

HB

177

<TARGET><BILL>HB 177</BILL><SUBJECT>HB
177</SUBJECT><COMM>HFSH28</COMM></TARGET>

28-LS0607\O
Bullard
3/26/13

CS FOR HOUSE BILL NO. 177()
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-EIGHTH LEGISLATURE - FIRST SESSION

BY

Offered:
Referred:

Sponsor(s): REPRESENTATIVE EDGMON

A BILL
FOR AN ACT ENTITLED

1 **"An Act relating to interest rates on loans from the commercial fishing revolving loan**
2 **fund and the community quota entity revolving loan fund; and providing for an effective**
3 **date."**

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

5 *** Section 1. AS 16.10.320(a) is amended to read:**

6 (a) Except as permitted in (h), [AND] (l), and (n) of this section, a loan under
7 AS 16.10.300 - 16.10.370

8 (1) may not exceed a term of 15 years, except for extensions under
9 AS 16.10.310(a)(4);

10 (2) may not bear interest at a rate

11 (A) exceeding the prime rate, as defined by AS 44.88.599, plus
12 two percentage points;

13 (B) [AT A RATE] of more than 10 1/2 percent a year; or

14 (C) [AT A RATE] that is less than three percent a year [THE

1 COST OF FUNDS TO THE STATE];

2 (3) must be secured by a first priority lien and appropriate security
3 agreement;

4 (4) may not exceed 80 percent of the appraised value of the collateral
5 used to secure the loan; and

6 (5) may not be made to a person who has a past due child support
7 obligation established by court order or by the child support services agency under
8 AS 25.27.160 - 25.27.220 at the time of application.

9 * Sec. 2. AS 16.10.320(j) is amended to read:

10 (j) All principal and interest payments, and any money chargeable to principal
11 or interest that is collected through liquidation by foreclosure or other process, on
12 loans made under AS 16.10.300 - 16.10.370, except loans made under
13 AS 16.10.310(a)(1)(E) after June 30, 2012, shall be paid into the commercial fishing
14 revolving loan fund. [ALL PRINCIPAL AND INTEREST PAYMENTS, AND ANY
15 MONEY CHARGEABLE TO PRINCIPAL OR INTEREST THAT IS COLLECTED
16 THROUGH LIQUIDATION BY FORECLOSURE OR OTHER PROCESS, ON
17 LOANS MADE UNDER AS 16.10.310(a)(1)(E) AFTER JUNE 30, 2012, SHALL BE
18 PAID INTO THE COMMUNITY QUOTA ENTITY REVOLVING LOAN FUND.]

19 * Sec. 3. AS 16.10.320(l) is amended to read:

20 (l) Until a community quota entity has used loans under this subsection to
21 purchase fishing quota shares cumulatively authorizing a total take of 50,000 pounds,
22 a loan or a portion of a loan made to that community quota entity under
23 AS 16.10.310(a)(1)(E) may not exceed 95 percent of the appraised value of the
24 collateral used to secure the loan or a portion of the loan. A loan to a community quota
25 entity under AS 16.10.310(a)(1)(E)

26 (1) may not exceed a term of 25 years, except for extensions under
27 AS 16.10.310(a)(4);

28 (2) may not bear interest

29 (A) at a rate exceeding

30 (i) the prime rate, as defined by AS 44.88.599, plus

31 two percentage points; or

1 (ii) 10 1/2 percent a year;

2 (B) at a rate that is less than

3 (i) the cost of funds to the state; or

4 (ii) three percent a year;

5 (3) [(2)] may not, alone or in combination with other loans to the
6 community quota entity under AS 16.10.310(a)(4), exceed \$1,000,000 in loans to one
7 community quota entity;

8 (4) [(3)] may have terms that allow for a community quota entity to
9 defer interest payments for up to two years; and

10 (5) [(4)] is not eligible for refinancing by the department.

11 * Sec. 4. AS 16.10.320(m) is amended to read:

12 (m) In AS 16.10.320(l) [THIS SECTION], "cost of funds" means the true
13 interest cost expressed as a rate based on the prime rate plus one percentage point plus
14 an additional percentage determined by the department to represent risk of loss, term
15 of credit facility, the allocable expense of operation, cost of issuance, and loan
16 servicing costs.

17 * Sec. 5. AS 16.10.320 is amended by adding a new subsection to read:

18 (n) A loan made under AS 16.10.310(a)(1)(A)(ii), 16.10.310(a)(1)(A)(iii), or
19 16.10.310(a)(1)(B) to upgrade an existing vessel and gear for the purpose of
20 improving the quality of Alaska seafood products or for propulsion engine or
21 generator engine replacement on an existing vessel for the purpose of improving fuel
22 efficiency may not bear interest exceeding the prime rate, as defined by AS 44.88.599,
23 minus two percentage points, or at a rate exceeding 10 1/2 percent, and may not bear
24 interest at a rate of less than three percent.

25 * Sec. 6. AS 16.10.345 is amended by adding new subsections to read:

26 (c) The community quota entity revolving loan fund consists of the following:

27 (1) money appropriated to, transferred to, or received by gift, grant,
28 devise, bequest, or donation to the fund;

29 (2) principal and interest payments or other income earned on loans or
30 investments of the fund; and

31 (3) money chargeable to principal or interest that is collected through

1 liquidation by foreclosure or other process on loans made under
2 AS 16.10.310(a)(1)(E) and 16.10.345.

3 (d) Money in the fund may be used by the legislature to make appropriations
4 for costs of administering AS 16.10.310(a)(1)(E) and 16.10.345.

5 * Sec. 7. This Act takes effect immediately under AS 01.10.070(c).

AMENDMENT

OFFERED IN THE HOUSE

TO: CSIB 177(), Draft Version "O"

1 Page 1, line 13, through page 2, line 1:

2 Delete all material and insert:

3 "(B) [AT A RATE] of more than 10 1/2 percent a year; [OR]

4 (C) that is less than the prime rate, as defined in

5 AS 44.88.599, minus three percentage points; or

6 (D) [AT A RATE] that is less than three percent a year [THE

7 COST OF FUNDS TO THE STATE];"

HOUSE BILL NO. 177

IN THE LEGISLATURE OF THE STATE OF ALASKA

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BY REPRESENTATIVE EDGMON

Introduced: 3/20/13

Referred:

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20 vessels for the purpose of improving fuel efficiency may not bear interest exceeding
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30 liquidation by foreclosure or other process on loans made under AS
31 16.10.310(a)(1)(E) and 16.10.345.

