

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

1567 SCOMM 59: JNT. COMMITTEE ON ECONOMIC RECOVERY, 1988

1364

Cost of Program: \$50 thousand
Commencement and Duration of Economic Effects: FY 89

Mt. McKinley Meats and Matanuska Maid Dairy

The management of these two properties has reverted to the Agricultural Revolving Loan Fund. The meat plant is operated by the Division of Corrections using prison labor to slaughter Alaska grown livestock. Plans to sell meat to wholesalers are being considered to allow Alaska produced meat to substitute for meat imports. The plant produces an estimated multiplier effect on the local economy of \$1.8 million. The creamery employs 42 fulltime workers and has a support industry of 20 - 25 workers. The multiplier effect on the local economy should continue to be over \$20 million per year.

Number of Jobs Created: 65
Effect on Alaska Personal Income: \$21.8 million/year
Geographic Location of Impact: Railbelt
Commencement and Duration of Economic Effects:
ongoing

DEPARTMENT OF REVENUE

P.O. Box S
Juneau, AK 99811-0400
465-2300

Permanent Fund Program

Permanent Fund Dividends are paid from the earnings reserve account of the Permanent Fund. A total of \$1.3 billion in Fund income has been paid out as dividends since this direct distribution program began in 1982.

Cost of Program: \$424 million in 1988

Number of Jobs Created: est. 4,600

Effects on Alaska Personal Income: increases collective income \$424 million (\$443 million including prior year balance)

Geographic Area of Impact: statewide

Commencement and Duration of Economic Effects: immediate and ongoing

AHFC Loan Administration

A dramatic increase in defaults has overloaded loan administration facilities. The resulting reduced quality of service has exacerbated the problem. AHFC has added staff to help homeowners deal with mortgage payment problems. In addition, the Homeowners Mortgage Workout Program provides temporary relief to homeowners meeting certain criteria by reducing their monthly mortgage payments.

These programs make a positive contribution to the economy by helping people continue to meet their obligations.

Cost of Program: \$5,824,100 (AHFC funds)

Effects on Alaska Personal Income: better handling of loans reduces defaults; workout program aids homeowners

Geographic Area of Impact: statewide

Commencement and Duration of Economic Effects: immediate and ongoing

Shared Taxes

Amusement & gaming, aviation fuel, electric & telephone, liquor and fisheries distribution taxes are shared with 12 boroughs and more than 140 communities statewide. These taxes are used for a variety of purposes,

ranging from reducing local taxes to providing general government services.

Cost of Program: \$10,786,200

Effects on Alaska Personal Income: reduces local taxes, helps local communities provide basic services

Geographic Area of Impact: statewide

Commencement and Duration of Economic Effects:
ongoing

DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

**P.O. Box Z
Juneau, AK 99811-2500
465-3900**

Alaska - Specific Destination Program

This program, run by the International Airport System marketing division, is designed to attract more Japanese tourists to Alaska. It is a joint venture, combining state and private sector funds.

Cost of Program: \$200 thousand (IARF), \$100 thousand private sector

Impact on Alaska Personal Income: Attracting more Japanese tourists to Alaska will have a very positive impact on income. The average Japanese visitor will spend \$2,000.

Geographic Area of Impact: mainly Anchorage, Fairbanks, Juneau, and Kenai

Commencement and Duration of Economic Effects: Spring 1988 - FY 89

Promotion of Alaska for International/National Parcel Delivery Operations

The International Airport System marketing division is promoting Alaska's advantages, mainly its central location, for international parcel delivery firms. The effort has resulted in discussions with one firm, Federal Express, regarding construction of a facility at the Anchorage International Airport.

Cost of Program: \$12 - \$15 thousand for marketing AIDEA to supply financing for construction

Number of Jobs Created: 20 - 30 initially; 200 - 300 over 3 year period

Geographic Area of Impact: Anchorage, Fairbanks

Commencement and Duration of Economic Effects: spring 1988 - FY 89

Elderhostel Promotion

This program is a cooperative effort between the Alaska Marine Highway and Elderhostel whereby the Marine Highway provides accommodations and passage at a reduced price (approximately 25% reduced), and Elderhostel provides staffing to accompany groups of 50, as well as publicity and administrative costs. Eight trips are planned for FY 88.

Cost of Program: \$35 thousand (est. revenue: \$130 thousand)

Geographic Area of Impact: mainly Southeast Alaska

Commencement and Duration of Economic Effects: ongoing

Promotion of Columbia Glacier

The M/V Bartlett and the M/V Columbia begin their summer schedules visiting the Columbia Glacier in May. The first few trips normally sail with less than full capacity loads. Radio spots in the Anchorage and Fairbanks areas have been successful in boosting ridership.

Cost of Program: \$5 thousand (est. revenue: \$10 thousand)

Geographic Area of Impact: Anchorage area

Commencement and Duration of Economic Effects: Spring 1988 - early FY 89

Promotion of Prince William Sound

The Marine Highway System is participating with Whittier, Cordova and Valdez in efforts to promote travel, especially by ferry, to the area. At this point, efforts have been limited to meeting with the members to discuss Marine Highway schedules and tariffs, Alaska Railroad operations, and various promotion strategies.

Cost of Program: \$3 thousand (est. revenue: \$1 thousand)

Geographic Area of Impact: Prince William Sound

Commencement and Duration of Economic Effects: Starting 1/88

Travel Agents Luncheon Promotion

This is a cooperative effort with Alaska Airlines, the Port of Seattle and private enterprise. Eight luncheons for travel agents will be hosted by the Alaska Marine Highway onboard the Seattle operating ferry at Pier 48. Roughly 60 agents for each luncheon will be transported by Alaska Airlines to the vessel, where they will receive lunch, a tour of the vessel, information about the Marine Highway and how to make reservations, etc.

Cost of Program: \$18 thousand (est. revenue: \$30 thousand)

Commencement and Duration of Economic Effects: Ongoing

Travel Agents Familiarization Program

Ten familiarization trips are planned for roughly 25 agents per trip. These trips are a cooperative effort between the

Alaska Marine Highway, Alaska Airlines, the private sector and the Port of Seattle. The Marine Highway provides accommodations (one-way) during winter months when cabins have a low occupancy rate. A Marine Highway representative accompanies the group for a portion of the voyage and provides in-depth information about the system.

Cost of Program: \$20 thousand (est. revenue: \$50 thousand)
Geographic Area of Impact: mainly Southeast Alaska
Commencement and Duration of Economic Effects:
Starting 1/88

Travel Shows

The Marine Highway System will be sending a representative to attend three travel shows during FY 88. This will provide an opportunity to furnish information, schedules, tariffs, etc., to potential customers at a very nominal cost, as the representative will be attending in conjunction with the Division of Tourism, which will furnish the space.

Cost of Program: \$5 thousand (est. revenue: \$20 thousand)
Geographic Area of Impact: mainly Southeast Alaska
Commencement and Duration of Economic Effects: shows in FY 88 will produce travellers in FY 88 and FY 89

UNIVERSITY OF ALASKA

**3890 University Lake Drive
Anchorage, AK 99508
786-4620**

Alaska Center for International Business

The Anchorage-based Alaska Center for International Business was created during the 1987 legislative session. Its purpose is to conduct research on market information and market strategies relating to trade by businesses in the state with foreign nations, and to encourage an understanding of culture, language, political and economic systems, social and legal systems, and other aspects of foreign countries, particularly in Asia.

Cost of Program: \$2.5 million GF in FY 88

Geographic Area of Impact: mainly Anchorage

Commencement and Duration of Economic Effects: FY 88
and on

Alliance Bank

February 19, 1988

Senator Arliss Sturgelewski
Box V, Capitol
Juneau
Alaska 99811.

Dear Senator Sturgulewski,

Mr. Anthony J. Gumbiner of The Hallwood Group, has asked me to send you a copy of the Hallwood Alaskan Real Estate Stabilization Trust proposal which is enclosed.

If you have any questions, please do not hesitate to call me.

Sincerely,

A handwritten signature in dark ink, appearing to read 'F. H. Burrow', with a large, sweeping flourish extending to the right.

FRED H. BURROW
President

:khc1/30

Alliance Bank

A Financial Service of Alliance Bancorporation
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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 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 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.

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 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 preceeding 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.

When 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 on 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&C, 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 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 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 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 Allstate 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 circumstance, 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.

Distribution 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 a par amount equal to 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 for 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 18, 1988

The Hallwood Group Inc.
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F.D.I.C. FINDS WAYS TO SELL AILING ASSETS
New York Times Article--2/22/88
By Nathaniel C. Nash

WASHINGTON, Feb 21 -- Federal regulators are employing novel ways to sell billions of dollars in troubled banking assets, including the sale of so-called dirty banks.

The Government has decided that if it can sell the entire operation of a failed bank--not just the healthy "clean" loans and other assets but also the delinquent loans and foreclosed properties--it can save the time, resources and headaches needed to liquidate the bad assets. In almost every sale, the Government actually pays investors to take these sick institutions off its hands.

"We prefer to call these whole-bank transactions," said L. William Seidman, chairman of the Federal Deposit Insurance Corporation, which insures deposits at the nation's commercial and savings banks.

A Savior for F.D.I.C.

No matter what the terminology, Mr. Seidman said, the savings from selling 19 failed banks last year, plus other innovative methods of disposing of bad assets, kept the F.D.I.C. from recording the first operating loss in its history.

The quick disposal of troubled assets is a departure for an agency that once tended to hold on to them in hopes that their value would increase in better times. Though many bankers applaud the new approach, some are concerned that the F.D.I.C. may be "dumping" these assets on the market. Some bankers worry that if the F.D.I.C. liquidates its loans at fire-sale prices, it will depress the value of troubled loans in other banks' portfolios. But F.D.I.C. officials reject the dumping charge and say that their policy is to sell the loans only at current market value.

As bank failures have soared from 10 in 1980 to almost 200 last year, the F.D.I.C. whose primary function is that of an insurance fund and regulator of small banks, has developed a gigantic new business--liquidating bad loans and selling foreclosed real estate and other assets inherited from the failed banks.

In a typical bank failure, the F.D.I.C. takes over the bank, removes management and eliminates stockholders equity. Once in control, it removes all the bad loans, which generally

caused the failure, and sells the remaining "clean bank" with its healthy loans and deposits, to the highest bidder.

The agency then must begin to liquidate the bad loans and other assets, one by one. This means trying to foreclose on properties, collect from bankrupt businesses and resposses automobiles. Not only does the process require thousands of Federal employees, it generates hundreds of lawsuits.

In the end, the agency often collects only 30 to 35 cents on the dollar.

