

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1575 SCOMM 59: JNT. COMMITTEE ON ECONOMIC RECOVERY, 1988 1372

COMMERCIAL LOANS

ANEN

FIB

<u>Types of Business</u>	<u># of Assets</u>	<u>Book Value</u>	<u>Employees (Estimated)*</u>			<u># of Assets</u>	<u>Book Value</u>	<u>Employees (Estimated)*</u>		
			<u>1-24</u>	<u>25-100</u>	<u>100+</u>			<u>1-24</u>	<u>25-100</u>	<u>100+</u>
Agriculture	3	205M	15			—	—	—	—	—
Real Estate Related	12	1,084M	21			59	7,672M	244		
Tourism	9	185M	18			16	8,869M	39	185	
Transportation	24	3,794M	205	242		26	1,508M	79		
Fishing	—	—	—			14	1,060M	56		125
Mining	15	1,001M	18			1	811M	8		
Construction	69	3,757M	282	90		61	3,577M	241	151	
Timber	9	271M	60			1	28M	5		
Oil Related	—	—	—			9	3,641M	18	39	219
Communication	—	—	—			4	639M	20	45	
Retail/Services	144	17,886M	450	151	223	179	30,020M	543	516	491
Not Designated	317	26,017M	(Not Available)			233	46,690M	(Not Available)		
Totals	602	54,200M	1,069*	483*	223*	603	104,515M	1,253*	936*	835*

* Represents total number of employees for each type of business.

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
1500 W. Benson Boulevard • PO Box 99003
Anchorage, Alaska 99509-9003 • (907) 258-7890
Member FDIC

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

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

Background

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

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

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

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

The Proposal

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

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

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

It is our intention that all transferred assets will be recorded in the Trust's books at fair market value as of March 31, 1988. The fair market value of real estate properties will be based upon current independent appraisals except for those assets where a sale was pending and subsequently closed. In those cases the proposed selling price will be considered as a more accurate indication of fair market value. Fair market value of real estate loans will be based upon current independent appraisals. All appraisals will be carried out in accordance

with accepted appraisal methods by a qualified independent appraiser who is a member of the American Institute of Real Estate Appraisers and who regularly performs appraisal services for major financial institutions. Credit will be given in the appraisal process for any income flowing from any transferred asset.

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

It is intended that a Procedures Agreement would be drafted to establish a minimum sales price for each of the Transferred Assets. Minimum sales prices will be based upon appraised values. The Procedures Agreement will also establish restrictions on financing by the Trust although it is intended that the Trust will offer financing to purchasers to assist in the sell-out (see "Marketing"). The 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&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 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 Alliance Bank minimum lending rate as posted from time to time.
2. Should an asset be sold with less than 20% deposit, then the Trustee may sell the asset with a twenty year amortizing loan as described above but with recourse to the credit of the purchaser.
3. If the deposit of 25% or more is received, then the Trustee may lend up to twenty years on an interest only basis as described above.
4. Under no circumstances may the Trustee sell with less than a 5% deposit.

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

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.
767 Third Avenue
New York, NY 10017

Tel: (212) 319-2360



ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY

1577 "C" STREET • SUITE 304 • ANCHORAGE, ALASKA 99501-5177 • (907) 274-1651

December 21, 1987

Senator Jan Faiks
Senator Rick Halford
Senator Arliss Sturgulewski

Dear Senators:

Thank you for your invitation to attend last weeks discussion on the Alaskan economy. My understanding is that on Tuesday at 9:00 AM the group will meet again and you would like a brief overview of the current financial situation of the Authority. Additionally, myself and all others in attendance were to give some thought to what was discussed and present any ideas or alternatives that may help the economy in general.

My understanding is that the primary purpose of the group is to brainstorm and prepare ideas that may allow governmental intervention to assist the economy through some difficult times. Many individuals feel that the assets of the Authority could be useful in this effort and that an overview of the financial condition would allow a more reasoned analysis.

Attached as Appendix "A" is the Balance Sheet & Income Statement for the year ending 6/30/87. Following the statements, I have prepared a brief analysis of the composition of the balance sheet with particular emphasis in the asset side in which this group appears to have an interest.

At last weeks meeting, several points were raised that merit response. There seemed to be a general consensus around the table that AIDEA needs to respond more timely to work-out requests submitted by banks and needs to be a bit more liberal in its evaluation of these requests. Insofar as the timeliness is concerned, I agree that there have been times when a response has been slower than necessary. Internal steps have been taken to remedy the problem. On the liberalization side, I also agree that some of the criticism may be justified. It is significant that the Authority considers itself an in-state investor in bank originated loans and not a social service organization. It is also realistic to understand that on a 90/10 participation who really has assumed the risk and accordingly should have a considerable voice in determining the future events of that particular transaction. Nevertheless, steps are being taken to hopefully alleviate, at least to a degree, both of these concerns.

*Chap would have for comparing
is land value - & the Alaska
sees rate for differences for
Regan*

On to more important matters and the purpose of the gathering, the economy.

It appears the group was not overly impressed with my rather inarticulate mutterings on supply and demand. The majority of proposals distributed do not address these fundamentals and accordingly will not solve the problem. The proposals all are premised on the assumption of buying time and hopefully things will get better. This analysis ignores the possibility that a structural change has occurred within Alaska and that slow to moderate growth will might be the future, not the double digit growth that we've all grown accustom to.

What is occurring now is percisely free enterprise at its worst. It is eliminating the marginal producer in a very efficient matter. Once equilibrium is reached, the survivors will grow and prosper and those who made miscues or poor investment decisions will be finished. The lesson for the real estate speculator is simple, leverage is two sided.

The problem then is to alter the above relationship, hopefully in a form that recognizes some across the board public benefit, as it appears public funds are to be used. The Chairman has requested that we focus on the supply side and accordingly it appears to the author that to rationally gain access to the "public trough", a program that at least attempts to spread equally the gain and the pain be developed.

Demolish Alternative

- 12/21/87
Chapman
12/21/87*
- I. Any financial institution, political subdivision, credit union, FDIC, may take property from their "OREO" account, sell it to the "Demolish Corp" for its current land value who is then mandated to destroy the improvements upon the land.
 - A. Improvements must have existed upon the property prior to January 1, 1986.
 - B. Improvements must be commensurate in size and character to the real property in question.
 - C. Property must be vacant at time of purchase.
 - II. The "Demolish Corp" is prohibited by statute from selling any real property until _____, which time all proceeds are deposited in the _____ (General Fund?).

Analysis

1. Not feasible, no one will sell for merely land value.
 - A. Perhaps not. Current OREO requires taxes, insurance and maintenance. If the structure is obsolete and the institution has already written off a portion. A sale for land value would stop the bleeding and allow immediate cash into the bank. Most likely the least desirable, must

2. By requiring tenant removal prior to purchase, demand would be created by eliminating supply.
3. Who wins/Who loses??
 - A. Tends to prop up property values if enough properties tendered. All property owners would benefit by the reduction in supply of like properties. (Includes commercial and residential).
 - B. Removes property from the tax rolls but increases values of the remaining property.
 - C. Allows institutions to liquidate, receive cash and go on.
 - D. Penalizes speculation

III. Moratorium on lending for new construction

A moratorium would be placed on AHFC, AIDEA, ASBA, Permanent Fund, etc. on providing funds for permanent financing for any new construction ~~subject to an override by the local governing body within which the project is located.~~ *Ne*

The intent is to curtail new construction except when a local government feels their economy can absorb such new construction. Could put a sunset on it, say for three years, then the restriction falls away unless reinacted.

IV. Public Works - Jobs Bill

*AIDA started a committee
no more explicit funding source
Jensen, Clerk Jensen, Mark Se
Lambert*

**Analysis of Balance Sheet
6/30/87**

INVESTMENTS

Restricted	\$ 55,284,432
Unrestricted	\$223,044,730

The restricted category is comprised of funds that are specifically pledged or obligated for various bond issues. Included in this category are the Capital Reserve funds, Bond Sale funds, Loan Collections, Escrowed Bond Sale, remittances, etc. These funds are held by the various bond trustees.

The unrestricted category are general funds of the Authority that are not specifically pledged to any particular bond issue but which in addition to the loans comprise the bulk of the general assets of the Authority. The majority of these funds are invested in U.S. obligations or agencies or instrumentality of the U.S. in maturities of one year or less.