1 (d) Money in the fund may be used by the legislature to make appropriations
2 for costs of administering AS 16.10.310(a)(1)(E) and 16.10.345.
3 * **Sec. 7.** This Act takes effect immediately under AS 01.10.070(c).

Division of Economic Development
 Department of Commerce, Community, and Economic Development
 Commercial Fishing Revolving Loan Fund (CFRLF)
 Historical Information

**Monies Transferred From the CFRLF to Fund the Alaska Department of Fish & Game
 Operating Budget (ADF&G):**

FY2004	\$ 800,000.00
FY2005	\$ 1,976,300.00
FY2006	\$ 1,976,300.00
FY2007	\$ 1,326,300.00
FY2008	\$ 1,326,300.00
FY2009	\$ 1,326,300.00
FY2010	\$ 1,326,300.00
FY2011	-
FY2012	-
	\$ 10,057,800.00

Over the life of the CFRLF program, almost \$58 million was transferred out of the CFRLF to fund other government operations. From FY2004 through FY2010, over \$10 million was used to fund ADF&G operating budget. In FY2011 and FY2012 there were no transfers from the CFRLF to ADF&G.

GeFONSI Earnings on CFRLF Cash Balances:

Fiscal Year	Interest Earnings	Interest Rate
FY2007	\$ 2,054,419.72	5.51%
FY2008	\$ 2,348,491.02	5.85%
FY2009	\$ 1,331,665.63	2.68%
FY2010	\$ 1,343,210.11	3.38%
FY2011	\$ 543,848.66	1.61%
FY2012	\$ 431,438.00	1.43%

CFRLF cash is managed by the Department of Revenue and is invested in a pool of funds referred to the GeFONSI (General Fund and Other Non-Segregated Investments). These earnings are retained by the General Fund.

**Division of Economic Development, Financing Section Staff Positions
 Dedicated to CFRLF Funding:**

FY2012	40
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THE STATE
of **ALASKA**
GOVERNOR SEAN PARNELL

Department of Commerce, Community,
and Economic Development

OFFICE OF THE COMMISSIONER

P.O. Box 110800
Juneau, Alaska 99811-0800
Main: 907.465.2500
TDD: 907.465.5437
Fax: 907.465.5442

MEMORANDUM

TO: Representative Craig Johnson

DATE: Monday, February 03, 2014

FROM: Commissioner Susan Bell *Bell*

RE: Questions on House Bill 177

Thank you for your memorandum dated January 31, 2014 with questions concerning House Bill 177. Division Director Joe Jacobson assisted me with the responses below. He will be present at the committee meeting on February 4 to answer any further questions.

- 1) This bill allows the interest rate for Commercial Fishing Revolving Loan Fund (hereafter CFRLF) loans to be set as low as three percent – regardless of current market rates. Does DCCED have any objection to a variable floor coupled to the prime rate?**

DCCED does not have any objection to a variable floor coupled to the prime rate. While the bill does not set a variable floor coupled to the prime rate in statute, CFRLF interest rates for the Product Quality Improvement (PQI) and Engine Fuel Efficiency Programs are clearly set in regulation. For example, 3 AAC 80.055 (k) (1) dictates:

- (1) The interest rate is based on the cost of funds to the state as defined in AS 16.10.320 (m) for loans made
- (a) to upgrade existing vessels and gear for the purpose of improving the quality of Alaska seafood products; or
 - (b) for engine efficiency upgrades.

AS 16.10.320 (m) further specifies the cost of funds is prime plus one plus additional costs to represent risk of loss and other costs.

- 2) Low interest rates are likely to lead to increased funds being loaned out of the fund balance. With lower interest rates, loan repayments will be lower, leading to slower fund replenishment. What safeguards are in place to ensure the funds' health is not put at risk?**

The PQI and EFE Programs within the CFRLF represent less than six percent of the total assets in the CFRLF and are relatively inexpensive to administer in comparison to other loans. Historically,



interest rates for these two programs were three percent from inception (1992) until 2012, when rates were changed to current rates as defined under AS 16.10.320(m). During this period, the CFRLF never experienced poor fund replenishment. In fact, between 1994 and 2012, the total equity of the CFRLF increased from \$92,414,000 to \$104,420,000. Based on this experience, which spanned multiple financial crises and a collapse in the salmon market, there is nothing to indicate that this change would have a negative impact on the fund.

- 3) It was mentioned in the January 28th House Resources Committee that staff and administrative costs for the Commercial Fishing Revolving Loan and the Community Quota Entity Revolving Loan Programs are paid out of the funds' balances. What safeguards are in place to ensure that administrative costs, when combined with increased draws on the funds and decreased repayments, do not reduce the funds' balances to unhealthy levels?**

All loan funds administered by the Division of Economic Development (DED) are subject to a large amount of scrutiny and regulation. The loan funds are subject to complex and comprehensive annual audits where the fund's financial statements are analyzed to ensure the loan funds are managed prudently, in compliance with statutes and regulations, and that standard Governmental Accounting Procedures are being adhered to. Annual reports and the audit findings are furnished to the legislature.

- 4) How is the interest rate for these loans determined, and by whom? What factors are considered when making this determination?**

Determining the interest rates for all loans in the CFRLF is done through a process set out in Statute (AS 16.10.320) and Administrative Code (3 AAC 80.055(k)). The prime rate is taken from the Wall Street Journal and then interest points are added or subtracted as required by statute or administrative code. The process is generally carried out by the Division's Operation Manager.

- 5) What oversight structure is in place to ensure that the determined interest rate serves to preserve the health of the fund, and serves the State's interests?**

DED submits annual reports to the legislature indicating the fund's performance and undergoes regular audits. Additionally, the total administrative cost of new loans made under PQI and EFE funds in FY 13 was \$14,800. Under current interest rate (4.25%), the total value of these funds (\$2,100,000) would accrue \$89,250 per year. In a scenario with the interest rate at 3%, the funds would accrue \$63,000 per year. Under both scenarios, the interest accrued far outpaces costs.

- 6) The proposed bill would allow DCCED to give lower-cost financing to fishermen to improve their vessels and sell higher-quality fish. What would be a reasonable estimate of the favorable impacts of this to the state in terms of economic growth or job growth?**



Between 2002 and 2012, the average ex-vessel price/lb. for Alaska salmon increased 350% from \$0.26 to \$0.91, halibut increased 254% from \$1.65 to \$4.19, and black cod increased 173% from \$2.04 to \$3.53. During this same period, Alaska resident crew employment increased 28% from 8,520 to 10,923 while seafood processing employment rose 24.5% from 20,162 to 25,112. While it is impossible to attribute this growth to product quality alone, it is a critical driver of these increases. Given that the industry still has significant room for product quality improvement—in Bristol Bay, only 60% of the drift boat catch is chilled—it would not be unreasonable for similar gains to occur over the next decade.

