

WILDLIFE
PROTEC-
TION

STATE
TROOPERS

AIRCRAFT
SERVICES

MOTOR
VEHICLES

rural interest

Department of Public Safety

The Department is heavily involved in rural areas, and will likely become more so as the urban areas expand and take over police functions, leaving this Department to serve unorganized rural areas.

The Department operates 10-divisions, most of which are quite small (training, communications, fire prevention). The two large, and rurally-oriented divisions, are the Divisions of State Troopers and Wildlife Protection.

The Department is predominantly centralized in Anchorage, except for the Commissioner's Office, which is in Juneau. The best initial contact with the Department is through the Division offices in Anchorage, or the regional offices in Anchorage, Fairbanks, and Juneau.

DEPARTMENT OF HEALTH AND SOCIAL SERVICES

rural interest

COMMISSIONER
AND
ADMINISTRATION

PUBLIC
ASSISTANCE

PUBLIC
HEALTH

SOCIAL
SERVICES

MENTAL
HEALTH AND
DEVELOPMENTAL
DISABILITIES

CORRECTIONS

ALCOHOLISM,
DRUG
ABUSE

QUALITY
CONTROL/
COLLECTIONS
AGENCY

AGING

PLANNING
AND
RESEARCH

VIOLENT
CRIMES
COMPENSATION

PAROLE
BOARD

Department Health & Social Services

One of the State's largest departments at 1,801 employees, with 461 employees located outside of Juneau, Anchorage, and Fairbanks.

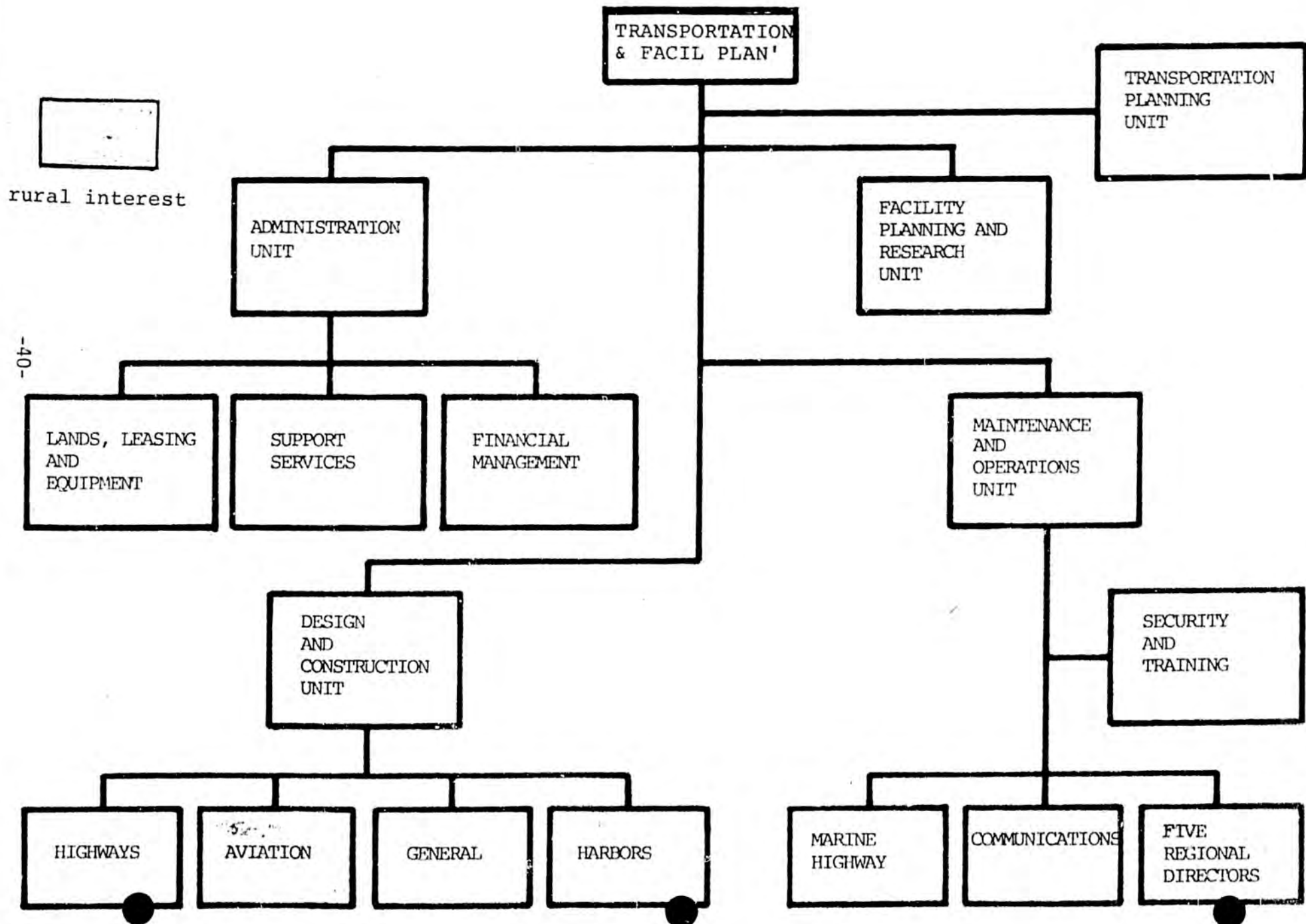
The Department has a wide distribution over the State with regional offices in Fairbanks, Anchorage, and Juneau, and 24 district offices across the State. The Department has six basic divisions, and a number of special offices (aging, alcohol and drug abuse, etc.).

Key divisions and offices from a rural point of view are:

- Division of Public Assistance.
- Division of Public Health.
- Division of Social Services.
- Division of Planning and Research.
- Office of Aging.
- Office of Alcoholism and Drug Abuse.

The Department is unique in that it does not deliver what might be called collective services to the public, like the Department of Transportation provides road services to all Alaskan residents as a group. Rather, the Department of Health and Social Services delivers direct services to individuals in need of some specialized assistance.

DEPARTMENT OF TRANSPORTATION & FACILITIES PLANNING



Department of Transportation & Facilities Planning

The Department plans, constructs, and maintains the State's transportation systems and public facilities (buildings). It is the State's largest department at 3,195 employees, with 1,117 employees outside of Juneau, Fairbanks, and Anchorage.

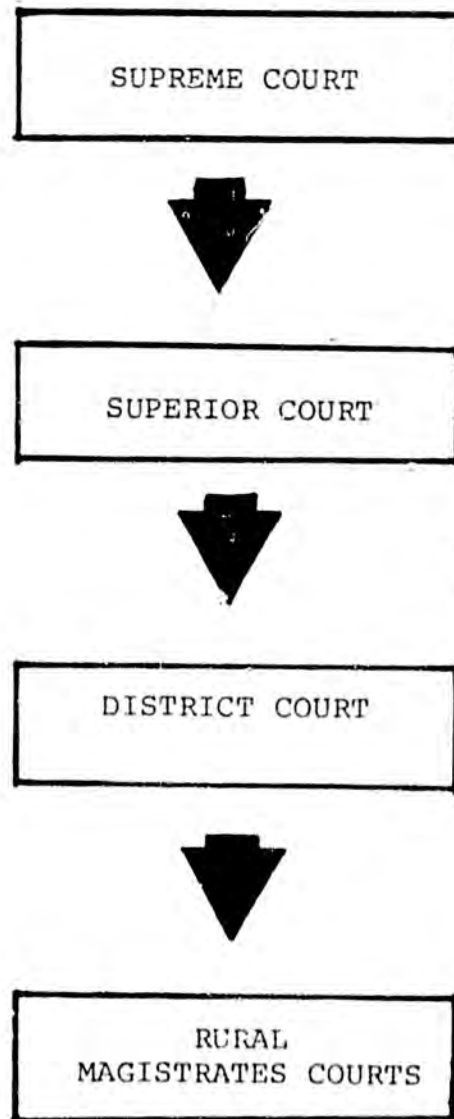
The Department has a high rural importance. It constructs and maintains airfields, and airfield roads, it operates the marine ferry system in coastal areas, and it plans, and maintains State buildings. Additionally, the agency acts as the primary planning and construction advisory unit for REAA schools.