Troubled Assets Soar

So high has the bank failure rate been that the F.D.I.C.'s assets under liquidation soared from \$2.2 billion in 1982 to more than \$11 billion last year, making the agency one of the largest liquidators in the country.

Such levels have pushed the Government to develop other techniques for selling large amounts of bad assets. Besides beginning the sale of "dirty" banks, Mr. Seidman instituted a bulk sale program, in which an investor can buy millions of dollars of loans at a time.

This was perhaps best illustrated in a sale this month by the F.D.I.C of the entire portfolio of its office in St. Joseph, Mo. From 21 bank failures in the state, the F.D.I.C. had amassed a portfolio of more than 2,500 loans and other assets with a book value of \$70 million. The buyer, Diversified Financial Planners, Inc. of Fort Wayne, Ind., agreed to pay \$21.1 million.

The F.D.I.C. is also looking for buyers for the entire portfolio of its Omaha office, which has 4,700 assets with a book value of \$128 million.

On a much grander scale, the agency also announced this month that it was preparing the bulk sale of some \$1.8 billion in bad loans and assets it inherited from its 1984 rescue of the Continental Illinois National Bank and Trust Company. The F.D.I.C. said it was breaking the portfolios into six loan groups--energy, international, maritime, real estate, commercial and personal--and would sell each separately. It would also entertain bids for the entire portfolio.

Something Instead of Nothing

While in one sense the sale of bulk-loan packages is meant to reduce the agency's liquidation operations, Mr. Seidman and bank experts noted that there was a much larger reason.

Because bad loans under liquidation often sit for years in court battles and other delays, the F.D.I.C. earns nothing from them. In fact, they represent a cash drain.

By receiving even a small amount of cash from the bulk-loan sale, the agency can put the money into Government securities to begin earning interest, Mr. Seidman said.

"If you've got cash, you're in business," said Mr. Seidman, a former accountant. "I keep telling my people that one of the criteria in deciding any transaction for this fund is whether it brings in cash."

Indeed, Mr. Seidman estimated that if the agency had not embarked on a bulk sales and dirty bank program, the assets under liquidation would have soared and the agency's current cash reserve of \$16 billion, which is the base of its financial strength, could have shrunk to around \$10 billion.

The Need for Cash

"There is always the concern that if you suck up too much cash, it reduces your ability to handle bank failures," said William M. Isaac, former chairman of the F.D.I.C. and now head of the Secura Group, a financial consulting firm. "You also run the risk of a public confidence crisis issue if your cash levels get too low."

Bankers also welcome the program because it allows troubled borrowers to continue their relationship with a bank instead of the Government. "When the F.D.I.C. picks up a bad loan, it has to liquidate it," an official of the American Bankers Association said. "It cannot extend additional credit. Borrowers have no way to refinance their loan. They may lose a long-term depository relationship."

In other words, at the time of the borrower's greatest stress, along comes the Government with a mandate to liquidate, the official said.

Though the F.D.I.C. cannot fund a buyer for every dirty bank it has already found some satisfied customers.

Philip Sandquist, a Montana banker, decided to buy a dirty bank last year--the Deer Lodge Bank and Trust Company in Deer Lodge, Mont.

The \$16.5 million bank had become insolvent, in good part, regulators said, because of poor management. Under the deal he struck with the F.D.I.C. Mr. Sandquist put up a little more than \$1 million and the F.D.I.C. injected almost \$2 million.

"But most of those assets--almost \$14 million--were really good paying assets," Mr. Sandquist said. Four days after he took over the bank, he said it was earning a profit. "After eight months, we had earned \$133,000," he said.

Mr. Sandquist noted that in the typical clean-bank transaction, in which the banker receives only the insured deposits but few if any loans offsetting those deposits, "it takes a long time to find borrowers and other places to put those funds to start earning money on them," he said.

With an F.D.I.C. dirty bank, "you can buy assets for 50 to 75 cents on the dollar and most of them are already earning money," he said, referring to the interest payments on the loans.

Steven A. Seilig, associate director in the F.D.I.C.'s liquidation division added that disposing of assets as soon as possible had become the new goal in an agency that once might have wanted to hold on to foreclosed real estate or loans, hoping that the market would soon turn around and the government would make a premium on the assets.

"While I might think that a piece of property is going to go up in value, it ain't necessarily so," he said. "Look at where oil and gas prices were in 1954 and where they are today. If I have \$100 tied up in these loans, I am not earning any money, I have holding costs and I run the risk that their value will go down even more. If I sell them and put \$100 in the bank, I know exactly how much I am earning on it."

March 4, 1988

Residential Interest Group for
Housing Trades
1001 Boniface #12J
Anchorage, Alaska 99504
(907) 337-5116

Honorable Arliss Sturgulewski
Alaska State Legislature
P.O. Box V (MS 3100)
Juneau, Alaska 99811

RE: House Bill 432 entitled "an act authorizing the
Alaska Housing Finance Corporation to accept
trades in certain cases".

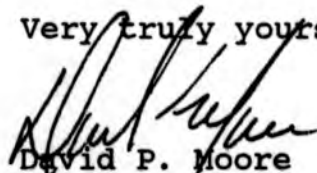
Dear Arliss:

The Residential Interest Group for Housing Trades (RIGHT) is an organization comprised of Alaskan residents who presently own either single family or zero-lot line homes, condominiums or mobile homes (homeowners) financed through the Alaska Housing Finance Corporation (AHFC). It is the goal of RIGHT to develop and establish a program through which qualified homeowners may exchange their current residences and mortgages for residences previously foreclosed upon by the AHFC.

Through our efforts, a bill has been introduced in the House (HB 432), by Representative Donley, to provide for such trades by the AHFC. In an effort to assist the legislature in establishing a trade program, RIGHT has prepared a proposal for the development of a trade program, a copy of which is enclosed for your information and review. This document is being submitted to every member of the 15th Alaska Legislature, every mortgage insurer who insures mortgages of the Alaska Housing Finance Corporation in hopes of bringing all necessary parties together to establish a trade program.

After reviewing the enclosed proposal, please feel free to contact us regarding any comments you may have. Any suggestions you may offer would be greatly appreciated. Thank you.

Very truly yours,



David P. Moore
Board Member,
Residential Interest Group for
Housing Trades.

March 2, 1988
Residential Interest Group for
Housing Trades
1001 Boniface #12J
Anchorage, Alaska 99504

Rep. David Donley
Alaska State Legislature
P.O. Box V (MS 3100)
Juneau, Alaska 99811

Re: House Bill 432

Dear Representative Donley:

The Residential Interest Group for Housing Trades (RIGHT) would like to take this opportunity to thank you for sponsoring House Bill 432. As you know, in its current form the bill does not provide a procedural framework through which trades may be realized. It is our understanding that the House Labor and Commerce Committee is currently considering the bill in an attempt to develop such a framework.

In order to assist you in your endeavor, RIGHT has analyzed and developed the following proposal for your consideration. We recognize that we are but one of the three parties involved and therefore urge you to meet with the other participants, Alaska Housing Finance Corporation (AHFC) and the mortgage insurers, in order to obtain successful passage of this legislation.

The downturn in Alaska's economy has caused thousands of residential foreclosures in this state. In 1987 AHFC foreclosures alone increased from the 1986 record of nearly 2,000 to over 3,700 representing an increase of 102%. This trend has continued unabated since 1984. See AHFC foreclosure statistics 1984-1987. This foreclosure rate may be attributed to both economic and non-economic factors.

Initially, many homeowners either lost their jobs or experienced some other decrease in earnings which left them unable to meet their financial obligations. Consequently, many homeowners defaulted on their mortgages. Foreclosures skyrocketed. Today, homeowners continue to default and face ultimate foreclosure due solely to economic reasons.

These initial "economic" foreclosures spawned a wave of "non-economic" foreclosures. As foreclosed residences were resold at depressed market values, homeowners began experiencing a continual decline in their property values to present levels substantially below their mortgage balances. Condominium, zero-lot line and mobile homeowners have been the groups most affected by the declining values. Faced with increasing negative equities, many homeowners have chosen foreclosure to avoid inevitable future losses. Although able to meet their financial obligations this group of homeowners default for "non-economic" reasons.

Nevertheless, many homeowners have not defaulted. Many are not only able to meet their current financial needs but are actually able to qualify for higher priced homes and mortgages. Many families have outgrown their homes. They seek to improve their standard of living but are prevented from doing so by their inability to sell their current residences which is necessary to purchase better housing. Given the likelihood that these homeowners will never again enjoy a positive equity position, there is nothing but a sense of ethics and moral obligation tying them to their loans. Their negative equities and inability to sell even at a loss leaves them not only frustrated and dissatisfied, but with little incentive to continue paying their mortgages. Currently, default is the only option available to improve their situation.

On the other hand, many people who have experienced a decrease in earnings are depleting their cash reserves in an effort to remain current on their mortgages. In many of these cases default will eventually occur. Although there are programs available to assist these homeowners, they provide only temporary relief at best. Moreover, these programs do not improve the homeowners equity position but worsen it thereby creating a yet greater incentive to default. As such, they merely delay the inevitable.

Each foreclosure increases the supply of housing available in the market thereby further decreasing market value. As values decline, more defaults occur and the cycle repeats. As a result, many lenders and mortgage insurers have unwittingly become real estate barons. Their assets have been converted from predominantly cash and securities to real property making them less liquid and less able to meet their cash needs. Additional foreclosures will only further deteriorate their financial positions.

The solution is obvious: decrease the current rate of foreclosures. This objective may be achieved in one of two ways:

1. The market can correct itself naturally without structured intervention by the private or public sectors. However, if current trends continue unchecked, there is little doubt that the market will not be corrected for many years. During this period, AHFC and its insurers will be forced to continue to acquire and maintain foreclosed residential property further depleting their cash reserves.

2. The market can be corrected through the development and implementation of a plan to reverse the trend in foreclosures. It is the objective of the Residential Interest Group for Housing Trades (RIGHT) to assist in developing such a program by allowing homeowners to trade their existing AHFC loans for residences previously foreclosed upon by the AHFC, thus providing more suitable and/or affordable housing for Alaskan homeowners. To develop a solution, we must first analyze the problem.

Whenever a foreclosure occurs three parties are directly affected:

1. the homeowner;
2. AHFC;
3. the mortgage insurance company.

The cost to each party is equal to 100% of its maximum exposure. The homeowners lose their residence and their credit is destroyed. AHFC loses future revenue and earnings in the form of mortgage payments and interest. Since AHFC is nearly 100% insured (see 1987 AHFC Annual Report, p. 4), it is the least impacted by foreclosure. Nevertheless, AHFC suffers its greatest loss with foreclosure.