In addition to product quality, the EFE loans allow fishermen to take home more money and minimize the impact of the fishery on the environment. New engines typically improve efficiency between 20-30%. With the price of gasoline exceeding \$7/gallon in prominent fishing communities like Dillingham, these savings add up over the course of a season.

- 7) **Has the CFRLF ever required recapitalization through a legislative appropriation? If so, please explain the circumstances leading to the recapitalization(s) and any corrective actions taken by the Department to prevent the CFRLF from requiring recapitalization in the future.**

The last infusion of general funds into the CFRLF occurred in 1985 in response to the growing demand for loans as the fishing industry developed under the relatively new Limited Entry System. Of the state's \$60 million investment in the fund, it has repaid \$120 million over its lifetime and generates sufficient cash flow to cover loan demand and operations.

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Commercial Fishing Loan Fund

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Loan Program Goal and Objectives

To provide long-term, low interest loans to promote the development of predominantly resident fisheries, and continued maintenance of commercial fishing vessels and gear for the purpose of improving the quality of Alaska seafood products.

General Requirements

- Alaska resident for the past 2 years.
- Child support payments must not be past due.
- Provide a copy of each applicant's valid government issued identification at or before loan closing.

Definition of Resident

- Living in Alaska with the intent to remain indefinitely.
- Primary and permanent home in Alaska.
- Present in Alaska except for brief intervals (generally less than 90 days) except for military service, education or good cause.

Program Requirements

- Purchases - Loans are available for limited entry permits, quota shares, vessels, or gear purchased less than 12 months prior to the date your application is received.
- Refinancing - Vessels or gear loans made by other lenders more than one year prior to receipt of your application are eligible for financing.
- Collateral - The item being financed (limited entry permit, vessel, etc.) will be the collateral for the loan and, and generally, a priority lien must be obtained.

Terms and Conditions

- Interest rate will be fixed at the time of loan approval. Current interest rates can be found at http://commerce.alaska.gov/ded/fin/interest_rates.cfm
- Maximum loan term is 15 years.
- Borrower is responsible to pay all direct costs incurred in processing an application including surveys, inspections, appraisals, title insurance, etc.

Information and Applications

- † Engine Fuel Efficiency Upgrade
- † Extension
- † Limited Entry Permit Purchase
- † Loan Assumption
- † Product Quality Improvement
- † Purchase of Quota Shares
- † Refinance
- † Refinance of Vessel or Gear
- † Tax Obligation
- † Tender Vessel Product Quality Improvement
- † Vessel Purchase
- † Vessel Upgrade or Gear Purchase/Upgrade

The Division of Economic Development, Department of Commerce, Community, and Economic Development complies with Title II of the Americans with Disabilities Act of 1990. This publication is available in alternative communication formats upon request. Please contact the Division of Economic Development at (907)465-2510 or TDD (907)465-5437 to make any necessary arrangements.

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- † Commercial Fishing
- † Small Business Economic Development
- † Rural Development Initiative Fund
- † Fisheries Enhancement

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- † Real Estate for Sale
- † Vessels for Sale
- † Auto Pay Program
- † 'TEL' Payment Program
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Toll Free 1-800-478-5628 within Alaska

Juneau Office - 3032 Vintage Blvd. Suite 100 - PO Box 34158 - Juneau, AK 99803-4158 - (907)465-2510 - Fax (907)465-2103 - TDD (907)465-4410
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Commercial Fishing Loan Fund

State of Alaska > Departments > Commerce, Community, & Economic Development > Division of Economic Development

Engine Fuel Efficiency Upgrade

Select either Section A or B

Purpose of the upgrade must be to improve the fuel efficiency of the propulsion engine or generator engine replacement on an existing vessel.

Section A

Eligibility

- Held limited entry permit, commercial fishing or crew member license and 2 other years out of the past 5 years;

and

- Fished in Alaskan waters during qualifying years.

If you receive a loan under Section A, you will not be eligible for future loans under Section B unless the loan requested under Section A was for engine fuel efficiency or the purchase of a limited entry permit.

Lending Limit

- The total outstanding balances on all loans made under Section A of the Commercial Fishing Loan Program may not exceed \$300,000.
- Total Balance outstanding on all Section A and Section B loans may not exceed \$400,000.

Section B

Eligibility

- At least 25% of applicant's total gross income for past 2 years was from commercial fishing;

or

- Applicant lacks training or economic opportunities in area of residence other than commercial fishing;

and

- Applicant does not have other sources of financing available.

Section B applicants may not have received a prior loan under Section A unless the loan requested under Section A was for engine fuel efficiency or the purchase of a limited entry permit.

Lending Limit

- The total outstanding balances on all permit loans made under Section B of the Commercial Fishing Loan Program may not exceed \$200,000. All other loans made under Section B of the Commercial Fishing Loan Program may not exceed \$100,000.

Sections A & B

Collateral Requirements

- Generally, the maximum loan amount for a loan secured by a documented vessel is 75% of the survey value (65% for AK vessels).
- The maximum loan amount may be increased by offering additional collateral.

Fees

- A \$100 application fee must accompany all applications.
- An origination fee of 1% of the loan amount will be deducted from your loan proceeds at closing.

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Commercial Fishing Loan Fund

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Product Quality Improvement

Select either Section A or B

Purpose of the upgrade must be to improve the quality of the seafood.

Section A

Eligibility

- Held limited entry permit, commercial fishing or crew member license for the year preceding date of application and 2 other years out of the past 5 years.

and

- Fished in Alaskan waters during qualifying years.

If you receive a loan under Section A, you will not be eligible for future loans under section B unless the loan requested under Section A was for engine fuel efficiency or the purchase of a limited entry permit.

Lending Limit

- The total balances outstanding on all permit loans made under Section A of the Commercial Fishing Loan program may not exceed \$300,000.
- The total balances outstanding on all loans made under the program may not exceed \$400,000.

Section B

Eligibility

- At least 25% of applicant's total gross income for past 2 years was from commercial fishing;

or

- Applicant lacks training or employment opportunities in area of residence other than commercial fishing.

and

- Applicant is not eligible for financing from a recognized commercial lender.

Section B applicants may not have received a prior loan under Section A unless the loan requested under Section A was for engine fuel efficiency or the purchase of a limited entry permit.

