Proposals (Bridge Bank)

Peter McDowell
STRATEGIC DEVELOPMENT SERVICES

A DEVELOPMENT VENTURE COMPANY
AN APPROPRIATE FINANCIAL INSTITUTION FOR ALASKA

Background

Rural Alaska (Alaska excluding the boroughs of Anchorage, Fairbanks, Juneau, the Kenai Peninsula, Ketchikan, and Mat-Su) is the source of much of Alaska's economic wealth (60-80 percent depending on the export value of crude oil). It only contains about 10-15 percent of Alaska's population and about 12-15 percent of the nonseasonal jobs. Those people and jobs, however, produce most of the wealth enjoyed by the other 85-90 percent who live and work in urban Alaska. With the exception of Kenai and Ketchikan, most urban Alaskans do not live near any basic economic activity other than tourism and national defense installations at Anchorage and Fairbanks. Future expansion and diversification of the Alaskan economy's basic sectors will also take place in rural areas, because much of it will depend on the locational, fish, timber, subsurface and scenic and recreational resource values which are concentrated there.

Moreover, any vision of the future of Alaska's economic growth should be solidly grounded in "fundamentalist economics", i.e., that economic activity in a specific geographic place will be limited to subsistence unless exports to nations, regions, and states outside its boundaries are produced. This also means that a secondary (service) economy cannot exist in the absence of a primary (export) economy. Since contact with the Russians, Alaska has always been an exporter - furs, whalebone, whale oil, gold, salmon, walrus ivory, other minerals, oil and gas, other fish, crab and forest products. Alaska also exports geopolitical location (to the U.S. military), public domain (to federal civilian agencies) and scenic and recreational resource values (to tourists). Alaskan exports of manufactured goods are principally LNG and urea from the Kenai, and pulp, cants, and heavy timbers from Southeast. The fundamental insight is no basic, no secondary.

The concentration of basic economic activity does not appear to have led to any concentration of financial assets or services in rural Alaska. In fact, the opposite seems to be true. Most financial assets and services are in urban areas, particularly Anchorage. Rural financial services appear to consist mainly of gathering deposits, some of which are in turn used to create financial assets (loans, leases and securities) in urban places.

Most Alaskan economic activity controlled by residents is secondary (service) by nature. That is also the principal kind of economic activity financed by Alaskan financial institutions, particularly those which have failed, or are in danger of failing in 1987. It is likely that the successful Alaskan financial institutions of the future will not specialize in the financing of speculative secondary (service) businesses. They will probably specialize in either:

P.O. Box 210348
Auke Bay, Alaska
99821-0348

Telephone (907) 463-3663
Residence (907) 789-2943

- investing deposits gathered from Alaska in a blend of Federal government and other investment-grade securities, and loans to conservatively-managed Alaskan businesses in urban places, or

- facilitating the development and/or expansion of export-based economic development projects in rural Alaskan places that involve the export of one or more of Alaska's natural resource values:

  - fish products
  - timber products
  - hard rock minerals
  - coal
  - geopolitical location
  - public domain
  - oil and gas
  - scenic tourism
  - recreational tourism

  This function is currently carried out principally by investment groups and private corporations from Canada, Japan, and the United States and some ANCSA corporations, for both resident and nonresident businesses engaged in basic (export) sector activities. There is also some involvement of Canadian, Japanese, and U.S. banks and investment banks.

An Appropriate Financial Institution

Central to any "Alaskan economic strategy" is a vision of Alaska's economic future where a vital, market-driven basic export sector provides opportunity for individuals and businesses to take risks and to use their imagination, knowledge, skills, energy, capital and technology - the basic stocks of wealth-creating capability - to create new products or services that markets want, or improve on those already being provided. In other words, to compete. One potential State economic strategy might be to: Go forth and do the right thing - create jobs by building private businesses.

There is an investment opportunity to seize the lead role in development of the kind of private financial institution appropriate to the strategies inherent in this vision. The development of an appropriate financial institution to help enhance the wealth-creating capability of Alaskan businesses is a compelling necessity, not a redundant luxury.

Such an institution would need to be substantially different from all existing Alaskan financial services agencies, if it were to concentrate its efforts on expansion of basic export sector economic activities. It could be structured as a blend of the venture capital fund model successfully operating elsewhere in North America, and the "development finance company" model successfully implemented in other countries by the International Finance Corporation, the private sector affiliate of the World Bank. This blend could be called a "development venture company" (DVC). The key factors for success of a DVC include, in priority order:

1. A viable expanding market for its services, consisting of individuals and entities with entrepreneurial will, financial capital, and export resources.

2. Personnel with the training and temperament to add value by nurturing and counseling those persons who are willing to engage in rural, export sector entrepreneurship, including the ability to:

   - identify business opportunities,

   - assess entrepreneurial skills and commitment,

   - develop pragmatic business plans with adequate data about critical success factors including skills, markets, equity, and other financing,

   - evaluate economic development project viability, and

   - restructure or reject nonviable proposals early.

3. A financial capital structure based on a high proportion of equity and stable, low-cost, long-term debt.

This model includes several features which are distinctly unlike any existing Alaskan financial institutions, including:

- Close linkage with State government agencies and programs that have a mandate to help promote and develop export base industries - e.g., the Alaska Industrial Development and Export Authority (AIDEA), as recently strengthened, Trade Alaska, and the Departments of Commerce and Economic Development and Community and Regional Affairs.

- Predominant emphasis on active lending and investment in development projects, i.e., asset management, rather than the current liability management (deposit-gathering) emphasis of most Alaskan financial institutions.

- Provision of regular and substantial management assistance to borrowers/investees, much like the nurturing activities of venture capitalists and investment bankers.

- Unprecedented use of technology in computing and communications. All day-to-day communications between project locations and the financial institution must be conducted with maximum facility and power. This is only obtainable through leveraging human resources with communication and information technology.

- Strategic alliances with customers, federal, State and local governments and other leading economic institutions involved with export base industries.

- Strategic alliances with Japanese and other foreign private financial institutions with the wherewithal to participate in the financing of, and technical assistance to, basic export sector economic development projects.

- Recruitment, and investment, of a pool of financial capital from a variety of sources depending on the organizational form selected.
- Profits from fees for services and risk-sharing, dividends, interest, and capital gains.
- Employment of personnel distinctly different from the typical Alaskan bank management staff of the 1980s. The new personnel need to be recruited and trained to emphasize:
  - Advocacy for the ideas and business plans of their customers,
  - Export base development project design and technical assistance skills,
  - Shared Alaskan values - the "corporate culture" of our state,
  - Rural Alaskan factors for success, and
  - Alaska Native background, with special emphasis on ANCSA corporations.
  - Service and management assistance skills in:

    Application of technology
    Export financing
    Foreign financial markets and institutions
    Acquisitions, mergers, and divestitures
    Seafood harvesting and processing
    Timber harvesting and processing
    Mineral exploration, extraction, and processing
    Tourism attractions, accommodations and access
    Rural construction
    Rural real estate development
    Rural governance
    Energy
    Transportation
    Other infrastructure

This people component represents a commitment to strive for modernization and would open a clear opportunity for Alaskans to grow into the present and future business world of knowledge-based employment and technology-driven services that are already reshaping Alaska's economic opportunities.

Financial Structure

The contemplated institution must have extreme stability of equity and debt capital. It should rely on:

- Equity capital from investors.

- Long-term bond debt - perhaps issued by AIDEA - to help capitalize the institution in as stable a fashion as possible.

- Core deposits from rural areas (at present only six or seven percent of total Alaskan bank deposits), depending on the entity selected.

- Core deposits from urban places, to the extent available (likely to be limited to public funds), depending on the entity selected.

The Market for Regional Services

A principal mission of such a financial institution would be regional services - development project services including financing and management assistance which add value - to regional and village ANCSA corporations and other entrepreneurs who are actively developing resource export projects in rural places. The institution could, for example, specialize in regional services for companies that do business in rural Alaska - whether the Interior, North Slope, Northwest Arctic, Bering Sea, Southwest, Gulf Coast, or Southeast regions. Regional service functions would consist primarily of:

- Information and education about rural, state, and worldwide economics, markets and technology.

- Management assistance for designing the financial infrastructure of development projects.

- Recruitment of equity and long-term debt capital sources.

- Provision of debt for exploration, development, working capital for operations, and other shorter-term purposes.

These services can, and must, be rendered with quality and excellence as the foremost values of the institution and its people.

Leveraging Existing Financial Institutions

As stated, there are no private Alaskan financial institutions currently operating on the development venture company model. In the public sector, AIDEA now has statutory authority to assist in this field, but limited prior experience.

Certain banks do operate (principally as deposit-gatherers) in rural Alaskan places. These include UBA, UBASE, NBA, FNBA, First Bank and B.M. Behrends. It is possible to conceive that an existing bank could form the core of an export-oriented rural Alaskan DVC. They would, however, require major management, skill, and technology transfusions to become successful in development project finance activities.

Beyond these, there do not appear to be any existing domestic financial institutions designed for, or in pursuit of, Alaskan development project finance activities. There do, however, appear to be numerous offshore institutions that are so engaged.

These offshore institutions may represent an opportunity for reverse leverage, by capitalizing on their interest in expansion of their DVC activities in association with Alaskan partners. Such partnerships could represent significant access to the human, financial, and technological resources necessary to this proposed expansion of the domestic Alaskan financial infrastructure.

Alternative Entity Forms

An Alaskan "development venture company" could be structured in several ways - from a unit within an existing company, a subsidiary thereof, a joint venture corporation, an investment bank, to a State-chartered commercial bank. Each organizational form has advantages and disadvantages. These include control, economies of scale, financial risk, capital requirements, complexity, and government regulation as shown below:

Entity	Corporation Unit	Corporation Subsidiary	Joint Venture	Investment Bank	Commercial Bank
Control	Most				Least
Economies of Scale	Least				Greatest
Financial Risk - Spreading	Least				Greatest
Capital Requirements	Low				High
Complexity and Cost of Implementation	Least				Most
Degree of Government Regulation	Least				Greatest

Peter McDowell
June 1987

RBY

FACT SHEET

SOUTHWEST PLAN

OBJECTIVE: Achieve viability of Texas thrifts through consolidation. Reduce cost of funds in Texas and ultimately nationwide.

STRATEGY: Consolidate 143 ailing (104 insolvent) out of 281 thrifts currently operating in Texas, so that surviving viable institutions number between 160 and 180. Approximately 70 percent of troubled institutions have signed consent-to-merge agreements.

Reduce number of branches from more than 1800 to nearly 1400.

Divide Texas into 14 thrift regions and ensure that each region has appropriate service to meet needs of its people.

RESULTS: Potential size of surviving thrifts

Local....................Up to $800 million
Regional................$800 million to $2.5 billion
Multi-regional..........More than $2.5 billion
Statewide...............None

Estimated Size of all Texas thrifts before and after consolidation

	Pre-plan	Post-plan
0-$100 million	45%	53%
$100-$500 million	39%	29%
$500 million-$1 billion	8%	6%
More than $1 billion	8%	12%

Eliminate 1987 loss of $2.2 billion of all Texas thrifts at end of first year of consolidation.

COST TO FSLIC: Estimated for implementation of strategy, $6 to $7 billion, with funds derived from FSLIC recapitalization program, assessments of the thrift industry and other sources.

FSLIC will conserve cash and extend impact of its funds by issuing FSLIC notes and using assets as collateral. FSLIC expects to recoup part of its investment in troubled thrifts by sharing in profits of consolidated institutions and/or holding an equity position in them. FSLIC's equity position will not be used to control an institution.

OTHER CAPITAL: $1 billion in new capital could be available from potential acquirers and/or institutions that could participate in consolidations. Additional capital will be available as the plan moves forward.

FEDERAL HOME LOAN BANK BOARD

Resolution No.

Dated:

Whereas The Federal Home Loan Bank Board ("Board") is engaged in the development of a plan for solving the multibillion dollar problem of thrift institutions in the Board's Ninth District, comprised of the states of Texas, Mississippi, Louisiana, Arkansas and New Mexico, called the "Southwest Plan";

Whereas Representatives of the thrift industry in the Southwest, together with their trade associations, have urged consolidation as a means of reducing excessive operating costs and expenses;

Whereas The Board has placed a major priority on resolving thrift problems in Texas in recognition of the fact that thrift troubles in that state constitute a major fraction of all thrift problems nationwide;

Whereas The Board believes that a solution of the Texas problem will aid the Board's efforts to solve thrift problems throughout the nation and aid in the reduction of the cost of funds to all institutions;

Whereas Consolidation of the Federal Savings and Loan Insurance Corporation's ("FSLIC's") insolvent institutions together with some combination of healthy institutions and capital infusions to produce viable thrifts would achieve various benefits, including:

- Significant savings in operating expenses;
- Management teams capable of providing the leadership and controls necessary to achieve viability;
- The ability to permit higher cost deposits to be reduced by cash flow from investments supported by lower cost deposits;

- Merging within one institution complex financial investments that currently are located in several institutions, with attendant unnecessary costs;

- Attract capital to a market that currently has too many inefficiencies to produce a reasonable return on new capital;

Whereas The Board initiated an analysis of possible means to reduce operating and deposit costs in support of the Southwest Plan, thereby enhancing confidence in the thrift industry, with the following directions:

- Retain a competitive environment within the district, preserving the basic nature of its thrift industry, while delivering financial service to customers efficiently and effectively;

- Reduce or eliminate duplications and redundancies in the financial services industry, which currently are adding to operating costs;

- Identify the most capable management to implement the plan;

- Provide a mechanism for reducing the expenses and controlling losses in troubled assets;

- The efficient use of FSLIC resources in resolving problems;

- Shares of the future profits of assisted institutions for FSLIC;

Whereas The analysis has reported, in pertinent part, that:

- Consolidation would provide for an integrated approach to the existing insolvencies rather than resolving cases less effectively on a case-by-case basis;

- Fourteen geographical regions can be identified in Texas; consolidation should occur within the framework of those geographical market areas, some of which are local, some regional, and some multiregional (but not statewide);

- Consolidation could significantly reduce the number of savings and loans and deposit-gathering offices within those markets;

- Consolidation should provide immediate operational savings, exclusive of conversion costs, of several hundred million dollars per year;

- Additional, even greater, savings may be achieved through resulting reductions in the cost of funds to insured institutions throughout the Ninth District;

- Further savings are possible through the consolidation of shared complex financial assets in a single institution, eliminating or simplifying management costs and litigation;

- The key to these savings, as well as to reducing the long-run cost to the FSLIC, is the identification and selection of strong management;

- By retaining an interest in the future profits of assisted institutions and their assets, the FSLIC stands to share in the savings that result from the plan; and

Whereas The Board concludes that the resources of the FSLIC are sufficient to support a strategy of consolidation if pursued in accordance with the analysis considered by the Board.