However, the Department requires a lot of planning time to initiate projects, especially in highways, roads, and harbors, which may require federal participation and approval. Priority lists range between three and five years.

The key divisions of rural interest are the Division of Aviation (Anchorage), the Division of Harbors (Juneau), the five regional highway division Directors, and the Division of Facility Planning and Research (Juneau).

Generally in tackling new projects in the area of Transportation and Facilities, the assistance of area Legislators is likely to be required. However, the Department can also advise on rural building problems and aid in estimating long range costs of facilities.

COURTS

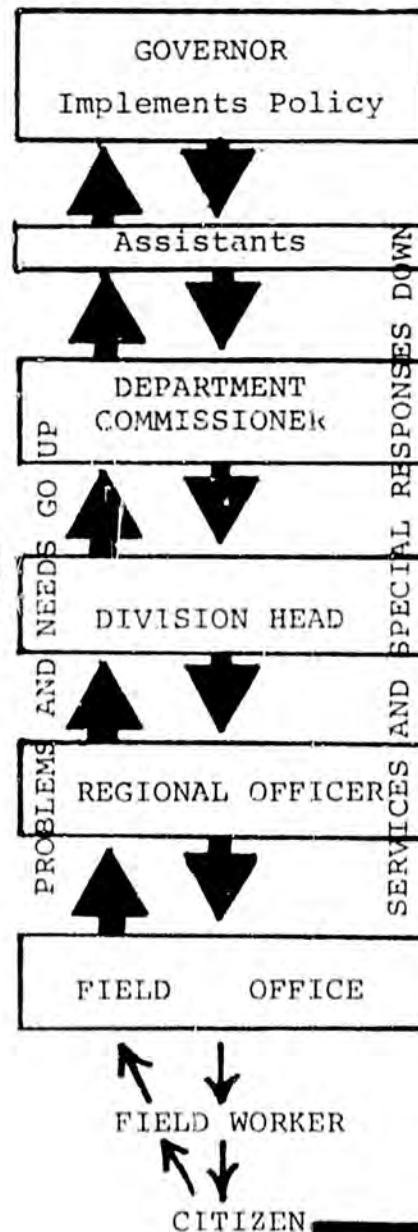


over policy, and often interpretations

Courts resolve disputes make 'new-law' by their

GOVERNOR

EXECUTIVE BRANCH



PROBLEMS AND NEEDS GO UP

SPECIAL RESPONSES DOWN

LEGISLATURE

Senate

20-members
(lay persons)

MAKES BROAD POLICY

BUDGET

CAPITAL PROJECTS

Resolves House OMBUDSMAN
Senate Difference

free conference Assistance
with citizen
in executive
request

House

40-members
(lay persons)

Assistance in
obtaining
Tech Assist.

Assist. in
Getting Proj
Planning

Assist. in
State Loans

Assist in
investigating
problems

POLICY AS
LAW

PERSONAL ASSISTANCE OF LEGISLATOR
IN CITIZEN CONTACT AT
ANY POINT

Ideas/Concerns to
individual Senators
& House Members

A GUIDE TO SOURCES OF PRIVATE AND
PUBLIC FUNDS FOR VILLAGE CORPORATION USE

Village Corporation Activity Area No. 4
Village Corporation Finances
Village Management Assistance
Alaska Native Foundation

STATEMENT OF PURPOSE

This publication details sources of funding for village corporations in addition to those received through ANCSA. These range from loans from private banking institutions to Federal grants or technical assistance and enable a village corporation to leverage out its limited ANCSA capital. Analysis includes where the money is, how much of it is available, and how complicated the process is of applying for funds. There is a step-by-step detailing of the procedures and paperwork required to obtain a bank loan.

NOTE:

There is a section, starting on page 124, called MONEY LANGUAGE, which is a glossary of terms used in the text of the handbook.

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INTRODUCTION TO FINANCIAL ASSISTANCE

FIXED CAPITAL

Fixed capital is money which is invested in assets like land, machinery, buildings, and furniture. These assets include any kind of property which a corporation needs to do business, and which it usually keeps. In other words, fixed capital is the money used to buy the kinds of things (equipment, etc.) which the corporation needs for its operation. Such things are called "fixed assets", and should not be confused with what the corporation sells or trades in the normal everyday course of its business.

Reasons for Assistance in Fixed Capital

There are three basic reasons why a corporation may need outside money for fixed capital expenses.

1. First, and probably the most common reason is that the corporation does not have enough cash to buy the things it needs to start the business.
2. The second reason concerns everyday operating expenses, such as salaries or wages, rent, heating bills, etc. Suppose a new corporation has enough money to make the large purchases necessary for beginning its operations. It may still, however,

need to use outside money for such purchases, in order to meet both short term expenses, and those everyday expenses just mentioned.

3. The third reason arises when there is a desire to spread the risk involved in setting up and operating a new business. Consider the investor in a new business. If he puts up all the money to start the business, then he will not only get all the profits (if there is any profit), but he will also take all the risks. However, as is commonly the case, he may decide that the advantages in taking all the profits is out-weighed by the disadvantages involved in his being solely responsible for any losses. In that case, if the business idea is generally attractive, other people or corporations may want to invest in it. If they do, the risks will be spread in proportion to their share in the equity (ownership) in the business. In this way, although the initial investor's profits will be lower (since his equity in the business will be proportionately smaller), his risks will not be so large. He can thus get the money he needs to start the business without taking all of the risk himself.

If, on the basis of these reasons, you decide that you want to seek outside money for your fixed capital expenses, there is one very important point to remember: some people or institutions which make loans are willing to accept more risk on their money than others. But naturally, those who are so willing will want a greater return on their investment.

Banks and similar institutions, for example, will take almost no risk at all. If you go to a bank for financial assistance, the banker will want to make sure you can repay him even if your business fails. He will ask for guarantees from you and your village corporation, and for some kind of security, such as title to property or other things that your corporation owns.

On the other hand, those who buy shares or go into the business with you as partners, or those who will loan you money in exchange for a note promising that the business will pay them back, and others who are willing to accept more risk than banks, will usually demand a higher return on their investment.

To repeat: the greater the risk you ask investors to take, the greater the return they have a right to expect.

WORKING CAPITAL

Working capital is that which keeps the business running. It is both the money used to buy the inventory or materials, as well as the inventory and materials themselves when already bought. It also includes accounts receivable, collections (money actually paid back to the business), and money for wages, rent, insurance, etc. In a sense, fixed capital is like the business' engine, and working capital is like the gasoline or oil.

There are times in the life of most businesses when more working capital is needed than the business has on hand. The reason for this involves the business cycle, also called "the cash generation cycle" -- an important characteristic of almost every business.

The Business Cycle

Basic to an understanding of the business cycle is the fact that a business will not return all the money put into it at one single time. Money is invested (paid out for inventory, equipment, rent, etc.) and returns to the business, as cash, in different amounts and at different times.

Take as an example a village grocery store. Before you open the store you might order as much as \$10,000 worth of groceries to sell. Some suppliers will give you 30 days to pay this bill. But first, suppose the groceries come by barge. You may get them within a month (if you are lucky). Secondly, it will take time to sell the groceries -- maybe two months. The problem is obvious: it will take at least three months to get most of the money back, but you have to pay the supplier within 30 days of the time you ordered the groceries. So immediately you are two months behind, unless you can borrow some money to pay the supplier.

This example is simple -- in real business life there would be complications. You might give many of your customers credit, most of whom will take at least a month to repay you. This makes it at least four months since you ordered from the supplier. If your business is responsive to the seasonal nature of the income of village people, you will probably have to offer some of your customers long-term credit, and they may not be able to pay you back for months. In the meantime, of course, you will have had to order more groceries to keep from running out, for which, again, you will have to pay within 30 days. Even in the smallest village grocery store, you have several of these business

cycles overlapping at any one time. In addition, you will have fixed expenses like rent, utilities, and salaries, which you must continue to pay regularly.