Lending Limit

- The total balance outstanding on all permit loans made under Section B of the Commercial Fishing Loan program may not exceed \$200,000. All other loans made under Section B of the Commercial Fishing Loan Program may not exceed \$100,000.
- The total balances outstanding on all loans made under the program may not exceed \$400,000.

Sections A & B

Collateral Requirements

- Generally, the maximum loan amount for a loan secured by a documented vessel is 75% of the survey value (85% for AK vessels)
- The maximum loan amount may be increased by offering additional collateral.

Terms and Conditions

- Interest rate will be fixed at the time of loan approval. Current interest rates can be found at http://commerce.alaska.gov/ded/fin/interest_rates.cfm
- Maximum loan term is 15 years.
- Borrower is responsible for all direct costs incurred in processing an application.

Fees

- A \$100 application fee must accompany all applications.
- An origination fee of 1% of the loan amount will be deducted from your loan proceeds at closing.

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Quick Links...

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- Fisheries Enhancement

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Commercial Fishing Loan Fund

State of Alaska > Departments > Commerce, Community, & Economic Development > Division of Economic Development

Limited Entry Permit

Select either Section A or B

Section A

Eligibility

- Held limited entry permit, commercial fishing or crew member license for the year preceding the date of application and any other 2 of the past 5 years;
- and
- Fished in Alaskan waters during qualifying years.

If you receive a loan under Section A, you will not be eligible for future loans under Section B unless the loan requested under Section A was for engine fuel efficiency or the purchase of a limited entry permit.

Lending Limit

- The total balances outstanding on all loans made under Section A of the Commercial Fishing Loan Program may not exceed \$300,000.
- The total balances outstanding on all loans made under the Program may not exceed \$400,000.

Section B

Eligibility

- At least 25% of applicant's total gross income for past 2 years was from commercial fishing;
- or
- Applicant lacks training or employment opportunities in area of residence other than commercial fishing;
- and
- Applicant is not eligible for financing from a recognized commercial lender.

Section B applicants may not have received a prior loan under Section A unless the loan requested under Section A was for engine fuel efficiency or the purchase of a limited entry permit.

Lending Limit

- The total balances outstanding on all permit loans made under Section B of the Commercial Fishing Loan Program may not exceed \$200,000. All other loans made under Section B of the Commercial Fishing Loan Program may not exceed \$100,000
- The total balances outstanding on all loans made under the Program may not exceed \$400,000.

Sections A & B

Collateral Requirements

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Of Interest

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- Vessels for S
- Auto Pay Pro
- 'TEL' Paymer
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- Generally, the maximum loan amount for a loan secured by a limited entry permit is 80% of either the market value (as valued by the Commercial Fisheries Entry Commission) or the purchase price, whichever is less.
- The maximum loan amount may be increased by offering additional collateral.

Terms and Conditions

- Interest rate will be fixed at the time of loan approval. Current interest rates can be found at http://commerce.alaska.gov/ded/fin/interest_rates.cfm
- Maximum loan term is 15 years.
- Borrower is responsible for all direct costs incurred in processing an application.

Fees

- A \$100 application fee must accompany all applications.
- Prequalification Fee - \$200.00. If you have not located a limited entry permit to purchase, you may want to obtain conditional approval by submitting a prequalification application.

The following are some advantages to prequalification:

- You know your loan limit
- Seller is assured of a qualified buyer
- Faster loan processing after finding the permit
- Loan funds are committed
- Approval is valid for 60 days

- An origination fee of 1% of the loan amount will be deducted from your loan proceeds at closing.

Limited Entry Permit Loan Application Package

There are different pages 1 and 2 for each different type of loan (limited entry permit, vessel purchase, etc.). If you are applying for more than one type of loan, complete pages 1 and 2 for each type of loan, then complete one set of pages 3 through 13. A separate application fee is required for each type of loan.

The following Commercial Fishing Limited Entry Permit Application pages are in PDF format. You will need the Adobe Reader in order to view/print them. Acrobat Reader is distributed freely and available for download from Adobe®.



The Division of Economic Development, Department of Commerce, Community, and Economic Development complies with Title II of the Americans with Disabilities Act of 1990. This publication is available in alternative communication formats upon request. Please contact the Division of Economic Development at (907)465-2510 or TDD (907)465-5437 to make any necessary arrangements.

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Sectional Summary

HB 177

Commercial Fishing Loans

HB 177 restores the division of Economic Development's ability to offer incentivizing interest rates for important loan programs within the Commercial Fishing Revolving Loan Fund (CFRLF). The legislation also provides technical fixes for the Community Quota Entity (CQE) Revolving Loan Fund.

Section 1 amends AS 16.20.320(a) to allow the department to make loans from the Commercial Fishing Revolving Loan Fund at interest rates not exceeding the prime rate plus two percentage points and also not exceeding 10 ½ percent. New language in this section also stipulates that the department cannot make loans that bear interest at less than 3 percent.

Section 2 deletes language from AS 16.10.320(j) that pertains to the revolving status of the Community Quota Entity Revolving Loan Fund. This language is no longer necessary because the bill introduces more complete language addressing the CQE Fund's revolving status in Section 6.

Section 3 amends AS 16.10.320(l) to specify certain terms for Community Quota Entity program loans. Loans may not bear interest exceeding the prime rate plus two percentage points and also not exceeding 10 ½ percent. Also, this section states that loans may not bear interest at a rate that is less than the costs of funds to the state or at a rate that is less than three percent.

Section 4 amends AS 16.10.320(m) to make this subsection apply only to AS 16.10.320(l), which refers to the Community Quota Entity loan program. Subsection (m) defines "cost of funds," which plays a part in loan terms in the CQE loan program.

Section 5 amends AS 16.10.320 to add a new subsection that sets allowable interest rates for Section A and Section B loans for Product Quality Improvement and Engine Fuel Efficiency. Interest rates for these loans cannot exceed the prime rate minus two percent. However, they cannot be lower than three percent. Nor can the rates exceed 10 ½ percent.

Section 6 adds a new subsection to AS 16.10.345 that describes what the Community Quota Entity Revolving Loan Fund consists of and also ensures that it is a fully revolving fund. In particular, this language establishes that income earned on investments of the fund roll back into the fund—a feature that is absent in current statute. This section also allows monies in the fund to be used for administering the CQE loan program (in the same way that CFRLF earnings can be used to pay for its programs' administrative costs).

Section 7 gives the legislation an immediate effective date.