LOANS

Total	\$329,070,910
Less allowance	<u>10,173,101</u>
NET	\$318,897,809

Composition of loans

Appropriated & Purchased	549	\$ 75,353,222
Federally Guaranteed	63	11,278,600
Bond Sale	<u>396</u>	<u>242,439,088</u>
	1,008	\$329,070,910

95% of total \$ in real estate 50% in Arch

Bond Sale Delinquency as of 10/31/87

<u># loans</u>	<u>Principal</u>	<u>30 Days</u>	<u>60 Days</u>	<u>90 Days +</u>
377	\$229,997,223	(14) 3.05% \$7.0 million	(5) 1.24% \$2.9 million	(69) 22.5% \$51.9 million

Total Delinquent

88 26.8% \$61.8 million

OREO as of 6/30/87

\$8,797,589

*11/30/87
\$10m*

does not get a current appraisal / doc set here to but the books must get an appraisal

Analysis of Balance Sheet
December 21, 1987
Page Two

Liabilities as of 6/30/87

Bonds Payable	\$252,720,225
Average Annual Debt Service	\$33.0 million/per year

Income Statement Notes
6/30/86

	<u>87</u>	<u>86</u>	<u>85</u>
Total Revenues	\$ 48,359,225	\$ 54,959,810	\$ 51,812,352
Total Expense	34,882,482	26,084,609	22,060,125
Total Earnings	13,476,743	28,875,201	29,752,227
R.E. End of Period	\$157,625,213	\$144,148,470	\$115,273,269

22 Bond issues out. G.O. full faith & credit
of authority
vast majority are non-callable until
1994-97 not allowed to be
refundable 10 yrs
10-22 can be called with a pre-pay
only.

SPECIFIC SUGGESTIONS

- * Change AIDA's 2% statute *agreed - will be added to*
- * AIDA work outs should parallel banks *agreed*
- * Do not fund new building projects into areas of oversupply *not by any means*
- * Repeal law setting delinquency rate
- * Caps for individual banks
- * Consider loan guarantee program through AIDA with loans sold to state (P.F. or other)
- * AHFC & AIDA need more staff
 - AHFC - operations/systems people
 - AIDA - work out specialists
- * AIDA needs to follow example of S.B.A.
- * Export trailers
- * Convert existing space to state uses
- * Condos to UAA dorms, ASHA housing upgrade
- * Change regulations requiring disposal of property within two years.

* *and statute changing law*

develop AH Corporate Proj.

R.W.H.
12/87

will introduce this

home owners assist program

*1/3 new 1/3 new 1/3 condos
3700 owned properties
by AHFC*

AIDA - 22 issues.

-1000 loans

*AHFC - 90 Bond issues.
52.000 loans*

4 billion in outstanding debt

1 1/2 billion net worth in mortgage loans

DEPARTMENT OF COMMUNITY AND REGIONAL AFFAIRS

P.O. Box B
Juneau, AK 99811-2100
465-4700

Financial Outreach Services to Encourage Recovery (FOSTER)

The Financial Outreach Services to Encourage Recovery program will assist communities with financial problems by providing financial planning, budgeting, revenue sources/projections and cost containment.

Cost of Program: \$651 thousand
Geographic Area of Impact: Nome, Bethel, Dillingham, Juneau, Anchorage, Fairbanks
Commencement and Duration of Economic Effects: latter FY 88 and FY 89

Community Economic Disaster Loan Fund

Part of the FOSTER program involves the Community Economic Disaster Loan Fund, which will be used to assist those communities formally designated as economic disaster areas. Loans of up to 50% of the prior year's municipal assistance and revenue sharing entitlements will be tied to accountability and financial management training by C&RA.

This program will require enabling legislation.

Cost of Program: \$600 thousand
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: latter FY 88 and FY 89

Rural Economic Development Initiative (REDI)

This program combines the Community Development and Services Block Grant and the Rural Development Assistance Grant programs to offer grants emphasizing individual and community self-sufficiency. Two new positions -- one in Bethel and one in Fairbanks -- will spearhead the effort to build community projects and train local residents to work on these projects.

Cost of Program: \$1,981,000
Number of Jobs Created: 40 permanent community jobs eventually
Effect on Alaska Personal Income: increase income to communities
Geographic Area of Impact: rural areas

Commencement and Duration of Economic Effects:
latter FY 88 thru FY 90

Job Training Partnership Act

This program provides federally funded employment training. The federally funded Job Training Partnership Act provides a variety of pre-employment and on-the-job training services through direct marketing and competitive solicitations that involve over 200 Alaska businesses and training agencies.

Cost of Program: \$10,364,500
Number of Jobs Created: 856
Effects on Alaska Personal Income: increase income of participants and employers
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: ongoing

Dislocated Workers

A \$75.5 thousand general fund increment enables this portion of the JTPA program to maintain the FY 88 level for this program, which targets workers dislocated by the downturn in Alaska's economy, providing them with training to seek other employment.

Cost of Program: \$800.5 thousand
Number of Jobs Created: 450
Effects on Alaska Personal Income: increase income of participants and employers
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: ongoing

Child Care Programs

Child care programs include financial assistance grants for facilities, day care assistance grants for parents, education and training grants for practitioners and Head Start matching funds support.

Cost of Program: \$11,234,900
Effects on Alaska Personal Income: increases disposable income of subsidized parents
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: ongoing

Conservation and Weatherization

These programs provide energy-related technical assistance, education and improvements to local communities using state and federal funds.

Cost of Program: \$1,403,500
Number of Jobs Created: stable
Effects on Alaska Personal Income: Increase disposable income of participants
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: ongoing

Revenue Sharing

Payments to local governments under this program will be accelerated to enhance economic recovery. The Governor's proposal is to provide stable funding.

Cost of Program: \$40,773,400
Number of Jobs Created: stable
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: FY 89

Municipal Assistance

This program provides financial aid to municipalities with an emphasis on reduction of property taxes. The Governor's proposal is to provide stable funding.

Cost of Program: \$56,084,400
Number of Jobs Created: stable
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: FY 89

Housing Assistance Loan Fund (HALF)

Operations appropriations from the loan fund, loans from the revolving fund and a General Fund appropriation to the fund of \$2.5 million will ensure that the residential housing loan needs of rural residents will continue to be met.

In addition, proposed new legislation will enable borrowers to use a residence for development of cottage industries.

Cost of Program: \$2,821,700 operating (from HALF), \$2,500,000 GF appropriation to loan fund

Number of Jobs Created: stable
Effects on Alaska Personal Income: facilitates loans
on 320 rural homes (est. \$95 thousand per loan)
Geographic Area of Impact: rural communities
Commencement and Duration of Economic Effects:
ongoing

DEPARTMENT OF CORRECTIONS

**P.O. Box T
Juneau, AK 99811-2000
465-3376**

Spring Creek Correctional Center

By October, 1988, the new Seward facility will be fully operational, employing a staff of 221 and providing 288 beds. Spring Creek's completion enables the State to return to Alaska most prisoners currently housed in federal institutions in the Lower 48.

Cost of Program: \$12,688,000

Number of Jobs Created: 221 staff by October

Effects on Alaska Personal Income: return of prisoners currently incarcerated Outside increases jobs in-state

Geographic Area of Impact: Seward

Commencement and Duration of Economic Effects:
latter FY 88 and on

DEPARTMENT OF EDUCATION

**P.O. Box F
Juneau, AK 99811-0500
465-2800**

Foundation Funding

Full formula funding continues top-quality K-12 education and provides economic stability for 55 school districts and REAA's.

Cost of Program: \$411,913,000 GF, \$30,077,000 OF
Number of Jobs Created: est. 16,700 employed by public schools
Effects on Alaska Personal Income: full funding to stabilize economy, provide best possible education
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: FY 89 and on

K-12 Support Programs

Increases in student lunch program (federal funding), Youth in Detention (Juneau expansion and Bethel start-up) and the Special Education Service Agency. Funding for pupil transportation continues at 90% proration.

Cost of Program: \$41,836,700 GF, \$17,100,500 OF
Number of Jobs Created: est. 16,700 employed by public schools
Effect on Alaska Personal Income: full funding to stabilize economy, provide best possible education
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: FY 89 and on

School Debt Reimbursement

School Debt Reimbursement continues at 90% of entitlement.