Now therefore be it resolved that:

The strategy of consolidation should be pursued as part of the Board's Southwest Plan and <u>its</u> overall efforts to restore the financial health of the thrift industry and preserve the financial health of the FSLIC;

The FSLIC, in consultation with the Board's Office of Regulatory Policy, Oversight and Supervision, the Federal Home Loan Bank of Dallas, and other appropriate state and federal regulatory agencies shall:

- Within the limits of the Board's authority, identify and foster the retention of the most capable management in the consolidated institutions, with a view toward both satisfying the institutions' immediate needs for capable management and minimizing the long term costs of the FSLIC;

- Develop such a strategy that will consider the multiregional nature of the Ninth District in general and the State of Texas more specifically;

- Provide a procedure that will permit new capital to be introduced into consolidated local, regional, and multiregional institutions within Texas on a cost-effective basis;

- Promote fairness by providing potential investors and managers the opportunity to compete for the right to participate in the plan on an equitable basis, to the ultimate benefit of the FSLIC fund;

- Foster the consolidation of complex financial assets in which conflicts among participants are raising costs;

- Provide necessary procedures and staffing for continuing a strategy of consolidation; and

- Proceed with implementation in as expeditious a manner as possible.

By the Federal Home Loan Bank Board

KEY PARAMETERS

- Preserve basic structure and competition of thrift industry.
- Eliminate duplication and over-branching

GUIDELINES USED IN DEVELOPING SOUTHWEST PLAN

- Retain competitive environment within district, preserving basic nature of thrift industry, while delivering financial service to customers efficiently and effectively.
- Reduce or eliminate duplications and redundancies in financial services industry, which currently are adding to operating costs.
- Identify most capable management to implement plan.
- Provide mechanism for reducing expenses and controlling losses in troubled assets.
- Minimize use of cash in resolving problems.
- Gain future share of profits from assisted institutions for FSLIC

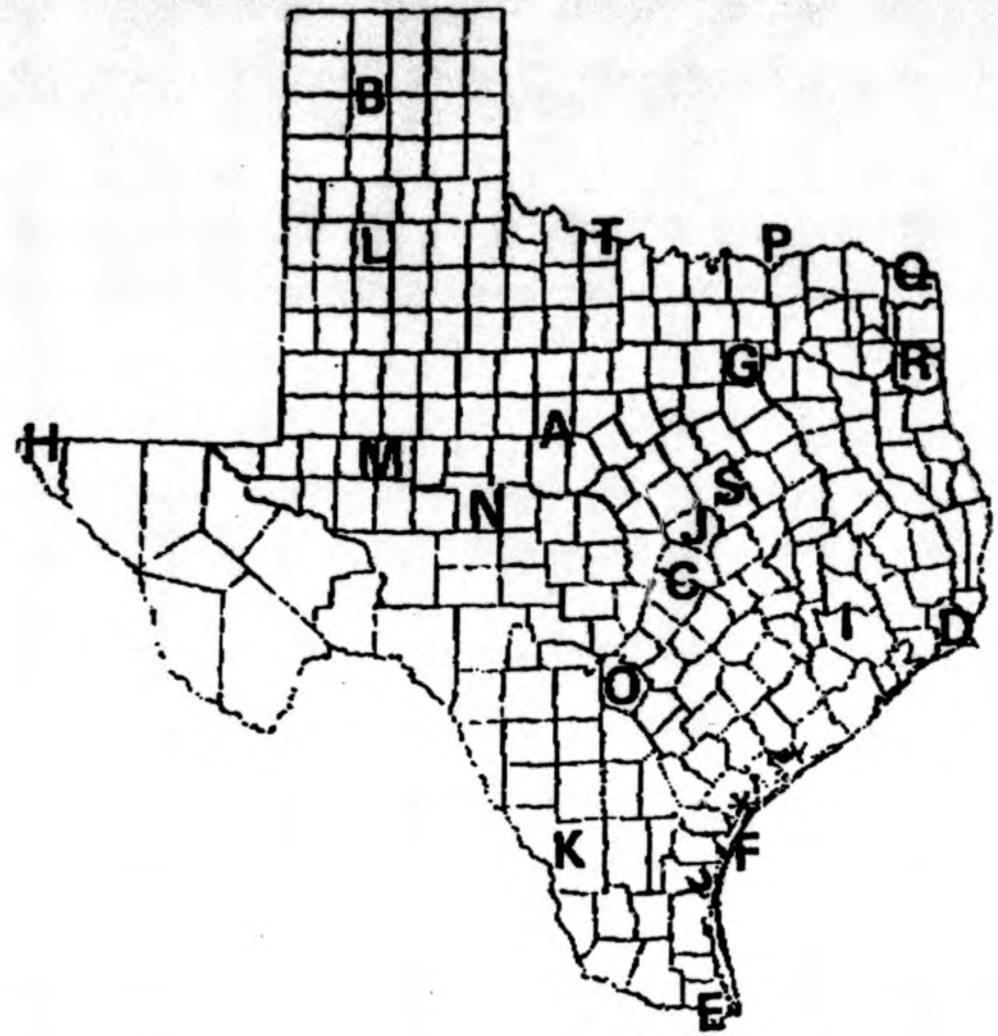
POTENTIAL RESULTING THRIFTS
(ASSETS)

LOCAL	UP TO $800 MILLION
REGIONAL	$800 MILLION - $2.5 BILLION
MULTI-REGIONAL	MORE THAN $2.5 BILLION
STATEWIDE	NONE

SIZE OF THRIFTS

	PRE-PLAN	POST-PLAN
0 - $100 MILLION	45%	53%
$100 - $500 MILION	39%	29%
$500 MILLION - $1 BILLION	8%	6%
OVER $1 BILLION	8%	12%

TEXAS MAJOR METRO AREAS
IN PROPOSED REGIONS



	MSA	IN REGION
A	ABILENE	14
B	AMARILLO	12
C	AUSTIN	8, 10
D	BEAUMONT- PORT ARTHUR	4, 5, 6
E	BROWNSVILLE- McALLEN	9, 11
F	CORPUS CHRISTIE	4, 7, 8, 9
G	DALLAS/	1, 2, 3
	FORT WORTH	2, 3, 14
H	EL PASO	11
I	HOUSTON- GALVESTON	4, 5
J	KILLEEN-TEMPE	8
K	LAREDO	9, 11
L	LUBBOCK	12
M	MIDLAND- ODESSA	13
N	SAN ANGELO	13
O	SAN ANTONIO	8, 10
P	SHERMAN-DENTON	3
Q	TEXARKANA	3
R	TYLER- LONGVIEW	3
S	WACO	8, 14
T	WICHITA FALLS	14

TEXAS MAJOR METRO AREAS
IN PROPOSED REGIONS

REGION	ANCHOR AREA	GEOGRAPHIC DESCRIPTION
1	DALLAS	DALLAS ONLY
2	DALLAS/FORT WORTH	THE METROPLEX
3	DALLAS TO TEXARKANA INCLUDING FT. WORTH, TYLER, LONGVIEW, SHERMAN DENTON, ETC.	(NORTH AND EAST TEXAS)
4	HOUSTON, GALVESTON, BEAUMONT, ORANGE, CORPUS CHRISTI	(TEXAS COAST)
5	HOUSTON, GALVESTON	(TEXAS COAST)
6	BEAUMONT, ORANGE	(TEXAS COAST)
7	CORPUS CHRISTI	(TEXAS COAST)
8	SAN ANTONIO, AUSTIN, CORPUS CHRISTI, KILLEEN, BRADY, WACO	(CENTRAL TEXAS AND THE HILL COUNTRY)
9	CORPUS CHRISTI, RIO GRANDE VALLEY, LAREDO	(SOUTHERN TIP OF TEXAS)
10	SAN ANTONIO, AUSTIN	(CENTRAL TEXAS)
11	EL PASO TO BROWNSVILLE	(ENTIRE RIO GRANDE BORDER)
12	LUBBOCK, AMARILLO	(PANHANDLE AND PLAINS)
13	MIDLAND, ODESSA, SAN ANGELO	(WEST TEXAS)
14	ABILENE, WICHITA FALLS, FT. WORTH, WACO	(NORTH AND WEST CENTRAL TEXAS)

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Non-viable thrifts should be *"packaged"* with creative FSLIC financial and regulatory assistance to create marketable entities.

CONCLUSION

- Consolidation Works
- FSLIC Can Afford
- Thrift Benefit Nationwide

REQUESTS FOR STATEMENTS OF INTEREST

The Federal Savings and Loan Insurance Corporation ("FSLIC"), an agency of the Federal Home Loan Bank Board, is considering a plan of action for the Southwest regional restructuring of savings institutions. The FSLIC may provide economic and non-economic assistance where it deems appropriate to assist in the restructuring of involved institutions. The purpose of the Southwest regional restructuring is to realize economies of scale, reduce operating expenses and eliminate redundancies in office locations while preserving adequate services, competition and basic structure in each locale.

The FSLIC is requesting statements of interest from parties desirous of participating in the Southwest regional restructuring. The FSLIC will consider responses from principals only. A Request for Proposal ("R.F.P.") may be requested from:

Coordinator
Southwest Regional Development
FSLIC
1700 G Street, N.W.
Washington, D.C. 20006

Indications of interest should clearly state the following:

1. The asset size of the savings institution(s) you are contemplating to acquire.
2. Preliminary estimates of the amount, type and source of capital you are willing to infuse into the acquired entity or entities.
3. The region(s) or local area(s) in which you may be interested, unless the party has no geographic constraints.
4. The general characteristics of the types of institutions in which you are most interested.

The FSLIC is seeking interest for three types of acquisitions:

1. Local institutions limiting service to their local communities and having an asset base of up to $800 million.
2. Regional institutions serving the area of the state in which they are located and having assets of $800 million to $2.5 billion.
3. Multi-regionals serving more than one region and having assets in excess of $2.5 billion.

Interested parties will be required to submit confidential biographical and financial information in order to be pre-screened to receive additional information regarding institutions that may be involved in the restructuring. The required information for the pre-screening process will be provided to those who have indicated an interest.

The FSLIC, in consultation with the Office of Regulatory, Policy, Oversight and Supervision and the Federal Home Loan Bank of Dallas, will determine the acceptability of those seeking to be pre-screened. Such determinations will consider:

- o The financial strength, ability, amount and type of capital that the interested party will provide when pursuing consolidation within the targeted area;
- o The strength of proposed management;
- o Applications for acquisitions with the Southwest submitted within the last 12 months to either the Dallas Bank or FSLIC;
- o A key consideration in any of FSLIC negotiations for assisted acquisitions or mergers will be the preservation of as much of the basic structure and preservation of competition in each locale while restructuring these institutions to realize economies of scale, reduce operating expenses and eliminate redundancies in office locations.

FSLIC will provide to any interested party guidelines for equity sharing by FSLIC. Such guidelines will be subject to change without notice.

If requested, the R.F.P. will offer, on a confidential basis, financial summaries and projections of combinations available within market areas. Such information will also offer preliminary projections of potential branch closures, operating expenses reductions,...

Institutions not under a Consent to Merge Agreement will be notified if a proposal has been made affecting them. If they decline to be considered as a part of an approved plan of consolidation their Directors will be so notified by FSLIC, together with an estimate of increased costs to the plan and to their own operation.

FSLIC will approach some institutions that are not under a Consent to Merger Agreement and that appear to be good candidates and encourage them to submit proposals.

Questions regarding the R.F.P. should be directed to the coordinator listed above or to ________________ at the Federal Home Loan Bank of Dallas.

Statements of interest should be submitted at your earliest convenience but no later than ____________________.

ADDENDUM

PRE-SCREENING REQUIREMENTS

The following information must be submitted in order to ascertain the identity and legal form of a potential acquiror and to develop a basis for a preliminary financial evaluation:

FINANCIAL INSTITUTIONS

Financial Institutions that wish to be included on the National Marketing List are required to submit the following information:

On the institution's letterhead, a statement indicating their interest to be placed on the National Marketing List;

A statement detailing geographic and asset preferences; plus

Name, address and telephone number of the contact person to whom marketing information should be addressed.

Submission of this information will allow for inclusion on the FSLIC's National Marketing List. However, invitation(s) to submit a proposal is subject to supervisory clearance from an institution's primary regulator. The general parameter used to determine those financial institutions to be invited is twice the asset size of the target institution. Exceptions to the general parameter must be coordinated with the institution's primary regulator and the FSLIC.

INDIVIDUAL INVESTORS

A completed copy of the Investor's Information Form and the Confidential Biographical and Financial Report (FHLBB Form 1393) or a signed personal financial statement with supporting schedules detailing assets and liabilities.

Executed Affidavit that the information supplied is true and accurate.

Executed Certification regarding criminal and civil litigation.

A statement indicating business/financial background and/or management resources that will be made available for the acquired institution.

Additional information may be required in the course of the pre-screening process.

ADDENDUM: Page 2

COMPANIES (CORPORATIONS, PARTNERSHIPS, ETC.)

A copy of the company's annual report to shareholders for the last two years and the most recent quarterly statement (consolidated when appropriate).

1934 Act Reporting Corporations must also provide Forms 10-K, plus the recent 10-Q and proxy statements.

A statement that the financial information supplied is true and accurate.

A statement indicating the company's business/financial capabilities and management resources that will be made available for the acquired institution.

In addition, principals of non-publicly traded corporations must submit those items listed under the Individual Investors section for each principal involved in the transaction.

Note: All prospective acquirors are subject to credit and background checks. Once the pre-screening has been completed, you will be notified by the Marketing Section of the Mergers and Acquisitions Division/FSLIC.

REQUIREMENTS FOR CORPORATE AND PRIVATE INVESTORS TENDERING A PROPOSAL

In order for the FSLIC to proceed with an evaluation of a proposal tendered by a private or corporate investor, the offeror is required to submit the following additional information:

1) Statement as to the amount and source of capital to be provided.

2) Adequate evidence that the capital is available, e.g., letter of credit, commitment letter, subscription agreements, escrow verification, etc.

   For those parties seeking to infuse non-cash capital, especially where no readily discernible market exists, please provide detailed information regarding the type of assets, the fair market value and the method of valuation used. Additional information may be required.