Commercial Fishing Revolving Loan Fund

Sections A through F Programs and Interest Rates

CFRLF Declaration of Policy (AS 16.10.300):

“It is the policy of the state, under AS16.10.300—16.10.370 to promote the rehabilitation of the state’s fisheries, the development of a predominantly resident fishery, and the continued maintenance of commercial fishing gear and vessels throughout the state by means of long-term low interest loans.”

Provides Loans For:

- **Section A**—up to \$300,000 for the purchase of entry permits, or for existing vessel or gear upgrades for improving seafood quality, or for main or generator engine replacement for improving energy efficiency.
- **Section B**—up to \$200,000 for the purchase of Entry Permits, or up to \$100,000 for vessel and gear upgrades (including engine energy efficiency upgrades), vessel and gear purchases, and vessel construction—with various eligibility criteria, including that the applicant must not be eligible to obtain financing from a commercial bank or the Commercial Fishing and Agriculture Bank (CFAB).
- **Section C**—up to \$300,000 for the purchase of quota shares—with eligibility requirements similar to Section B applicants.
- **Section D**—up to \$35,000 to satisfy past due federal tax obligations.
- **Section E**—up to \$1 million for each eligible community for the purchase of quota shares by a Community Quota Entity (CQE). NOTE: The CQE Revolving Loan Fund is separate from the Commercial Fishing Revolving Loan Fund and was established in 2012.
- **Section F**—up to \$300,000 for existing Tender Vessel and Gear upgrades to improve product quality.

Interest Rates

PROGRAM	CURRENT INTEREST RATE	RATE UNDER HB 177
Entry Permits, Vessel and Gear Purchase and other Section A, B, C, D & F Loans	5.25%	5.25%
Community Quota Entity Loans—Section E	5.25%	5.25%
Engine Fuel Efficiency Upgrade Loans—Section A & B	4.25%	3%
Product Quality Improvement Loans—Section A	4.25%	3%



Changes Between HB 177 and CSHB177(FSH)

In Section 5 of the original bill, language was left out to specify that loans for vessel or gear upgrades to improve seafood product quality under Section B of the Commercial Fishing Revolving Loan Fund are to be available for two percent below prime, with a floor of three percent, and not to exceed 10 ½ percent.

In Section 5, Page 3, Line 19, the following language was inserted:

“to upgrade an existing vessel and gear for the purpose of improving the quality of Alaska seafood products or”

**Division of Economic Development
Department of Commerce, Community and Economic Development**

Product Quality Improvement Loans as of January 15, 2014

	<i>Section A</i>		<i>Section B</i>		FY TOTALS
	Number of Loans	Amount of New Loans	Number of Loans	Amount of New Loans	
FY 2014	5	190,700.00	4	204,436.00	395,136.00
FY 2013	3	192,000.00	4	127,500.00	319,500.00
FY 2012	18	1,347,060.00	3	97,302.00	1,444,362.00
FY 2011	21	1,755,700.00	9	369,270.00	2,124,970.00
FY 2010	11	504,255.00	9	265,196.99	769,451.99
FY 2009	19	1,367,470.00	11	375,449.00	1,742,919.00
FY 2008	9	514,400.00	5	218,000.00	732,400.00
FY 2007	15	1,059,728.00	3	165,000.00	1,224,728.00
FY 2006	17	671,699.00	5	287,774.00	959,473.00
FY 2005	8	412,258.00	4	194,750.00	607,008.00
FY 2004	19	881,302.00	3	48,285.00	929,587.00
FY 2003	13	904,971.00	5	132,802.61	1,037,773.61
FY 2002	7	266,600.00	9	195,138.00	461,738.00
FY 2001	8	370,430.00	2	113,700.00	484,130.00
FY 2000	6	690,420.00	8	181,403.00	871,823.00
FY 1999	7	343,212.00	1	13,200.00	356,412.00
TOTALS	186	11,472,205.00	85	2,989,206.60	14,461,411.60
AVERAGES	12	717,012.81	5	186,825.41	903,838.23

Engine Efficiency Upgrade Loans as of January 15, 2014

	<i>Section A</i>		<i>Section B</i>		FY TOTALS
	Number of Loans	Amount of New Loans	Number of Loans	Amount of New Loans	
FY 2014	18	1,383,444.00	0	0.00	1,383,444.00
FY 2013	33	1,822,387.00	1	34,994.00	1,857,381.00
FY 2012	34	2,012,234.00	1	47,000.00	2,059,234.00
FY 2011	35	2,191,420.00	2	94,790.00	2,286,210.00
FY 2010	0	0.00	18	718,691.00	718,691.00
FY 2009	0	0.00	30	1,516,213.00	1,516,213.00
TOTALS	102	6,026,041.00	52	2,411,688.00	8,437,729.00
AVERAGES	20	1,234,914.17	9	401,948.00	1,636,862.17



UNITED FISHERMEN OF ALASKA

Mailing Address: PO Box 20229, Juneau AK 99802-0229

Physical Address: 410 Calhoun Ave Ste 101, Juneau AK 99801

Phone: (907)586-2820 **Fax:** (907) 463-2545

Email: ufa@ufa-fish.org **Website:** www.ufa-fish.org

April 1, 2013

Representative Paul Seaton, Chairman
House Special Committee on Fisheries
Alaska State Legislature
State Capitol, 120 Fourth Street
Juneau, AK 99801-1182
Email: Rep.Paul.Seaton@akleg.gov

RE: SUPPORT FOR HB 177 – Commercial Fishing Revolving Loan Fund

Dear Chairman Seaton and Committee Members,

United Fishermen of Alaska (UFA) represents 36 Alaska Commercial fishing organizations from fisheries throughout Alaska and its offshore federal waters.

UFA has long supported the State's Commercial Fishing Revolving Loan Fund program (CFRLF), and we support HB 177. UFA supports the provisions of HB 177 that defines the lower threshold for interest rates in the CFRLF program to be not be less than three percent per year, while also restoring the Division of Economic Development's ability to offer incentives by differing interest rates for important loan programs to commercial fishermen for improving efficiency and product quality.

HB 177 also defines interest rates for Engine Fuel Efficiency and Product Quality Improvement loans. These are among the fund's most successful programs for making Alaskan fishing operations more efficient, profitable, and competitive. UFA supports making such financing available at two percentage points below the prime rate, with a three-percent floor in place. We appreciate the clarity that would be brought by HB 177 and consider 3% a reasonable lower threshold.

HB 177 clarifies and simplifies the Community Quota Entity Revolving Loan fund by making providing its own section of legislation separate from but consistent with provisions of the CFRLF.

Thank you for your attention on this matter.