It is the mortgage insurer that bears the greatest loss in terms of actual dollars. The insurer's policy limits are exceeded because of the low resale price. Accordingly, the insurer pays 100% of its maximum exposure on the property and now must also pay for upkeep of the residence if it obtains title. If not, resale and upkeep costs fall upon AHFC. In short, everyone loses everything in a foreclosure situation.

RIGHT envisions a situation wherein everyone wins a little. A typical trade would occur as follows:

1. The homeowner selects a residence for purchase from AHFC inventory. He then buys down his existing mortgage by paying to AHFC an amount equal to a percentage of the negative equity thus lowering the balance of that AHFC loan. He would then purchase the new home at its current market price financed through AHFC at 100% of its value;

2. The mortgage insurer would also buy down the mortgage by paying to AHFC an amount equal to a percentage of the maximum amount of its exposure had a foreclosure occurred. In exchange, AHFC would tender a policy release on that loan;

3. AHFC would then own the original property and be at liberty to dispose of it in a variety of ways. It could either sell the property or rent it as low income housing thus replacing the current blighted low income housing.

By adopting such a program everyone would benefit. The homeowner would be able to obtain, for a price, a better or more affordable home. His incentive to default produced by his current negative equity or financial distress would be eliminated.

The insurer has cut its losses from 100% to whatever percentage it agrees to pay for AHFC's policy release. Assuming the property purchased was from the insurer's inventory, the insurer has now sold to the homeowner one of its properties previously foreclosed upon. Since it has acquired no additional property in the trade, it has decreased its inventory and associated costs by one. Finally, trades will substantially decrease the number of foreclosures thus decreasing the potential for future losses.

AHFC directly benefits by the influx of cash from the homeowner and the insurer in "buying down" the mortgage. Moreover, such a program benefits AHFC by substantially decreasing future foreclosures. Although, arguably, AHFC may end up with less marketable property, this same result would occur were foreclosures to continue at current levels. The difference, however, is that in a trade situation AHFC receives cash at the time of repossession. In a foreclosure, AHFC receives nothing absent judgment and successful execution. Moreover, AHFC will be taking back a loan while at the same time financing a new one whenever a trade occurs thereby maintaining a steady cash flow which is not present in a foreclosure situation.

Although AHFC will accumulate an inventory of less desirable housing in the form of condominiums and mobile homes when low cost property is traded for higher priced residences, title to these dwellings will vest in one owner - AHFC. As a governmental agency, ultimate ownership by AHFC is more desirable than ownership by private mortgage insurers which usually occurs in a foreclosure. Unlike private enterprise, the government, through AHFC, is in a better position and has greater incentive to dispose of the property in such a way as will benefit the public good. Accordingly, the trade program could be utilized in conjunction with a program developed to dispose of the lower cost housing either through resale or rental as public housing or through demolition and removal (mobile homes) for resale in a more viable market.

Two factors must be kept in mind in structuring this program:

1. Costs - closing costs and realtor fees must be streamlined and reduced. For example, realtor commissions could be lowered from 6% through a competitive bidding process. Bank fees could be eliminated by direct financing through AHFC.

2. Homeowner costs - to make the program viable, the buy down payment required must be affordable. Further, should a party be unable to produce all of the buy down payment, alternative financing must be available. Perhaps a second deed of trust equal to the unpaid balance of the buy down payment could be taken out on the new home purchased through AHFC. Homeowners trading down could pay zero down, with their buy down cost transferred to the new loan.

In conclusion, RIGHT recognizes that the cost of improving the residential market should not be borne by any one group. Under current conditions the burden is placed solely upon the individual homeowner. As the foreclosure rate indicates, the homeowner is unwilling to accept this burden and it is ultimately AHFC and the mortgage insurers who must bear the loss. RIGHT offers a program through which all parties assume a share of the costs in exchange for a lessening of their burden.

Contrary to some beliefs, legislation is necessary to enable AHFC to effectuate a trade as no statute or regulation exists authorizing such activity by AHFC. In order to establish a trade program, the legislature must take steps

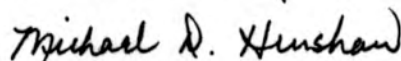
to obtain the attendance of all necessary parties at the bargaining table. This can best be achieved by the legislative appointment of a panel consisting of realtors, financial experts and representatives from AHFC, the mortgage insurance companies and the homeowners. We urge you to appoint a panel to review and develop a plan consistent with this proposal. Immediate action is necessary in order to obtain passage of this important piece of legislation during this session.

Again, thank you for your efforts in this matter. If you have any questions or wish to discuss this proposal in further detail, please do not hesitate to contact us.

Very truly yours,



Trena L. Heikes
Co-chairman,
Residential Interest Group for
Housing Trades



Michael Hinshaw
Co-chairman,
Residential Interest Group for
Housing Trades



A ✓
R00

Alaska Permanent Fund Corporation

P.O. Box 4-1000 Juneau, Alaska 99802-4100

(907) 465-2047 Telecopy (907) 586-2057

April 5, 1988

Thomas Snelling
13441 Glen Alps Road
Anchorage, AK 99516

Dear Mr. Snelling:

Thank you for your letter dated March 21, 1988, in which you support the Hallwood Group's proposal as advanced by Mr. Anthony Gumbiner.

Attached please find a copy of a white paper I prepared on the subject and legislation drawn to accommodate it. The Hallwood proposal is the vehicle which would execute the plan.

You should be aware of a few problem items. First, the original plan called for a maximum of \$15 million of State funds; Hallwood wants more and that may kill the whole thing. Second, Hallwood is the only "player" to sign up in support of the concept. Unless FDIC and another agency join the fold, I do not believe the legislation will pass. It must benefit at least three entities, not just Hallwood.

Finally, be advised that investment in the trust -- and the portfolio in it -- is not necessarily institutional quality. It does not appear to meet the Permanent Fund's low risk criteria as it pertains to cash-on-cash return, internal rate of return and substantially leased property. Nonetheless, I will continue to work with legislators, Mr. Gumbiner, other entity representatives and potential investors in these matters.

Thank you for your interest and comments.

Sincerely,

David A. Rose
Executive Director

Enclosures:

White Paper

SB 408/409 by Kelly and Sturgulewski

HB 457/458 by Pettyjohn

DAR/mm

RECEIVED

APR - 4 1988

ALASKA
PERMANENT FUND CORPORATION

March 21, 1988

Mr. Dave Rose, Executive Director
Alaska Permanent Fund
Box SB
Juneau, Alaska 99811

Dear Mr. Rose:

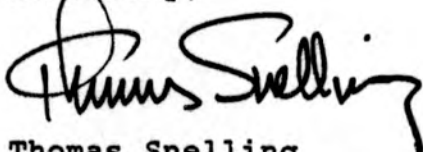
I believe that the Gumbiner Real Estate Trust Proposal should be implemented immediately. It is the correct solution for a terrible problem. Now is the right time.

I believe it will stabilize the Alaskan Real Estate Market, end the precipitous plunge in real estate values, mark the beginning of the recovery, rekindle optimism and individual investor interest. In short, it will save us all.

I believe in Alaska's future. As a small investor, I would eagerly participate.

Please use your considerable power and influence to make sure that this plan is implemented in the shortest period possible.

Sincerely,



Thomas Snelling
13441 Glen Alps Road
Anchorage, Alaska 99516
(907) 345-1516

March 21, 1988

Mr. Anthony Gumbiner, Chairman
Financial Institutions Group
The Hallwood Group Inc.
767 3rd Avenue
New York, New York 10017

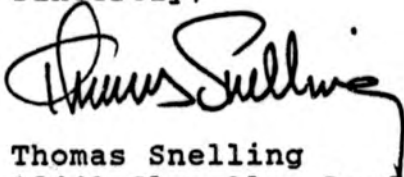
Dear Mr. Gumbiner:

It makes sense. Your Liquidation Trust Proposal for Alaskan Real Estate should be supported by all Alaskans and implemented immediately.

The units should be sized for both individual and institutional participation with the Alaska Permanent Fund as a participating investor.

Please let me know how I can best support the implementation of this very important program.

Sincerely,



Thomas Snelling
13441 Glen Alps Road
Anchorage, Alaska 99516
(907) 345-1516

cc Mr. Dave Rose; Alaska Permanent Fund
Mr. Steve Cooper; Governor, State of Alaska
Ms. Jan Faiks; President, Alaska State Senate
Mr. Tom Fink; Anchorage Municipal Mayor
Mr. Tony Smith; Chairman, Alaska Housing Finance Corporation
Mr. Tom Ruth; Federal Deposit Insurance Corporation
Mr. Ted Stevens; U. S. Senator for Alaska
Mr. Frank Murkowski; U. S. Senator for Alaska
Mr. Don Young, U. S. Congressman for Alaska

Business

Investors bank on Alaska recovery

By Yereth Rosen
Times Writer

Anthony Gumbiner and Jim Cairnes are bullish on Alaska.

"From an international investor's point of view, you've got to be inter-



Jim Cairnes
... expects long-term growth

ested in Alaska," Gumbiner said. "We're coming into a society that is at its lowest point." But the state is rich in resources and potential, he said.

"It's the last frontier in the United States," Cairnes added. "There's an awful lot of long-term growth to take place."

Gumbiner, chairman of The Hallwood Group Inc., and Cairnes, a former Hallwood official who left the company to become chairman of Alliance Bancorporation, have a stake in an Alaska economic recovery.

Alliance is the bank formed when two then-failing banks — United Bank of Alaska and Alaska Mutual Bank — merged late last year. Hallwood is the New York-and London-based merchant banking firm that contributed \$65 million to get Alliance on its feet. The firm owns about 85 percent of Alliance.

Like other financial institutions, Alliance is saddled with enormous inventories of repossessed properties. When the merger occurred, the new bank took on all of UBA's and Mutual's \$300 million in bad real estate loans.

On Thursday Cairnes, who works out of Seattle, and Gumbiner, who works out of New York, toured some of the 1,500 properties repossessed by Alliance.

Something of a specialist in rescue financing, Hallwood was given the option of turning Alliance over entirely to the FDIC if, after 18 months, the venture proved unsatisfactory.

But Gumbiner and Cairnes said Thursday they doubt that will happen because they expect the Alaska economy to rebound.

Still, there is a problem they see with the economy's prospects.

"There are so many people — including ourselves — that have so much real estate that, if it isn't properly managed, we could see the recovery being put aside," Cairnes said.