At times in these cycles when your grocery store is short on cash -- when money has gone out but will not be returned for some time -- you will need additional money from outside of the business. You will need it to meet both your fixed expenses, and to pay your suppliers on time so that you can take advantage of the discount (between two and five percent) which most suppliers offer to prompt payment. (A payment is considered prompt if it is made within 10 to 30 days.) Even more important is the fact that your suppliers must know they can count on you for payment. Otherwise, they will not continue to send you groceries without you paying in advance.

MONEY FOR EXPANSION

Another time when a business often needs outside money is when it seems like a good idea to expand the business, or to branch out into some other profit-making areas. For instance, suppose again that you are running a village grocery store and you find out that the State fish and game laws have been changed allowing the sale of whale meat. You might do some

research, and learn that for only, say, \$15,000 you can get the necessary processing equipment, that you have the money to buy the meat from the hunters and that in only one season can pay for all the equipment. All the indications are that this would be a good time to seek money for expansion.

In these introductory pages we have discussed generally, the basic types of money needed in most businesses. Before we go on to consider the special situation of village corporations in the business world, we will look briefly at various sources of money.

LOANS

There are three basic types of loans:

- o commercial loans
- o real estate loans
- o consumer loans

Commercial loans include lines of credit, commercial real estate loans, and development loans. The second and third of these are self-explanatory, and deal with loans for commercial real estate ventures and for development loans. Lines of credit, however, include several different types;

- o flooring lines of credit are used by inventory dealers (businesses which have to keep a certain number of snow machines, autos, or mobile homes, etc., in stock). The dealer goes to his bank, explains his intent, and if the bank approves the dealer's proposal, the bank will deal directly with the manufacturer. Thus: 1) the manufacturer will send the invoices to the bank, 2) the bank will pay the manufacturer, and 3) the dealer will pay the bank when the merchandise has sold. Since this particular type of loan requires that a bank officer check the inventory once a month, it is difficult to get this kind of loan, unless there is a bank branch office in the community, or unless the loan is very heavily secured with real estate. Note that no government agencies give flooring loans.
- o inventory loans are similar to flooring lines in that they are used to buy inventory. However, they are made direct to the dealer, and do not involve the manufacturer. These loans do not require the monthly check required by flooring lines of credit, but the risk involved for the bank is high. Thus they always require equity greater than the value of the inventory itself. Some government agencies give inventory loans.

- o working capital lines of credit are designed to meet a business' need for working capital, obviously, and they are normally secured by equity in real estate or equipment.
- o payroll lines of credit are also obvious -- they are to meet an organization's payroll even if the organization does not have the capital on hand at the moment. These loans are secured by various means and you should check with your banker for the specifics.

Commercial loans can be obtained from commercial (or full-service) banks.

Real estate loans and mortgage loans are secured by the items being purchased, such as land, heavy equipment, fishing boats, etc., and are available from commercial banks, savings and loan associations, mutual savings banks, credit unions, and mortgage institutions. We mentioned commercial real estate loans above. These loans are for commercial properties or residential properties of more than six to ten units. If you are building a new structure, you must get your loan based on your financial statement, a letter giving an explanation of what you intend to build, blueprints, and an appraisal based on the blueprints. If

you are working with a savings and loan association or a mutual savings bank, they will probably arrange interim financing for you too. Other lending institutions, on the other hand, are reluctant to do both. Since, in many cases, the contractor himself can get the necessary interim financing if he has a good working relationship with a bank, this is something to consider when selecting a contractor.

Consumer loans are available from commercial banks, credit unions, and finance companies. This type of loan is secured by the item being purchased. These loans are for such consumer goods as automobiles, televisions, appliances, etc.

SPECIAL SITUATIONS OF VILLAGE CORPORATIONS

While ANCSA village corporations share many of the attributes of other typical American small businesses, they differ in several significant ways, some favorable, some not.

Advantages: the major advantage, and the major difference, is that most village corporations have much greater assets than do other small businesses just starting out. Some of these assets are:

Cash: The Act distributed approximately \$6050 per person to village corporations, about 35% of which is in hand, and the rest is yet to be paid. This money is mostly untouched. (In fact, many village corporations are still keeping it in trust at their regional corporation.) It may be used to invest in a business, or to help secure loans. There is a possibility that money may be borrowed now against the remaining 75% to come. Calista got special permission to borrow against this future income, and regulatory changes have been proposed in Washington for Regional Corporations. However, there has been a request that village corporations be included. This would immediately make more money available to your village corporation.

Surface Estate of Your Land: While little of the land selected under ANCSA has been conveyed to the village corporations by the Government, all village corporations will soon get title to the surface estate of their land. This land may be used (after conveyance) as security for loans, or it may be sold or exchanged to raise money for a corporate enterprise.

Programs: As pointed out throughout this document, there are a number of programs (BIA loans and grants, for example) which are available only to native organizations.

Disadvantages:

Location: Most village corporations are located in rural areas. Either the majority of their investments will have to be in businesses in the village and will have to contend with a limited market, lack of facilities, and expensive and infrequent transportation; or the investments will have to go outside of the village and contend with an investment situation which is difficult to oversee or manage because of the distance involved.

Management Skills: The shortage of experienced managers in village corporations has been identified by many of the financial institutions in Alaska as the single most important problem facing village corporations today.

Business Record: Unfortunately, for many different reasons, the brief history of native corporation businesses in the state has had more than its share of problems and failures. This may tend to make lending institutions extremely wary of loans to native organizations, and will almost certainly result in most lenders requiring more and better security than they otherwise might.

A B S T R A C T

COMMERCIAL BANKS

Commercial banks, often called "service banks," are owned by stockholders to whom the boards of directors of the banks are responsible. They offer a wide variety of banking services to the public. These include: checking and savings accounts; home, automobile, personal, and business loans; safe deposit boxes; foreign currency exchange; trust services; and transfers of money from bank to bank. These banks are chartered by State or Federal regulatory agencies, and must obey a complex set of rules governing operations, interest rates, and security.

MUTUAL SAVINGS BANKS

Mutual savings banks are owned by their depositors. These institutions offer savings accounts and loans only for houses and building.

SAVINGS AND LOAN ASSOCIATIONS

Savings and loan associations take in money from savings depositors and make loans on improved real estate (land on which buildings have been constructed). Federally established regulations allow these institutions to loan up to 20% of their assets for commercial real estate loans. They are owned by stockholders.

CREDIT UNIONS

Credit unions are private financial institutions offering a variety of services to people who pay a small fee to become members. They accept savings deposits, pay a high, competitive rate of interest, and make loans to members for automobiles, land, homes, and personal need. Credit unions are owned by their members.

MORTGAGE INSTITUTIONS

Mortgage institutions are owned by larger corporations, often insurance companies. They offer loans on a variety of things such as heavy equipment, fishing boats, and processing equipment. However, because of their flexibility, willingness to loan on higher risk ventures, and their necessity sometimes to borrow money first from a bank, they usually charge a high rate of interest.

ALASKA DIVISION OF AGRICULTURE

The Division of Agriculture is a part of the Alaska Department of Natural Resources. It offers long-term, low interest loans for the purpose of providing the rapid development of agriculture as an industry in the state. The following types of loans are available: farm development loans; chattel loans; short-term operating capital loans; and irrigation loans. Alaskan corporations and individuals are eligible for these loans, and the application/review process takes from two weeks to six months.

ALASKA DIVISION OF BUSINESS LOANS

The Division of Business Loans is a part of the Alaska Department of Commerce and Economic Development. The Division administers several loan program which offer long terms and low interest rates. Village Corporations are eligible for participation in two of the Division's programs: tourism loans; and small business loans.

Tourism Loans

Any business directly involved in the tourist industry in Alaska is eligible to apply under this program. Loans of up to \$3,000,000 may be made for 20 year terms at 8% interest. The borrower must be able to secure bank participation in at least 20% of the total loan requested.

Small Business Loans

This program was established to aid Alaskans in acquiring, refinancing, or equipping small businesses in the State. Loans of up to \$300,000 are available to individuals, partnerships or corporations, for terms of up to 15 years at 8% interest. A small business is defined by law as a commercial enterprise with no more than 200 employees and not more than \$10,000,000 in annual gross sales.