Cost of Program: \$102,368,000 GF
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: FY 89

Mining Training -- Alaska Vocational Technical Education Center (AVTEC)

The AVTEC program, at \$4,546,500, includes a \$600 thousand mining training program for workers at the Greens Creek mine (Southeast) and Red Dog (Northwest).

Cost of Program: \$600 thousand
Number of Jobs Created: 60
Effect on Alaska Personal Income: \$1,024,000
Geographic Area of Impact: Southeast, Northwest Alaska
Commencement and Duration of Economic Impact: FY 89

Vocational Rehabilitation

Based on a 29% increase in the average weekly wage of clients at program completion versus the average weekly wage of client at referral, this program directly increases personal income by more than \$1,078,600 per year. The multiplier effect has not been calculated.

Cost of Program: \$12,957,200
Number of Jobs Created: 458
Effect on Alaska Personal Income: at least \$1,078,600
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: FY 89

Adult Basic Education (ABE)

This group of programs increases job opportunity and productivity in addition to producing approximately 25% of all secondary degrees in Alaska.

Cost of Program: \$1,768,800 GF, \$307.8 thousand federal funds
Number of Jobs Created: est. 189 paid ABE staff
Effects on Alaska Personal Income: an estimated 500 persons obtained jobs following ABE training; 225 obtained better jobs or received increased wages following ABE training (FY 87 data, est. to be maintained in FY 88 and FY 89). Approximately 1,950 General Education Diplomas (GEDs) were issued statewide, representing 25% of all secondary diplomas issued in the State (FY 87 data, est. to be maintained in FY 88 and FY 89).
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: FY 89

DEPARTMENT OF ENVIRONMENTAL CONSERVATION

**P.O. Box O
Juneau, AK 99811-1800
465-2600**

Remote Maintenance Worker Grants Program

This program funds maintenance workers employed by Native health corporations to travel to villages to help operators trouble-shoot and repair water and wastewater systems. Through better operation, this program reduces system breakdowns, improves public health services and extends the life of these facilities.

Cost of Program: \$504 thousand (\$39.2 thousand incremental)

Geographic Area of Impact: West, Northwest, Interior

Commencement and Duration of Economic Effects: FY 89

Dairy Inspections

The dairy inspection program provides a direct economic benefit by increasing the marketability of Alaska milk products. The program ensures the safety, quality and shelf-life of locally produced milk.

Cost of Program: \$79.6 thousand

Geographic Area of Impact: South Central, Interior

Commencement and Duration of Economic Effects: FY 89

Seafood Inspection

The seafood inspection program enhances the marketability of Alaska seafood products by ensuring consumer confidence in their safety and wholesomeness. The inspection program is a major part of the effort to prevent dramatic market declines which can result from the distribution of unsafe products.

Cost of Program: \$1 million

Geographic Area of Impact: Coastal regions

Commencement and Duration of Economic Effects:
FY 89 and on

Environmental Quality Programs

The in-state industry that has evolved to support DEC monitoring programs plays an essential role in helping DEC maintain and improve public health, as well as tourist and recreational resources.

Environmental Sanitation

The inspection of restaurants and other public facilities has a direct economic benefit by ensuring public and tourist confidence in the wholesomeness and quality of these operations.

Cost of Program: \$875 thousand

Geographic Area of Impact: statewide

Commencement and Duration of Economic Effects: FY 89

DEPT. OF HEALTH & SOCIAL SERVICES

P.O. Box H
Juneau, AK 99811-0601
465-3030

Medicaid Program

This program saves the personal income of 46,000 Alaskans from being consumed by high-cost medical treatment, particularly for the elderly. In 1986, an estimated 697 positions in health care facilities throughout the state were directly attributable to funds received by these facilities from the Medicaid program. Indirect secondary employment related to the Medicaid program was estimated as equivalent to 193 jobs. Approximately 50% of the Medicaid program is funded by federal dollars.

Cost of Program: \$81,121,700 in FY 88

Number of Jobs Created: est. 900

Effects on Alaska Personal Income: payments for 46,000 clients in FY 87 (average payment of \$7.9 thousand for 65+, for 65+ total of \$363.4 thousand)

Geographic Area of Impact: statewide

Commencement and Duration of Economic Effects:
ongoing

General Relief Medical Program

This program provides coverage similar to that of the Medicaid Program, for 18,645 persons who do not qualify for Medicaid but who require assistance for paying their medical bills.

Cost of Program: \$8.55 million in FY 88

Effects on Alaska Personal Income: increased disposable income for 18,645 clients in FY 87

Geographic Area of Impact: statewide

Commencement and Duration of Economic Effects:
ongoing

General Relief Assistance Program

Persons served by this program may receive up to \$120 per month in the form of a housing payment. An estimated 1,085 persons will receive this assistance in FY89. The cost for 350 indigent burials also will be paid under this program.

Cost of Program: \$1,670,800 in FY 88
Effects on Alaska Personal Income: max. of \$1,562,400
(1,085 clients at max. of \$120/month)
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects:
ongoing

Adult Public Assistance Program

This program includes formula funding for Aid to the Blind, Aid to the Disabled, and Old Age Assistance. The FY89 formula funding is based on estimated service to 5,746 persons at \$261.76 per month.

Cost of Program: \$16,997,000 in FY 88
Effects on Alaska Personal Income: \$18,049,000 (5,746 clients at \$262/month) in FY 89
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects:
ongoing

Longevity Bonus Hold Harmless Program

This program replaces the federal financial assistance that individuals lose because of their longevity bonus payments.

Cost of Program: \$2,925,100 in FY 88
Effects on Alaska Personal Income: \$3,249,500
(1,237 clients at \$218.91/month) in FY 89
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects:
ongoing

Aid To Families With Dependent Children

This program provides monthly cash assistance payments for children when the children are deprived of the support and care of at least one parent. The estimated benefit payment per client per month for this program is \$655. The number of recipients estimated for FY 89 is 8,400.

Cost of Program: \$59,821,300 in FY 88
Effects on Alaska Personal Income: \$66,024,000 (8,400 clients at \$655/month) in FY 89
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects:
ongoing

Foster Care Program

This program provides monthly reimbursements to foster families who care for children in State custody. The payments generally are not considered to be "income". Approximately 2,800 children (748 full-time equivalent) are cared for each year under this program.

Cost of Program: \$7,368,000 in FY 88

Effects on Alaska Personal Income: 2,800 clients in FY 87

Geographic Area of Impact: statewide

Commencement and Duration of Economic Effects:
ongoing

Grants and Contracts

A total of 303 grants and contracts to fund a variety of health and social service programs were awarded to non-profit entities throughout the state for FY 88.

Cost of Program: \$56,191,800 in FY 88

Number of Jobs Created: est. 1,430

Geographic Area of Impact: statewide

Commencement and Duration of Economic Effects:
ongoing

Bethel Youth Facility

This new program treatment extension to the Bethel youth detention facility will serve Bethel and all of the Yukon-Kuskokwim area communities; subject to the availability of funding, it could open almost immediately, construction of the addition having been completed. It will require 16 additional staff.

Cost of Program: \$1,002,500 (operations increment for FY 89)

Effects on Alaska Personal Income: \$1,397,000 (\$821.5 thousand for personal services funding at 1.7 multiplier)

Geographic Area of Impact: Bethel area

Commencement and Duration of Economic Effects:
FY 89+

DEPARTMENT OF LABOR

**P.O. Box 1149
Juneau, AK 99802-1149
465-2700**

Job Training Partnership Act and Dislocated Worker Programs

These programs, operated in conjunction with the Department of Community & Regional Affairs, provide economically dislocated workers with financial assistance and training for placement in a new job.

Number of Jobs Created: 1,306
Effects on Alaska Personal Income: increase income to participants and employers
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: ongoing

Employment Security Programs

The employment security and services programs assist workers, including veterans, welfare recipients and youths, to find suitable employment. They also enable employers to find suitable workers via registration, testing and assessment, job development, referrals, vocational counseling, job search assistance, and screening.

Cost of Programs: \$1,902,800
Number of Jobs Created: 7,282
Effects on Alaska Personal Income: \$17.9 thousand
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: ongoing

Alaska Hire Preference Program(s)

Recent law provides for hiring preferences to be extended to residents on public-funded projects when certain economic and social conditions exist. The seafood industry and tourism industry programs consist of Job Service outreach and referral, advertising and promotion, and encouragement to hire Alaskans.