At the first glimmer of a market demand for real estate, as Gumbiner and Cairnes explain it, the institutions holding vast inventories will gang up and pounce on the few available buyers just as a gang of polyester-clad used-car salesmen will pounce on the first customer who wanders onto a sales lot. In doing so,

the two argue, the institutions will further depress real estate values and make it even more difficult for the average homeowner to sell. That, in turn, would create greater incen-

See Investors, page D-10



Anthony Gumbiner
... proposes real estate rescue plan

Investors: Asking state for \$15 million investment

Continued from page D-7

tive for the average homeowner to walk away from a mortgage.

To prevent that from happening, Hallwood and Alliance are proposing a rescue program that would put institutionally owned real estate into a liquidation trust.

Investors from around the world would buy units of the trust, which would be the equivalent of long-term commodity investments. At the end of 20 or 30 years, the length of mortgages for properties in the trust, investors would earn a return on

their units. The units would be similar to zero-coupon bonds in that there would be no cash payments before maturity; however, under the plan, any investor who wants to cash out at any time would be able to do so.

Investors would be speculating on the Alaska economy and currency exchange, according to the plan.

Gumbiner and Cairnes said all that they need to go forward with the plan is the participation of other institutions that hold vast inventories of repossessed real estate — like the Alaska Housing Finance Corp., the FDIC and other banks — and

some working capital from the State of Alaska.

They're asking for \$15 million from the state, an "investment" they said would perhaps be repeated for two more years.

In Hallwood's favor is its past experience with similar real-estate trusts. In this area Hallwood is perhaps best known for The Twenty Seven Trust, which it formed in 1984 to liquidate the assets of the bankrupt Chase Manhattan Mortgage and Realty Trust.

Also in Hallwood's favor, Gumbiner and Cairnes said, is the support of Tony Smith, the state's commissioner of com-

merce and economic development and chairman of AHFC's board.

Gumbiner said letting the market take its own tumultuous course without intervention would be risky. "It's a very serious social problem that state government well ought to do something about."

Despite the dangers they see, Gumbiner and Cairnes said they're optimistic about their financial prospects in Alaska.

"We hope people will remember us for coming in when times were bad," Gumbiner said. "A lot of people will come in when times are good."

IN THE HOUSE

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act authorizing the Alaska Housing Finance Corporation to fund disposal of substandard publicly owned housing; and providing for an effective date."

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

* Section 1. DISPOSAL OF PUBLICLY OWNED SUBSTANDARD HOUSING. Consistent with the best interests of the state, the Alaska Housing Finance Corporation may use not to exceed \$20,000,000 in unrestricted funds available to it for the purpose of making grants to state agencies and municipalities of the state for the disposal of substandard housing owned by the state or a municipality of the state. The corporation shall take a security interest in land occupied by substandard housing disposed of under this section to recover funds granted under this section. The security interest shall bear interest.

* Sec. 2. This Act takes effect immediately under AS 01.10.070(c).

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,

A handwritten signature in dark ink, appearing to read 'Fred H. Burrow', with a large, sweeping flourish extending to the right.

Fred H. Burrow
President

Enclosure

**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

Bruce B. Kendall Sr.

KENDALL FAMILY ENTERPRISES

333 CONCRETE STREET

ANCHORAGE, ALASKA 99501

March 24, 1988

Representative Kay Brown
House of Representatives
P.O. Box V
Juneau, Alaska 99811

Dear Kay:

I see by the newsletters and public press that there are several bills before the legislature to liberalize the states two major lenders, AHFC and AIDA, so I will relate to you what I know to be factual.

(1) Never pass a law to fit a personality because that person or board member may not always be in charge. I have seen legislatures pass laws to offset incompetants by making the operational rules so conservative as to be useless, and also to liberalize a law because of great confidence in a person or agency. Both are incorrect actions.

(2) The above agencies have many controls already in place by the market place as to their source of funds, especially AHFC. I have no first-hand knowledge of their activities, so no comment as to proposed laws.

(3) I have had personal experience with AIDA, because they inherited the old tourism loan portfolio when the legislature created AIDA, which was the proper thing to do. My tourism loans were dated 1978, 1974, and I still own these properties. In all those years everything was per schedule and to this day I have a net cash flow on these two properties. However, I have other properties as well and one of my properties got caught in the oil price crash and had a dangerous reversal in revenues. Consequently, we had a lot of accounting and computer runs, etc. The conclusion was that if all five mortgage holders of properties would cooperate by pooling the revenues and expenses of all properties, a two-year program of this cooperative act "could" bring all properties current and avoid any forced sales of property on a depressed market.

The meeting was held by me, my CPA and three mortgage holders and my home bank. National Bank of Alaska, guaranteed a line of operational credit to offset seasonal revenue fluctuations and the agreement is performing so far as planned.

The point I'm making here is this, my long-term Alaska business experience (48 years) and the age and source of those funds was a direct appropriation by the legislature and not bond sales, which made it possible for AIDA to make a business, social judgement that was not needed in regards to their two old tourism loans, but the judgement was to be cooperative with other lenders to avoid forced sale of one of my principle properties. Bert Wagonon and the board made a decision that could be viewed under

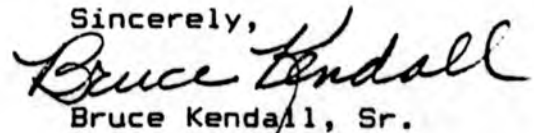
March 24, 1988

present rules of their agency as a close call because my old tourism loans were co-mingled with the bond sales funds.

My second point is that when the government gets into the loan business and the rules are that a private bank must originate the loan and participate in a percentage of the loans funding, then the government agency should have the same rules to rescue troubled loans as does the private lender. Reason is that the private lender has numerous legal work outs available to them by law, and rule. In the private sector, once a mortgage is a classified loan, that private lender legally can just about make any arrangements that will collect the bill due. Whereas, AIDA is the largest lender, by the numbers involved and it doesn't have the same latitudes that the originating bank has available so that brings on more losses, fore closures and stress than is practical or necessary. So it comes down to this, if the state wants to become a banker then the legislature must make the same identical rules available to that state agency as the private lender has available. If you don't equalize the rules, then you have multiplied the stress on that agency and the private market place, by making the cooperation between private and government lenders impossible. Here is why, AIDA funds or bonds that have guaranteed earning percentages at the time of sales, that fit market conditions so these percentages vary. Therefore, it follows that to refinance or mutually agree to a workout an agreement, a distressed borrower becomes an administrative impossibility unless the legislature gives the AIDA agency access to state funds to equalize the disparities in bond holders earnings, which by law must be constant. In this manner you will put AIDA, a state agency, equal with the private lenders' methods of rescue or work out equal plans to where each board, both private and state, can then make business judgements without fear of reprisal by some judicial actions of the parties involved or to appear illegal to any examination of the record.

Kay, it all boils down to the fact that there ain't no free lunch. The state legislature made the state a banker in the first place, so now it would be unfair to pick up your marbles and run away. That leaves private lenders and honest borrowers in a lurch. So by all rules of honesty and fair play, the legislature should equalize state, public and private lenders or the state will create a bigger mess than we have presently.

Sincerely,

A handwritten signature in cursive script that reads "Bruce Kendall". The signature is written in dark ink and is positioned above the typed name.

Bruce Kendall, Sr.

cc: Representative Johnny Ellis
Representative Pat Pourchot
Senator Joe Josephson
Representative Al Adams
Senator Rick Halford



MT. MCKINLEY MUTUAL SAVINGS BANK

TELEPHONE (907) 452-1751

P.O. BOX 73880

531 THIRD AVENUE

FAIRBANKS, ALASKA 99707

March 24, 1988

Willis Kirkpatrick
Director
State of Alaska
Department of Commerce and
Economic Development
Division of Banking, Securities
and Corporations
P.O. Box D
Juneau, Alaska 99811

Dear Mr. Kirkpatrick:

It has come to our attention that three banks in our state, Alaska State Bank, Alaska Continental Bank and Home Savings Bank, have hired lobbyists to push their proposed bill called "The Economic Stabilization Act of 1988" through the legislature.

The Anchorage Daily News and the Fairbanks Daily News Miner published identical articles concerning the banks proposed legislation. The newspaper articles stated that, according to Alaska Division of Banking and Securities, three banks were behind the bill plus Denali State Bank and Mt. McKinley Mutual Savings Bank.

We believe it is extremely important that Mt. McKinley Mutual Savings Bank's position concerning the proposed bill be made perfectly clear. The management of the bank did not participate in the preparation of this bill, nor have we in any way expressed our endorsement of proposed legislation to the author of the bill, to any State agency, to any State officials, or to the news media.

Mt. McKinley Mutual Savings Bank's basic premise is to expand our abilities to adapt to new market circumstances, to a changing economic environment, and to new regulatory circumstances. The Alaska economic climate has become harsher and less predictable, which is going to make the banking business more difficult to manage.



MT. MCKINLEY MUTUAL SAVINGS BANK

TELEPHONE (907) 452-1751

P.O. BOX 73880

531 THIRD AVENUE

FAIRBANKS, ALASKA 99707

March 24, 1988

Page Two

There is no place to hide in this economic environment. Consequently, tough decisions have to be made by the regulators concerning insolvent banks.

Sincerely,

William K. Simon
President

WKS:lcl

cc: Senator Bettye Fahrenkamp
Senator Ken Fanning
Representative Mark Boyer
Representative Kay Brown

G
O
P
Y

3-20-88

To: Rep. Kay Brown
Chairperson
Housing and Banking
Alaska Legislature
Juneau, AK 99801

Dear Ms. Brown -

We wish to be on record as being against this proposal. We had assumed Alaska State Bank was our local mortgage holder and we would therefore be able to deal with an Alaskan local bank. Not so.

Very truly yours

Charles and Mary Wilson
1823 Beaver Place
Anchorage, AK 99504

Banks make a plea

But don't call it
a bailout, they say

By STAN JONES
Daily News reporter

Three money-losing Alaska banks are asking the legislature to boost their industry with up to \$25 million in state cash, but they say it's to help their customers, not themselves.

Alaska Statebank, Alaska Continental Bank and Home Savings Bank have hired three heavyweight lobbyists at a cost of \$75,000 to try to get their proposal, called "The Economic Stabilization Act of 1988," through the legislature.

Despite its sweeping title, the bill deals only with banks. It would have the state invest in small, state-chartered institutions, using money from the Alaska Housing Finance Corporation, the Alaska Industrial Development and Export Authority, the Railbelt Energy Fund "or any other state financing entity designated by the Commissioner of Commerce and Economic Development."

The bill would limit the program to state-chartered banks with assets of less than \$150 million. According to a report from the Alaska Divi-

"My inclination is to be against it, but we haven't seen anything specific," said Rep. Kay Brown, D-Anchorage, who co-chairs a housing and banking subcommittee. "It seems to me that if we're talking about people who basically made poor business judgments, that is just something that has to be lived with. We can't, obviously, bail out everybody who made a poor business judgment."