Sincerely,

Julianne Curry
Executive Director

Southeast Alaska Fishermen's Alliance

9369 North Douglas Highway

Juneau, AK 99801

Phone: 907-586-6652

Fax: 907-523-1168

Email: seafa@gci.net

Website: <http://www.seafa.org>



February 4, 2014

Alaska State Legislature
House Fisheries Committee
Representative Paul Seaton, Chair
State Capitol
Juneau, AK 99811

RE: Support HB 177

Representative Paul Seaton, Chair and Fisheries Committee Members,

Southeast Alaska Fishermen's Alliance (SEAFA) is a multi-gear/multi-species membership based commercial fishing association. We represent our membership mainly involved in the salmon, crab, shrimp and longline fisheries of Southeast Alaska/Yakutat.

SEAFA supports HB 177 that clarifies and fixes issues that arose from legislation passed last year. The sponsor statement quite correctly identifies the importance of the Commercial Fishery Revolving Loan Fund (CFRLF) program to the commercial fishing industry. This legislation allows the Division of Investments to have the flexibility to provide incentivizing interest rates for the Product Quality Improvement and Engine Fuel Efficiency loan program. Both programs provide commercial fishermen great advantages by allowing fuel savings and better quality products both which improve the bottom line for a fisherman.

HB 177 also makes technical fixes to the Community Quota Entity Revolving Loan program that will clarify and make the program operation consistent with the commercial revolving loan fund program.

Sincerely,

A handwritten signature in black ink that reads "Kathy Hansen" followed by a long horizontal line.

Kathy Hansen
Executive Director

New

**Division of Economic Development
Department of Commerce, Community and Economic Development**

Product Quality Improvement Loans as of January 15, 2014

	Section A		Section B		FY TOTALS
	Number of Loans	Amount of New Loans	Number of Loans	Amount of New Loans	
FY 2014	5	190,700.00	4	204,436.00	395,136.00
FY 2013	3	192,000.00	4	127,500.00	319,500.00
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FY 1999	7	343,212.00	1	13,200.00	356,412.00
TOTALS	186	11,472,205.00	85	2,989,206.60	14,461,411.60
AVERAGES	12	717,012.81	5	186,825.41	903,838.23

Engine Efficiency Upgrade Loans as of January 15, 2014

	Section A		Section B		FY TOTALS
	Number of Loans	Amount of New Loans	Number of Loans	Amount of New Loans	
FY 2014	18	1,383,444.00	0	0.00	1,383,444.00
FY 2013	33	1,822,387.00	1	34,994.00	1,857,381.00
FY 2012	34	2,012,234.00	1	47,000.00	2,059,234.00
FY 2011	35	2,191,420.00	2	94,790.00	2,286,210.00
FY 2010	0	0.00	18	718,691.00	718,691.00
FY 2009	0	0.00	30	1,516,213.00	1,516,213.00
TOTALS	102	6,026,041.00	52	2,411,688.00	8,437,729.00
AVERAGES	20	1,234,914.17	9	401,948.00	1,636,862.17

Division of Economic Development
 Department of Commerce, Community, and Economic Development
 Commercial Fishing Revolving Loan Fund (CFRLF)
 Historical Information

**Monies Transferred From the CFRLF to Fund the Alaska Department of Fish & Game
 Operating Budget (ADF&G):**

FY2004	\$	800,000.00
FY2005	\$	1,976,300.00
FY2006	\$	1,976,300.00
FY2007	\$	1,326,300.00
FY2008	\$	1,326,300.00
FY2009	\$	1,326,300.00
FY2010	\$	1,326,300.00
FY2011		-
FY2012		-
		\$ 10,057,800.00

funded what division

Over the life of the CFRLF program, almost \$58 million was transferred out of the CFRLF to fund other government operations. From FY2004 through FY2010, over \$10 million was used to fund ADF&G operating budget. In FY2011 and FY2012 there were no transfers from the CFRLF to ADF&G.

GeFONSI Earnings on CFRLF Cash Balances:

Fiscal Year	Interest Earnings	Interest Rate
FY2007	\$ 2,054,419.72	5.51%
FY2008	\$ 2,348,491.02	5.85%
FY2009	\$ 1,331,665.63	2.68%
FY2010	\$ 1,343,210.11	3.38%
FY2011	\$ 543,848.66	1.61%
FY2012	\$ 431,438.00	1.43%

CFRLF cash is managed by the Department of Revenue and is invested in a pool of funds referred to the GeFONSI (General Fund and Other Non-Segregated Investments). These earnings are retained by the General Fund.

**Division of Economic Development, Financing Section Staff Positions
 Dedicated to CFRLF Funding:**

FY2012 40

HB 177

COMMERCIAL FISHING

LOANS

The Bill

HB 177 restores the Division of Economic Development's ability to offer **incentivizing interest rates** for important loan programs within the Commercial Fishing Revolving Loan Fund (CFRLF).

- **Product Quality Improvement and Engine Fuel Efficiency** loans boost the **competitiveness** of Alaskan-owned fishing operations.
 - Upgrading vessels and gear to **enhance product quality** can dramatically increase the value of one's catch.
 - Repowering a vessel with **fuel efficient propulsion and generator engines** can save a business tens of thousands of dollars each year.
- HB 177 will once again allow the department to offer such loans at **two percent below the prime rate—with a floor of three percent**—in order to encourage more Alaskans to improve the **efficiency and profitability** of their businesses.
- HB 177 also makes technical fixes to ensure that income earned on investments of the Community Quota Entity Revolving Loan Fund **revolves back into the fund**.

The Commercial Fishing Revolving Loan Fund (CFRLF)

- There are six programs within the CFRLF:
 - Section A
 - Loans up to \$300K for
 - Limited Entry Permits
 - **Product Quality Improvement**
 - **Engine Fuel Efficiency**
 - Section B
 - Loans up to \$200K for Entry Permits
 - Loans up to \$100K for
 - New Vessel Purchase
 - Vessel and Gear Upgrades—including **Product Quality Improvement and Engine Fuel Efficiency**
 - Section C—Up to \$300K for the purchase of Fishing Quota Shares
 - Section D—Up to \$35K to satisfy past due federal Tax Obligations
 - Section E—Up to \$1 Million for each eligible community, to purchase Quota Shares
 - Section F—Up to \$300K for Tender Vessel Product Quality Improvement Upgrades

Total amount of loans from all programs to a borrower may not exceed \$400K

Loan Eligibility for Sections A & B

• **Section A**

- Must have been a **state resident** for a continuous period of two years immediately preceding date of application.
- Must have possessed a commercial fishing license or permit for the year preceding the loan application and for any two years of the past five years.
- Also, must have participated in those fisheries during those periods.
- Must not be past due on any child support obligations.