Cost of Programs: \$536.2 thousand
Number of Jobs Created: 9,114 in seafood industry

Effects on Alaska Personal Income: \$5.6 thousand from
seafood industry
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: 5/87
- 12/87

Labor Market Information Program

This program offers a data base of economic and demographic information, including statistics on population, employment by industry or occupation, wage rates, costs of living, injury and illness rates, unemployment insurance, and resident hire.

Cost of Program: \$2,687,600
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects:
ongoing

Unemployment Insurance

The unemployment insurance program pays temporary benefits to eligible claimants while they are seeking employment, thereby maintaining economic security for both claimants and local economies.

Cost of Program: \$16,101,900
Number of Jobs Created: 134,754
Effects on Alaska Personal Income: \$154,110,800
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects:
ongoing

DEPARTMENT OF MILITARY AND VETERANS AFFAIRS

**P. O. Box L
Juneau, AK 99811-0900
465-4600**

Army National Guard Aviation Battalion

Start-up of this battalion will create 29 full-time and 109 part-time jobs, located primarily in Anchorage with positions in Nome, Bethel, Juneau and Kotzebue. Funding is primarily federal, with a \$15.0 thousand general fund increment in the Governor's operating budget. Hiring is in process and will continue past the June 1, 1988 start-up date, until filled.

Cost of Program: \$15 thousand GF, plus federal funding
Number of Jobs Created: 29 fulltime, 109 parttime from federal funding
Effects on Alaska Personal Income: \$1.7 million
Geographic Area of Impact: mainly Anchorage
Commencement and Duration of Economic Effects: FY 89 and on

Army National Guard Support Battalion

This federally-funded guard unit, which was activated in September 1987 and is still recruiting, is located primarily in Wasilla with positions in Nome, Bethel, Juneau and Kotzebue.

Cost of Program: federal funding only
Number of Jobs Created: 35 fulltime, 78 parttime from federal funding
Effects on Alaska Personal Income: \$1.8 million
Geographic Area of Impact: mainly Wasilla
Commencement and Duration of Economic Effects: FY 88 and on

Air National Guard Search and Rescue Squadron

The squadron will be located in Anchorage and is scheduled to be activated during FY 89. Federal capital projects to support this unit activation will include over \$20 million for hangar construction and \$3 million for aircraft parking ramp expansion, in FY 88 and FY 89, respectively.

Cost of Program: federal funding only
Number of Jobs Created: 170 fulltime, 55 parttime from federal funding
Effects on Alaska Personal Income: \$5.9 - \$7.7 million
Geographic Area of Impact: Anchorage
Commencement and Duration of Economic Effects: FY 89 and on

Air National Guard Refueling Squadron

The Air National Guard refueling squadron at Eielson AFB (Fairbanks/North Pole) was activated in December 1986. At present time this unit employs 130 persons full-time and 75 part-time. It is anticipated that that the refueling squadron will add another 25 fulltime and 170 parttime jobs.

Cost of Program: federal funding only
Number of Jobs Created: 155 fulltime, 245 parttime from federal funding
Effects on Alaska Personal Income: \$6 million
Geographic Area of Impact: Fairbanks
Commencement and Duration of Economic Effects: FY 88 and on

Army Guard Facilities Maintenance

These operating budget items include general funds of \$1 million teamed with \$5,326,600 federal funds in support of the guard units described above and other guard units whose operations generate jobs for Alaskans.

Cost of Program: \$1 million GF, \$5,326,600 federal funding
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: FY 89

DEPARTMENT OF NATURAL RESOURCES

400 Willoughby Avenue
Juneau, AK 99801-1796
465-2400

TAGS Gas Pipeline Monitoring

Program receipts of \$500 thousand will be received from the proposed builder of a natural gas pipeline from the North Slope to Valdez. The proposed builder will benefit from expedited state permitting and monitoring responses through the use of these program receipts. During construction of the pipeline project, over 67,000 people could be employed and during the operating life of the project an estimated 550 jobs could provide over \$200 million in royalty and tax payments to the state.

Cost of Program: \$500 thousand (from program receipts)
Number of Jobs Created: 6,355/year construction-related, 550 operating
Geographic Area of Impact: Anchorage and pipeline corridor
Commencement and Duration of Economic Effects: FY 89 +/- 3 years

Timber Sale -- Susitna Valley, Tyonek

DRN reallocated operating funds to cover positions necessary to prepare for southcentral timber resource development.

Cost of Program: \$73.6 thousand (est. revenue: \$90 - \$240 thousand)
Number of Jobs Created: est. 120 - 320 permanent
Effect on Alaska Personal Income: est. \$3 - \$8 million
Geographic Area of Impact: Susitna Valley, Tyonek
Commencement and Duration of Economic Impact: immediate

Oil & Gas Leasing

The state continues to offer prospective oil and gas areas for lease and plans five oil and gas sales during the next eighteen months. Revenue and economic impacts are unknown, since they depend entirely on the results of the lease sales and subsequent exploration. However, exploration of leased areas by private industry could result

in new oil and gas discoveries on state land and provide new revenues for the State and jobs for residents.

Coal Sale -- Matanuska Valley

Existing staff will be used to process a proposed coal lease sale near Sutton which could have positive economic effects on the local valley economy.

Cost of Program: within existing budget
Geographic Area of Impact: Matanuska Valley
Commencement and Duration of Economic Effects: Summer 1988

Coal Land Rehabilitation

Federal funds will be used in FY 88 and FY 89 to provide \$140 thousand in private sector contracts for rehabilitating old abandoned coal leases in southcentral Alaska.

Cost of Program: \$140 thousand federal funding
Geographic Area of Impact: southcentral Alaska
Commencement and Duration of Economic Effects: end of FY 88 through FY 89

Eagle River-Chugach State Park Ski Resort

Operating funds will be used to process bid proposals and develop contracts for planning, developing and operating a major ski resort near Anchorage. One developer estimates that resort development could create 600 construction jobs and 1,200 permanent jobs and have a substantial multiplier effect on the economy.

Cost of Program: within existing budget
Number of Jobs Created: est. 600 construction, 1,200 permanent
Geographic Area of Impact: Anchorage area
Commencement and Duration of Economic Effects: end of FY 88 and on

Hatcher Pass Ski Resort

Operating funds will be used to process bid proposals and develop contracts for a ski resort proposal for the Hatcher Pass area. Preliminary indications are that the project could create over 250 recreation-related private

sector jobs, with a multiplier effect of \$11 million on the local economy.

Cost of Program: within existing budget
Number of Jobs Created: est. 250
Effects on Alaska Personal Income: \$11 million
Geographic Area of Impact: southcentral Alaska
Commencement and Duration of Economic Effects: end of FY 88 and on

Alaska State Parks Program Receipts

Beginning in the summer of 1988, the Division of Parks and Outdoor Recreation will collect fees for the use of developed state park campsites. This program will generate approximately \$628 thousand in program receipts that will be used to improve janitorial and maintenance services statewide. Many of these services will be provided by local private sector companies or individuals through contracts with the Division.

Cost of Program: \$628.4 thousand from program receipts
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: FY 88 and on

Alaska Grown Program

This promotion campaign will increase public awareness of the benefits of purchasing farm products grown in Alaska and will result in increased sales of Alaskan agricultural products. Estimates are that the \$22 million yearly sales of Alaska grown meat, milk, vegetables, plants and other farm products will increase by \$2.2 million per year as locally grown products are substituted for imports.

Cost of Program: \$82.1 thousand ARLF, \$25 thousand federal funding
Number of Jobs Created: est. 40
Effects on Alaska Personal Income: est. \$5 million
Geographic Area of Impact: Railbelt, Northwest, Southwest Alaska
Commencement and Duration of Economic Effects: FY 88 and on

Agricultural Management Applied Research Grant

To enhance agricultural development, research projects identified by the industry will be funded through this \$50 thousand grant program.