"Is it the state's role to pick the winners and losers?" she said.

3-20-88

← Alaska Statebank sold our home mortgage promptly to Manufacturer's Hanover Bank, a Michigan outfit, without asking our concurrence.

Charles L. Wilson
1823 Beaver Pl.
Anchorage, AK
99504.

I recommend doing absolutely nothing to help Alaska Statebank.



Official Business

Alaska State Legislature

Senate

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

TO: Senator Arliss Sturgulewski
FROM: Senator Joe Josephson *Joe Josephson*
DATE: April 20, 1988

RE: Conversation with Dean Lester Thurow,
School of Business, Massachusetts Institute of
Technology

1. After reading the materials sent to him by me, consisting of documents in the files and packets of the Committee on Economic Recovery, Dr. Thurow telephoned my office today. A summary of his advice follows.

2. Those who say that Alaska experienced an oil-accelerated boom compounded by government spending are correct.

3. In hindsight, it is easy to say that Alaska state government should have saved its money until after the oil boom had peaked, thus prolonging prosperity and avoiding the drastic cycle of "boom" and "bust". The problem is that no government has acted that way; look, for example, at Wyoming, Calgary, and Denver.

4. Greg Erickson has been right about many things (see below). But it is "nonsense" to say or imply that a decline leads to an automatic rebound. You can "hit bottom" and still never rebound. A decline in wages, for example, does not inevitably lead to subsequent increases in earnings.

5. The contention that the October stock market crash occurred without great impact on the national economy is "not germane" to a discussion of the Alaska economy. (As a matter of fact, stock market prices were higher in January, 1988, than they were in January, 1987).

6. The housing problem can only be solved when there is "certainty" for investors that "the bottom is here". To hold property off the market may not be helpful. If we hold property off the market, investors will simply worry "when (we) will put it back (on the market)".

7. Sending trailers out of Alaska to the "Lower 48" is foolish.

8. It does make sense to tear down housing stock that should be torn down anyway. It does not make sense to destroy other, higher quality, housing stock.

9. The critical need is psychological. We need to let the bottom be reached quickly. The loss that has already occurred doesn't affect you, but if you expect that there is more of a fall ahead, there is a depressive effect on the market. Holding housing off the market is a temporary measure that is not stabilizing and may have a depressing or destabilizing effect.

10. The fear of FDIC dumping "all at once" is exaggerated. FDIC won't do that, regardless of what you may hear. The Home Loan Bank Board doesn't do that either.

11. The basic rule ought to be this, in terms of proposals to involve the state in financial institutions: "How is the state going to make money on its money?" The state should never put up money unless it can make money on its money.

12. Bank failures do not have significant "ripple" effects on the economy. Depositors are protected. Good loans are maintained generally, and bad loans would probably have been foreclosed upon anyway by the bank that failed.

13. Dr. Thurow is skeptical about the idea that foreign investors are going to be persuaded to invest in Alaska's distressed real estate. The carrying costs are very high. In Alaska, the recession in real estate could last ten years. It is one thing to accept carrying costs for two years; it is another to accept them for a decade. Besides, if "a Hong Kong zillionaire" is looking to invest in U.S. distressed real property, there are places like Houston, Texas, that are more inviting, or resort or vacation properties that are more appealing.

14. The state should avoid "lemon socialism", where government gets the lemons, and the private sector keeps the good stuff. That's the reverse of the successful policies of the Japanese government; there government helps economic winners and takes profitable equity shares.

15. A primary concern ought to be local government. People depend on local services. It is important to avoid downward pressure on local services when the property tax base erodes.

16. Government should try "to get rid of uncertainty" that hangs over property values.

17. Dean Thurow is available to speak to us via teleconference.

ALASKA STATE CHAMBER OF COMMERCE

1988 State Legislative Program

Introduction:

In June 1987, ASCC's Strategic Planning Commission presented its "Report to Alaska's Economic Leaders," in which was outlined an economic framework and strategies for the Alaska economy into the 1990's.

A key element of the report was an "Export Model of the Alaskan Economy" depicting the value of "exports", or gross value of the state's basic economic sectors. So important are these sectors to the future development of Alaska, that State Chamber directors, in December, 1987, determined to base the Chamber's 1988 legislative agenda on position that would tend to enhance these basic economic sectors.

Additionally, ASCC's directors divided the Chamber legislative program into three categories: State Legislative issues, State Administrative Issues, and Federal Issues. The following are the Chamber's positions on state Legislative Issues. The Administrative and Federal Issues are also available from ASCC in the complete 1988 ASCC Legislative program.

1988 ASCC State Legislative Program

PART I: BASIC INDUSTRY ISSUES

(A) Oil and Gas

The Alaska State Chamber supports:

(1) Tax stability for the oil and gas industry. ASCC opposes implementation of separate accounting or legislation to change the Economic Limit Factor (ELF) on oil and gas severance taxes.

(2) The state legislature must pass a joint resolution supporting the opening of the Arctic National Wildlife Refuge (ANWR) to environmentally responsible oil and gas exploration, development and production.

(B) Timber

The Alaska State Chamber supports state legislation to encourage and facilitate leasing of state land for commercial timber harvest and to develop a statewide timber management program.

(C) Fisheries

The Alaska State Chamber

(1) Supports the development of sea-vegetable and shell fish mariculture and continued research into other aspects of mariculture.

(2) Urges the legislature to support development of a fisheries policy.

(D) Minerals

The Alaska State Chamber supports:

(1) Passage of a state mineral policy as recommended in the Alaska Minerals Commission report.

(2) Assumption by Alaska Department of Environmental Conservation of water quality authority from EPA. Alaska's water quality standards should not exceed EPA standards.

(3) Classification of receiving waters to take into account downstream uses. Discharge charge standards should not exceed intake quality.

(E) Tourism

The Alaska State Chamber supports the development of a joint marketing plan between the Division of Tourism and private industry to make Alaska a destination for all travelers.

(F) Permanent Fund

The Alaska State Chambers supports the repeal of statutory provisions precluding the Alaska Permanent Fund from investing in foreign companies.

PART II: CROSS INDUSTRY ISSUES

(A) Energy

The Alaska State Chamber supports:

(1) Restructuring of the Alaska Power Authority Board of Directors to a five member body with four members appointed from the public sector and one member representing the state administration.

(2) Completion of a Bradley Lake Hydroelectric project.

(3) Use of Railbelt Power Development fund only for studies and construction of railbelt power projects.

(B) Transportation

The Alaska State Chamber supports:

(1) Full funding for adequate maintenance of the existing state transportation system. Further, life cycle costing and follow-on funding must be addressed on any additions to the System.

(2) Expansion of the road and highway transportation system, giving priority to highways that connect population centers, provide access to seaports, visitor attractions and economically viable resource areas.

(3) Acquisition by Alaska Marine Highway System of sufficient number of high speed ferries for passengers, freight, and vehicles to provide feeder service between main distribution points and smaller communities. Any savings or excess capacity realized from such action should be directed at improvement of transportation services in other coastal communities.

(4) Establishment of an Anchorage/Fairbanks Airport Authority.

(5) Assertion of rights and authority under revised statute 2477 (RS 2477) to protect valid existing public rights-of-way and to manage these rights-of-way on federal and state lands.

(C) Lands

The Alaska State Chamber supports:

(1) Legislation requiring Coastal Management Plans to be approved by the legislature prior to implementation.

(2) Legislation limiting coastal resource service area boundaries to lands where development poses a serious impact on coastal resources.

PART III: STATE GOVERNMENT

(A) Tax Stability

There should be no new or increased state business or corporate taxes.

(B) State Spending

(1) There should be a continued, aggressive reduction in the State's Operating Budget commensurate with reduced revenue and population projections.

(2) The legislature should take all possible steps to insure state dollars are spent in Alaska with Alaska businesses.

PART IV: ADDITIONAL LEGISLATIVE ISSUES CRITICAL TO ALASKA BUSINESS

(A) Worker's Compensation

The Alaska State Chamber supports the goals and objectives of the Worker's Compensation Committee of Alaska (WCCA).

(B) Tort Reform

The Alaska State Chamber supports the legislative initiative by Citizen's Coalition for Tort Reform entitled "An Act Relating to Civil Liability."

(C) Agriculture

The Alaska State Chamber recognizes Alaskan agriculture for its economic import substitution value and supports the efforts for the Alaskan agricultural industry to grow and prosper to benefit all Alaskans.

ALASKA STATE CHAMBER OF COMMERCE

1988 ADMINISTRATIVE ISSUES

Fisheries

The Alaska State Chamber of Commerce supports establishment of a long-term fisheries policy and adequate funding and management to accomplish objectives of the policy.

The Governor should create a high-level position to lead the development and implementation of the policy and pursue its objectives.

Timber

ASCC supports development of a statewide timber management program, long-term leases on State lands for commercial timber harvesting, and road access to leased areas.

Minerals

ASCC commends State efforts to resolve the Sierra Club/BLM lawsuit on placer mining, and urges continued efforts.

Energy

The State should investigate a policy for expansion of in-state use of coal for future electrical power generation, particularly in the railbelt region. ASCC supports research and development for expanded coal markets and beneficiation.

The State, appropriate federal agencies, and Canadian officials, should take action to ensure economical development and construction of the Southeast Intertie.

Tourism

ASCC finds that alpine and nordic skiing are an integral State park land use, and urges DNR to facilitate recreational development on State lands.

Transportation

ASCC supports:

- The 1986 Aviation System Plan and urges DOT/PF to develop a six-year program for implementing the policy and operating parameters contained in the plan.
- The Alaska Aviation Safety Foundation's ongoing efforts to improve aviation safety in local communities.

- Installation of state of the art navigation and airport approach systems.

ASCC acknowledges and supports the role of the Alaska Railroad Corporation in expanding economic development within the state.

ALASKA STATE CHAMBER OF COMMERCE

1988 FEDERAL ISSUES

Fisheries

ASCC will work with Alaska's Congressional delegation to resolve the issue of fisheries control in international waters of the Bering Sea known as the "Donut."

Timber

ASCC supports existing federal policies in the Tongass National Forest and maintenance of timber resource availability to sustain industry at sufficient levels to meet market demands.

ASCC opposes proposed expanded wilderness, HR 1516, and any other similar legislation.

Minerals

Valid existing rights of mining operations and claimants within Alaska's national parks and on public domain land should be protected by the State and the Department of Interior.

ASCC supports disposal of Quartz Hill mine tailings in Wilson Arm.