• **Section B**

- Must have been a **state resident** for a continuous period of two years immediately preceding date of application.
- **Must be ineligible for financing through a commercial bank or through the Commercial Fishing and Agriculture Bank (CFAB).**
- Must lack employment opportunities other than commercial fishing in area of residence, or must be economically dependent on commercial fishing as a livelihood and as a traditional way of life.
- Must not be past due on any child support obligations.

Interest Rates

PROGRAM	CURRENT INTEREST RATE	RATE UNDER HB 177
Entry Permits, Vessel and Gear Purchase and other Section A, B, C, D & F Loans	5.25%	5.25%
Community Quota Entity Loans—Section E	5.25%	5.25%
Engine Fuel Efficiency Upgrade Loans—Section A & B	4.25%	3%
Product Quality Improvement Loans—Section A	4.25%	3%

Technical Fix: The Community Quota Entity Revolving Loan Fund

- Section 6 of HB 177 establishes that income earned on investments of the Community Quota Entity Revolving Loan Fund rolls back into the fund—a feature that is absent in current statute.
- This section also allows monies in the fund to be used for administering the CQE loan program (in the same way that CFRLF earnings are used to pay for its programs' administrative costs).

Small Business Economic Development

- HB 177 encourages development of **predominately resident** fisheries by incentivizing more Alaskans to make substantial investments in the **efficiency and profitability** of their businesses.
- The bill will give the Division of Economic Development better tools to improve the vitality of **Alaska-owned businesses** and strengthen one of the state's **cornerstone industries**.

Amendment to CSHB177(FSH)

- The amendment language is inserted in Section 1 of the bill, after line 13.

With the new language in blue below, Subsection (2) now reads that a loan issued from the Commercial Fishing Revolving Loan Fund...

“(2) may not bear interest at a rate

(A) exceeding the prime rate, as defined by AS 44.88.599, plus two percentage points;

(B) [AT A RATE] of more than 10 ½ percent a year; [or]

(C) that is less than the prime rate, as defined by AS 44.88.599, minus three percentage points; or

(D) [AT A RATE] that is less than three percent a year [THE COST OF FUNDS TO THE STATE];

- Under CSHB177 as amended, for any loan made from the CFRLF, all of the above statements (A,B,C &D) must be true.

Amendment to CSHB177(FSH)

- With the amendment, Subsection (2) now supplies
 - a “floating” ceiling to the interest rate—(A) which is tied to the Prime Rate
 - and a “fixed” ceiling—(B) at simply 10 ½ percent
 - And a “floating” floor—(C) which is tied to the Prime Rate
 - And a “fixed” floor—(D) at simply 3 percent.

With the new language in blue below, Subsection (2) now reads that a loan issued from the Commercial Fishing Revolving Loan Fund...

“(2) may not bear interest at a rate

(A) exceeding the prime rate, as defined by AS 44.88.599, plus two percentage points;

(B) [AT A RATE] of more than 10 ½ percent a year; [or]

(C) that is less than the prime rate, as defined by AS 44.88.599, minus three percentage points; or

(D) [AT A RATE] that is less than three percent a year [THE COST OF FUNDS TO THE STATE];

- Under CSHB177 as amended, for any loan made from the CFRLF, all of the above statements (A,B,C &D) must be true.

Amendment to CSHB177(FSH)

- **Without the amendment**, if the prime rate were, for example, 8 percent, it would be lawful to make a loan at an interest rate as little as three percent.
 - In other words, the loan could be offered by as much as 6 percent below prime, since the only “floor” is a minimum 3 percent a year.
- **With the amendment**, if the Prime Rate were 8 percent, it would only be lawful to make a loan at an interest rate as low as 5 percent.
 - In other words, the loan could only be offered for as much as 3 percent below prime, as defined by (2)(C).

Subsection (2):

“(2) may not bear interest **at a rate**

(A) exceeding the prime rate, as defined by AS 44.88.599, plus two percentage points;

(B) [AT A RATE] of more than 10 ½ percent a year; [or]

(C) that is less than the prime rate, as defined by AS 44.88.599, minus three percentage points; or

(D) [AT A RATE] that is less than three percent a year [THE COST OF FUNDS TO THE STATE];

**Example: A Product Quality Improvement Loan
offered at 2 percent below Prime under HB 177.**

- **If the Prime Rate were at 8 percent**, the interest rate on the loan would be 6 percent a year, well within the Subsection (2) parameters.
 - Under Subsection (2), all these statements are true:
 - (A) 6 percent does not exceed the Prime Rate plus two percent.
 - (B) 6 percent a year is not more than 10 ½ percent a year.
 - (C) 6 percent a year is not less than the Prime Rate minus 3 percent.
 - (D) 6 percent a year is not less than 3 percent a year.
- **However, if the Prime Rate were at 3.25 percent**, as it is today, the interest rate on the loan would **hit the fixed 3 percent floor** in (D), and so the rate would be 3 percent .



THE STATE
of **ALASKA**
GOVERNOR SEAN PARNELL

Department of Commerce, Community,
and Economic Development

DIVISION OF ECONOMIC DEVELOPMENT
Finance Section

P.O. Box 34159
Juneau, Alaska 99803-4159
Main: 907.465.2510
TDD: 907.465.5437
Fax: 907.465.2103
Toll free: 1.800.478.LOAN (5626)

MEMORANDUM

TO: Representative Paul Seaton

DATE: Monday, February 03, 2014

FROM: Joe Jacobson

RE: House Fisheries Committee follow up re: HB
177 graphics

Figure 1: Fund Equity from 1995-2013 (note that PQI and EFE interest rate was 3% from 1992 through 2012)