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

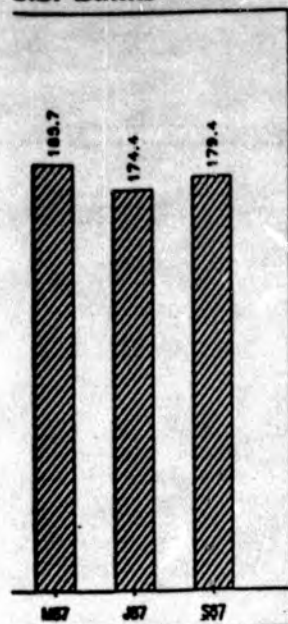
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Bank Quarterly



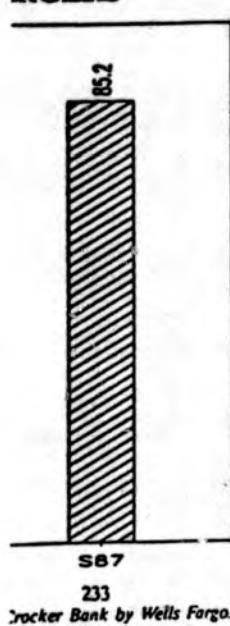
September 1987 Ratings

CAPITAL U.S. Banks



ion or 3% in the third quarter

RGERS*



rocker Bank by Wells Fargo

TOTAL LOAN GROWTH December 31, 1986 to September 30, 1987



Fastest Loan Growth (Percent)

Delaware	22.00
New Hampshire	17.55
Maine	15.02
Maryland	15.86
Connecticut	11.00
New Jersey	10.76
Virginia	10.59
South Carolina	9.71
Florida	9.68
Vermont	9.08

Slowest Loan Growth (Percent)

Wyoming	-11.18
Oklahoma	-10.20
Alaska	-9.25
Texas	-8.58
Montana	-5.48
California	-3.72
Colorado	-3.27
Louisiana	-1.67
Minnesota	-0.84
Idaho	-0.58

TOTAL LOANS September 30, 1987 (\$ Billions)



Largest Loan States (\$ Billions)

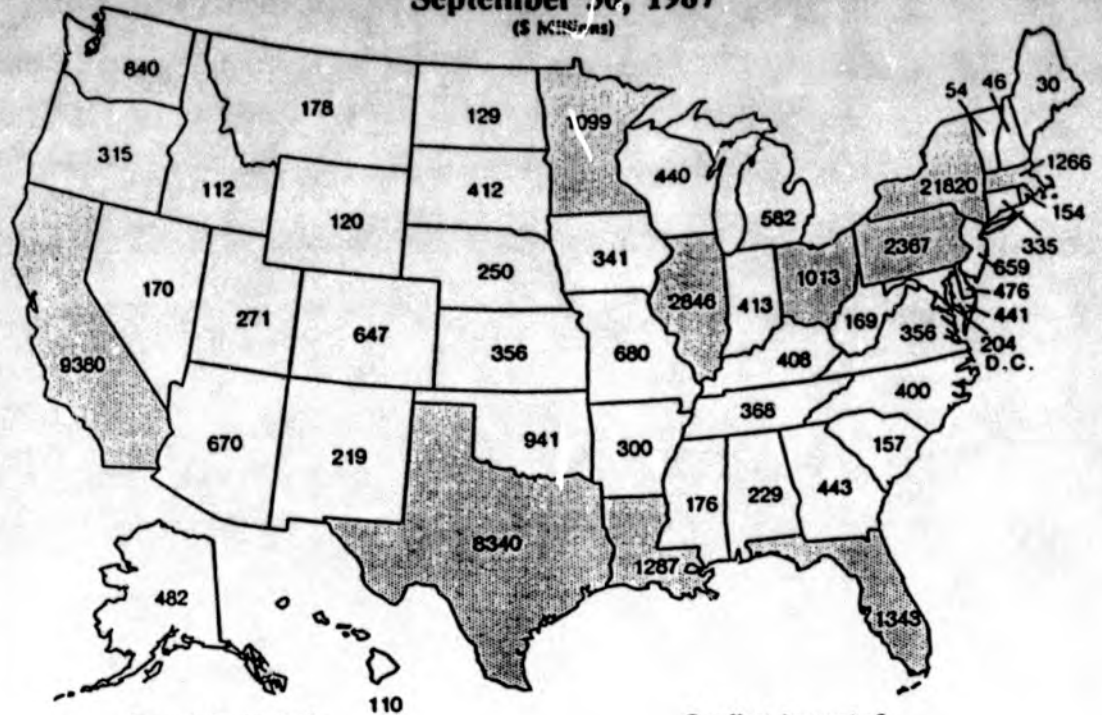
New York	390.8
California	194.3
Texas	109.7
Illinois	100.9
Pennsylvania	89.5
Florida	66.3
Massachusetts	59.2
Ohio	58.8
New Jersey	48.9
Michigan	45.9

State and Regional Trends

NONPERFORMING BANK LOANS

September 30, 1987

(\$ Millions)



Largest Amount of Nonperforming Loans

New York	21820
California	9380
Texas	8340
Illinois	2846
Pennsylvania	2367
Florida	1343
Louisiana	1287
Massachusetts	1266
Minnesota	1099
Ohio	1013

Smallest Amount of Nonperforming Loans

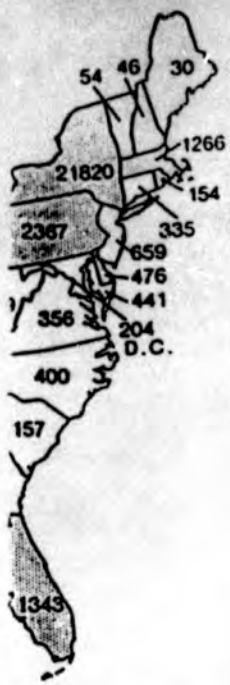
Maine	30
New Hampshire	46
Vermont	54
Hawaii	110
Idaho	112
Wyoming	120
North Dakota	129
Rhode Island	154
South Carolina	157
West Virginia	169

Largest Dollar Increase in Nonperforming Loans

	Sept. 1987	Dec. 1986	\$ Change	% Change
New York	21820	12044	9776	81.2
California	9380	7546	1834	24.3
Texas	8340	6553	1787	27.3
Pennsylvania	2367	1659	708	42.7
Illinois	2846	2391	455	19.0
Massachusetts	1266	880	386	43.9
Florida	1343	1041	302	29.0
Arizona	670	489	181	37.0
Alaska	482	328	154	47.0
Maryland	441	295	146	49.5

Largest Dollar Decrease in Nonperforming Loans

	Sept. 1987	Dec. 1986	\$ Change	% Change
Oklahoma	941	1090	-149	-13.7
Iowa	341	440	-99	-22.5
South Dakota	412	480	-68	-14.2
Wyoming	120	166	-46	-27.7
Colorado	647	686	-39	-5.7
Montana	178	208	-30	-14.4
Nebraska	250	277	-27	-9.7
Wisconsin	440	466	-26	-5.6
Kansas	356	379	-23	-6.1
North Dakota	129	144	-15	-10.4



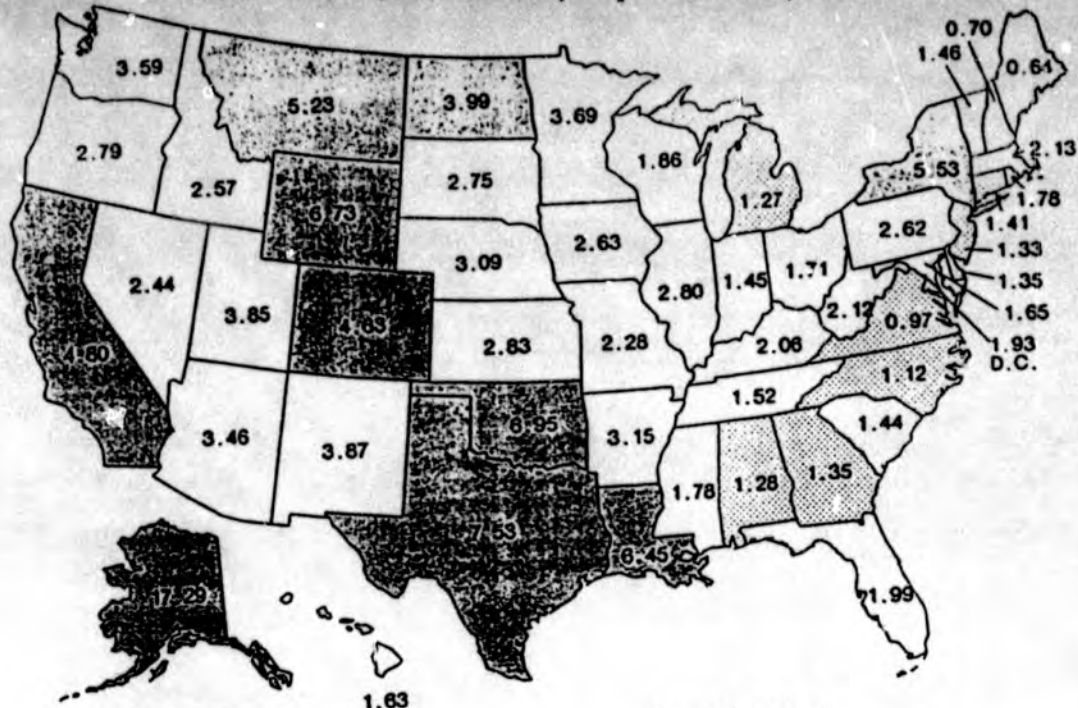
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30
46
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129
154
157
169