Lands

ASCC opposes further withdrawals of land from multiple use.

Energy

Provisions of the federal Surface Mining and Reclamation Act which do not take into account the unique and geographical circumstances in Alaska should be changed.

Tourism

ASCC supports expanded access to Denali National Park.

FDIC LIQUIDATION PROCEDURES

- Establish a permanent FDIC office in Anchorage to liquidate assets
- Evaluate assets based on financial statements and collateral
- List and sell real estate for independent appraised value
- Bulk sale performing loans to highest bidder
- On non-performing loans, attempt workout with debtors/guarantors (this includes compromises, refinance, extension or modifications of terms, interest moratorium, substitution of collateral). Bulk sale to highest bidder
- Refer assets for litigation (including foreclosure) when workout efforts fail
- Repossess collateral when workout efforts fail

FDIC PLAN IF ASSETS ARE SOLD

- Temporary FDIC office in Anchorage would be closed

Uniform Appraisal Instructions To Appraisers For FDIC Real Estate Properties

(Not Required for Residential Single Family Properties)

1. Appraisals are to be made assuming a sale on a cash basis; however, if the appraiser is uncomfortable with supplying a valuation on a cash basis because of lack of comparable sales on a cash basis, a valuation based on typical terms, as provided for in item 2 below, may be used instead. If the appraiser prefers, he/she may also value the property on both a cash basis and on a typical terms basis. FDIC does not want fire sale or liquidation value appraisals.
2. Appraisals are expected to reflect values based on sales prospects considering existing economic conditions.
3. When an appraiser supplies a valuation based on typical terms, FDIC needs specifics as to what the appraiser feels are typical terms for the subject property. For example, x percent (%) down payment, x-year mortgage, with or without a balloon payment in x years and x percent (%) interest rate.
4. All appraisals are to be on an "as is" basis.
5. Estimates to complete essential repairs and to cure violations should be provided, and the appraiser should specify whether those expenses (with a breakdown) have already been considered in estimating the property's appraised value.
6. The FDIC believes in an intensive marketing program and normally expects to sell a property within 6 - 12 months of acquisition.
7. All appraisals, including updated appraisals, must be in writing.
8. Generally, appraisals should be based on existing zoning; however, the appraiser may value the property based on both current zoning and any other zoning the appraiser feels is likely obtainable within a short period. The likelihood of the alternative zoning should be explained in the report for all cases in which the appraiser feels it is appropriate to supply both valuations.
9. When an appraiser is valuing distressed property solely on a land value basis that implies demolition or removal of improvements, the cost of demolition and/or removal should be netted against the land value with the estimated costs of removal so reflected.
10. The account officer is requested to supply the appraiser with a copy of the property's legal description, the survey, leases for income producing properties, etc.

11. The appraiser should provide the amount of annual property taxes and any past due taxes in the appraisal report.
12. The appraisal may be used for multiple purposes, such as bids at foreclosure sales, large protective advances, operating budgets, and sale of the property.
13. A copy of these instructions should be made a part of the appraisal report.

Bank of the North/
First Interstate Bank
Geographic Distribution of Loans
Summary

06-Feb-88
File Name: 015Geogstrat.kkl

Summary	Anchorage Birdwood		Nome Kotzebue Bethel Barrow Prudhoe Bay		Chugiak Peters Creek Eagle River		Fairbanks Delta Jct/Tok North Pole Eielson AFB		Homer Seward		Kenai Soldotna		Juneau Douglas		Palmer Wasilla Big Lake Willow Talkeetna		Valdez Glennallen Copper Center		Other Alaska/ Unknown **		Outside Alaska		TOTAL **	
Bank of the North																								
Real Estate/Const	15,758,131	85	1,132,290	8	284,832	5	2,536,787	28			367,492	2	2,523,366	16	3,617,356	9			1,632,293	9	2,052,075	10	29,904,622	172
Other Real Estate	2,249,168	12	0	0	158,913	3	1,444,578	18			128,160	1	1,577,924	7	287,608	5			21,184	1			5,867,535	47
Commercial	17,616,406	83	1,450,707	14	96,041	3	10,489,694	149			56,917	2	1,705,584	25	706,862	11			2,091,524	18	2,357,472	21	36,571,206	326
Installments	193,188	27	33,128	11	18,518	2	256,889	45	740	1			64,052	8	2,401	1	2,059	1	16,884	4	56,899	15	644,758	115
Subtotal	35,816,892	207	2,616,125	33	558,303	13	14,727,948	240	740	1	552,569	5	5,870,926	56	4,614,227	26	2,059	1	3,761,885	32	4,466,447	46	72,988,121	660
	49.07%		3.58%		0.76%		20.18%		0.00%		0.76%		8.04%		6.32%		0.00%		5.15%		6.12%			
Judgements																								
Charge-Offs **	6,432,197	552	479,955	72	481,242	37	4,333,409	398	12,095	5	10,892	11	1,529,237	106	382,629	31	73,976	15	2,516,280	179	964,279	421	17,216,191	1,827
Subtotal	6,432,197	552	479,955	72	481,242	37	4,333,409	398	12,095	5	10,892	11	1,529,237	106	382,629	31	73,976	15	2,516,280	179	964,279	421	17,216,191	1,827
	37.36%		2.79%		2.80%		25.17%		0.07%		0.06%		8.88%		2.22%		0.43%		14.62%		5.60%			
ANB Total	42,249,090	759	3,096,080	105	1,039,545	50	19,061,357	638	12,835	6	563,461	16	7,400,163	162	4,996,856	57	76,035	16	6,278,165	211	5,430,725	467	90,204,312	2,487
	46.84%		3.43%		1.15%		21.13%		0.01%		0.62%		8.20%		5.54%		0.08%		6.96%		6.02%			
TOTAL (CHG-OFFS & JUDGMENTS EXCLUDED)																								
TOTAL (CHG-OFFS & JUDGMENTS EXCLUDED)	144,537,681	504	2,970,207	35	5,754,000	33	14,992,530	243	2,673,824	25	3,718,040	27	6,762,409	60	16,776,233	95	68,921	4	4,498,220	39	10,022,290	78	212,774,354	1,143
	67.93%		1.40%		2.70%		7.05%		1.26%		1.75%		3.18%		7.88%		0.03%		2.11%		4.71%			
TOTAL INCLUDING CHG-OFFS & JUDGMENTS																								
TOTAL INCLUDING CHG-OFFS & JUDGMENTS	159,290,301	1,170	3,450,162	107	6,326,888	77	19,325,939	641	2,830,761	36	4,218,067	49	8,291,646	166	17,850,582	151	205,070	20	11,032,371	257	11,470,623	516	244,292,410	3,190
	65.20%		1.41%		2.59%		7.91%		1.16%		1.73%		3.39%		7.31%		0.08%		4.52%		4.70%			

** Unknown locations were found only for Bank of the North Chargeoffs
All others in this category are located within Alaska.

** Figures on Bank of the North Chargeoffs for "Other Alaska"
and "Outside Alaska" are approximate.

** Totals reflect gross loan balances; i.e.,
"Participations Sold" balances plus FDIC back value.

Bank of the North/
First Interstate Bank
Geographic Distribution of Loans
Summary

06-Feb-98
File Name: 015Geogstrat.wkl

Geographic Distribution of Loans Summary		Anchorage Girdwood		Nome Kotzebue Bethel Barrow Prudhoe Bay		Chugiak Peters Creek Eagle River		Fairbanks Delta Jct/Tok North Pole Eielson AFB		Homer Seward		Kenai Soldotna		Juneau Douglas		Palmer Wasilla Big Lake Willow Talkeetna		Valdez Glennallen Copper Center		Other Alaska/ Unknown **		Outside Alaska		TOTAL #	

The FDIC states that it will not "dump" its real estate holdings on the Alaskan market.

1. What assurances do we have of this?
2. What (If there were a dump) would be the effect on the loan portfolios and the collateral backing up these loans at healthy Alaskan banks? ✓
3. Other Alaskan banks are members of the FDIC. Is the FDIC liquidation scheme required to consider the impact on other (healthy) banks? ✓

We have heard about a concept that would create a stabilization entity which could be formed by all holders of "other real estate owned (OREO)", defaulted loans, and delinquent loans. All of these assets could be pooled by banks and federal and state agencies, held for stabilization purposes and eventually liquidated. Liquidation proceeds would then be passed back to the agencies whose assets made up the pool.

- 1) Would FDIC be receptive to further discussion on this concept.
- 2) If the State was willing to advance funds for operating expenses to carry these assets for a period of time for stabilization purposes, would FDIC be more inclined to be a participant in the pool.

Does the FDIC intend to open an office to manage its Alaskan portfolio of assets?

What is the FDIC's annual cost-of-carrying these assets expected to be?

Greens Creek is expected to have about 65,000 ounces of gold in its yearly output of concentrates which will also include more than 8 million ounces of silver plus commercial amounts of zinc and lead. In addition, the small Grant Mine at Ester Dome near Fairbanks reopened late last year to work a surface vein but is scheduled to resume underground mining late this year. Also, Alaska Apollo Gold Mines Limited has announced that a small but high grade deposit at the historic Apollo property in the Shumagin Islands will be produced under a joint venture with Nevada Goldfields, an affiliate of Golconda Minerals of Australia. No timetable was announced but, if the tentative agreement is completed, development is expected to cost up to \$10 million. The confirmed reserves of about 280,000 tons grade out at one-half ounce of gold and nearly 2.5 ounces of silver per ton.

PERMANENT FUND PROJECTIONS SHOW EARNING SHORTFALL BY 1994

Financial projections published in the middle of fiscal year 1988 show annual increases in the amount of the Alaska Permanent Fund through 2005. But legally mandated annual dividends will cause a shortfall in inflation proofing contributions to the fund's corpus, beginning in 1994. The Alaska Permanent Fund Corporation's calculations show the annual dividend rising from about \$1,000 that year to nearly \$1,900 in 2005. At the same time, the inflation cushion shortfall is expected to rise from \$15 million in 1994 to \$258 million at the end of the period. But, in 2005, the fund is projected to total nearly \$25 billion and will receive contributions of \$1.25 billion in inflation proofing plus \$172 million in dedicated state mineral revenues.

The projections use Department of Revenue population and revenue forecasts. They assume a 6 percent inflation rate for most and a 9 percent gross rate of return for all the 17.5 year period. Some indication of the conservative nature of the projections can be seen in the fact that the figures call for a fund balance next July 1 of some \$8.54 billion while, in fact, the balance stood at approximately \$9.1 billion on Jan. 1 of this year. Also, while the net or "real" rate of return on fund investments is projected at 3 percent through 2005 the rate has not been that low since 1981 and has run as high as 11.75 percent (in 1987). Halfway through fiscal 1988 the real rate of return stood at 5.3 percent. Under the projected formula, dividends to Alaskans will total \$25.5 billion between the start of distribution in 1982 and 2005 which will coincidentally be just slightly more than the fund balance at that time.