ALASKA DIVISION OF ECONOMIC ENTERPRISE

The Division of Economic Enterprise is a part of the Alaska Department of Commerce and Economic Development. The Division offers no financial assistance, but does give limited technical and management counseling to any Alaskan business. Only one person is available for such counseling, and he is headquartered in Fairbanks.

BUREAU OF INDIAN AFFAIRS

The Bureau of Indian Affairs is a part of the United States Department of the Interior, and provides a variety of services to Native Americans. The Bureau offers Loan Guarantees, including Interest Subsidies, and Direct Loans to Indians and Alaska Natives who are unable to obtain financing for business enterprises from other sources on reasonable terms. Funds for loans and guarantees are limited, and the application/approval process may take up to one year to complete.

Loan Guarantees and Interest Subsidies

Up to 90% of a loan made to an eligible person or organization by a lender who regularly makes loans will be guaranteed by the BIA. This would render a potential loan more attractive to a lending institution. Interest subsidies may be granted in cases where a loan guaranteed by the BIA requires payment of, say, 8% interest, while the interest rate which the business would have paid for a direct BIA loan is 6½%; here, the BIA will pay

the difference (1½%).

Direct Loans - The BIA Revolving Loan Fund

A loan fund of \$85,000,000 (national total) has been established for direct loans to those eligible borrowers who have exhausted all other possibilities for securing funds for a small business. The maximum term of these loans is 30 years. Interest rates, while very low, vary, and are determined by the secretary of the Treasury. This program was not funded for fiscal year 1978, but should be for fiscal year 1979.

COMMUNITY ENTERPRISE DEVELOPMENT CORPORATION OF ALASKA (CEDC)

CEDC is a private, non-profit corporation funded by the Federal Office of Economic Development, Community Services Administration (CSA), an agency of the President's Office. CEDC offers a variety of loans for long and short term, in the areas of fishing and general small business development/financing. Technical assistance is also offered by the agency, whose personnel frequently visit the rural areas of Alaska to provide these services to clients.

CEDC Loan Program

CEDC offers a single program of rural enterprise development. This includes a large amount of

specialized technical assistance and financing available from a number of different sources within the agency. To participate, a village must present to the agency a Village Board Resolution outlining the assistance requested, and provide a description of the venture, ownership structure, request for funding and other information on the business. Decisions on loan requests are made by CSA in Washington, D.C.

COMPREHENSIVE EMPLOYMENT AND TRAINING ACT (CETA)

This Federally mandated program is administered in Alaska by the Department of Community and Regional Affairs. It offers payment of business' employees while they train on the job, and also provides basic job skill training. CETA will pay for-profit business up to 50% of a CETA employee's salary, excluding fringe benefits, while that employee is on the job. An employer must guarantee the CETA employee a job after the training period is over. CETA also offers classroom training in some job areas outside of the villages, paying expenses, room, board, and a stipend during the course.

ECONOMIC DEVELOPMENT ADMINISTRATION

The Economic Development Administration is a division of the U.S. Department of Commerce. The agency offers business

development assistance through direct loans and loan guarantees. The agency will not consider a loan or guarantee request that is eligible for SBA approval and thus will not consider loan requests for \$500,000 or less.

FARMERS HOME ADMINISTRATION

The Farmers Home Administration is a division of the U.S. Department of Agriculture, established to "provide assistance to rural Americans". The FHA offers a number of direct loan programs, loan guarantees, and grants. Two of these programs should be of interest to Village Corporations.

Rural Rental and Cooperative Housing Loans

This is an extremely limited program which allows for-profit corporations (and other types of businesses) to construct rental housing in rural areas. A recipient of FHA funds under this program is restricted heavily: occupants must be FHA eligible to rent those houses constructed with FHA assistance (low or moderate income, or senior citizens); rent charges must be within limits set by FHA, based on "what occupants are able to pay"; and borrowers are required to deposit rental income in special accounts, so as to establish reserves for long-term capital replacement needs. Under FHA programs, profits are limited, and numerous regulatory requirements must be met both during the application process and after a loan, grant or guarantee has been made.

Business and Industrial Loans

This is a loan guarantee program, where the borrower is required to supply a 10% share of the total amount borrowed as equity. A borrower's application process begins with his bank, and the bank may suggest applying for an FHA guarantee. Guaranteed funds may be used for facility construction or purchase, land, equipment or inventory, pollution control, or working capital. Collateral is required for all guarantees.

NATIONAL MARINE FISHERIES SERVICES (NMFS)

NMFS is a division of the National Oceanographic and Atmospheric Administration, U.S. Department of Commerce. This agency offers guarantees for major capital investments in fishing boats or fishing facilities, and administers a tax credit program under which certain fishing costs may be written off tax bills.

Obligation Guarantees

NMFS will guarantee up to 75% of the cost of building, re-building, or re-conditioning U.S. commercial fishing boats of at least five tons. Under this program it is possible to re-finance a used vessel and use the guaranteed money to buy facilities or equipment for commercial fishing. NMFS will assist a borrower in preparing feasibility studies, closing documents, and collateral arrangements, and will help in closing the loan from the lending institution.

Capital Construction Tax Credit

This program allows owners of fishing boats over two tons to keep some or all of the money which would have been paid for federal income tax, and use that money to construct, reconstruct, or (under limited circumstances) acquire a new fishing boat. This program is entered into by agreement between the fisherman and the government, and application should be made to the regional NMFS officer, or to the Alaska representative, Merrill, Lynch, et al, in Anchorage.

SMALL BUSINESS ADMINISTRATION (SBA)

The SBA is an independent Federal agency created by Congress in 1953 to give assistance and advice to American small businesses. The SBA administers 19 different types of financial assistance programs (most of which are inactive at any given time), as well as technical assistance, training, and counseling. Most small businesses, except speculative firms, newspapers, radio and television stations, other forms of the media, and gambling enterprises, are eligible for SBA assistance.

Loan Guarantees

The SBA will guarantee both long term loans and lines of credit (up to 18 months). These guarantees are available for up to 90% of the total amount

needed by a small business, but are limited to \$500,000. The application process for an SBA guarantee begins at the bank where a borrower files the normal bank loan applications and business package information. Frequently, the bank will then refer the borrower to the SBA for a guarantee as a condition for granting the loan requested.

Direct Loans

The SBA will make direct business loans of up to \$150,000. The proposed business must be legal, and cannot be an investment company which depends for its profit upon real estate, buildings, rental property, etc. Fixed capital and working capital loans are available for up to 20 years and 6 years, respectively, at interest rates of 6% - 7%.

Technical Assistance

The SBA's Management and Technical Assistance programs give free individual counseling through retired and active business executives, university students, and other professionals. The agency also provides business courses, workshops, problem clinics, and a wide range of publications.

WHAT IS A BANK?

Even to people and businesses who deal with them every day, banks sometimes seem very complicated. Yet, on the most basic level, a bank is nothing more than a department store for money:

- o it buys money from its depositors -- we put money into a savings account, for instance, and the bank pays us rent on this money in the form of interest, so that it can use our money to make loans;
- o it sells this money to borrowers -- it loans the money out and charges the borrower interest on the money.

Another way to take the mystery out of banks in this latter role of lending is to compare them with car rental agencies. In both cases the customer comes in and asks to borrow something valuable. He has to show that he knows how to use it, that he is not reckless or risky. The customer then pays rent or interest for the right to use the car or the money. In addition, since it is possible that the customer might not bring the car or the money back, the customer has to do something to assure the lender that he or she (the lender) will get paid back: this is usually insurance in the case of a car, or security for a loan.

Most village corporations already have accounts of one kind or another at a commercial bank. Since these banks can make almost any kind of loan a business might need, and since your village corporation's own bank knows you, this is the best place to start your search for money. If the corporation plans to invest in properties like buildings or homes, you might also talk to a Mutual Savings Bank or a Savings and Loan Association, especially if the property you are considering is in an area served by one of these institutions.