est Dollar Decrease in
onperforming Loans

Sept. 1987	Dec. 1986	Change \$	Change %
141	1090	-149	-13.7
341	440	-99	-22.5
412	480	-68	-14.2
120	166	-46	-27.7
547	686	-39	-5.7
178	208	-30	-14.4
250	277	-27	-9.7
140	466	-26	-5.6
356	379	-23	-6.1
129	144	-15	-10.4

NONPERFORMING LOANS as a % of Gross Loans, September 30, 1987



Highest Percent of
Nonperforming Loans

Alaska	17.29
Texas	7.53
Oklahoma	6.95
Wyoming	6.73
Louisiana	6.45
New York	5.53
Montana	5.23
California	4.80
Colorado	4.63
North Dakota	3.99

Lowest Percent of
Nonperforming Loans

Maine	0.64
New Hampshire	0.70
Virginia	0.97
North Carolina	1.12
Michigan	1.27
Alabama	1.28
New Jersey	1.33
Delaware	1.35
Georgia	1.35
Connecticut	1.41

Largest Increase in Nonperforming Loans

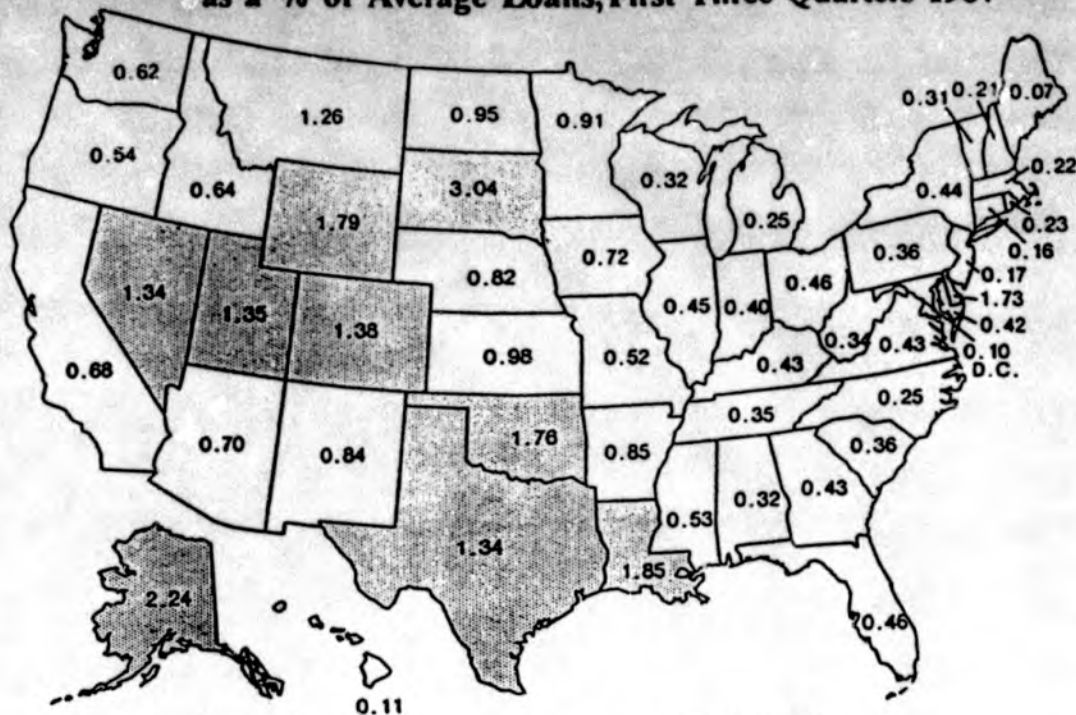
	Sept. 1987	Dec. 1986	Change
Alaska	17.29	10.65	6.64
New York	5.53	3.07	2.46
Texas	7.53	5.41	2.12
California	4.80	3.72	1.08
D.C.	1.93	1.01	0.92
Arizona	3.46	2.57	0.89
Pennsylvania	2.62	1.87	0.75
Massachusetts	2.13	1.56	0.57
Utah	3.85	3.30	0.55
Louisiana	6.45	5.95	0.50

Largest Decrease in Nonperforming Loans

	Sept. 1987	Dec. 1986	Change
Wyoming	6.73	8.25	-1.52
Iowa	2.63	3.44	-0.81
South Dakota	2.75	3.31	-0.56
Montana	5.23	5.77	-0.54
North Dakota	3.99	4.44	-0.45
Nebraska	3.09	3.45	-0.36
Oklahoma	6.95	7.23	-0.28
Hawaii	1.63	1.88	-0.25
Vermont	1.46	1.66	-0.20
Kansas	2.83	3.02	-0.19

State and Regional Trends

NET CHARGE-OFFS as a % of Average Loans, First Three Quarters 1987



Highest Percent of Net Charge-offs

South Dakota	3.04
Alaska	2.24
Louisiana	1.85
Wyoming	1.79
Oklahoma	1.76
Delaware	1.73
Colorado	1.38
Utah	1.35
Texas	1.34
Nevada	1.34

Lowest Percent of Net Charge-offs

Maine	0.07
D.C.	0.10
Hawaii	0.11
Connecticut	0.16
New Jersey	0.17
New Hampshire	0.21
Massachusetts	0.22
Rhode Island	0.23
North Carolina	0.25
Michigan	0.25

Largest Increase in Net Charge-offs

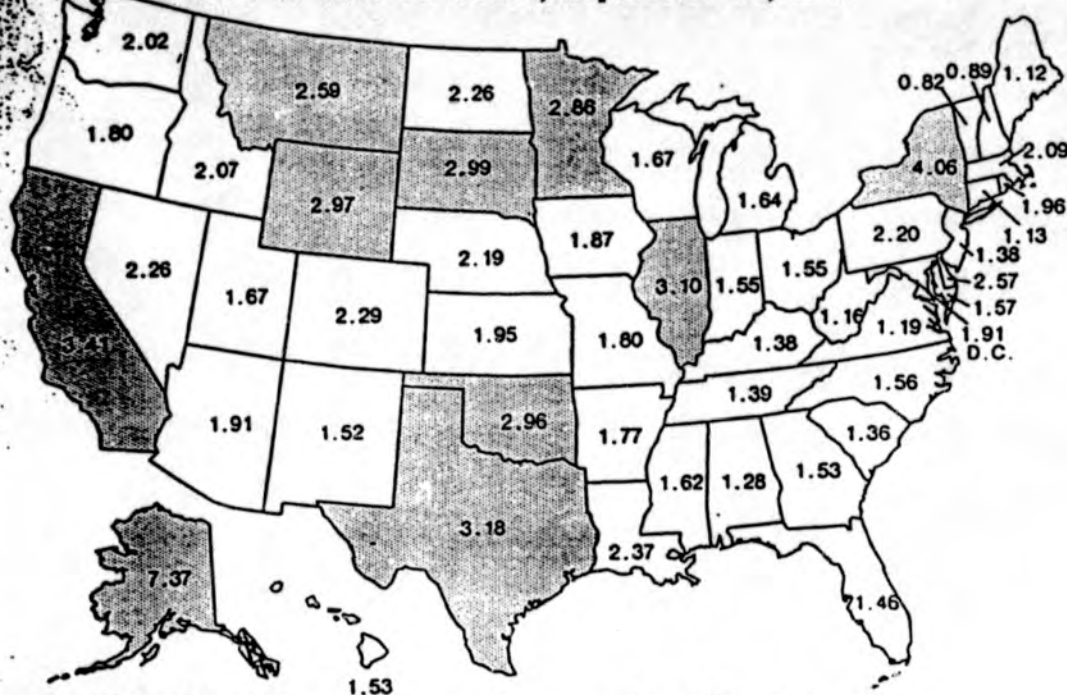
	Sept. 1987	Sept. 1986	Change
Alaska	2.24	0.92	1.32
Utah	1.35	0.84	0.51
Louisiana	1.85	1.34	0.51
Nevada	1.34	0.97	0.37
Delaware	1.73	1.36	0.37
Arizona	0.70	0.52	0.18
Vermont	0.31	0.19	0.12
New Hampshire	0.21	0.11	0.10
Virginia	0.43	0.33	0.10
Texas	1.34	1.25	0.09