This information must be submitted no later than the submission deadline for receipt of proposals on this institution.

ADDENDUM: Page 3

The FHLBB/FSLIC reserves the right to reject an offeror's proposal based upon on inadequate demonstration of financial capability, inadequate management experience/depth or other factors which would impair the restoration of the savings institution to viability.

Please direct Client Clearance Pre-Screening questions and information to:

Mr. Thomas L. Batties
Marketing Director
Mergers and Acquisitions Division
1700 G Street, N.W.
Washington, D.C. 20552
(202) 254-2593

D

ALASKA INVESTMENT BANK & TRUST

A Real Estate Holding Company
for the people of Alaska

Proposal by:
John M. Bashaw, Jr.
12746 Reata Drive
Anchorage, AK 99516
office 278-4556
home 345-3212

CORRECTED COPY FEBRUARY 15, 1988

OVERVIEW

We have, at this moment in time, one of the greatest opportunities for all citizens of the State of Alaska to participate in an investment that should help to provide stability in our economy and, in turn, a profit to themselves.

Most people realize we have an increasing loss of demand and an escalating overabundance of supply of real estate. There is not much that can be done in the near future to move the demand curve to a more favorable position. One that will have a dynamic impact on our economy ($40/barrel oil excepted). This is not true; however, of the supply side.

Simply put - we now have the opportunity to buy low, deposit in savings, and (hopefully) sell at a profit in the near future - as with any investor. Also, I might add, I think we can safely say that we may never see this opportunity again.

Essentially, I see the current situation in three distinct categories.

1. The individual investor who is now buying properties and loans on the open market and from institutional owners such as FDIC. This is ideally where the market should remain, however, it does have enough positive impact on the current economy.
2. Institutional and strong individual investors who have been, and are continuing, to look for bulk purchases at large discounts. These buyers speculate (for cash) that these properties and loans can be "worked" until the economy improves and the assets sold at a profit. Simply said - high risk, cash intensive, with potentially large losses or gains. Please note, when we speak of assets we are talking about

two separate types. One is the buying of the actual real estate and the other is the purchase of loans and mortgages. The latter generates fair interest from potential buyers, however, I am not aware of any investors who are seriously interested in buying Alaska real estate in bulk.

3. The third approach, which seems to be the most touted and certainly the one getting the most attention, is the exclusive use of public funds or public debt to purchase speculative and selective real estate. We should strongly oppose any such plan!

JURY APPROACH

This plan of attack is simple, easy, and just takes one key participant or agency to coordinate the initial effort.

Lets get any and all ideas out on the table and come up with one recommended course of action that has a reasonable probability of being acceptable to the people first, and in turn public representatives and private industry. At the present time we have a number of proposed solutions and recommendations in various degrees of quality and territorial imperatives. Now is the time to draw all these efforts into one cohesive plan.

JURY SELECTION...The Department of Commerce recommends, and the Governor invites key participants to a conference to develop a workable economic plan. The jury will consist of one representative from the following areas and agencies with consideration to be on a statewide basis.*

Native Corporations
Private Industry
Legal Profession
Corporation Taxation
University of Alaska
Banking Industry
Legislature
Department of Commerce
Permanent Fund
AIDA
AHFC
Real Estate Industry
Local Government

*Names available upon request.

These representatives are to be invited with only a few rules to the game.

1. Only the final plan will be made public. Any ideas expressed or explored during the conference are to be totally confidential and will not be discussed outside of the "jury" room.
2. Nothing is sacred. Any and all sources of funding, participation, and structure will be looked at and there will be no dumb ideas Of course, some ideas may be rejected sooner than others.

3. There is no designed final plan, up to and possibly a final recommendation to do nothing.
4. All attendees must be willing to participate full time and continue until a majority agrees on a published plan or disband as a "hung jury".
5. All attendees must be willing to accept input from the public. This includes related professionals, as the "jury" has been limited to insure a workable number of participants.

EVERYONE CAN PARTICIPATE

As Dr. Hayden Green pointed out the other day - "Everyone wants to go down in history as the slayer of the economic dragon."

Question? Is there a way we can turn our current economic situation into an investment opportunity that will:

1. Not increase public debt.
2. Minimize the use of public funds.
3. Spread any use of public funds over a number of sources (risk management).
4. Cultivate and attract private capital to the maximum extent possible.
5. Establish a profit motivated entity that will benefit all participants and investors.
6. Assist in stabilizing our economy and stop or slow the erosion of property values.
7. Cease operation when no longer required.

YES!

Before I continue, I'd like to give credit to some of the clear thinkers on this issue. Thank you for your thoughts and ideas.

Dave Rose
Buz Hoffman
Hayden Green
Ken Gain

Establish a holding bank with the clear purpose of buying foreclosed real estate at discount prices, moth balling the real estate, and liquidating these assets, at a profit, in the near future.

Seed money for development to be obtained by grants from

1. Municipality of Anchorage
2. State of Alaska
3. Federal funds (grant application)
4. Railbelt Energy Fund

The holding bank is to be profit motivated and structured.
The institution is to be chartered for no more than a 10 year life.

The Bank & Trust is to be (initially) equity financed with three basic stock issues.

1. Preferred stock (cumulative, first out, non voting) to be made available to any and all private investors, large or small, institutional* or individual. Issue to be at a $1 par and, (as an additional incentive to attract private capital) for each share of preferred the stock holder automatically receives one share of Class A common stock.

2. Class A common stock (second out, voting) to be issued at a $10 par and to be purchased with public funds from all of the following (spread the risk):

    AHFC

    AIDA

    Permanent Fund earnings

    Railbelt Energy Fund

    Legislative appropriation from:

        operating budget

        capital budget

    ASBA

3. Class B common stock, (last out, non voting) at a $100 par to be purchased through an exchange of real estate at discounted values. These purchases (exchange of real estate for stock) are to be limited to real estate owned by institutional investors (lenders or mortgage insurance agencies) such as:

    Banks

    FNMA

    HUD

    AIDA

    AHFC

    MGIC

    FDIC (may require cash only)

*examples: Native Corporations, Alaska Railroad, Banks, Alascom, ARCO, North Slope Borough, Municipality of Anchorgae, Alaska Airlines.

It is important to stop and point out that these proposed numbers have not been fine tuned to computer accuracy and are only conceptual in nature. For example: if the holding company purchases a piece of real estate currently appraised for $100,000 and expects to hold that property for ten years and sell it for $100,000, then, at a 7% desired annual return on invested dollars the holding company should pay $50,000 (actual $49,759.63) less anticipated holding costs. Of course, if the property can be sold earlier at the same price, then the yield to the investors increases accordingly. Also, before I receive a rash of "boy is that a good deal for someone" then let me also point out that "someone" is anyone who is willing to put their dollars down and take the corresponding risk for a possible profit - someday. Also, this concept addresses the supply side only and I leave the demand side solutions to other experts.

All plans must have some game rules, so let me throw some of these on the consideration table.

1. The Commission of Banking and Securities contract an external consulting firm to create the financing and accounting functions.
2. The Commission of Banking and Securities contract an external annual audit (published).
3. Purchases to be negotiated at a best buy price with significant discounts for bulk buys. No seller would be forced to sell and may certainly elect to keep their inventory (FDIC included).
4. Establish a moratorium on issue of Class B stock (real estate exchange) - say three years.
5. Establish guidelines (not limitations) on liquidation of assets, at less than face or appraised values, - example:

year 1	0%
2	5%
3	10%
4	15%
5	20%
6 - 10	as market dictates

6. Do not purchase loans or mortgages. These investments should be owned and operated from the private sector only.
7. Defer profits until liquidation.

8. The Governor appoints the chairman of the board and the legislature confirms the board members who will come from the following investment areas:

AHFC	Department of Commerce
AIDA	Appraiser
Real Estate Broker	Banker
Public at large	

9. The president and CEO plus all other employees to be private sector type hires with salary commensurate with the limited employment period, complexity, trust responsibilities and lack of retirement opportunities.
10. Earnings are not to be reinvested in anything other than a sinking trust fund and liquidation of equity position.
11. Asset liquidation to be accomplished through the real estate industry on a open listing type basis similar to HUD's current operation - selling commission only.
12. Place all acquired assets on the market at face or appraised value to allow the market to catch up with the price.
13. Establish a watch dog procedure to monitor appraisals, building permits, foreclosures, bankruptcies, etc. so that assets can be sold in the most favorable market conditions and at the earliest opportunity.
14. Do not close on property that is occupied. The selling agency must relocate all tenants, hopefully to other properties they own, prior to closing. The Bank and Trust should function as a holding company, not a competitor for property management.
15. Pursue unique markets such as sale of condos to the University of Alaska for use as dorms and the bulk sale of condos to Pacific Rim countries (at discount prices) for use as cultural exchange homes.
16. Yes, it might be necessary to obtain additional funds through debt financing. If so, then consideration should be given to bonds (not convertible) that could be raised on the strengths of the corporation alone. If that is not possible, then consider loans from either the public and/or private sectors. However, lest we forget, the creditor is now the first out and the equity owners take second position in case of forced liquidation.

EXTERNAL COMMITMENTS

No entity can operate in a vacuum or in isolation from its surrounding economic influences. Therefore, it is important that in developing this holding bank we also obtain written commitments to:

1. Demolish marginal and unsafe properties whenever possible.
2. Place a moratorium on any rezoning that results in a higher density.
3. Place a moratorium on expansion of utilities, at least until there is a better utilization of highest and best use of our present land.
4. Mothball or export all excess mobile homes.

CONCLUSION

I doubt that my plan, which is really a conglomerate of my ideas and other proposals, will slay the economic dragon (wounded - maybe). However, after a stop, look and listen posture for the last three years, I am now convinced that the time is right to bring together some of the best talent in the state who will, in turn, analyze the problem, evaluate alternative courses of action, and develop a proposal that WILL WORK!

If there is a problem in our economy, <u>and</u> that problem is an excess in the supply of real estate <u>and</u> we have decided that something must be done - <u>then let's do it right</u>!

1. a combined effort from the private and public sectors.
2. put our money down and accept the risk and profit.
3. spread the risk.
4. and most importantly do not debt finance with public funds. Let's treat this problem as an investment opportunity not a bail out program.

P.S. If we are going to moth ball real estate, let's start with the PAC! It's a little silly to walk around town in a mink coat and no shoes.

Alliance Bank

March 19, 1988

Mr. Gumbiner has asked us to transmit the enclosed updated "PROPOSAL FOR THE ESTABLISHMENT OF THE HALLWOOD ALASKAN REAL ESTATE STABILIZATION TRUST" to you in an effort to keep you informed.

Should you have questions or comments, they could be directed to him through my office.

Sincerely,

Fred H. Burrow
President

Enclosure

Alliance Bank
A Financial Service of Alliance Bancorporation
1500 W. Benson Boulevard • P.O. Box 99003
Anchorage, Alaska 99509-9003 • (907) 258-7890
Member FDIC

PROPOSAL FOR THE ESTABLISHMENT OF THE HALLWOOD ALASKAN REAL ESTATE STABILIZATION TRUST

A liquidating trust formed to liquidate on an orderly basis at stable appraised prices in the best interests of the Beneficiary Institutions, the supply of distressed real estate properties and loans currently overhanging the Alaskan market.

Background

As a result of the current severe recession in the Alaskan economy which followed a period of strong economic growth in the commercial and residential real estate market, Alaskan lending institutions and certain state and government agencies who have assumed the obligations of failed institutions, are today burdened with an unprecedented holding of "bad" real estate loans, some of which have been foreclosed and all of which are at least partially non-performing. Real estate values have been declining monthly. Although the decline in real estate values has been slow and the recession is seen to be bottoming out, the recovery is extremely fragile and prices could be precipitously collapsed if the overhanging real estate were offered back into the market at distressed prices for forced sale.

Alliance Bancorporation ("Alliance") was recently formed by the merger of Alaska Mutual Bank, United Bank Alaska and United Bank Alaska Southeastern and was recently recapitalized by the Hallwood Group Incorporated ("Hallwood") and the FDIC. Alliance currently holds some $300 million of bad real estate loans of which about $80 million has already been foreclosed and the balance being in the form of classified and non and partly performing real estate loans. The FDIC, as Receiver of the failed First Interstate Bank of the North, holds about $200 million of "bad" loans of which at least half are property related. Additionally, Fannie Mae, the Federal Home Loan Bank Board, Alaska Housing Finance, MGIC, New York Life and other Alaskan lending institutions all hold similar "bad" loan portfolios.

If any of the above institutions were to "dump" their real estate holdings into the local market they would collapse the fragile price structure and ensure the continuation of the current recession to the detriment of not only themselves individually and as a group, but all Alaskan citizens and property owners.

The objective of "The Hallwood Alaskan Real Estate Stabilization Trust" is to prevent a further decline in real estate values by allowing the Trustee of the Trust to manage the liquidation of the trust assets so as to prevent an oversupply of property in the local marketplace such as would cause further declines in the price of residential or commercial properties.

The Proposal

In order to maintain a stable market and to encourage a recovery, Hallwood proposes the establishment of "The Hallwood Alaskan Real Estate Stabilization Trust" (the "Trust") to be formed as a liquidating trust with the purpose of liquidating trust property by sale or other disposition as promptly as shall be economically feasible in the best interests of the Beneficiary Institutions and to distribute the distributable proceeds to the Facilitating Beneficiary Institutions solely and exclusively in accordance with the provisions of a Distribution Agreement.

The Board of Alliance Bank has already agreed to subscribe its distressed portfolio of real estate assets to the Trust and we intend to invite the FDIC and the other concerned institutions mentioned above to become subscribers to the Trust prior to its formation date of March 31, 1988. Following subscription of assets to the Trust, beneficiary institutions will own an undivided interest in the Trust.

We anticipate that the transferred assets will consist of single family homes, condominium projects, apartment buildings, a few office buildings and other commercial structures, shopping centers and parcels of raw and improved land. We also anticipate receiving non-performing or partly performing mortgage loans secured by real estate.

It is our intention that all transferred assets will be recorded in the Trust's books at fair market value as of March 31, 1988. The fair market value of real estate properties will be based upon current independent appraisals except for those assets where a sale was pending and subsequently closed. In those cases, the proposed selling price will be considered as a more accurate indication of fair market value. Fair market value of real estate loans will be based upon current independent appraisals. All appraisals will be carried out in accordance with accepted appraisal methods by a qualified independent appraiser who is a member of the American Institute of Real Estate Appraisers and who regularly performs appraisal services for major financial institutions. Credit will be given in the appraisal process for any income flowing from any transferred asset.