TYPES OF DEPOSITS

There are a number of different kinds of money put into a bank, not all of which can be used for loans. Because the money that you put into your checking account must be available at any time, banks pay no interest on checking accounts. Savings accounts, on the other hand, are rarely drawn out all at once, or upon frequently. Since banks can put out some or all of this money for loans, they pay between 5 - 7½% interest, depending on how much they have to keep on hand for customers to withdraw. Certificates of Deposit (CDs) or other term deposit agreements represent money that people have put into the bank and which they have agreed not to take out for a set period. The bank can then loan out all of this money, and they pay the highest interest (for example, 7½% for over \$1,000.00 for six years) on such deposits.

What this means to you, when you go into your bank looking for a loan, is that the amount of money that your bank has available to borrowers is limited by the amount and kinds of deposits it has. If the bank doesn't have any money to loan, you obviously won't be able to get the money you need. Be prepared for the fact that, if the banks don't have much money to lend, they are less likely to lend it to small new businesses which have not already proven successful.

There has traditionally been a shortage of loan money in Alaska. Bankers have had many more applications for loans than they could grant, and they have been very particular as to who got the loans. This is still largely the situation today, and perhaps explains why new small businesses sometimes have trouble getting bank loans.

WORKING WITH BANKS

The following suggestions will help in developing good business and personal relationships with banks:

1. Most loans are made to people and companies which have done business with the bank in the past. Accordingly, a potential borrower should also be a depositor in the bank. Some banks insist on this as a condition for making a loan to a new borrower and, moreover, will want the borrower to agree to deposit money in the bank after receiving a loan.

2. It is important to take the time to learn about a bank and its officers. If you have more than one bank to choose from, or even if you have only one, it is a good idea to ask a lot of questions about the bank, its history, and its goals in the community. A bank becomes your financial partner when you deposit or borrow money, and both you and the bank should learn as much as possible about each other before making agreements.
3. Consider your banker as a prospective partner. As soon as you receive borrowed money, your concerns become his, and the bank is genuinely interested in doing whatever it can to insure your success. If your business fails, the bank will sometimes lose its money. If your banker offers you advice, you should consider it carefully (though you are in no way obligated to follow it).
4. Banks are very interested in the communities in which they operate. This is simply good business: if its community grows and prospers, so will the bank. Therefore, a bank in the community where your business will be located is more likely to loan money for that business than is a bank in a distant community.

5. Extend to bankers the same courtesies you would to any business associate. Make appointments, so you will be sure to have enough time to complete your business. Be totally honest with your banker; let him know both the good and bad, and don't make promises that you cannot keep. Make sure your banker is aware of progress or changes in your business situation.

WHAT BANKS DO WITH A LOAN APPLICATION

After a borrower submits an application, a bank loan officer will review it to be sure that all the information the bank needs is included. If the application is incomplete, your banker will suggest things a borrower can do to complete the application. Loan officers usually cannot make the decision to give or deny a large business loan. A loan officer has a limit on the amount of money he can personally approve for lending. If the amount is higher than that limit, the application must be reviewed and approved by either a bank officer with a higher approval limit or a loan committee. Some very large loans must be considered by the senior officers and loan committee of the entire bank, so your application will leave the branch and go to the main office for approval. Depending upon the amount of the loan and the lending limits of the officers and branches, it takes from

an hour to four weeks for a bank to approve or deny a loan.

(Most bank loan committees meet at least once a week.)

After reviewing a loan application, a bank may choose either to: 1) lend the full amount requested by the borrower; 2) deny the loan and refuse to participate in the financing of the business; or 3) agree to finance a portion of the business and suggest that the borrower apply for direct loans from government agencies, seek government or co-signer guarantees, or apply for a government grant. A bank may also solicit the participation of other banks or other lending institutions for money to finance portions of a large project.

COMMERCIAL BANKS

Commercial banks are similar to many other business corporations in the fact that they are owned by stockholders. Directors are appointed to Boards in the usual way (by vote), and are responsible to stockholders for the general management of the business.

Such banks deal in many commercial money transactions, and, because of the wide variety of services they offer, are often referred to as "full-service banks."

Both checking and savings accounts are available. Although there is, of course, no interest on the former, rates can go as high as 7½% on savings accounts, depending on the terms of deposit agreed upon. Other services include safe deposit boxes, foreign currency exchange, trust services, and transfers of money from bank to bank. Loans are available for many different projects, both personal and business related, such as the purchase of a home or automobile, or the expansion of a company's operations.

Although commercial banks must obey a complex set of State and Federal rules governing operations, security, and interest rates, they can be flexible in their loan arrangements. It is worth checking exactly what services they do offer. Several of them have had dealings in rural areas, for instance. However, flexibility does not mean casualness or informality: in all loan application cases, officers of these banks stress the

importance of a neat, full, and thorough business package.

MUTUAL SAVINGS BANKS

A mutual savings bank differs substantially from commercial banks, both in their ownership and the services they offer.

First, these banks are owned by those people who deposit money in them. Therefore, there is no stock. Instead, depositors elect a group of up to 100 "corporators," who are, in turn, responsible for electing an eighteen person Board of Trustees. The Board then elects the officers of the bank, who are appointed for a one year term.

The second difference concerns the kind of deposits and loans available. Mutual savings banks only take in savings deposits. This means that all the money which these banks get from depositors can be loaned, since such money does not have to be available at any and all times for withdrawal (as is the case with checking accounts.) It also means that, in some cases, these banks will offer a higher interest rate than commercial banks on savings accounts. As for loans, these are strictly limited to first mortgages on houses and buildings. Because of this, and the consequent necessity for appraisals, the application/review process may be somewhat slower than it is with other types of banks

SAVINGS AND LOAN ASSOCIATIONS

Savings and Loan Associations are financial institutions which take in money in the form of savings deposits, and make loans only on improved real estate (mostly homes).

Village corporations will find these institutions to be possible sources of financial assistance in limited situations. To get financing from a savings and loan:

- o It must be for improved real estate:
houses, multi-family dwellings or
commercial buildings; and
- o The real estate should be within the
area served by the Savings and Loan.
This limits the location, in most
cases, to the community where the
Savings and Loan office is located.

Savings and Loan regulations demand that the borrower put up 10% of the equity, and the Associations are limited to 20% of their assets in commercial real estate loans.

There are four chartered Savings and Loan Associations in Alaska.

MORTGAGE INSTITUTIONS

There are a number of mortgage institutions in Alaska. These are, in some ways, similar to private financing in that these institutions are owned by larger corporations, such as insurance companies.

A mortgage institution can be fairly flexible in its loaning. Generally, in Alaska, they will loan money on such things as heavy equipment, fishing boats, processing equipment and the like.

Mortgage institutions usually charge a higher interest rate than do banks. This is because they are more flexible, are willing to loan on higher risk ventures, and because they sometimes must first borrow their money from a bank.

Mortgage institutions can be approached directly by the borrower, or, more usually, through the dealer who is selling the equipment, etc. As in private financing, you must shop around to find a mortgage institution who will finance your project.

CREDIT UNIONS

Credit unions are private financial firms which provide a wide range of financial services to their members. They take in money in savings, on which they pay 7% passbook interest, and make many different kinds of loans, primarily consumer and real estate loans.

The primary restriction is that a borrower must be a member of the credit union. In the case of corporations, all stockholders must be eligible for membership in the credit union in order for the corporation to borrow money.

There are three credit unions in the state which may be useful to village corporations. Both Tlingit-Haida and Bering Straits have their own credit unions, and village corporations should check with them directly.

THE SALE OF STOCK

When a company borrows from banks or agencies to raise money for a business venture, it goes into debt -- the company promises to repay the money, with interest, and backs up this promise with collateral and a sound plan to make a profit. As long as payments are made on time, the lender has nothing to say about the management of the company.

A different way to raise money is to sell portions of the ownership of the company -- shares of the corporation's stock. This is one of the most common means by which large corporations raise money for long-term use.

Under the terms of ANCSA, the stock in both village and regional corporations may not be sold until 1981. However, a distinction must be made between the stock of your ANCSA corporation and that of a subsidiary corporation. An ANCSA corporation has the legal right to start other corporations, called "subsidiaries", in which the village or regional corporation holds all or part of the stock. Since these new corporations are not bound by the no-sale provision of the Settlement Act, stock in them may be sold to raise capital.