CHUGACH ELECTRIC BIDS TO CUT DEBT SERVICE COST

Chugach Electric Association (CEA) is attempting to position itself to take advantage of an admittedly long shot opportunity to refinance part of its long term debt at a substantial reduction of interest rate. CEA hopes to take part in a current federal budget provision guaranteeing the roll over of up to \$2 billion in high interest Rural Electrification Association related loans to current interest rates. The program is aimed at bailing out eight troubled power cooperatives Outside but CEA hopes to be first in line for any money left over after the bailouts.

To position itself, CEA hired Smith Barney, Harris Upham and Company, Inc. as an agent to devise the refinancing plan and has filed such a plan with the Alaska Public Utilities Commission as required by that agency. Under an expedited hearing process that will allow CEA to submit its prepayment application to REA by Feb. 26, the Commission is accepting public comment on the plan until Feb. 22 at its Anchorage offices. CEA wants to roll over up to \$108 million of debt (about one-third of its total) which currently bears interest rates of more than 12.6 percent. David Highers, CEA manager, estimates refinancing at current interest rates would save the utility nearly \$1.5 million a year in debt service.

FORECLOSURE RATE IS UP BUT VALUES DOWN FOR COMMERCIAL TYPE LOANS

The rate of foreclosure type actions on real estate loans in excess of \$250,000 jumped sharply in the southcentral Alaska area during the first half of February. The 16 foreclosures in early February matched the total for the entire month of January. But the value of the loans was nearly \$20 million, or some 25 percent more than the value of all foreclosure actions initiated during the prior month. Most of the value, however, was in a single development of Peter Zamarello in southwest Anchorage near the intersection of Dimond Boulevard and the Minnesota Expressway. Including unpaid interest, Security Pacific has a claim of more than \$15 million on the property. A list of borrowers, loan dates, property locations, lenders, amounts and sale schedules follows:

(Continued)

- Optima, Inc., November 1984, Timberview Sub. properties in the Matanuska-Susitna Borough, North America Savings & Loan Association, \$282,200 plus interest, March 1, Anchorage;
- Dick Leonard, August 1986, Wasilla West Sub. property in the Matanuska-Susitna Borough, Federated Financial Corporation, \$250,000 plus interest, March 3, Anchorage;
- Milburn G. Cox Jr. and Marina M. Cox, July 1984, Spenard Heights Sub. property in Anchorage, North America Savings & Loan Association, \$257,685.91 plus interest, March 8, Anchorage;
- ✓ • Charles F. McAlpine, November 1978, Wonder Park Sub. property in Anchorage, Alaska Statebank, \$379,926.72 plus interest, March 8, Anchorage;
- Anton Zuber, January 1978, Highway Park Sub. property in Anchorage, J.D. & Marcene O. Simpson, \$318,903.61 plus interest, March 18, Anchorage;
- John E. Caston and Statewide Services Inc., unspecified, Willowcrest Sub. property in Anchorage, Alaska Mutual Bank, \$278,963 plus interest, March 22, Anchorage;
- Benchmark Inc. and Professional Alaskan Properties Investment Fund No. 17, November 1983, Mountain View Sub. property in Anchorage, Coast Savings & Loan Association, \$717,137.43 plus interest, March 29, Anchorage;
- Richard S. & Gaylee P. Warner, September 1983, Carolyn Acres Sub. property in Anchorage, Alaska Housing Finance Corporation, \$253,521.26 plus interest, March 31, Anchorage;
- Robert N. & Patricia F. Stafford, April 1984, Aurora Park Sub. property in Anchorage, Alaska Permanent Fund Corporation, \$265,337.03 plus interest, April 6, Anchorage;
- James F. & Rhonda L. Allison and Blue Chip Investments, March 1984, Aurora Park Sub. properties in Anchorage, Federal National Mortgage Association, (two loans totaling) \$656,336.34 plus interest, April 7, Anchorage;
- ✓ • Robert W. Kubick, James D. Chapman and Q&O No.2 (general partnership), May 1981, Devonshire Sub. property in Anchorage, Thomas L. & Lila Lee Boyle, \$337,124.42 plus interest, April 15, Anchorage;
- Scott W. & Heidi Framstad, September 1985, Crestview Village Sub. property in Anchorage, Great Western Savings Bank, \$266,803.07 plus interest, Apr. 26, Anchorage;
- ✓ • Peter G. & Patricia Zamarello, September 1984, Lakeview Terrace Sub. property in Anchorage, Security Pacific Mortgage & Real Estate Services Inc., \$14,771,224.93 plus interest, May 9, Anchorage;
- Goentzel Builders Inc., March 1984, Galatea Estate Sub. property in Anchorage, United Bank Alaska, \$250,000 plus interest, May 10, Anchorage;
- Paul Hartig, Richard N. Anderson et alia, July 1984, Matanuska-Susitna Borough tract, Alliance Bank, \$268,125.53 plus interest, May 13, Anchorage;
- 2 • Sandra A. Dema-Fredette, October 1985, C.S. Lloyd Sub. property in Anchorage, National Bank of Alaska, more than \$250,000, judicial foreclosure.

RECENT BUSINESS RELATED BANKRUPTCIES IN ALASKA

Gilbert D. & Caroline K. Fluery dba/B&F Trucking, Ch. 7 filed Feb. 8 in Fairbanks; David M. & Cheryl K. Rabb dba/Capitol Postal, Ch. 7 filed Feb. 10 in Anchorage; Lynn James Harnisch dba/Wolly Mammoth and Ruth Susan Harnisch, Ch. 7 filed Feb. 11 in Fairbanks; Truss Lands & Livestock, Inc. Ch. 11 filed Feb. 16 in Anchorage; Marion Elaine Thomas Carter, Ch. 13 filed Feb. 16 in Anchorage; Forest Park Hills, Inc., Ch. 11 (filed Oct. 2, 1987 in Florida) venue changed to Anchorage Feb. 17.

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Commonwealth North wants fund used to bolster economy

By BILL WHITE

Daily News business editor

During severe recessions, permanent fund earnings should be spent to buttress the economy rather than used to offset the effects of inflation on the fund, a civic group proposed Tuesday.

Other investment earnings of the \$9 billion savings account should be earmarked for a new fund that would finance construction projects that would expand the state's economy, Commonwealth North said.

The proposal, if adopted, would reduce future annual permanent fund dividends paid to Alaskans by slightly restraining the growth of the fund. But the group has an answer for that, too, by recommending the dividends be capped.

Dave Chatfield, an Anchorage banker and chairman of the committee that wrote the 12-page proposal, said the report is designed to answer a key question about the permanent fund: For what are we saving this money?

Their answer is to use it "to help level out the sharp peaks and valleys of Alaska's historic economic cycle," Chatfield said.

Alaska voters created the fund in 1976 to save some of the coming oil bonanza. The fund gets about 10 percent of the state's oil revenue. That money cannot be spent, only invested. But the profits from investments can be spent, and currently are spent on the state's annual permanent fund dividend to Alaskans and for inflation proofing the fund.

"The use of permanent fund earnings is a sensitive and easily misunderstood issue," Chatfield said.

"The highly charged environment surrounding this issue has made Alaska's political leaders hesitant to act."

State legislators offered more than 50 proposals last year on permanent fund earnings, he said. Commonwealth North decided to join in with its opinion. An 18-member committee of the group studied the issue for the last year.

The main proposal involves using the fund's earnings to stimulate the economy during recessions and to slow the economy — by not spending earnings — during times of rapid growth.

The earnings would be funneled into the economy through per-capita revenue sharing payments to local governments.

The local governments could ask voters how to spend the money, pay the money directly to citizens, or use it for street repair, tax relief or the like, Chatfield said.

A new economic index that included relatively current spending, salary, sales and employment figures would be used to determine if the economy is growing or shrinking.

Commonwealth North also dusted off its old plan to create a fund that would build revenue-producing facilities around the state.

Under the new plan, the construction would

See Page B-5. COMMONWEALTH

COMMONWEALTH: Group wants fund cap

Continued from Page B-4

be financed by bonding, matching funds or use of some of the \$516 million reserve set aside in the permanent fund for future dividends or inflation proofing.

Commonwealth North didn't state how much of that reserve should go to its Alaska Development Fund. But in discussions the range was \$50 million to \$100 million, he said.

"We still believe something like this is long overdue," Chatfield said. "We need to be

replenishing our capital investment

Another proposal calls for a cap on permanent fund dividends at, perhaps, \$1,000 per Alaskan or a total distribution of 40 percent of fund earnings.

Last year's dividend was \$700 each, or a total of 37 percent of the earnings. Forty percent of expected earnings would create a dividend of about \$550 this year.

Chatfield said he circulated the proposal last week in Juneau, where it was favorably received.

A POSITIVE COUNTER-CYCLICAL FORCE IN THE ALASKA ECONOMY

Permanent Fund
Earnings

SUMMARY:

The Permanent Fund represents visionary public policy and, as a savings account, has been well managed. Its earnings should be used as a counter-cyclical force to funnel monies into the grassroots economy through local government in particularly troubled economic times. When times are good, these earnings should be placed in the Fund. The more fundamental crisis, the long-term lack of diversification in the Alaska economy, must also be addressed by the Legislature. To research revenue-generating proposals, the Legislature should establish an Alaska Development Board, the specifics of which are outlined in this report.

A report by
The Commonwealth North
Permanent Fund Committee

First printing . . . February 1988

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IN ADDITION TO DIVIDENDS, WHAT SHOULD THE EARNINGS OF THE PERMANENT FUND BE USED FOR?

The Alaska Permanent Fund was created by a public referendum in 1976. It was established as an inviolate trust with the principal of the Fund to be invested in perpetuity. The beneficiaries of the trust were to be all present and future generations of Alaskans.

At its origination, nearly everyone agreed upon one purpose for the Fund — to remove a portion of Prudhoe Bay revenues from the appropriations table, making them unavailable for state spending. This has worked. Indeed, 22% of the \$26 billion in oil revenues received by the state since Prudhoe Bay production began has been deposited into the Permanent Fund, saved and invested. At the end of 1987, total assets of the Fund totalled close to \$9 billion.

Although the citizens of Alaska are nearly unanimous in their enthusiasm for the Fund and its management, there is less of a consensus on how to use the Fund's earnings, except for the popular dividend program. These earnings since 1978 total \$4.3 billion, 30 percent of which was distributed as dividends to the Alaska people.