It is intended that Hallwood will act as the Trustee for the Trust which would be established for a ten-year period expiring in March 1998. If all of the Trust assets have not been sold off by this time, then the Trust will come to an end unless a new five-year liquidating trust is established by the Beneficiary Institutions.

It is intended that a Procedures Agreement would be drafted to establish a minimum sales price for each of the Transferred Assets. Minimum sales prices will be based upon appraised values. The Procedures Agreement will also establish restrictions on financing by the Trust although it is intended that the Trust will offer financing to purchasers to assist in the sell-out (see "Marketing"). The requirement of the Procedures Agreement will assure the Beneficiary Institutions that no asset will be sold for less than a certain fixed amount and that the deferred portion of any sales price will be properly secured and payable over a limited period of time. The Trustee's powers and duties would be governed by a Trust Agreement which will generally authorize the Trustee to preserve and manage but not to develop the Trust assets.d Accordingly the Trustee has discretion, for the purpose of marketing, to obtain necessary appraisals, feasibility studies, engineering studies or marketing surveys. The Trust cannot undertake to develop unimproved properties to the extent of commencement of any sort of major construction.

Generally the Trustee will limit expenses to any necessary management costs such as taxes, insurance and maintenance and to its own office budget and outside professional fees. Additionally, the Trust may expend sums necessary to preserve its properties or prevent the enforcement of liens superior to the Trust's mortgage loan assets.

As to borrowing funds, the Trust Agreement will provide that borrowings shall not exceed an aggregate of 10% of total Trust assets at appraised value and further that borrowings may only be made from the State of Alaska, secured on any future profit which may be realized from future sales of Trust Assets. Under such borrowings we would expect the State to roll over interest payments to the extent that such payments were not available out of Trust cash flow. It is not anticipated that the Trust will need to avail itself of this borrowing facility and it is anticipated that the cash flow from the prospective sale of Trust assets together with the $15 million cash contribution which will be contributed by the State of Alaska (see "Assistance from the State of Alaska") will be sufficient to fund all ongoing operations of the Trust.

Under the terms of the Distribution Agreement, the Trustee will first satisfy itself that sufficient working capital is available to the Trustee to operate the Trust and will then distribute

a) To the Beneficiary Institutions such sum as represents a proportional return of appraised value and any profit achieved thereon unless some drawdown shall have been made by the Trustee under the standby credit facility from the State of Alaska more particularly mentioned hereafter.

b) If such drawdown shall have been made, then any such profit shall first be applied to repay with interest any advance made by the State.

The Trustee will be empowered to sell off blocks of property to other trusts or corporations dedicated to a long term holding period such as that currently proposed by the Commissioner for the Department of Commerce and Economic Development for the State of Alaska and Sealaska Corporation.

As to the tax consequences of the Trust to the Beneficiary Institutions, the Trust will be treated as a "Grantor Trust" for federal income tax purposes and, as such, all tax trust consequences flow through the Trust to its beneficiaries in accordance with their respective interests. The Trust beneficiaries are fully insulated, on the other hand, from any liability which might arise out of the various Trust Assets.

To ensure that the Trust will distribute all distributable proceeds in a timely manner and in accordance with the proper percentages to the Beneficiary Institutions, the Trust Agreement will require that the Trust's financial statements will be examined by a firm of independent certified public accountants. Following each examination, the accountants will issue a letter to the Beneficiary Institutions stating whether all distributions have been made in accordance with the Trust Agreement and the Distribution Agreement.

The Trust Agreement will also require the Trustee to furnish the following reports to beneficiary banks:

a) A monthly statement of cash receipts and cash disbursements with a detailed description of all sales or dispositions of trust property and of any modifications, amendments or extensions of obligations owing the Trust.

b) A quarterly unaudited balance sheet, income statement, statement of Trust principal, statement of changes in financial position and a schedule of all distributions made during such quarter.

c) A semi-annual summary of the status of each Transferred Asset and a description of any negotiations then in progress concerning the sale or other disposition of such Transferred Assets.

d) An annual audited balance sheet, income statement, statement of Trust principal, statement of changes in financial position and a schedule of all dispositions made during the year.

e) In connection with the examination of the annual reports and financial statements, the independent certified public accountants must issue letters stating:

   i. that the sales and distributions made during the preceding year were in accordance with the terms of the Trust Agreement, Procedures Agreement and Distribution Agreement, and,

ii. with respect to the internal financial controls and practices of the Trust, setting forth such recommendations as the independent certified public accountants may consider appropriate.

Assistance from the State of Alaska

In order to ensure that the Trust is funded with sufficient working capital, we shall request the State of Alaska, through one or more of its agencies, to appropriate and subscribe the sum of $15 million in cash to the Trust for which the State shall receive a beneficial interest in the Trust, in proportion to its subscription.

We anticipate that this $15 million plus the proceeds of sale of Trust Assets will be sufficient to ensure the continuity of the Trust and the payment of all marketing and general and administrative costs and expenses of the Trustee, for at least one year. At the end of the year if the Trust requires further funding from the State, we shall report our then position and request a further sum of up to $15 million for the next current year in the form of a loan from the State to be secured by a first lien on any profit that may be realized by the Trustee from future sales of Trust Assets, such loan to bear interest at current market rates. The Trust shall have the power to roll over interest payments until sufficient cash flow becomes available from profits generated from Trust operations to make settlement. Repayment of interest and principal upon such loans drawn down during the life of the Trust shall have priority to any distributions of any profit which shall be made to Beneficiary Institutions.

Marketing

Immediately following the establishment of the Trust, the Trustee shall prepare a cash flow projection to determine how quickly the Beneficiary Institutions can reasonably expect the transferred assets to be sold and to what extent their interests could be converted into cash. At the outset the Trustee will review all of the non-performing real estate loans and real estate owned to identify essential problem areas. Problems involving construction, design, budgets, cash flow, management location, competition, marketing techniques and various other factors must be analyzed to determine the causes of non-performance or under-performance for each specific asset. Independent appraisals will have to be obtained to arrive at a minimum selling price for each real estate property and further, an initial status report must be prepared for the real estate unit for each asset containing the description of the asset, the loan history, net book value, current status, pending litigation.

For real estate owned, professional quality sales packages will need to be prepared for each real estate property. Each package will contain a full description of the property site and improvements, income and expense information, lease abstracts, information on available utilities, zoning, taxes, etc.

Regarding loan workouts, the Trustee will evaluate the financial condition of the debtor and the prospect for recovery and will evaluate existing collateral and the prospect for obtaining additional collateral in addition to various types of loan modification, intervention in management or leasing, increased monitoring and control of collateral and possible turnaround methods may also be considered.

Both real estate owned and real estate loans deemed appropriate for foreclosure, i.e., future real estate owned, will be marketed for sale although particular care will be taken with regard to the amount and pricing of real estate offered for sale in the local Alaskan marketplace. The major marketing effort will be made to foreign, i.e., non-American, prospective purchasers through Hallwood's international network around the world.

Hallwood is a public company listed on the New York and London Stock Exchange, specializing in the financial services industry and owned by approximately 35,000 shareholders and institutional investors. Prominent amongst these are the Fidelity Group of Boston, one of the largest fund managers in the United States, with offices in London, Hong Kong, Singapore, and various other countries. Fidelity owns approximately 11.2% of Hallwood's equity. Another major shareholder is M&G, one of the largest fund managers in the United Kingdom, controlled by Kleinwort Benson, an international merchant bank with a major presence around the world. Hallwood has considerable expertise in the liquidation and management of distressed real estate. In 1979, Hallwood restructured First Pennsylvania Mortgage Trust, a New York Stock Exchange listed real estate investment trust, owning a major portfolio of distressed real estate and mortgage loans located throughout the United States.

In 1981 Hallwood restructured the Umet Trust, a New York Stock Exchange listed real estate investment trust formed by Union Bank of California, again holding a major portfolio of distressed real estate and real estate loans.

In 1983 Hallwood restructured the Institutional Investors Trust, yet another New York Stock Exchange listed real estate investment trust, this time formed by Donaldson, Lufkin, Jenrette, the New York investment bank, again holding a portfolio of poor quality distressed real estate. Finally, in 1984, Hallwood acquired the assets of The Twenty Seven Trust which was formed to liquidate the assets of the bankrupt Chase Manhattan Mortgage and Realty Trust for the beneficiaries of 26 creditor banks and the FDIC. This current proposal is based upon the arrangements entered into by the creditor banks and the FDIC for the liquidation of The Twenty Seven Trust's assets.

Over the years, Hallwood has liquidated the assets of all of the above through its Cleveland-based Property Liquidation Division and has performed several similar functions in the United Kingdom where we have liquidated the assets of Bank and Commercial Holdings Limited acquired in 1978, West Kent Estates Limited acquired in 1980, Redfern and Rankpert Limited acquired in 1981 and the Globe Group of Companies acquired in 1985.

The total value of real estate properties and loans liquidated over the last five years is in excess of $300 million.

Hallwood intends to offer the Alaskan real estate assets to investors in Japan, Hong Kong, Taiwan, Australia, New Zealand, Malaysia, Singapore, the Philippines, Korea, Canada, South America, Germany, Switzerland, Holland, the United Kingdom, France, Scandinavia and also in the U.S. Sales brochures will stress the current Alaskan economic climate and the cyclical nature of the economy and likelihood of early recovery. Foreign investors will be offered a speculative real estate investment on a highly leveraged, non-recourse basis. For the payment of a 20% deposit, buyers will be speculating on the dollar, the oil price and the Alaskan economic recovery with the benefit of an attractive loan package. In short, anywhere where there is a local investment market and no exchange controls, Hallwood will find and motivate an experienced local agent to offer Alaskan real estate investment properties, both residential and commercial. Buyers will also be offered a management service where our local managers will, for a small fee, manage local investment properties on behalf of non-resident investors, seek new tenants and advise as to prospects for resale. We believe that marketing to foreign investors in this way will not pose a threat to the stability of the local market as an investor buying from Hallwood will be buying on a long term hold with a view to a large capital gain some years in the future.

Hallwood will also be organizing regular marketing trips to Alaska by foreign investors, many of whom may also be interested in other Alaskan commercial investment projects.

Management

The Trustee will enter into agreement with Alliance whereby Alliance will provide the Trust with management services on a non-profit, recovery of costs only, basis utilizing the services of Gordon Willhite and his 50-strong workout staff. The Trust will be administered from offices in Anchorage and the Trustee will employ and/or retain employees, real estate consultants, real estate brokers, real estate management and leasing agents, appraisers, architects, engineers, mortgage correspondents, mortgage servicing agents, escrow agents, attorneys, accountants and any other such persons as the Trustee may deem necessary to assist it in fulfilling the purpose of the Trust.

In order to facilitate the sale of Trust Assets, the Trustee may grant a loan to purchasers to facilitate such sale as follows:

1. Subject to receiving a cash deposit of 20% of the purchase price, the Trust may grant a non-recourse loan secured by a valid first mortgage lien on the asset sold for a term of not more than twenty years on an amortizing basis at a variable rate of interest floating not less than one point above Alliance Bank minimum lending rates as posted from time to time.

2. Should an asset be sold with less than 20% deposit, then the Trustee may sell the asset with a twenty year amortizing loan as described above but with recourse to the credit of the purchaser.

3. If the deposit of 25% or more is received, then the Trustee may lend up to twenty years on an interest only basis as described above.

4. Under no circumstances may the Trustee sell with less than a 5% deposit.

Upon the formation of the Trust, each of the Beneficiary Institutions shall be entitled to nominate a committee member to the Trust Committee. The Trust Committee shall have the power to remove the Trustee and appoint a successor Trustee in the event of any breach of the Trust Agreement, Procedures Agreement or Distribution Agreement.

Fees to the Trustees

Hallwood as Trustee will not receive any fee in respect of its services hereunder as it is acting to preserve its own financial interests as 85% shareholder of Alliance. In effect, Hallwood will be receiving an indirect fee in that Alliance staff costs in its workout department will be partially reduced by the formation of the Trust.

In the event that Hallwood exercises its put to the FDIC and is thereafter no longer a major shareholder of Alliance, Hallwood's services as manager and Trustee will still be available to the Trust on a fee basis should Beneficiary Institutions request Hallwood to continue its Trusteeship.

The Trustee will expect to be reimbursed for all its necessary expenses expended in connection with the Trust's business.

March 17, 1988

The Hallwood Group Incorporated
767 Third Avenue
New York, NY 10017
Tel: 212-319-2360

MEMBER
TENTH ALASKA LEGISLATURE
ELEVENTH ALASKA LEGISLATURE
TWELFTH ALASKA LEGISLATURE
THIRTEENTH ALASKA LEGISLATURE
FOURTEENTH ALASKA LEGISLATURE
FIFTEENTH ALASKA LEGISLATURE

STATE OF ALASKA

SENATOR TIM KELLY

P.O. BOX V
JUNEAU, ALASKA 99811
(907) 465-3822

P.O. BOX 210001
ANCHORAGE, ALASKA 99521
(907) 561-7612

Feb. 9, 1988

To: All Senators
From: Senator Tim Kelly TDK

re: The Alaska Stabilization Assistance Program (ASAP)

I am introducing the attached legislation. It's essentially a "generic" bridge bank concept as originally proposed by Dave Rose.

Several different proposals for helping to slow the decline of property values throughout Alaska, and particularly Southcentral, have surfaced. I can support any number of these. If, however, the Legislature cannot within the next 90 days agree upon a more specific proposal, this legislation would enable AIEDA to contract with a separate entity to help maintain a floor on real estate values.

The problem is not just the portfolio the FDIC has assumed in Alaska, but also the Alliance Bank portfolio, which could be an even larger problem, as well as several other institutions and banks with similar serious concerns. If a separate entity can be created to pool these problem properties and effectively prevent competitive "dumping", I believe a service will be done. I understand that both the FDIC and Alliance Bank would be interested in exploring such a concept.

I have initially capitalized the ASAP through a $15 million loan from the Railbelt Energy Fund. I'm not wed to this source of funding. Either AIEDA or General Fund money might be used, but as the problem, while statewide, appears to be predominately a railbelt problem, I'm not shy about proposing borrowing the money from the Railbelt account.

Both private industry and the FDIC have been extremely active in trying to solve this serious problem. I believe the State should also become a limited player at this time.

I urge your co-sponsorship.