Largest Decrease in Net Charge-offs

	Sept. 1987	Sept. 1986	Change
Iowa	0.72	1.80	-1.08
Nebraska	0.82	1.48	-0.66
Minnesota	0.91	1.41	-0.50
South Dakota	3.04	3.52	-0.48
North Dakota	0.95	1.35	-0.40
Montana	1.26	1.65	-0.39
Idaho	0.64	0.99	-0.35
Oklahoma	1.76	2.11	-0.35
Kansas	0.98	1.26	-0.28
D.C.	0.10	0.34	-0.24

State and Regional Trends

RESERVE FOR LOAN LOSSES
as a % of Total Loans, September 30, 1987



Highest Percent of
Reserve for Loan Losses

Alaska	7.37
New York	4.06
California	3.41
Texas	3.18
Illinois	3.10
South Dakota	2.99
Wyoming	2.97
Oklahoma	2.96
Minnesota	2.86
Montana	2.59

Lowest Percent of
Reserve for Loan Losses

Vermont	0.82
New Hampshire	0.89
Maine	1.12
Connecticut	1.13
West Virginia	1.16
Virginia	1.19
Alabama	1.28
South Carolina	1.36
New Jersey	1.38
Kentucky	1.38

Largest Increase in
Reserve for Loan Losses

	Sept. 1987	Dec. 1986	Change
Alaska	7.37	2.56	4.81
New York	4.06	1.55	2.51
California	3.41	1.99	1.42
Illinois	3.10	1.75	1.35
Minnesota	2.86	1.91	0.95
Texas	3.18	2.38	0.80
Massachusetts	2.09	1.30	0.79
Pennsylvania	2.20	1.43	0.77
Arizona	1.91	1.25	0.66
Oregon	1.80	1.17	0.63

Largest Decrease in
Reserve for Loan Losses

	Sept. 1987	Dec. 1986	Change
South Dakota	2.99	3.20	-0.21
Idaho	2.07	2.14	-0.07
Maryland	1.57	1.63	-0.06
South Carolina	1.36	1.36	0.00
West Virginia	1.16	1.16	0.00
Maine	1.12	1.12	0.00

State and Regional Trends

FAILED COMMERCIAL BANKS* First Three Quarters 1987 (\$ Thousands)

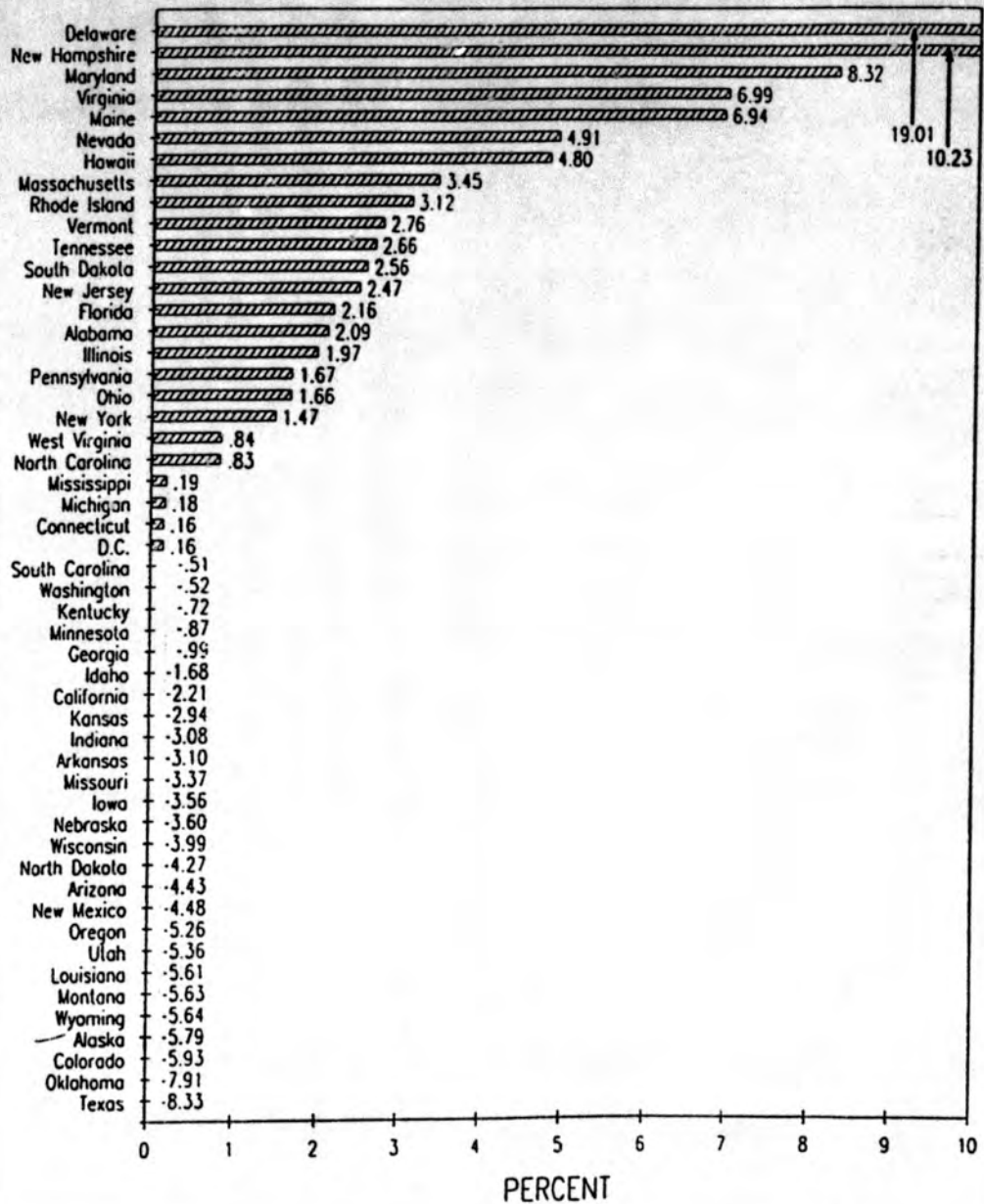


West			Southeast			Northeast		
	Deposits \$(000)	Number of Failed Banks		Deposits \$(000)	Number of Failed Banks		Deposits \$(000)	Number of Failed Banks
California	231,300	7	Florida	249,000	3	New York	170,000	1
Colorado	118,500	9	Alabama	23,400	2	Massachusetts	47,200	1
Wyoming	105,000	2	Mississippi	13,700	1	Connecticut	0	0
Utah	52,200	3	D.C.	0	0	Maine	0	0
Montana	35,900	1	Delaware	0	0	New Hampshire	0	0
Alaska	0	0	Georgia	0	0	New Jersey	0	0
Arizona	0	0	Kentucky	0	0	Pennsylvania	0	0
Hawaii	0	0	Maryland	0	0	Rhode Island	0	0
Idaho	0	0	North Carolina	0	0	Vermont	0	0
Nevada	0	0	South Carolina	0	0	Total	217,200	2
Oregon	0	0	Tennessee	0	0			
Washington	0	0	Virginia	0	0			
Total	542,900	24	Total	286,100	6			