Here is how it would work. Suppose your village corporation decides that it would be a good business opportunity to buy a riverboat and a barge, and to provide fuel and supplies from a larger town some way up river. After careful study, it appears that the venture needs \$250,000 to buy the equipment needed, build an addition to the town dock (after signing an agreement with the city government), and pay all of the expenses and costs until the business was able to pay its own way.

However, the board of directors of your corporation decides that it only wants to invest \$150,000, while at the same time neither losing control of the business, nor taking in a partner.

You now have the option of going to banks and agencies to look for a loan. It will probably be possible to raise the money this way, but, like all loans, it is going to have to be repaid with interest.

The alternative in this example is to incorporate the business and divide the new corporation into 2000 shares of common stock. Common stock has these characteristics:

1. Stockholders share dividends, on a per share basis, each share yielding equal dividends.

2. Stockholders have the right to vote on certain company management matters, including membership on the Board of Directors (as set out in the company by-laws).
3. Stockholders share, on a per share basis, in assets of the company if it fails and is liquidated, when all other creditors have been paid.
4. Stockholders have no liability for any debts of the corporation beyond the price which they paid for the stock.

Your village corporation may now invest the \$150,000 in 1200 shares of stock in the new subsidiary corporation. With a majority of the stock it will have effective control over who is on the board of directors. Because of this, it will also have effective control over who the officers of the new corporation are, and hence, in what manner the business is to be run.

The other 800 shares of the new corporation, at a starting price of \$125 per share, may now be offered for sale. If the venture appears generally attractive and profitable, the shares will be sold. But remember that the stock must be sold in order for outside money to come into the corporation.

Yet another thing that the corporation can do is not to offer the stock for sale until the business is established

and has demonstrated that the purchase of its stock will be a good investment. In a situation like this, the value of the stock may rise above its issue price, and even more money may be available. For example, suppose that there is a company which has a contract to bring all the oil up the river from large ocean-going tankers. After a successful summer of operation, it decides that it is no longer economical to keep its own riverboat in the river if the barge can be towed by your subsidiary's new riverboat at lower cost. The company gives your corporation a long-term contract, and the value of your business' stock rises.

The sale of additional stock is one way that a business which has been operating for a while may raise extra money without going into debt. Most corporations are legally organized so that they can issue additional shares of stock (but not your village corporation under ANCSA). So if there are 5000 shares of a subsidiary corporation which run a general store, and the village corporation owns all the stock, the corporation may issue, say, 2500 additional new shares. If someone can be found who wants to buy part of the ownership interest in the business, additional capital can be raised without the corporation going into debt. The cost of this additional money is a reduction in the ownership interest of the original stockholders, and a consequent reduction in the share of profits

Corporation law is complicated, and the tax consequences of issuing stock are even more complicated. If you consider raising money by this method, it should always be done with the help of experienced corporate lawyers and accountants.

PARTNERSHIPS & JOINT VENTURES

Many village corporations do not have the resources to finance a large project by themselves.

In order to raise enough money to start and run a major project it is frequently advantageous to join with other businesses. Not only does this union make more money available, but there are more people, with different experiences, to share the management work. Also, while the joined businesses share in any profits, they also spread the risk, and losses, if the business fails.

There are two common ways to join businesses: partnerships, and joint ventures.

Partners are usually individual businessmen who join together to make a profit. When corporations want to become partners things become a little more complicated: stock has to be exchanged and management coordinated. If two corporations want to start a business as partners they might establish a third corporation, and each own half of the stock.

A joint venture is different, in that it is a joining for the purpose of doing a single project, or business venture. The corporations do not merge, but by an agreement arrange a temporary partnership whereas technically, a partnership implies a more long-term union.

Joining with other businesses to finance and own a project is a common, and successful means of raising enough money to start a venture.

There are a number of complications, both legal and financial, so your lawyer and accountant should be consulted, if such a course is considered.

PRIVATE INVESTORS

There is nothing that says that all money for your business must come from either a bank or an agency. There are many private people, and other businesses, which have money that they want to invest.

They are looking for exactly what you would want if the situation were reversed: a place to invest their money, with a minimum of risk, and the best possible rate of return.

Because of the nature of private investing, it may be difficult to find out who has money that they want to invest. There are a number of companies, listed in the yellow pages in Anchorage, as "Financing Consultants." These people specialize in taking your venture, helping you prepare a complete business package, and then finding an investor for you. Since much of the information on where money is available travels by word-of-mouth within the investment community, you may encounter problems in locating someone suitable through a consultant. If you do choose to deal with a financing consultant, choose him as carefully as you would select a lawyer or accountant. Talk to him, find out what he has done in your field, and talk to your banker and others about his reputation. Financial consultants who want to be paid for their services before they start are to be avoided.

There are other ways to find private financiers. Talk to your banker, lawyer, and accountant. They can probably refer you

either directly to possible investors or to someone else who will know where private money is available.

There are a large number of possibilities for funding from private sources. To repeat, this money is found by hunting around, talking to everyone you know who is connected with the financial community, and spending what may be a lot of time taking your business proposal around to potential investors. However, there are not the kinds of controls and regulations in this area as there are for banks and agencies, so caution is advised. Get good counsel from your lawyer and your accountant, and find out, as far as possible, who you are dealing with.

REGIONAL CORPORATIONS

Regional corporations are among the first places where village corporation business persons might look for assistance with new ventures. Although they are much larger, regional corporations have faced most of the same problems, but, because of their size, often have excellent business advisers on their staff. They can offer advice on how to look for financing, and can suggest sources based on their own experience. Your regional corporation is also a good place to get advice on banks and bankers, and you might consider the advantages of dealing with the same bank as your regional corporation.

The help offered by the regional corporations to their villages varies widely. Here are comments from the officers of each region:

ALEUT CORPORATION: Offers the services of its professional staff to every village. However, the region does not back any village projects, nor does it make loans to village corporations, preferring them to be independent.

ARCTIC SLOPE REGIONAL CORPORATION: Has loaned money to village corporations in the past. They will assist and advise the villages as much as possible, but at present has no specific plans to offer further loans to village corporations.

AHTNA CORPORATION: Has entered joint ventures with some village corporations. It will give technical assistance if requested. It has not yet made loans to village corporations, but will consider requests.

BERING STRAITS NATIVE CORPORATION: Is not offering any assistance to its village corporations. It says that because of their own current problems it probably will not be offering any help in the near future.

BRISTOL BAY NATIVE CORPORATION: Gives help to village corporation businesses high priority, spending between \$150,000 and \$200,000 a year on assistance. It has aided villages in joint ventures, is managing a village corporation subsidiary, and also provide legal and accounting services. It gives training in technical skills such as accounting. The corporation offers no direct loans, preferring to channel these requests through United Bank of Alaska, of which BBNC owns 24%.

CHUGACH NATIVES: Offers neither loans or technical help to village corporations. It has been offering contract accounting services, but these ended on April 15, 1978.

CALISTA CORPORATION: Has made some loans to villages in the past, but due to its current situation cannot consider any loans now. It offered contract accounting services, but most client villages have pulled out of this program. Through Esca-tech, a subsidiary, it offers land services, and will

CALISTA (continued) be offering training in some business skills.

COOK INLET REGION Offers no financial assistance to its villages. It does not have a business development fund. The region will informally discuss and advise on possible ventures, but it does not want the village businesses to rely on their advice, preferring them to retain their own advisors.

DOYON Some of Doyon's villages are still under the five-year regional supervision of the Settlement Act, so all of those ventures are reviewed by the Doyon Board. The Interior Village Association works with village corporations on lands and some legal issues. The region has not made loans to any village corporations.

KONIAG REGIONAL NATIVE CORPORATION Has in the past made one loan and guaranteed another to village corporations. It now feels that it does not want to continue this practice, preferring to help village corporations work through a bank. It will informally discuss and counsel villages on potential ventures.

NANA REGIONAL CORPORATION Since the merger of the village corporations with the region, there is only one village corporation left. Kotzebue Village Corporation, says the region, is large enough not to need any help.

SEALASKA CORPORATION Shares accounting and auditing services with villages, making no profit on these services.