MEMBER
TENTH ALASKA LEGISLATURE
ELEVENTH ALASKA LEGISLATURE
TWELFTH ALASKA LEGISLATURE
THIRTEENTH ALASKA LEGISLATURE
FOURTEENTH ALASKA LEGISLATURE
FIFTEENTH ALASKA LEGISLATURE

STATE OF ALASKA

SENATOR TIM KELLY

P.O. BOX V
JUNEAU, ALASKA 99811
(907) 465-3822

P.O. BOX 210001
ANCHORAGE, ALASKA 99521
(907) 561-7812

February 8, 1988

TO: Tam Cook
FROM: Sen. Tim Kelly TDK

re: Alaska Stabilization Assistance Program (ASAP)

Please draft legislation which:

1) Creates a distinct "Alaska Stabilization Assistance Program" within the Alaska Industrial and Export Development Authority (AIEDA);

a) stating that the purpose of the program is to facilitate the development of a separate organization to promote the stabilization of real estate values in Alaska;

b) placing the account under the direction of the Board of Directors of AIEDA;

c) authorizing AIEDA to contract with an entity to assume management of foreclosed upon property held by financial institutions and loans collateralized by real estate, for the purpose of reorganizing and stabilizing that property, and;

d) stating that AIEDA shall contract to retain management of said property until such time as it is determined that property market values have stabilized and improved.

2) Appropriates $15 million from the Railbelt Energy Account to the "Alaska Stabilization Assistance Program" of the Alaska Industrial and Export Development Authority, for the purpose of paying operational costs involved in the management of foreclosed property;

Attach a letter stating:

It is the intent of the Legislature that these funds shall be construed as a five year interest bearing loan to AIEDA, with the interest to be determined by the annualized prime rate.

As funds are recovered from the management of this property, these funds shall be returned to the Stabilization Assistance Program which will distribute these funds first to the General Account of the State of Alaska, with appropriate notice to the legislature as to the derivation of these funds so they can be returned to the Railbelt Energy Fund, then to the lending institutions from whom the property management was assumed.

Effective Date: Immediate

ANCHORAGE
ECONOMIC
DEVELOPMENT
CORPORATION

February 26, 1988

The Honorable Kay Brown
House of Representatives
P.O. Box V
State Capitol
Juneau, AK 99811

Dear Representative Brown:

The Board of Directors and Staff of the A.E.D.C. regret, but very much respect, the decision of the House Subcommittee on Housing and Banking to deny our request for $250,000 to evaluate the FDIC's Alaska loan and real estate portfolio. We understand that several committee members felt that to do so would have been the first step on a path that would lead the State to backing a bond issuance for the purchase of the FDIC portfolio.

If that was the perception, then we understand your misgivings. There is presently not enough evidence to support the need for a "moral obligation," and there is insufficient information with regard to the portfolio itself.

Our raising the notion of a "moral obligation" was only in the spirit of keeping you informed as to what might be requested of the Legislature at a future date <u>if</u> we find that State assistance is required to structure a viable transaction. We have since learned through our research and negotiations that State assistance may not be necessary.

At the present time we are continuing our talks with the FDIC and are exploring various financing alternatives. We will keep you informed of our progress.

550 West 7th Avenue
Suite 850
Anchorage, AK 99501
Telephone (907) 258-3700

In the meantime, please accept our sincere thanks for the time and effort you have devoted to this issue. We are confident that most legislators share our desire to keep the decision-making authority for such a large percentage of Alaska's assets in the hands of Alaskans and are divided only on how best to encourage that, and whether State government should play a role. Those are serious, legitimate questions and we salute you for addressing them.

Respectfully,

S. Hawkins

Scott E. Hawkins
President

cc: A.E.D.C. Board of Directors

TO: Subcommittee on Banking and Housing
Joint Committee on Economic Recovery

FROM: Robert B. Flint

RE: Summary of Anchorage Economic Development Corporation proposal for purchase and management of FDIC assets.

The Anchorage Economic Development Corporation or its nonprofit subsidiary proposes to purchase at a discount assets owned by the FDIC acquired from Alaska Bank of the North and First Interstate Bank. Book value of the portfolio is approximately $330 million.

CONTENTS OF PORTFOLIO

The assets consist largly of loans in the amount of approximately $245 million that have not been foreclosed which include $103 million in loans presented to NBA and returned and $142 million in classified and delinquent loans. $37 million in addition loans have been charged off. $28 million is foreclosed real estate and $20 million are bank premises.

PURPOSE OF TRANSACTION

The AEDC would manage the portfolio with the following goals:

1. Reduce or prevent future foreclosures in order to keep Alaskans in their business and homes.

2. Manage owned real estate without a negative impact on real estate market. Warehouse property as necessary.

3. Produce cash flow needed to operate program and repay financing.

4. Distribute profits, if any, to public and nonprofit economic development organizations statewide.

Economic stabilization rather than ~~new~~ near term profit is the overall goal.

PURCHASE OF ASSETS

1. The assets will be purchased from the proceeds of a bond issue. Cash flow must be sufficient to service debt and operating expenses. Negotiated price must not require subsidy.

2. Terms of sale will depend on appraisal of portfolio.

3. Financing will require a) credit enhancement, or b) FDIC to take part cash, part subordinated debt or c) both.

4. Credit enhancement can take the form of a State "moral obligation".

$250,000 REQUEST

The purchase cannot proceed without a thorough assessment of the FDIC portfolio with banking, real estate and financial experts. The $250,000 will fund such an assessment. If the sale take place the $250,000 will be repaid from bond proceeds. If it does not it becomes a grant.

ANCHORAGE
ECONOMIC
DEVELOPMENT
CORPORATION

ANCHORAGE ECONOMIC

DEVELOPMENT CORPORATION

$250,000

Appropriation to Review FDIC Properties

- BUDGET -

$ 150,000	Accountants
65,000	Banking Consultants
25,000	Legal Fees
10,000	Administrative Expenses
$ 250,000	TOTAL

Time to complete study after award - 30 days.

550 West 7th Avenue
Suite 850
Anchorage [illegible]

Loan buy-up plan touted in Juneau

By George Frost
Times Writer

Anchorage's Economic Development Corp. may venture where the Alaska Permanent Fund fears to tread. It is proposing to prop up the city's sagging commercial real estate market by buying about $200 million of bad loans held by bank regulators.

Mayor Tom Fink and members of the AEDC were to meet with Gov. Steve Cowper, permanent fund director Dave Rose and other state officials at noon today to discuss state participation in the scheme.

A draft bill has been presented to the governor for his consideration, press spokesman David Ramseur said Tuesday.

Scott Hawkins, director of the AEDC, said he thought up the idea only last week. He called the proposal "tentative, but promising."

The development corporation was created by the Anchorage

See FDIC, page A-8

Scott Hawkins
... proposal 'promising'

ANCH. TIMES 2/3/88

FDIC: 'No fire sale'

Continued from page A-1

Assembly last June to attract new business and expand existing businesses. Although it is funded largely by the city, it enjoys considerable freedom in pursuing its development goals.

The AEDC has the authority to create subsidiaries and to issue revenue bonds to back its projects.

Under AEDC's proposal, a subsidiary would be formed to invest in loan portfolios previously held by failed banks.

This non-profit subsidiary would issue long-term revenue bonds of $50 million to $60 million to purchase, at a deep discount, the loan portfolios now managed by the Federal Deposit Insurance Corp. and the Federal Savings and Loan Insurance Corp.

The FDIC has offered to sell those loans for between 25 cents to 40 cents on the dollar, he said.

The AEDC wants the state to issue a "moral obligation" backing the bonds, but not direct underwriting.

No money from the permanent fund would be used, Hawkins said.

Rose had opposed Fink's plan to use the fund to invest in commercial real estate.

"That is the beauty of it," Hawkins said. "Ideally, in concept, it would not involve any state money. Anyway, we would not need massive amounts."

The FDIC would prefer to sell its loans to a non-profit corporation rather than a private, profit-making investment trust.

A non-profit corporation would be more likely to hold properties off the market rather than sell them quickly. That in turn would shore up the shaky loan portfolios of other Alaska banks, according to FDIC officials.

The deal also would dispel Fink's fears that the FDIC might "dump" its portfolio and trigger further erosion of the commercial property sector.

But FDIC liquidation specialist Reid Judd ruled out any fire-sale of the hundreds of millions in loans the federal agency took over when two Alaska banks flopped last year.

The FDIC stepped in to manage the assets of the federally chartered Bank of the North in October. The First Interstate Bank of Alaska shut its doors in December.

Assets from both banks were offered to the National Bank of Alaska. Under the takeover agreements signed by NBA, the bank had the right to pick through the portfolios of the failed banks, keep the strongest loans and return the rest to the FDIC.

NBA President Bob Gray said earlier the bank would return about 50 percent, or $24 million, of the Bank of North portfolio, and about 75 percent, or $74 million of the First Interstate loans. The FDIC did not even offer about $165 million in problem loans to NBA, he said.

Hawkins said the AEDC investment probably would yield a high return because most of the loans are delinquent and extremely undervalued.

He also wanted to dispel a misperception that all the FDIC loans involve foreclosed commercial property.

"Better than half those portfolios are in business loans," Hawkins said. "And a longer period would give small businesses more time to work through their problems."

Bill Blessington, a spokesman for Fink, said the mayor was invited because he presides over the city with the worst real estate crunch in Alaska.

Alaska State Legislature
House

Official Business

P.O. BOX V
State Capitol
Juneau, Alaska 99811

Report to the Joint Committee on Economic Recovery
by the
House Subcommittee on Housing and Banking
February 22, 1988

Introduction

The House Subcommittee on Housing and Banking has begun investigating these threshold issues and questions: Should state government act to prop up the real estate market (residential or commercial)? Would proposed actions be effective? Who benefits and who loses? How would the overall economy, and the recovery from recession, be affected? How will active commercial loans (performing, non-real estate) be treated under various alternatives?

The Subcommittee also has begun investigating specific legislation.

The Subcommittee will continue its review on these questions and proposals, and will bring recommendations to the full committee as rapidly as possible.

Recommendation on AEDC Proposal

The Subcommittee was asked by the House chairman of the Joint Economic Recovery Committee to review and recommend whether to appropriate $250,000 to the Anchorage Economic Development Corporation (AEDC) for assessment of the FDIC portfolio. The assessment would provide information needed to decide whether to purchase the portfolio with the proceeds of a bond issue, perhaps supported by the state's "moral obligation."

The Subcommittee conducted more than 12 hours of hearings on the AEDC proposal and other related issues during the past week.

The Subcommittee recommends against appropriation of $250,000 to AEDC for FDIC portfolio assessment at this time.

However, the Subcommittee believes there is a need to acquire additional information about the FDIC portfolio, particularly about the so-called "orphaned" commercial loans -- performing, non-real estate loans which may need a continuing line of credit. Investigations into the extent of this problem may lead to recommendations regarding the FDIC portfolio or those specific loans.

The Subcommittee has not taken a position on other proposals or legislation which need further investigation, such as the "real estate stabilization trust" described in the Hallwood Group proposal of Feb. 18, and other bridge bank concepts.

Agenda for Week of Feb. 22-29

The Subcommittee hopes to bring forward by next week additional recommendations on items that could be immediately pursued or enacted by the Legislature, such as:

• Early funding of 10 additional positions for AHFC.

• Early funding for demolition of Willow Park and Hollywood Vista projects in Anchorage.

• Resolution requesting assistance from federal agencies.

The Subcommittee has scheduled the following meetings:

Thursday, Feb. 25, 8 a.m., House Finance Committee Room

Bert Wagnon, AIDEA

Barry Hulin, First Federal Bank

Thursday, Feb. 25, 5 p.m., Room to be announced

*Willis Kirkpatrick, Division of Banking, Securities and Corporations

Saturday, Feb. 27, noon, House Finance Committee Room

Work session on residential issues

Monday, Feb. 29, 8 a.m., Room to be announced

Report to full Committee on Subcommittee recommendations

*unconfirmed

Submitted by:

Rep. Kay Brown, co-chair Rep. Steve Rieger, co-chair

cc: House Subcommittee on Housing and Banking

Rep. Mike Davis

Rep. Fran Ulmer

Rep. Mark Boyer

Rep. Pat Pourchot

Rep. Steve Frank

Rep. Henry Springer

Rep. Dave Donley

Rep. Virginia Collins

Rep. Randy Phillips

Rep. Mike Navarre

H. Bric, Em.

A CONCEPTUAL PLAN FOR AN ALASKA STABILIZATION ASSISTANCE PROGRAM

A FEDERAL, STATE, LOCAL GOVERNMENT AND PRIVATE SECTOR PARTNERSHIP

This paper expands, clarifies and combines some options set forth in a White Paper entitled "Options to Improve the Alaskan Economy" dated January 1988 and attached hereto.