Numerous conflicting proposals have been introduced on how to best use the earnings of the Fund. Most of these proposals have been met with suspicion and cries from some quarters warning against "raiding the Fund." This highly charged environment has led to hesitancy and inaction by Alaska's political leaders, and the central question has gone unanswered: what are we saving this money for?

What are we saving this money for?

During the mid-1980's there was little need for using the "non-dividend" or undistributed earnings. Times were good generally throughout the state. Local and regional economies were booming, fueled by oil activity at Prudhoe Bay and the attendant revenues amassed by state government. After the distribution of dividends to all Alaska residents, the remaining Permanent Fund earnings were simply set aside and from time to time added to the corpus of the Fund by the Legislature with encouragement from the Governor.

However, as 1988 begins, many Alaskans face difficult economic circumstances, and there is a growing sense of urgency and frustration.

"We've been saving money for a rainy day," many say. "Can't they see it's raining out there?"

"This recession is not a dip, it's an abyss," said an Anchorage property owner and builder. Many of his colleagues have filed bankruptcy, walked away from years of investments, and left Alaska. State and federal regulators have either closed or merged eight financial institutions. Thousands of residents have lost their homes and businesses.

Economists who look beyond the immediate crisis to the long-term economic health of the state express grave concern that North Slope oil production will begin a steady decline within 24 months.

It is against this backdrop that the Board of Directors of Commonwealth North commissioned a committee to study the Permanent Fund and how best its earnings might be utilized to help Alaskans, both in the short-term and in the long-term.

The Committee met weekly for three months. It heard presentations from policy makers and reviewed materials provided by the Permanent Fund staff and other sources.

After weeks of debate, the Committee determined that, in addition to dividends, the earnings have the capacity to play a major positive role in the Alaska economy. The members then prepared the following report.

RECOMMENDATIONS

Recommendation One:

Permanent Fund earnings should be used as a positive, counter-cyclical force in the Alaska economy.

Recommendation Two:

When economic indicators dip dramatically, Permanent Fund earnings should be appropriated directly to municipalities on a per-capita basis. When indicators climb, those earnings should be used to help "inflation proof" the Fund.

Recommendation Three:

The Alaska Legislature should create an Alaska Development Board, empowered to research and recommend to the Legislature major revenue-generating, in-state investments which further expand and diversify the Alaska economy.

Recommendation Four:

Using a portion of the \$516 million in the Permanent Fund's Earnings Reserve Account, the Legislature should establish an Alaska Development Fund.

Recommendation Five:

The Permanent Fund dividend program is beneficial and should be continued; however, there should be a limit on the size of the dividends.

Recommendation Six:

Use of Permanent Fund earnings to "inflation-proof" the Fund should be encouraged in times of economic growth, but, in depressed economic times, a routine annual appropriation for this purpose should not occur automatically.

Recommendation Seven:

Permanent Fund earnings should be used for state government operations only in dire emergencies.

Recommendation Eight:

Strategies for using Permanent Fund earnings, including those in this report, should be written in statute, not incorporated into the state Constitution at this time.

RECOMMENDATION ONE:

Permanent Fund earnings should be used as a positive, counter-cyclical force in the Alaska economy.

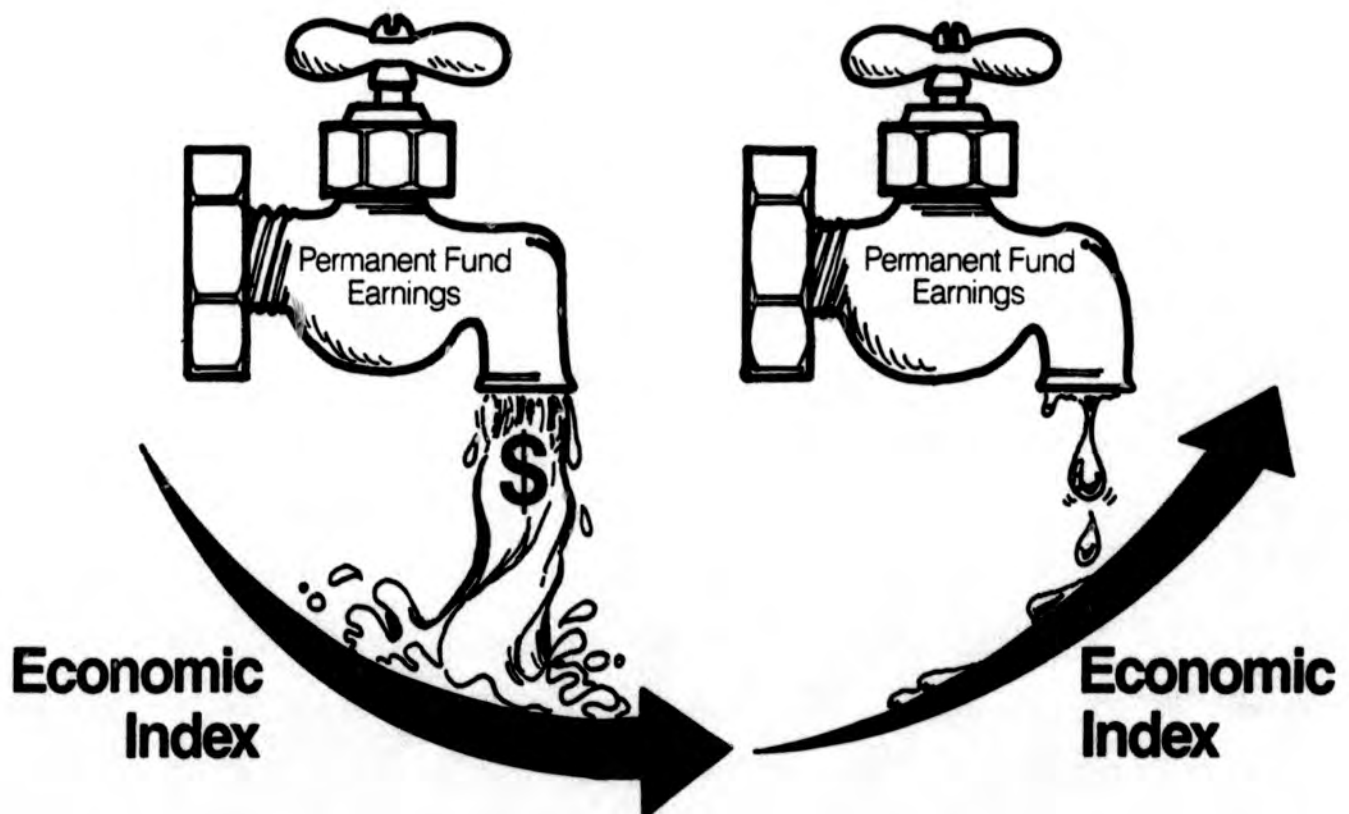
Earnings from the Permanent Fund can and should help level the peaks and valleys of Alaska's traditional boom and bust economic cycles. Appropriations of the earnings should be an important aspect of the state's overall fiscal policies, with additional money injected into the economy during hard times and money withdrawn from the economy during times of rapid growth.

At the national level the Federal Reserve Board has achieved success in controlling inflation and in combatting recession. The Board makes its decisions based on a number of leading and trailing economic indicators. The instruments it uses in pursuing its objectives are monetary in nature, i.e., interest rates and other mechanisms which affect the quantity of money in circulation.

Although Alaska has no comparable monetary tools, Alaska's Permanent Fund earnings could play an equally important and significant role through fiscal (appropriation) policy. This approach should and can be handled carefully so that the earnings are used wisely and distributed fairly throughout the state.

Establishing an economic "spigot"

To begin with, the Legislature should establish a broad-based economic index, written in law, which will determine when Permanent Fund earnings should be injected into the economy and when they should be withdrawn.



This index should include available Alaska economic indicators such as

- Consumer spending
- Savings and investments
- Public and private sector employment
- Wage and salary rates
- Housing starts
- Retail and wholesale sales
- Value of contract construction
- Personal income
- Gross state product
- State revenues

This index will enable the Alaska Legislature and the Governor to determine objectively the performance of the economy and its outlook and become the basis for formulating the state's fiscal policy.

If the index begins to drop, the administrative department, legislative committee, or board of advisors the Legislature designates would recommend appropriation of a portion of the earnings. If the index rises, such spending would be reduced or terminated and the earnings retained instead. In this way, the Permanent Fund would operate as a counter-cyclical force designed to minimize the volatility of economic contractions and expansions.

RECOMMENDATION TWO:

When economic indicators dip dramatically, Permanent Fund earnings should be appropriated directly to municipalities on a per-capita basis. When indicators climb, those earnings should be used to help "inflation-proof" the Fund.

Because of the unique nature of the Permanent Fund, drawn from one-time resource revenues and held in trust for all, it is recommended that the flow of money from the earnings (apart from the dividends) be directed to local governments on a consistent per-capita basis. In this way each local entity can make its own judgments as to what its citizens most need, whether jobs, street repair, tax relief, etc. This dispersion will strengthen local decision-making authority and responsibility.

In the unorganized borough, service areas or regional education districts should be the recipients of these funds so that the per-capita disbursement reaches all Alaskans.

The Legislature may wish to establish certain parameters for local governments to use in order to ensure that this special distribution of the Permanent Fund earnings is spent in the most economically beneficial manner. For example, services obtained with these funds should be contracted out to private firms wherever possible. This approach will support the private sector while permitting more rapid expansion and reduction of services without enlarging local bureaucracies.

Use of an impersonal barometer such as the index suggested above and a per-capita formula will help to negate the regional and personal politics which too often dominate the legislative spending process.

RECOMMENDATION THREE:

The Alaska Legislature should create an Alaska Development Board, empowered to research and recommend to the Legislature major revenue-generating, in-state investments which further expand and diversify the Alaska economy.

As mentioned earlier, Prudhoe Bay production will begin a rapid decline within the next 24 months. According to the Alaska Division of Oil and Gas, that decline will reduce the trans-Alaska pipeline throughput from today's 2 million barrels a day to 500,000 a day by the year 2002.

In other words, in just 14 years, production from the resource development activity which now accounts for 82% of state revenue will be just one-quarter of what it is today.

Unless other major sources of revenue are developed, Alaska has a calamity in the making. No other Alaska resource comes close to the potential of North Slope oil for generating revenues. In FY 82 these revenues peaked at \$4.1 billion, but by FY 87 they had dropped to \$1.7 billion. If oil prices stay in the \$16-\$18 range, Prudhoe Bay revenues in 2002 will be just \$425 million (in nominal dollars).

Estimated Production of Alaska North Slope Crude Oil