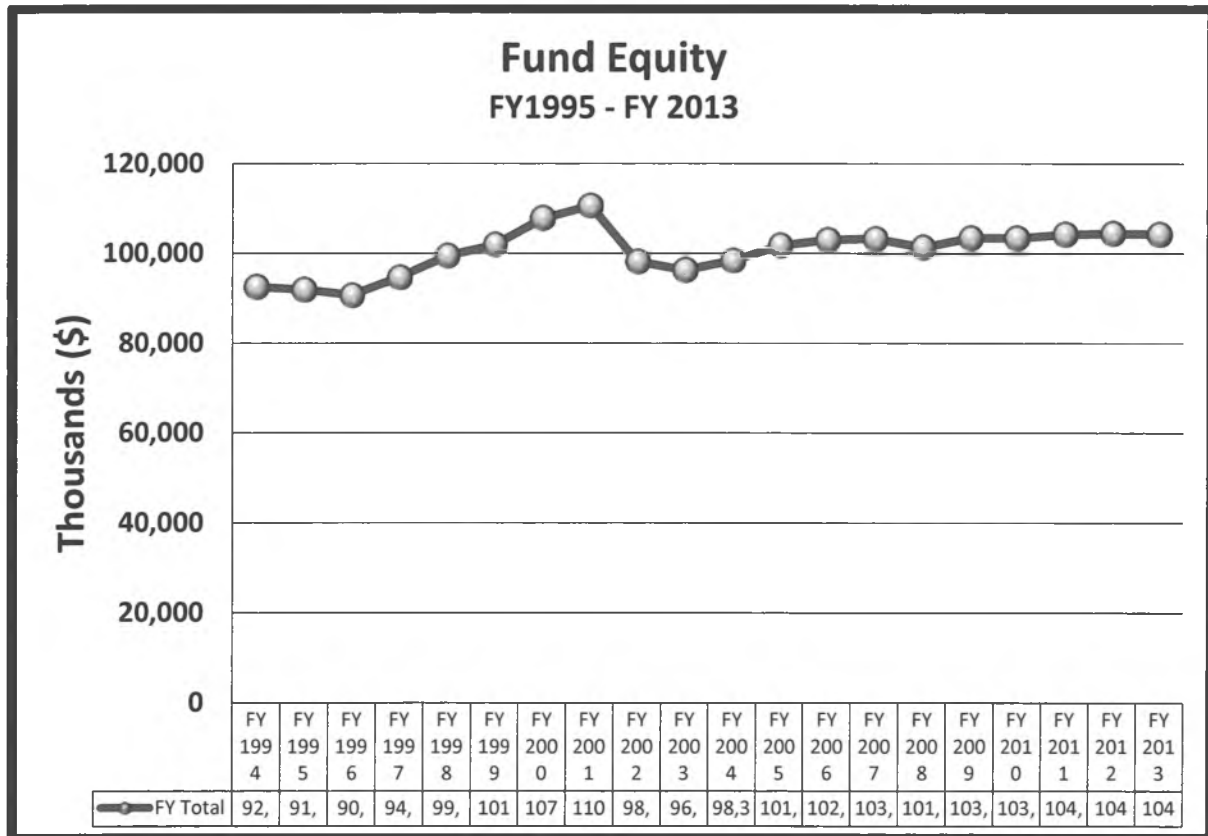




Figure 2: Commercial Fishing Appropriations Summary

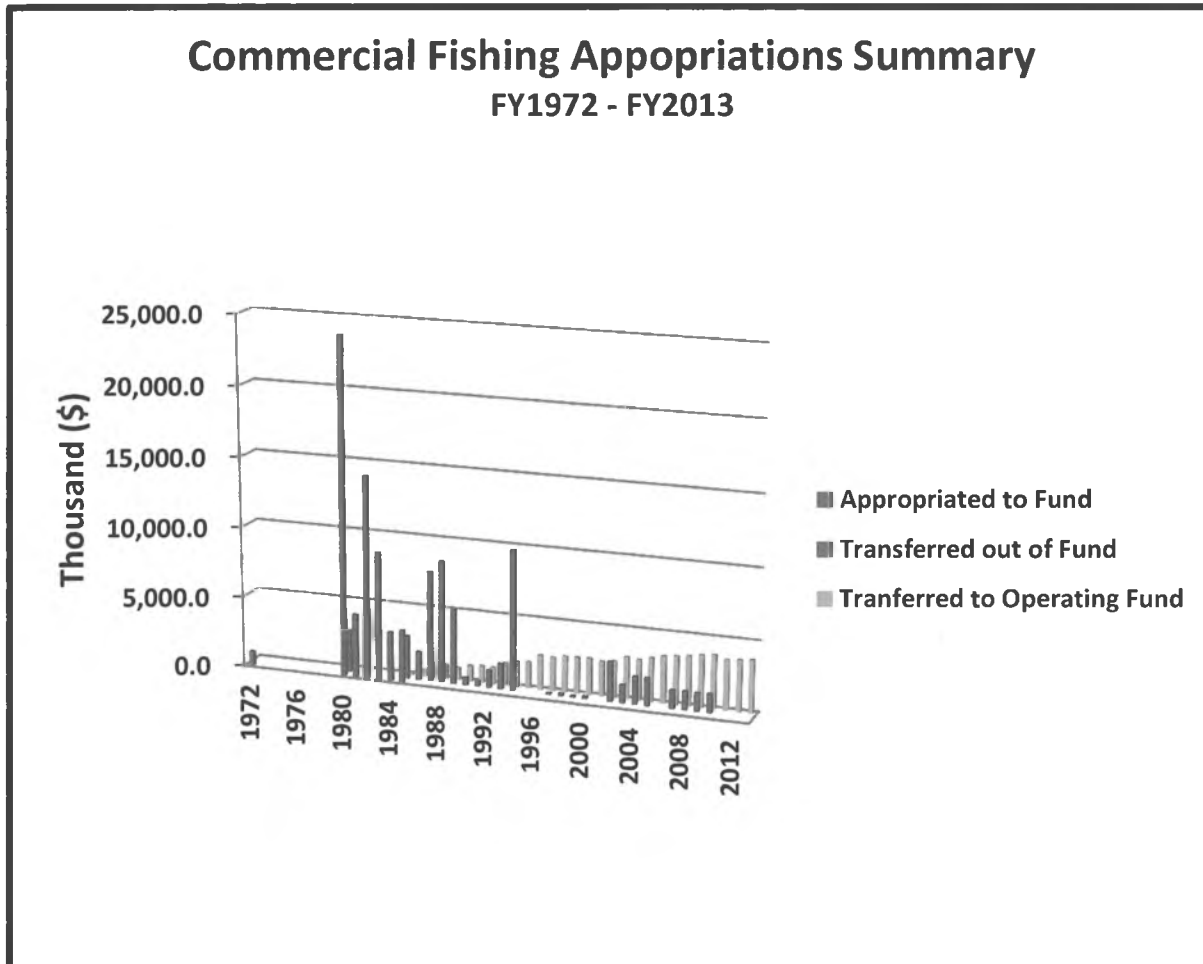




Figure 3: The total value of new loans made under these programs in FY13 was \$2,100,000. The operating expenses charged to these programs were \$14,800. In both scenarios the accrued interest exceeds operating expenses, thereby ensuring fund sustainability.