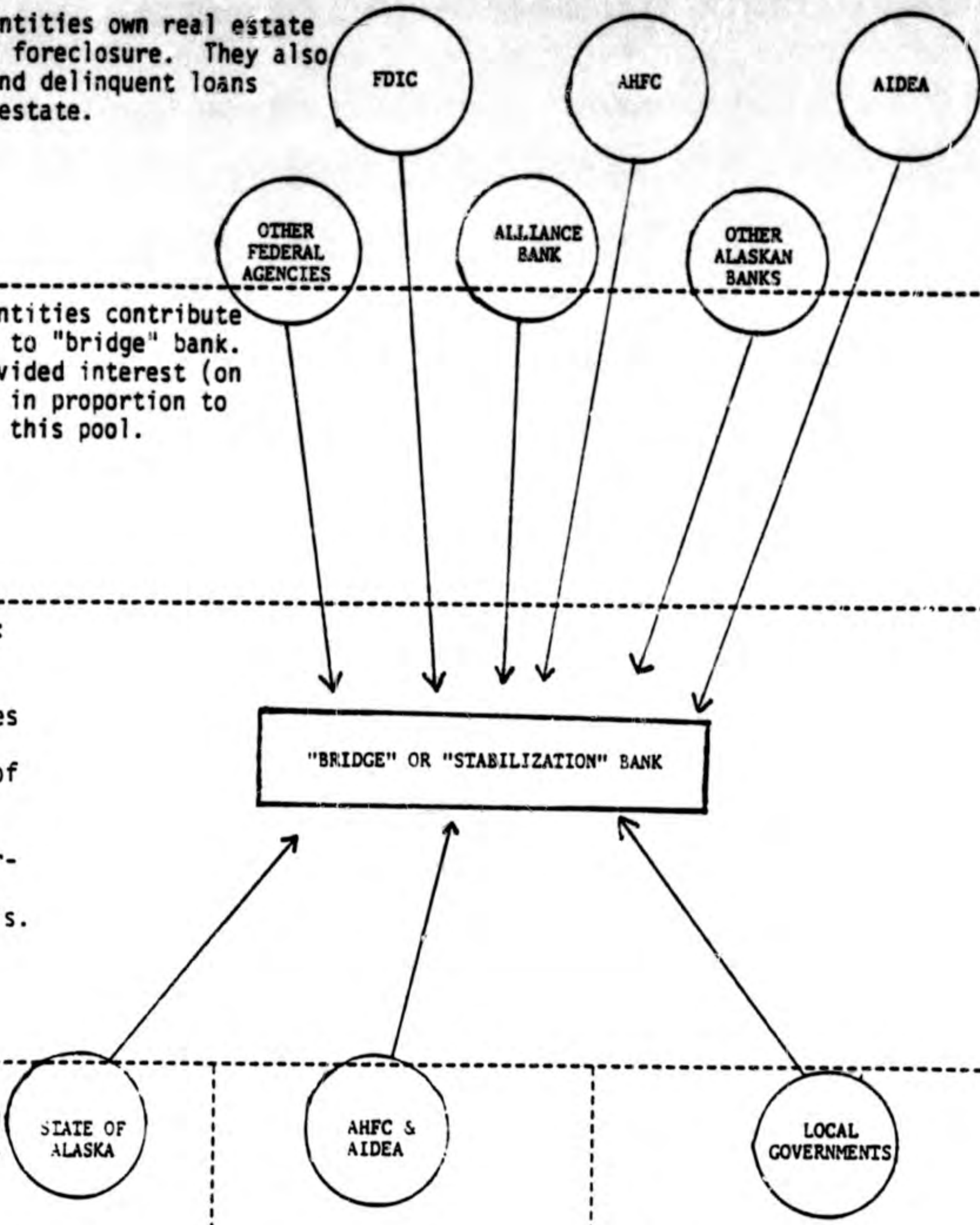
DAB/FEB 88

These agencies/entities own real estate as the result of foreclosure. They also hold defaulted and delinquent loans secured by real estate.

These agencies/entities contribute the above assets to "bridge" bank. They own an undivided interest (on a pro-rata basis in proportion to contribution) in this pool.

Responsibile for:

- Stabilization
- Loan Reschedules
- Loan Workouts
- Liquification of Assets and Cash Return To Pool Contributors on a Pro-rata basis.



If Required.
Provides working capital of about $15,000,000

Receives return of above prior to payout to pool "owners".

Impose new supply moratoriums which can be subject to waiver upon request of local governments.

Restrict new supply:

- Platting
- Zoning
- Utility Expansion

May request waiver of moratoriums after public hearings.

1. This concept requires the combined efforts of federal, state, local and private entities.... A partnership to address mutual problems and solve them on a cooperative basis.

2. It does not "bail out" anybody. No purchases of assets occur, no checks are written. Those entities who "own" problems continue to own them through pro-rata interests in a common pool.

3. Valuation of assets does not present a problem because no purchase takes place. All assets are valued at municipal assessment levels as of a given date. Valuation is utilized only to determine pro-rata share of the common pool.

4. The pool holds assets to stabilize values, eventually liquifies these assets and returns proceeds to pool owners.

5. The State provides a loan (up to $15,000,000) for working capital which is repaid prior to distributions to pool owners. This working capital may not be needed if there is adequate cash flow generated by pool assets but it is evidence of the State's interest and intent to help address and solve this problem.

6. State agencies such as AHFC and AIDEA place moratoriums on financing new supply. These can be waived if local governmemts so request. (General, statewide moratoria may not be in the best interests of those communities which do not have excess suplly of all -- or certain types of -- real estate.)

7. Local governments cannot exacerbate the supply problem by encouraging new construction. Therefore they may consider local moratoria on rezones, replats and utility extensions in order to discourage new construction in those categories of real estate where there currently is excess supply.

NOTE: AHFC = Alaska Housing Finance Corporation is an instrumentality of the State.

AIDEA = Alaska Industrial Development and Export Authority is an instrumentality of the State.

EXECUTION

The establishment of the "Bridge" or "Stabilization" bank is coordinated by a State agency which also serves as the recipient of the State appropriation.

The State agency, using the appropriation (and subsequent loan) as a lever, binds the parties together by contract. It does not operate the bridge bank but does insure that it is contractually obligated to hold assets for stabilization.

The bridge bank is operated by a Board of Directors who set policy and appoint officers who select and direct staff. The Board of Directors of the bridge bank are chosen by the pool participants who vote their pro-rata share of asset contribution.

Gregg E. H.

MEMORANDUM

State of Alaska

TO: Milt Barker
Deputy Commissioner, Treasury
Department of Revenue

DATE: February 12, 1988

FILE NO:

TELEPHONE NO:

THRU: Vincent Wright VW
Chief of Research
Department of Revenue

SUBJECT: Commercial Real Estate Subsidy

FROM: Alfred G. Zangri AGZ
Economist

Conclusion: Recent proposals to have the State purchase existing 'excess supply' of commercial real estate will likely have the following impacts:

1. Could cost the State something in the neighborhood of $115 million to $165 million if all current nonperforming and foreclosed property is covered;

2. Force rents higher than would have been in the absence of such a program which in turn will;

3. - decrease the level of business activity,
   - increase layoffs,
   - decrease aggregate demand and
   - decrease aggregate income

more they would have been in the absence of such a program while at the same time sending signals to the market which will;

4. Provide incentives for additional investment in commercial real estate in the face of existing excess supply;

5. Create an additional source of uncertainty in the economy as other interest groups exert pressure on the system to fashion their own bail out program which will in turn;

6. Further delay the adjustment process and delay the process of economic recovery;

7. Bail out a few banks rather than nonperforming building owners;

8. Result in a tax leakage to the federal government if commercial real estate investors tend to have a higher than average income;

9. Subsidize owners of commercial real estate and banks at the

10. Result in leakage to out-of-state owners who will also benefit from the subsidy;

11. Result in additional leakage as the funds used in the program are unlikely to be reinvested in the state due to excess capacity;

12. Replace the market price with a state bureaucracy in making commercial real estate investment and allocation decisions with the resulting fallibility, inefficiency and opportunity for unequal treatment.

Discussion: This memo discusses the impact that the recently proposed commercial real estate excess capacity purchase program will have on the State economy. The primary focus of the discussion will be whether the economy is likely to be helped or hurt by the program. As a part of this discussion it is necessary to examine the distribution of gains and losses throughout the economy resulting from such a program. However, the central question is not the equity of the distribution. Instead, the question is whether the overall net impact of the program is to help or hurt the State economy.

Before assessing the impact of these proposals we must first examine the way the commercial real estate market works.

There are two types of operators in the market for commercial real estate:

1. The Users - these are businesses or professionals that rent or own commercial space for their use in day-to-day business activities.

2. The Investor - these are individuals or businesses that own commercial real estate for the revenue stream (rents and/or capital gains) the space yields.

The level of aggregate demand for goods and services determines the rental value and in turn the market value of commercial real estate. Investors' demand for commercial real estate is derived from the future stream of rents that the owner expects to receive. Users demand is derived from the profits they expect to receive from its use which are in turn derived from consumers' demand for the product or service offered by the business occupying the commercial space.

The problem that has occurred in the Alaskan economy is that the overall level of aggregate demand has fallen below the level anticipated during the building boom because there are fewer people than anticipated and those people are spending less. The result of this fall in aggregate demand is that business profitability has fallen, increasing both business failures and the number of marginal businesses. This in turn has reduced the level of demand for commercial space and created 'excess supply'

We should realize, however, that 'excess supply' is a price dependent concept. This means that as aggregate demand falls and the general level of business activity declines users of commercial space have a demand for less space because some have gone out of business while others have found it necessary to reduce costs in order to stay in business. Part of this reduction in costs will be accomplished by reducing the rent they are willing to pay. This will cause these businesses to seek rent reductions from their existing landlords and/or move to less expensive or smaller quarters. Rents for all commercial space will begin to fall as owners of commercial space try to bring vacancy factors back to prior levels. Even businesses that are not feeling pinched will find that they can now rent larger and/or higher quality space at reduced rates.

Simply stated, excess capacity exists when prices are too high to clear the market. As prices fall the excess capacity will tend to be absorbed back into the economy. Two factors must be noted about this reabsorption: First, as rents fall and businesses tend to move up to higher quality space, vacancy factors in lower quality (older, less luxurious) space will tend to be higher than in higher quality (newer, more luxurious) commercial space. This occurs because the more marginal or risky or newer businesses will tend to locate in this cheaper space thus creating a higher turnover. This will in turn tend to increase the rent differential between lower quality and higher quality space. This process will be reversed as the economy recovers -- a fact that any investor in lower quality properties realizes.

The second factor to note about the eventual reabsorption of 'excess capacity' is that the adjustment period will not be fast. It may well take a number of years. There are some indications that the adjustment is well under way (see for example the Anchorage Office Space Market Analysis Summary - midyear 1987 which shows an increasing vacancy factor for lower quality space and a slowing vacancy factor for higher quality space).

On the other hand, as rents fall it is likely that leveraged commercial space investors will be unable to avoid increasingly negative cash flows which may cause additional buildings to be sold at losses. It is possible that the capitalized value of some commercial real estate has not only fallen below the level of existing financing but also below current replacement cost.

From the above discussion we can identify which people will benefit and which will lose from a general decline in commercial real estate rents. Those that stand to gain from decreased rents are

businesses that use rented commercial space;
customers of businesses that use rented commercial space;
employees of businesses that use rented commercial space;
investors in businesses that use rented commercial space.

Those that stand to lose from falling commercial space rents are

owners of commercial space for rent;
businesses that operate from owned commercial space;
employees of businesses operating from owned commercial space;
investors in businesses operating from owned commercial space;
investors in banks that have inadequate reserves to cover nonperforming commercial real estate loans.

It is also possible to examine the likely impact of proposed solutions to the 'excess capacity' problem. First, if the State buys distressed properties at market prices and rents these properties at market prices there is no effect on the market. Rents will be driven down to the same level they would have reached in the absence of the State purchase. However, since this does nothing to relieve the perceived 'excess capacity' problem, the proposals put forward have been to purchase these properties and withhold them from the market either temporarily, by keeping them vacant, or permanently by bulldozing them. In either case this action on the part of the State will result in a subsidy to the owners of non-State owned buildings. This subsidy will occur because rents will be kept higher than they would have been in the absence of the State program. The result remains unchanged even if aggregate demand falls so far that some buildings cannot be sold at any price: the ghost town effect. Even in this case, purchase for land value or any other price by the State represents a subsidy to other building owners. Purchase and subsequent bulldozing by the State represents destruction of wealth.

This subsidy is directly paid for by:

businesses that use rented commercial space;
customers of businesses that use rented commercial space;
employees of businesses that use rented commercial space;
investors in businesses that use rented commercial space;

through higher rents, higher prices and/or fewer products available, fewer jobs available and decreased returns on their investments.

The subsidy is also indirectly paid for by all the citizens of the state through the opportunity cost of the program. This cost is the value of the lost benefits of the other programs that could have been funded with the revenues spent on the purchase of commercial real estate. Opportunity costs arise because the State has a limited amount of money to spend. Any money spent to purchase commercial real estate reduces the amount available to spend on other programs. The foregone benefits of these lost or reduced programs are, therefore a cost associated with the proposal.

One estimate of the potential size of this opportunity cost is 25% to 35% of the $292.3 million in past due & non-accruing commercial real estate loans plus the 165.2 million in foreclosed real estate owned by banks identified by the Governor's Office of Management and Budget (1/4/88)[1]. To place these numbers into perspective consider that this $115 million to $165 million represents two to three times the FY88 authorization to the Municipal Assistance program[2]. State purchase of these nonperforming loans will actually result in a bail out of the banks holding these loans not the current building owners. In fact the nonperforming owners will likely not only lose the building but also be hit with a taxable gain on the amount of the loan the bank has written off plus the accumulated interest, fees and charges associated with the foreclosure.

Both the direct and indirect costs will be imposed upon the State economy even if it is the lowest quality space that is taken off the market since this will keep rents higher than necessary and could well keep many start-up businesses from ever making it. Actual estimation of the net costs and benefits of higher rents for commercial space would require a difficult and, due to data availability problems, perhaps impossible, empirical study. It is likely, however, that since the proportion of businesses that rent space is greater than the proportion that own space, the losses of the losers from higher rents will more than offset any gains to the gainers.

Further if, as is likely, the income of commercial real estate investors is higher than the average income of the rest of the population of the state then the leakage to federal income taxes will be greater than if the funds were used in alternative ways. It may also be more likely that commercial real estate owners will spend incremental income on out-of-state travel and other out-of-state goods and services. Additionally, to the extent that buildings are owned by out-of-state individuals or corporations, this leakage from the economy is increased.

It has been argued that the owners of other buildings will be unable to compete with buildings sold at distress sales. It is true that market conditions are causing building owners to accept reduced returns on their buildings as rents fall. On the other hand, if current owners believe that prices at any potential distress sale will be so low that they will be unable to compete, they have the option of purchasing the distress priced buildings themselves. This option will allow the owners of other buildings to minimize the reduction in their revenue.

In summary, the outcome of a State program to reduce excess capacity in commercial real estate will be to keep rents higher than they would have been in the absence of such a program which will, in turn, drive business, employment, aggregate demand, and aggregate income lower than they would be in the absence of such a program. Furthermore, implementation of this type of program will create an additional source of uncertainty in the economy as other interest groups exert pressure on the system to fashion their own period and delay the process of economic recovery. Banks and owners of commercial real estate will be the beneficiaries of this program while the costs will be borne by all tho other citizens of the State.

FOOTNOTES

1. Memorandum to Mary Holloran, "Commercial Real Estate Background Report", R.A. Finegerg and Joan Kasso, Table 1, Jan. 28, 1988.

2. "Special Report Governor's FY89 Spending Plan", Legislative Finance Division, January 14, 1988.