SEALASKA (continued)

It does not offer counseling, saying that it expects each village to discharge its own obligations and responsibilities.

THIRTEENTH REGIONAL CORPORATION

Has no village corporations to assist, but has a comprehensive loan program for its stockholders. These loans range from \$300, 90-day signature loans to \$50,000 business loans. It gets 12% interest on these loans. The non-profit arm, AL-IND-ESKA, provides other counseling services to shareholders.

FINANCIAL ASSISTANCE FROM SUPPLIERS & CUSTOMERS

Suppliers of goods are the largest source of short-term credit to purchasers, because almost every supplier gives its customers a period of time to pay for the goods after they arrive.

Thirty days is the usual length of time for credit, which, while given freely, is not free. Suppliers usually offer some kind of discount to the customer who pays his bill at once, and the difference between the discount and the full price is the true cost of this short-term loan.

For example, a common discount is 2%, if the bill is paid within ten days and the whole bill being due in thirty days. This is usually written (often at the bottom of the invoice) as "2/10, net/30."

To figure out what this loan costs take the discount percent (2% here) against the total bill. For instance, if you order \$60,000 worth of merchandise with terms of 2/10, net 30, you may take a \$1,200 discount if you pay the bill within ten days. Or, to look at it from the other direction, if you wait the full thirty days, you are paying \$1,200 for the use of the supplier's money.

In many cases it saves costs to go to your bank, or use company reserves to pay bills when they come due. In our example, if you assume a bank loan of \$58,800 (the total price less the discount) at a very inexpensive 6% interest for twenty days,

it would cost you \$196. That is a lot less than the \$1200 cost of the same credit from the supplier.

Customers are also a potential source of credit. Perhaps the most common example in Alaska is the practice of the canneries giving fishermen credit. This can range from short-term credit for fuel and gear expenses to loans for long periods to purchase new fishing boats.

Customers may extend credit to businesses so that they can expand to supply them with a service that they need. For example, fish-egg buyers have supplied credit to village businesses to set up small egg processing facilities.

An additional benefit in dealing with both suppliers and customers is that they can help your business make important contacts, both for financial help and for technical assistance. The success of your business is important to both your suppliers and your customers, who can be of great help to you.

TRADE ASSOCIATIONS

Trade associations are groups of businesses which do the same kind of things. Examples are: shoe manufacturers, small grocery stores, gun dealers, engine rebuilders, etc.

Trade associations can be very useful to new businesses. You can get technical advice, find out about possible customers and suppliers, buy used equipment, and hear how your ideas have worked in other areas.

Many business areas have specific sources of financing that are unique to those businesses. The fishing business in Alaska is a good example, as we saw in the previous section, with money available from customers (canneries) and for the development of new fisheries (the foreign offer to develop the bottom-fish industry).

It is not possible to list all the possibilities for assistance in each industry, but a trade association will have this information available to its members.

To find out what trade associations are active in your business area see the book National Trade and Professional Associations of the United States. It can be requested from the library or ordered for \$15 from Columbia Books, Inc., Suite 300, 917 15th Street, Washington, DC.

INTRODUCTION TO GOVERNMENT AGENCIES

Government agencies offer four types of services which may help village corporation businesses: loans, loan guarantees, grants, and technical and management assistance.

LOANS

Agency loan programs differ from bank loans in two major ways. The interest which is charged on agency loans is, in some circumstances, significantly lower than the market or bank rate. The reason for this is that the state legislature (or Congress, if it is a federal agency) has decided that the goal of the loan program is important enough that the government should pay for part of the loan. This subsidy (as it is called) means that some loans (BIA Direct Loans, for example) are given at 6% interest -- a full 5% below the usual interest rate.

The other main difference is that agency loans are distributed according to the program goal, and the statute and regulations which control the program. Therefore, in order to get loan money, your venture must fit exactly into a category set up by the program rules.

However, in many respects, agency loans are similar to bank loans. Both agencies and banks insist on being paid back. Loan applications are carefully screened by the agency: it

must be convinced that the venture has a good chance of success. Also, many agency loans must be secured by collateral, and, if the borrower cannot repay the loan, agencies can frequently be as aggressive as banks in collecting on the collateral and any guarantees which were signed.

LOAN GUARANTEES

Loan guarantees are a means by which the government can make a small amount of money go a long way. Often, an agency will not have enough money to make a large number of direct loans. But since the credit of the government is very good, what the agency does is to tell the borrower that it (the government agency) will promise to pay all or most of the loan amount back to the lender if the borrower cannot pay.

From the bank's point of view this loan will have almost no risk attached to it, and that is the kind of loan banks prefer to make. With a government guarantee, your business has a great advantage in getting the loan from the bank.

An agency guarantee does not remove the risk from the business, however. Agencies will frequently try to collect against the failed business' security, just as a bank would.

GRANTS

A grant is a direct gift of money, with no obligation for repayment. In the area of small businesses, its major purpose is to enable groups without enough equity (start-up money) to go into business. Some grant programs insist that these funds be matched by borrowed money before they will be released. All of the banks in Alaska will allow the use of government grants as equity investment.

Grant program funds are in heavy demand, and their availability is usually limited.

TECHNICAL AND MANAGEMENT ASSISTANCE

Most agencies offer technical and management help to businesses. The main reason for this is that they want to do everything possible to insure the success of these new ventures.

This help can be very valuable for your business. First, it is free, and the agencies frequently have funds available to send experts out to your place of business. Secondly, many of the agency people have been involved with new small businesses for years, and their advice can be excellent.

Some of the services available are: accounting help, and training of your accounting people; management training and counseling; technical help, like scientific studies for fisheries or mineral development; and help in developing contacts with suppliers and customers.

STATUTES AND REGULATIONS

Agencies differ from banks primarily in that every agency is limited and controlled in what it can and cannot do by two levels of written instructions. First, there are the statutes which are passed by either Congress or the state legislature. These set up the program, give the agency the power to perform its function, and appropriate money, both for its operating expenses and for the loans, grants, or matching funds. Secondly, the agency must draft and have approved a set of internal regulations which describe in detail how they will do their job.

Banks are private businesses and, although they are regulated by dozens of federal and state laws, are much more flexible than any agency. The rules that control them have developed over the years with the goal of allowing the banks to make a fair profit, while protecting depositors and borrowers from bank actions that could risk their money or harm them. These rules leave much room for legal creativity, and if there is a legal way for a bank to use its money to make a fair profit, the rules will probably allow it.

Agencies, as parts of the government, are not allowed this kind of flexibility. After a program goal is defined and the ways that the goal is to be achieved are stated, the regulations of the program usually set a very narrow path which the agency personnel must follow.

For these reasons it is often useful to study the regulations and the statutes of a program you are interested in, especially if the agency seems reluctant to help you. You can usually get this information by writing to the agency and requesting it.

By reading the statutes and regulations you can find out exactly what the program is supposed to do, and how. Perhaps you will find that the help you are seeking is not available under that program, or, for some technical reason, your business is not eligible for the program. In that case you at least know why your request will not be granted. On the other hand, you may find that the program was supposed to do just what you requested, and then, if you have not gotten satisfaction, the regulations will frequently tell you about your rights to appeal the agency decision. It's a lot like playing basketball. If you have studied the rule book, you know when a foul was called correctly, or incorrectly, and, if you know that it wasn't, your argument with the referee can be firmly based on the rules.

ELIGIBILITY

The subject of eligibility, or who can be served by a program, is frequently the most important factor in dealing with a government agency. There are sometimes complicated rules about eligibility which can arise because the people who designed a program wanted it to affect only a specific group of people. For example, much of the government money available now is designed to create or save more jobs everywhere. The eligibility here is wide, and almost anyone who has a plan to produce more jobs may be eligible for help.

On the other hand, there are some programs which are much more narrow. There is money for example, from the Farmers Home Administration, available only to native villages which have been organized under the Indian Reorganization Act. Therefore, this program can serve only a handful of places in Alaska.

Moreover, village corporations may have trouble getting assistance because many loan programs are only for individual businessmen, as opposed to corporations. If you are turned down for this reason, it may help to check the regulations. You may also want to talk to your corporation's lawyer about the possibilities of setting up your new business in a way which will satisfy the regulations of a possible agency money source.