Le Roccabella
24 Avenue Princesse Grace
Monte-Carlo
Principality of Monaco
Tel. (33) 93.50.95.50
Telecopy (33) 93.25.69.37
or (33) 93.50.71.45

To David Rose Alaska Permanent Fund By Fax 907 586 2057
18th Feb 1988

re Hallwood Alaskan Real Estate Stabilisation Trust

Dear David,
Herewith a clean ammended copy of the Trust Proposal.Please feel free to circulate the document at your discretion.I will be available for meetings in Alaska or elsewhere at any time after the 6th March next.
I have already copied the following on the proposal...
Governor Cowper
Tony Smith
Max Gruenberg
Senators Kelly and Sturgulewski
The Members of the House Subcommittee on Housing and Banking
Ashley Reed
I have also copied all our own people and the FDIC,FHLBB,MGIC, AHFC,AIDEA,Fannie Mae,N.Y.Life and any other Alaskan lending institutions which we feel may be interested in participating.
I look forward to speaking to you again before I leave for my holiday on Monday.
Regards,

Anthony.J.Gumbiner

1

PROPOSAL FOR THE ESTABLISHMENT OF THE HALLWOOD ALASKAN REAL ESTATE STABILIZATION TRUST

A liquidating trust formed to liquidate on an orderly basis at stable appraised prices in the best interests of the Beneficiary Institutions, the supply of distressed real estate properties and loans currently overhanging the Alaskan market.

Background

As a result of the current severe recession in the Alaskan economy which followed a period of strong economic growth in the commercial and residential real estate market, Alaskan lending institutions and certain state and government agencies who have assumed the obligations of failed institutions, are today burdened with an unprecendented holding of "bad" real estate loans, some of which have been foreclosed and all of which are at least partially non-performing. Real estate values have been declining monthly. Although the decline in real estate values has been slow and the recession is seen to be bottoming out, the recovery is extremely fragile and prices could be precipitously collapsed if the overhanging real estate were offered back into the market at distressed prices for forced sale.

Alliance Bancorporation ("Alliance") was recently formed by the merger of Alaska Mutual Bank, United Bank Alaska and United Bank Alaska South Eastern and was recently recapitalized by the Hallwood Group Incorporated ("Hallwood") and the FDIC. Alliance currently holds some $300 million of bad real estate loans of which about $80 million has already been foreclosed and the balance being in the form of classified and non and partly performing real estate loans. The FDIC, as Receiver of the failed First Interstate Bank of the North, holds about $200 million of "bad" loans of which at least half are property related. Additionally, Fannie Mae, the Federal Home Loan Bank Board, Alaska Housing Finance, MGIC, New York Life and other Alaskan lending institutions all hold similar "bad" loan portfolios.

If any of the above institutions were to "dump" their real estate holdings into the local market they would collapse the fragile price structure and ensure the continuation of the current recession to the detriment of not only themselves individually and as a group, but all Alaskan citizens and property owners.

The objective of "The Hallwood Alaskan Real Estate Stabilization Trust" is to prevent a further decline in real estate values by allowing the Trustee of the Trust to manage the liquidation of the trust assets so as to prevent an oversupply of property in the local marketplace such as would cause further declines in the price of residential or commercial properties.

The Proposal

In order to maintain a stable market and to encourage a recovery, Hallwood proposes the establishment of "The Hallwood Alaskan Real Estate Stabilization Trust" (the "Trust") to be formed as a liquidating trust with the purpose of liquidating trust property by sale or other disposition as promptly as shall be economically feasible in the best interests of the Beneficiary Institutions and to distribute the distributable proceeds to the Facilitating Beneficiary Institutions solely and exclusively in accordance with the provisions of a Distribution Agreement.

The Board of Alliance Bank has already agreed to subscribe its distressed portfolio of real estate assets to the Trust and we intend to invite the FDIC and the other concerned institutions mentioned above to become subscribers to the Trust prior to its formation date of March 31, 1988. Following subscription of assets to the Trust, beneficiary institutions will own an undivided interest in the Trust.

We anticipate that the transferred assets will consist of single family homes, condominium projects, apartment buildings, a few office buildings and other commercial structures, shopping centers and parcels of raw and improved land. We also anticipate receiving non-performing or partly performing mortgage loans secured by real estate.

It is our intention that all transferred assets will be recorded in the Trust's books at fair market value as of March 31, 1988. The fair market value of real estate properties will be based upon current independent appraisals except for those assets where a sale was pending and subsequently closed. In those cases the proposed selling price will be considered as a more accurate indication of fair market value Fair market value of real estate loans will be based upon current independent appraisals. All appraisals will be carried out in accordance with accepted appraisal methods by a qualified independent appraiser who is a member of the American Institute of Real Estate Appraisers and who regularly performs appraisal services for major financial institutions. Credit will be given in the appraisal process for any income flowing from any transferred asset.

It is intended that Hallwood will act as the Trustee for the Trust which would be established for a ten-year period expiring in March 1998. If all of the Trust assets have not been sold off by this time, then the Trust will come to an end unless a new five-year liquidating trust is established by the Beneficiary Institutions.

It is intended that a Procedures Agreement would be drafted to establish a minimum sales price for each of the Transferred Assets. Minimum sales prices will be based upon appraised values. The Procedures Agreement will also establish restrictions on financing by the Trust although it is intended that the Trust will offer financing to purchasers to assist in the sell-out (see "Marketing"). The requirements of the Procedures Agreement will assure the Beneficiary Institutions that no asset will be sold for less than a certain fixed amount and that the deferred portion of any sales price will be properly secured and payable over a limited period of time. The Trustee's powers and duties would be governed by a Trust Agreement which will generally authorize the Trustee to preserve and manage but not to develop the Trust assets. Accordingly the Trustee has discretion, for the purpose of marketing, to obtain necessary appraisals, feasibility studies, engineering studies or marketing surveys. The Trust cannot undertake to develop unimproved properties to the extent of commencement of any sort of major construction.

Generally the Trustee will limit expenses to any necessary management costs such as taxes, insurance and maintenance and to its own office budget and outside professional fees.Additionally, the Trust may expend sums necessary to preserve its properties or prevent the enforcement of liens superior to the Trust's mortgage loan assets.

As to borrowing funds, the Trust Agreement will provide that borrowings shall not exceed an aggregate of 10% of total Trust assets at appraised value and further that borrowings may only be made from the State of Alaska, secured on any future profit which may be realized from future sales of Trust Assets. Under such borrowings we would expect the State to roll over interest payments to the extent that such payments were not available out of Trust cash flow. It is not anticipated that the Trust will need to avail itself of this borrowing facility and it is anticipated that the cash flow from the prospective sale of Trust assets together with the $15 million cash contribution which will be contributed by the State of Alaska (see "Assistance from the State of Alaska") will be sufficient to fund all ongoing operations of the Trust.

Under the terms of the Distribution Agreement, the Trustee will first satisfy itself that sufficient working capital is available to the Trustee to operate the Trust and will then distribute

a) To the Beneficiary Institutions such sum as represents a proportional return of appraised value and any profit achieved thereon unless some drawdown shall have been made by the Trustee under the standby credit facility from the State of Alaska more particularly mentioned hereafter.

b) If such drawdown shall have been made then any such profit shall first be applied to repay with interest any advance made by the State.

The Trustees will be empowered to sell off blocks of property to other trusts or corporations dedicated to a long term holding period such as that currently proposed by the Commissioner for the Department of Commerce and Economic Development for the State of Alaska and Sealaska Corporation.

As to the tax consequences of the Trust to the Beneficiary Institutions, the Trust will be treated as a "Grantor Trust" for federal income tax purposes and as such, all tax trust consequences flow through the Trust to its beneficiaries in accordance with their respective interests. The Trust beneficiaries are fully insulated, on the other hand, from any liability which might arise out of the various Trust Assets.

To ensure that the Trust will distribute all distributable proceeds in a timely manner and in accordance with the proper percentages to the Beneficiary Institutions, the Trust Agreement will require that the Trust's financial statements will be examined by a firm of independent certified public accountants. Following each examination, the accountants will issue a letter to the Beneficiary Institutions stating whether all distributions have been made in accordance with the Trust Agreement and the Distribution Agreement.

The Trust Agreement will also require the Trustee to furnish the following reports to beneficiary banks:-

a) A monthly statement of cash receipts and cash disbursements with a detailed description of all sales or dispositions of Trust property and of any modifications, amendments or extensions of obligations owing the Trust.

b) A quarterly unaudited balance sheet, income statement, statement of Trust principal, statement of changes in financial position and a schedule of all distributions made during such quarter.

c) A semi-annual stummary of the status of each Transferred Asset and a description of any negotiations then in progress concerning the sale or other disposition of such Transferred Asset.

d) An annual audited balance sheet, income statement, statement of Trust principal, statement of changes in financial position and a schedule of all dispositions made during the year.

e) In connection with the examination of the annual reports and financial statements, the independent certified public accountants must issue letters stating:-

i. that the sales and distributions made during the preceding year were in accordance with the terms of the Trust Agreement, Procedures Agreement and Distribution Agreement, and,

ii. with respect to the internal financial controls and practices of the Trust, setting forth such recommendations as the independent certified public accountants may consider appropriate.

Assistance from the State of Alaska

In order to ensure that the Trust is funded with sufficient working capital, we shall request the State of Alaska, through one or more of its agencies, to subscribe the sum of $15 million in cash to the Trust for which the State shall receive a beneficial interest in the Trust, in proportion to its subscription.

While it is anticipated that this $15 million plus the proceeds of sale of Trust Assets will be sufficient to ensure the continuity of the Trust and the payment of all marketing and general and administrative costs and expenses of the Trustee, we shall request the State of Alaska to enter into a standby credit agreement with the Trust whereby the State will agree to advance to the Trust up to 10% of Trust Assets based on the appraised value as at March 31, 1988, secured by a first lien on any profit that may be realized by the Trustee from future sales of Trust Assets, such loan to bear interest at current market rates. The Trust shall have the power to roll over interest payments until sufficient cash flow becomes available from profits generated from Trust operations to make settlement. Repayment of interest and principal upon such loans drawn down during the life of the Trust shall have priority to any distributions of any profit which shall be made to Beneficiary Institutions.

Assistance from State Agencies

We shall also ask state agencies such as AHFC and AIDEA to assist by placing moratoriums on financing new supply of Real Estate. These restrictions can be waived if local government so requests.

Marketing

Immediately following the establishment of the Trust, the Trustee shall prepare a five-year cash projection to determine how quickly the Beneficiary Institutions can reasonably expect the transferred assets to be sold and to what extent their interests could be converted into cash. At the outset the Trustee will review all of the non-performing real estate loans and real estate owned to identify essential problem areas. Problems involving construction, design, budgets, cash flow, management location, competition, marketing techniques and various other factors must be analyzed to determine the causes of non-performance or under-performance for each specific asset. Independent appraisals will have to be obtained to arrive at a minimum selling price for each real estate property and further, an initial status report must be prepared for the real estate unit for each asset containing the description of the asset, the loan history, net book value, current status, pending litigation.

For real estate owned, professional quality sales packages will need to be prepared for each real estate property. Each package will contain a full description of the property site and improvements, income and expense information, lease abstracts, information on available utilities, zoning, taxes, etc.

Regarding loan workouts, the Trustee will evaluate the financial condition of the debtor and the prospect for recovery and will evaluate existing collateral and the prospect for obtaining additional collateral in addition to various types of loan modification, intervention in management or leasing, increased monitoring and control of collateral and possible turnaround methods may also be considered.

Both real estate owned and real estate loans deemed appropriate for foreclosure, i.e., future real estate owned, will be marketed for sale although particular care will be taken with regard to the amount and pricing of real estate offered for sale in the local Alaskan marketplace. The major marketing effort will be made to foreign, i.e., non-American, prospective purchasers through Hallwood's international network around the world.

Hallwood is a public company listed on the New York and London Stock Exchange, specializing in the financial services industry and owned by approximately 35,000 shareholders and institutional investors. Prominent amongst these are the Fidelity Group of Boston, one of the largest fund managers in the United States with offices in London, Hong Kong, Singapore, and various other countries. Fidelity owns approximately 11.2% of Hallwood's equity. Another major shareholder is M&G, one of the largest fund managers in the United Kingdom, controlled by Kleinwort Benson, an international merchant bank with a major presence around the world. Hallwood has considerable expertise in the liquidation and management of distressed real estate. In 1979, Hallwood restructured First Pennsylvania Mortgage Trust, a New York Stock Exchange listed real estate investment trust, owning a major portfolio of distressed real estate and mortgage loans located throughout the United States.

In 1981 Hallwood restructured the Umet Trust, a New York Stock Exchange listed real estate investment trust formed by Union Bank of California, again holding a major portfolio of distressed real estate and real estate loans.

In 1983 Hallwood restructured the Institutional Investors Trust, yet another New York Stock Exchange listed real estate investment trust, this time formed by Donaldson, Lufkin, Jenrette,the New York investment bank, again holding a portfolio of poor quality distressed real estate. Finally, in 1984, Hallwood acquired the assets of The Twenty Seven Trust which was formed to liquidate the assets of the bankrupt Chase Manhattan Mortgage and Realty Trust for the beneficiaries of 26 creditor banks and the FDIC. This current proposal is based upon the arrangements entered into by the creditor banks and the FDIC for the liquidation of The Twenty Seven Trust's assets.

Over the years, Hallwood has liquidated the assets of all of the above through its Cleveland-based Property Liquidation Division and has performed several similar functions in the United Kingdom where we have liquidated the assets of Bank and Commercial Holdings Limited acquired in 1978, West Kent Estates Limited acquired in 1980, Redfern and Rankpert Limited acquired in 1981 and the Globe Group of Companies acquired in 1985.

The total value of real estate properties and loans liquidated over the last five years is in excess of $300 million.

Hallwood intends to offer the Alaskan real estate assets to investors in Japan, Hong Kong, Taiwan, Australia, New Zealand, Malaysia, Singapore, the Philippines, Korea, Canada, South America, Germany, Switzerland, Holland, the United Kingdom, France, Scandinavia and also in the US. Sales Brochures will stress the current Alaskan economic climate and the cyclical nature of the economy and likelihood of early recovery. Foreign investors will be offered a speculative real estate investment on a highly leveraged, non-recourse basis. For the payment of a 20% deposit, buyers will be speculating on the dollar, the oil price and the Alaskan economic recovery with the benefit of an attractive loan package. In short, anywhere where there is a local investment market and no exchange controls, Hallwood will find and motivate an experienced local agent to offer Alaskan real estate investment properties, both residential and commercial. Buyers will also be offered a management service where our local managers will, for a small fee, manage local investment properties on behalf of non-resident investors, seek new tenants and advise as to prospects for resale. We believe that marketing to foreign investors in this way will not pose a threat to the stability of the local market as an investor buying from Hallwood will be buying on a long term hold with a view to a large capital gain some years in the future.

Hallwood will also be organizing regular marketing trips to Alaska by foreign investors, many of whom may also be interested in other Alaskan commercial investment projects.

__Management__

The Trustee will enter into agreement with Alliance whereby Alliance will provide the Trust with management services on a non-profit, recovery of costs only, basis utilising the services of Gordon Willhite and his 50-strong workout staff. The Trust will be administered from offices in Anchorage and the Trustee will employ and/or retain employees, real estate consultants, real estate brokers, real estate management and leasing agents, appraisers, architects, engineers, mortgage correspondents, mortgage servicing agents, escrow agents, attorneys, accountants and any other such persons as the Trustee may deem necessary to assist it in fulfilling the purpose of the Trust.

In order to facilitate the sale of Trust Assets, the Trustee may grant a loan to purchasers to facilitate such sale as follows:-

1. Subject to receiving a cash deposit of 20% of the purchase price, the Trust may grant a non-recourse loan secured by a valid first mortgage lien on the asset sold for a term of not more than twenty years on an amortizing basis at a variable rate of interest floating not less than one point above Alliance Bank minimum lending rate as posted from time to time.

2. Should an asset be sold with less than 20% deposit, then the Trustee may sell the asset with a twenty year amortizing loan as described above but with recourse to the credit of the purchaser.

3. If the deposit of 25% or more is received, then the Trustee may lend up to twenty years on an interest only basis as described above.

4. Under no circumstances may the Trustee sell with less than a 5% deposit.

Upon the formation of the Trust each of the Beneficiary Institutions shall be entitled to nominate a committee member to the Trust Committee. The Trust Committee shall have the power to remove the Trustee and appoint a successor Trustee in the event of any breach of the Trust Agreement , Procedures Agreement or Distribution Agreement.

__Distributions to Beneficiary Institutions__

Subject to the unanimous vote of the Institutional Beneficiaries following the establishment of the Trust, the Trustee may arrange for the issuance and flotation of 7 year participating Loan Notes in

80% of the appraised value of the Trust Assets. All or part of the Trust Assets may be sold in this way.

The Loan Notes will be non interest bearing but will be guaranteed as to principal in proportion to their beneficial interests by the beneficiaries of the Trust. We do not anticipate a joint and several guarantee.

Hallwood will arrange for the sale and distribution of the Loan Notes to investors who will be entitled to 100% of future distributions from the Trust thereafter, i.e., they will purchase at a 20% discount the future distributions from the Trust. Proceeds from the sale of the Loan Notes will be distributed to the Institutional Beneficiaries thereby providing a mechanism to "cash out" early at a discount.

Fees to the Trustee

Hallwood as Trustee will not receive any fee in respect of its services hereunder as it is acting to preserve its own financial interests as 85% shareholder of Alliance.

Hallwood will however expect to charge a normal commercial fee in respect of its best effort distribution of the Participating Loan Notes should this occur.

The Trustee will expect to be reimbursed for all its necessary expenses expended in connection with the Trust's business.

February 18th 1988

The Hallwood Group Inc.
767 Third Avenue
New York NY 10017

Tel: 212-319-2360

Sealaska eyes FDIC properties

By [illegible]
[illegible]

JUNEAU — The Sealaska native corporation has taken the lead in forming an investor group to buy real estate taken over by the Federal Deposit Insurance Corporation in the failure of two Alaska banks.

Sealaska president and chief operating officer Bill Howe confirmed Monday the corporation has hired Juneau consultant Peter McDowell to research whether a private group could profitably buy and hold the properties until the market improves.

The FDIC holds more than 600 properties worth an estimated $28 million from the failures of the Alaska National Bank of the North and First Interstate Bank.

It also owns another 3,000 troubled commercial and consumer loans valued at about $320 million.

Commerce and Economic Development Commissioner Tony Smith began the process several weeks ago by talking with several native corporations and "major investors."

Smith said he is seeking to prevent an outside investor from picking up the properties from the FDIC for a fraction of their value, then dumping them on the market, forcing other property values down.

Smith said he could "facilitate" the formation of a Real Estate Investment Trust by making the initial contacts, but said a private entity would have to lead the group.

"It's time for someone to get this thing focussed," said Sealaska's Howe, "so we're picking up the ball."

Howe said the corporation is putting up about $30,000 to explore the idea.

McDowell is meeting with other potential investors to measure interest in the concept.

"It's bigger than Sealaska, there has to be a lot of other players, too," Howe said.

McDowell also touched base with the FDIC to get an accurate accounting of the properties in its hands.

FDIC official Herbert Chin said it will take the agency another couple of weeks to inventory and value the property it holds.

Chin said the FDIC is interested in selling the assets and would "look at any offer that comes in to us."

Howe said McDowell will add experienced real estate professionals, including an appraiser to his study team.

Howe said he expects the results of McDowell's study in about six weeks.

"If it's possible to structure a REIT on an economically sound basis, we would have some fairly significant dollars to invest," said Howe.

But Howe said the native corporation doesn't plan to lead the group once it's formed.

"We aspire to be an investor, not necessarily the manager," said Howe.

Sealaska is familiar with the state's real estate and banking industries. It was a major owner of United Bank Alaska before its consolidation with Alaska Mutual Bank into to form Alliance Bank.

See Properties, page D-8

Properties: 'We're picking up the ball'

Continued from page D-6

If Sealaska is successful in its efforts, it could pre-empt a Senate proposal to form a "bridge bank."

Sen. Tim Kelly, R-Anchorage, is drafting a measure that would set up a corporation to buy and hold commercial real estate until the market improves.

As initially proposed by permanent fund Corporation Executive Director Dave Rose, the state would put up about $15 million dollars from the state's general fund as seed money.

Testifying before the Joint Economic Recovery Committee Monday afternoon, commissioner Smith questioned the state's role in such a plan.

"How does a public official determine who are the winners and losers?" he asked.

Smith said it was better left to the private sector.

Smith said there are no plans for the state to invest in the Sealaska venture, but "I suspect it will be put on our platter."

He cautioned it was a very high-risk venture.

"Every single one of these assets is something someone looked at and determined was substandard (a poor risk)," Smith said.

Nevertheless, Smith told the committee the Sealaska effort could work out.

"If the people doing it are successful, I assure you we'll be accused of giving away the store," said Smith.

Anchorage Times
c. 1/28/88

Alaska Continental Bank

January 6, 1988

A SUGGESTED PLAN FOR AIDEA TO ACQUIRE AND LEASE PROPERTIES

SECTION 44.88.080 "POWERS OF THE ALASKA INDUSTRIAL AND EXPORT AUTHORITY" under (5) & (6) states the following. (5) "to acquire an interest in a project as necessary or appropriate to provide financing for the project whether by purchase, gift or lease. (6) to lease to others a project acquired by it for the rentals and upon the terms and conditions the authority may consider advisable including, without limitation, provisions for options to purchase or renew".

During these tough economic times it is suggested that if a servicing lender and the existing borrower concur, AIDEA would acquire properties currently financed, in lieu of the outstanding debt, provided that the originating lender maintains either its 10 or 20% share of the project as originally provided and further provided that the seller agree to lease that property back for three to five years at a 6% cap rate. The seller would have an option to re-acquire the property within three to five years by paying the original amount the property was transferred for in satisfaction of the debt plus an option premium of 2½% per year up to the time of repurchase.

AIDEA and the participating lender would take title to the property in their joint names with the servicing lender continuing to collect the rent and service the lease. The servicing lender would have the second right of refusal to acquire the property at the option price in the event the seller chose not to and could finance that project through AIDEA under the original terms of the bonds sold to support the project in the first place.

AIDEA would offer to work with lenders to purchase any commercial project for up to 75% of the latest appraisal used to support any loan against the project and would agree to purchase projects in conjunction with the lender whether within or outside of the state so as to help all commercial borrowers on a broad basis.

This program could acquire an estimated $1 Billion of properties. It may be necessary for AIDEA to go to the bond market to raise additional funds to support their purchases. AIDEA has the capital and reputation to allow for additional bond sales. It has statutory authority to provide this type of financing. Implementation would require no legislation, only a regulation change as approved by the AIDEA Board on an emergency basis.

The benefits would be many and this could be a "win-win" situation. A borrower could sell a project to AIDEA and the participating lender for its outstanding debt and immediately reduce its monthly overhead by 50%. The seller may also be able to show a tax loss on the sale of the property and apply for a tax refund. A 6% cap rate on the lease would effectively lower the cost of operation and avoid foreclosures. The lender could assist its borrower and eliminate a non-performing loan by converting the loan to Other Real Estate Owned (OREO) and supporting the investment in OREO by the lease paying 6%, which should cover the lenders cost of funds. AIDEA would be able to expand its program and bring more outside capital into the area. The borrower will benefit by knowing that when the market improves, the property can be re-acquired at a pre-determined price.

AIDEA and lender would agree not to lease the property for less than 6% nor sell for less that its capitalized cost. This could strengthen lease and resale rates on commercial projects.

Finally, AIDEA would have to adopt a moratorium on financing any new projects to be constructed unless a broad need was shown for that project.

H. A. BUZ HOFFMAN
PRESIDENT

HAH/jwb

VALUE OF THEIR REAL ESTATE PLUMMET TO WAY BELOW ITS DEBT.

HOW ABOUT THE COMMERCIAL PROPERTY OWNERS?

HOW ABOUT THE BUSINESS PERSON WHO CREATES JOBS THAT WON'T BE ABLE TO MEET PAYROLLS?

HOW ABOUT THE PERSON WHO LOSES THEIR JOB - CAR - FURNITURE - HOME?

HOW DEEP IS THE AGONY GOING TO GO?

Alaska Continental Bank

AS A STATE, WE HAVE TREMENDOUS FINANCIAL RESOURCES BUT LACK THE POLITICAL WILL AND LEADERSHIP TO USE THEM.

I DO EXPECT TO SEE SEVERAL "BAND-AID" PACKAGES PASS THE LEGISLATURE. BUT WILL IT BE ENOUGH?

IT MIGHT BE IF THEY RECOGNIZE THAT THEIR OWN PENSIONS ARE AT RISK DUE TO THE PENSION FUNDS INVESTMENT.

SOME OF OUR LEGISLATORS LIKE TO **SNEER** ABOUT BANK BAIL-OUT'S.

THE BANKS DON'T NEED A BAIL OUT

NBA?

FNBA?

KEYBANK? **DEEP OWNER POCKETS**

RAINIER?

ALLIANCE AND FDIC BAILED OUT ALASKA MUTUAL AND UNITED BANK.

ONLY ALASKA CONTINENTAL BANK AND ALASKA STATEBANK LEFT - OUR CLOSURES WOULDN'T CREATE A RIPPLE.

NO - THE REAL NEED FOR A BAIL OUT IS EVERY HOMEOWNER WHO HAS SEEN THE

Alaska Continental Bank

TOTAL EQUITY CAPITAL OF ALL BANKS ON 9/30/87 WAS $207,477,000.

ON 9/30/87 ALL BANKS HAD A TOTAL OF $165,189,000 IN FORECLOSED REAL ESTATE.

TOTAL DEPOSITS IN ALL BANKS DROPPED $105,985,000.

STATE DEPOSITS DROPPED $220,320,000.

BANKS WERE USING $341,465,000 IN FED FUNDS - ONE DAY BORROWINGS.

TOTAL PAST DUE AND NON ACCRUAL LOANS TOTALED $407,740,000 OF BANKS TOTAL ASSETS OF $5,206,702.

THE BANKS BY THEMSELVES WILL NOT BE ABLE TO PROVIDE THE CREDIT AND FINANCING NEEDED TO FUEL ANY NEAR TERM RECOVERY - THEY WILL NEED HELP.

THE STATE OWNS MOST OF THE RESOURCES - DOES NOT REINVEST MOST OF IT HERE.

PERMANENT FUND	$9 BILLION OUTSIDE
AIDEA	$400 MILLION OUTSIDE
AHFC	$1,200,000,000 OUTSIDE
RAILBEST ENERGY FUND	$350,000,000 OUTSIDE

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WHO KNOWS WHAT ELSE!

AIDEA ALONE HAS A COMBINED NET WORTH OF $519,600,000, MORE THAN 2 1/2 TIMES THE NET WORTH OF ALL BANKS COMBINED. HAD PROFITS OF $24,500,000 - UNUSED CASH ON HAND OF $420,000,000.

AIDEA COULD CUT THE INTEREST ON ALL OF ITS LOANS TO 6% - WOULD ONLY COST THEM $18,000,00 PER YEAR - LESS THAN TWO THIRDS OF ONE YEARS PROFITS.

AIDEA COULD OFFER TO PURCHASE AND LEASE BACK COMMERCIAL PROJECTS.

AHFC HAS AN EQUITY OF $1,521,000,000 ALMOST EIGHT TIMES THE EQUITY OF ALL OF THE BANKS IN THE STATE. HAS OVER $1,256,000,000 CASH AND INVESTMENTS ON HAND - HAD PROFITS OF $21,000,000 AFTER RFBD AND EARLY RETIREMENT OF DEBT.

COULD HAVE OFFERED A SIMPLE MODIFICATION OF NOTE AND DEED OF TRUST FOR $30.00 FOR ANYONE THAT HAD REDUCED INCOME AND REVISED THE NOTE TO 25% OF INCOME. DID NOT NEED TO DO A REFUNDING BOND ISSUE.

OUR BANKS DO NOT HAVE EVEN A SMALL PERCENTAGE OF THE RESOURCES THAT THE STATE AGENCIES CONTROL.

Alaska Continental Bank

THE GOOD - THE BAD & THE UGLY

1987 WAS A DISASTROUS YEAR FOR ALASKA BANKS AND OTHER FINANCIAL INSTITUTIONS.

FIVE BANKS FAILED WITH THREE CLOSED AND TWO MERGED.

TWO CREDIT UNIONS FAILED.

TWO SAVINGS & LOANS FAILED.

YEAR END FIGURES ARE NOT AVAILABLE FOR ALL BANKS BUT IT APPEARS ONLY FNBA & NBA SHOWED A PROFIT.

ALL OTHERS COMBINED LOST MILLIONS.

IN THE FIRST NINE MONTHS OF 1987, ALL STATE BANKS COMBINED HAD A MINUS NET WORTH OF $130,971,000.

SINCE THEN 1ST INTERSTATE CLOSED.

ALL NATIONAL BANKS HAD A COMBINED NET WORTH OF $330,276,000.

SINCE THEN, BANK OF THE NORTH CLOSED. COMPARED TO 9/86, ALL BANKS IN THE STATE LOST A TOTAL OF $297,177,000 AND THE FIGURES THROUGH 12/31/87 WILL BE WORSE.