Another way to deal with eligibility problems is to work with either your village government (it usually will have to be a second-class city), or your corporation's or region's non-profit arm. For example, money is available from some federal agencies for communities to use in planning economic development. It may be possible for the community government to do the planning, and the village corporation to do the business venture which results from that planning. Another example is that the FHA offers money to communities to acquire and construct business sites (places for businesses to go). Should your corporation be planning a business that needs, within your village, a location and a building, it is possible that your village may get financial help from the government to buy the land and put up the building. It can then rent it to the village corporation. Again, these restrictions are found in the agency statute and regulations, and that is the place to look when you need to know why an agency is doing things in a certain way.

PRESENTING YOUR PROPOSAL

Both agencies and banks need considerable information about your business before they can make a loan to you. Agencies are in a much more difficult position here, because they have to start from scratch. In the case of a bank, you would usually be taking your loan application to the place where you have done business in the past, and it is likely

that someone in your corporation has a personal relationship with that bank. Your banker knows what your corporation has been doing, and how. He knows the people you have working in the business, and he probably has a pretty fair sense about the economic conditions in your area.

An agency, on the other hand has none of this information. This makes it even more important to get your business loan package together in the best possible form before you ask an agency for assistance. In fact, if you are going to go to an agency for financial assistance, the parts of the business package which describe you as a corporation should be much more detailed than if you were going to your own banker.

The biggest problem that most agencies have in considering loans is a lack of information. Frequently an agency will not be able to consider an application until all of the necessary information has been gathered. Several agency employees said that getting information about businesses by "tooth pulling" was the hardest part of their jobs, and that having all of the necessary information together from the start is the single best thing that an applicant can do to insure that their request is handled quickly and favorably.

Some agencies have specific technical requirements which must be met in the application process (for example, certifying

that you have workman's compensation insurance, or that you are complying with some particular law). If you find out about these requirements early, you can make sure that they are included in your business package.

ADVANTAGES OF AGENCIES OVER BANKS

There are some things that agencies can do which banks cannot. Most importantly, agencies can make loans at interest rates far below the market rate, and to people or businesses who could not normally get a loan from a bank. Banks, for example, are reluctant to make loans for small fishing boats, and when they do, they charge the normal 11% interest. The state loan program for fishing boats is very good about providing money for small fishermen, and the interest charged is a very low 7½%. But, there is an eligibility problem here: only individuals are eligible for state fishing loans, so if your village corporation wants to get into the fishing business, it will have to go either to a bank or to the National Marine Fisheries Service, and in both cases will pay market-rate interest of around 11%.

DISADVANTAGES OF DEALING WITH AGENCIES

There are three disadvantages of dealing with agencies: costs, time, and inflexibility.

Agency interest rates are never higher than commercial rates, so the costs that we are discussing are not strictly financial. Some programs require frequent reports, or ask for figures which will take extra trouble to collect. The process of applying for an agency loan may be more complicated than the process a bank requires, and studies or special information may have to be developed. Another potential cost is that you may have to structure your business in a particular way to meet eligibility or program requirements.

While many of these possibilities only occur rarely, it is important that a businessman know what, if any, special restrictions or costs are attached to a particular program, and then decide whether the benefits are still worthwhile.

Time is perhaps the biggest problem in dealing with agencies. Because of the regulatory requirements of most programs there are many levels of approval required for major loan decisions. Many bank loan officers have the personal authority to approve on the spot most of the loan requests which come before them, without having to get additional approval. All agencies, on the other hand, have at least one extra level of approval and some have more. CEDC for example, has up to four levels of review (ending up in Washington, D.C.) for major loan investments.

Another factor slowing agencies is the lack of people to process applications. Agencies are concerned with having loans repaid, so most will spend the necessary time on an application even if they do not have enough help. The State Loan Program, for example, is now backed up three or four months, but says that it is not cutting corners on application processing.

The last disadvantage is the relative lack of flexibility of government agencies. Having to comply with strict statutes and regulations, and not being able to make exceptions to these standards, agencies are forced into a position where they cannot deal with applicants whose proposals are unique, or do not fit exactly into the concept of their program. In some cases it will be possible to re-structure your proposal to fit within an agency's framework, and in rare cases it might be possible to get an agency director or legislative body to approve an exception. Generally, however, if your venture is substantially different from those that the program was designed to serve, you will have to go to a bank or other private source for financial assistance.

ALASKA DIVISION OF AGRICULTURE

IS A division of the Alaska Department of Natural Resources. By statute its goal is "to promote the more rapid development of agriculture as an industry throughout the State by means of long-term, low interest loans."

OFFERS o Farm development loans
 o Chattel loans
 o Short-term loans
 o Irrigation loans

TO Alaska residents, including corporations or partnerships. The chief consideration is that the operation is feasible and that the operators are capable of successful farming under all circumstances.

PROGRAM The Agricultural Revolving Loan Fund has a fixed maximum capitalization of \$5,000,000. An effort is being made to increase this capitalization. Unlike other state programs, which sell their loans to the State Department of Revenue with no guarantee, the agricultural loans are guaranteed by the agency. Thus any default must be paid for

out of the agency budget. Interest paid into the loan fund is kept by the agency as a method of increasing the capital available. However, the four employees who administer the loan program must be paid for out of interest income, There are four types of loans granted:

1. Farm Development Loan: money for the purchase of land, buildings and plants. \$200,000 maximum for thirty year term.
2. Chattel Loans: purchase of equipment and livestock, \$100,000 maximum for seven year (or useful life of chattel) term.
3. Short-term Loans: up to \$25,000 at 6% interest for one year to pay for seed, fertilizer, feed, harvesting, or other operational expenses.
4. Irrigation Loans: for irrigation equipment, at 6% interest for ten years, or longer if secured by real estate.

The division will recommend alternatives and advise an applicant as much as possible, but program personnel lack the funds to travel to meet with applicants. Much technical assistance in the area of agriculture is supplied without charge by the University of Alaska Extension Service.

There are no limitations on applicants. Residency is encouraged for familiarity with special situations in Alaska, but the overriding consideration is the viability of the proposal. This agency is charged with promoting agriculture. Allan Linn, the director, says he is optimistic about the chances for successful agricultural ventures in many of the native community areas, and is extremely willing to discuss agricultural possibilities with village corporation managers.

Applications take from two weeks to, more typically, three to six months to process to completion. No special reports or costs, beside the nominal interest, are required.

ALASKA DIVISION OF BUSINESS LOANS

IS A Division of the Alaska Department of Commerce and Economic Development. The goal of the Division is to provide Alaskans with the goods and services necessary to maintain a reasonable standard of living through long-term, low interest loans. Loans granted total about \$80 million per year.

OFFERS o Tourism Loans
 o Small business Loans

NOTE: The Division administers five other loan funds, but those loans are granted only to individuals and, therefore, are not available to village corporations.

TO Any Alaskan resident. Tourism loans may be made to non-residents establishing a business in Alaska. All loans must be collateralized.

There is no application fee for participation in this program. Any direct costs such as credit reports incurred by the Division in processing the loan are charged back to the loan proceeds, if the loan is granted. If the loan is not granted, the Division absorbs the costs. A possibility

exists that an application fee will be required in the future. The application and approval process takes from three weeks to four months.

TOURISM LOANS

The intent of this program is to aid the visitor industry and to: 1) extend the tourist season; 2) provide needed facilities such as hotels; and 3) provide employment opportunities and stimulate business expansion. Any business directly involved in the tourist industry is eligible to apply. The maximum loan available is \$3,000,000. Bank participation of at least 20% of the total amount is required on loans over \$150,000.

Terms of Loans - 20 years

Interest Rate - 8%

Applications are available by calling or writing either the Juneau or Anchorage office of the Division.

Technical and management assistance in filling out applications and statements will be provided by the Division or by a participating bank. Annual reports, proof of maintenance of insurance, and agreement to periodic audits are conditions to which a borrower must agree when receiving a loan.

When examining a loan application, the Division and the Loan Committee consider:

- 1) The statutory requirements (see application form);