North Central			Southwest			Midwest		
	Deposits \$(000)	Number of Failed Banks		Deposits \$(000)	Number of Failed Banks		Deposits \$(000)	Number of Failed Banks
Kansas	162,200	6	Texas	1,198,700	39	Indiana	75,800	3
Minnesota	97,700	8	Oklahoma	726,400	27	Illinois	31,600	2
Iowa	75,900	5	Louisiana	154,700	7	Ohio	7,300	1
Missouri	51,000	4	Arkansas	0	0	Michigan	0	0
South Dakota	19,700	1	New Mexico	0	0	West Virginia	0	0
North Dakota	11,600	1	Total	2,079,800	73	Wisconsin	0	0
Nebraska	0	0				Total	114,700	6
Total	418,100	25						

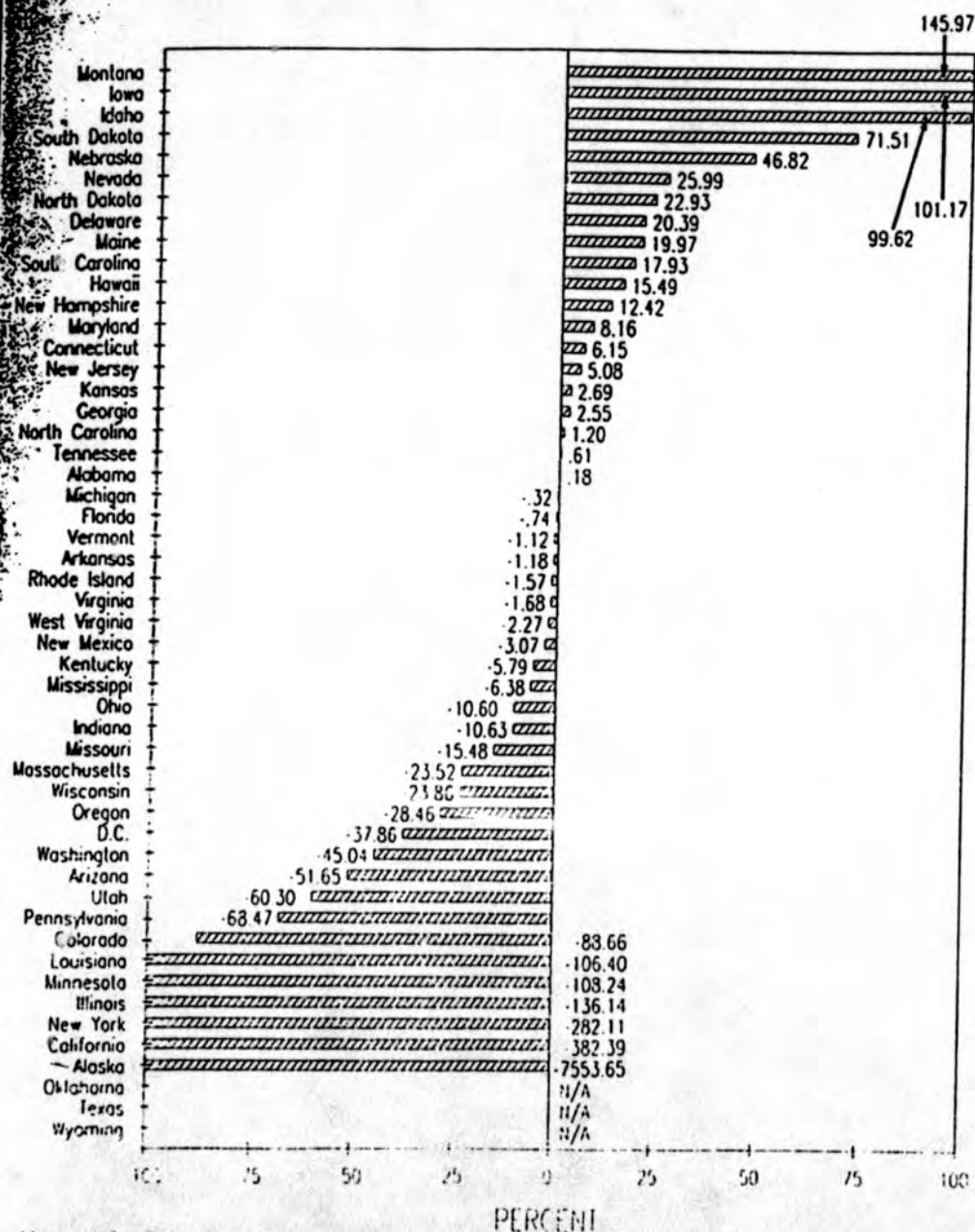
* Does not include assistance transactions

BANK ASSET GROWTH DECEMBER 31, 1986 to SEPTEMBER 30, 1987



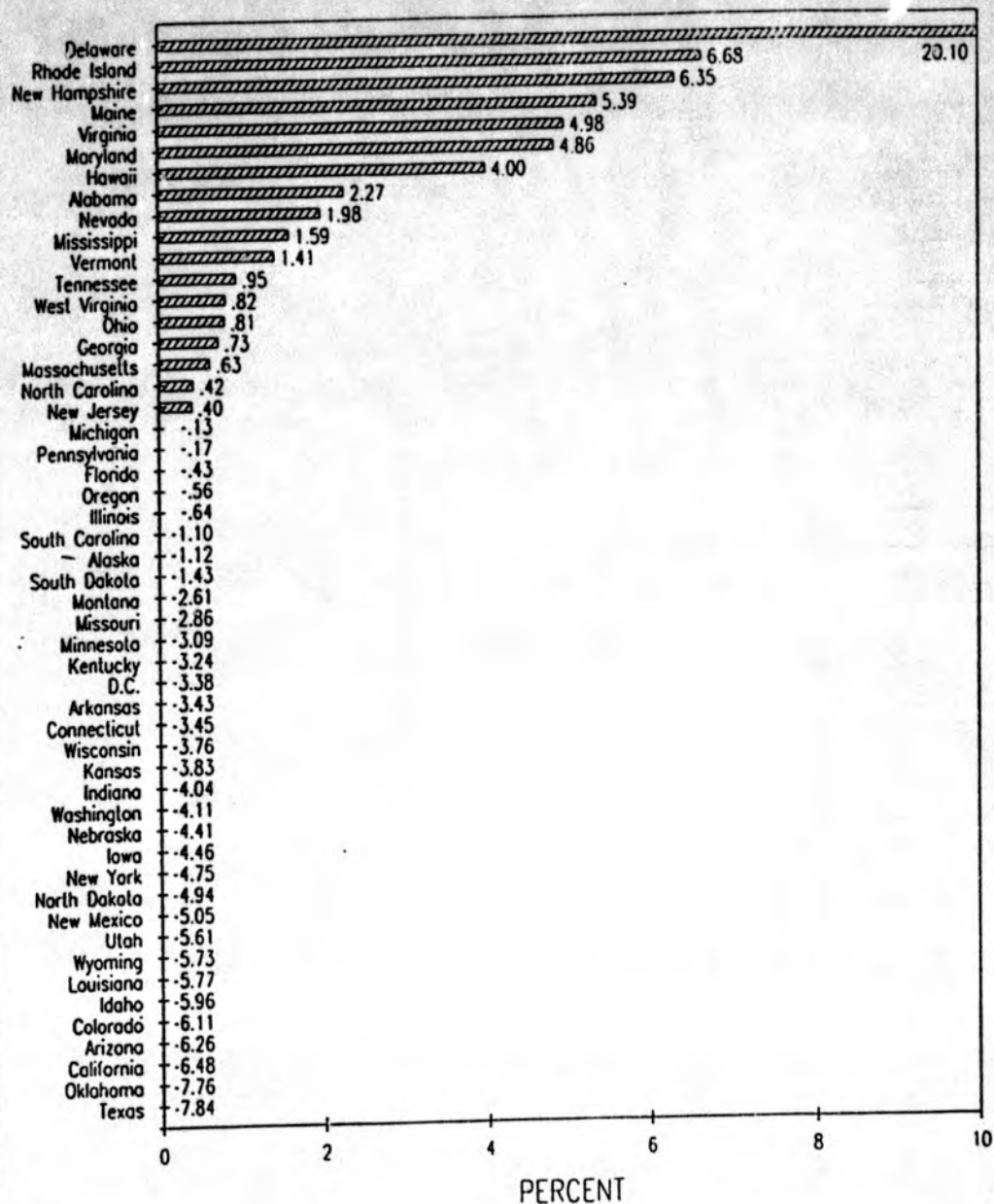
State and Regional Trends

BANK NET INCOME GROWTH First Three Quarters 1987 vs. First Three Quarters 1986



State and Regional Trends

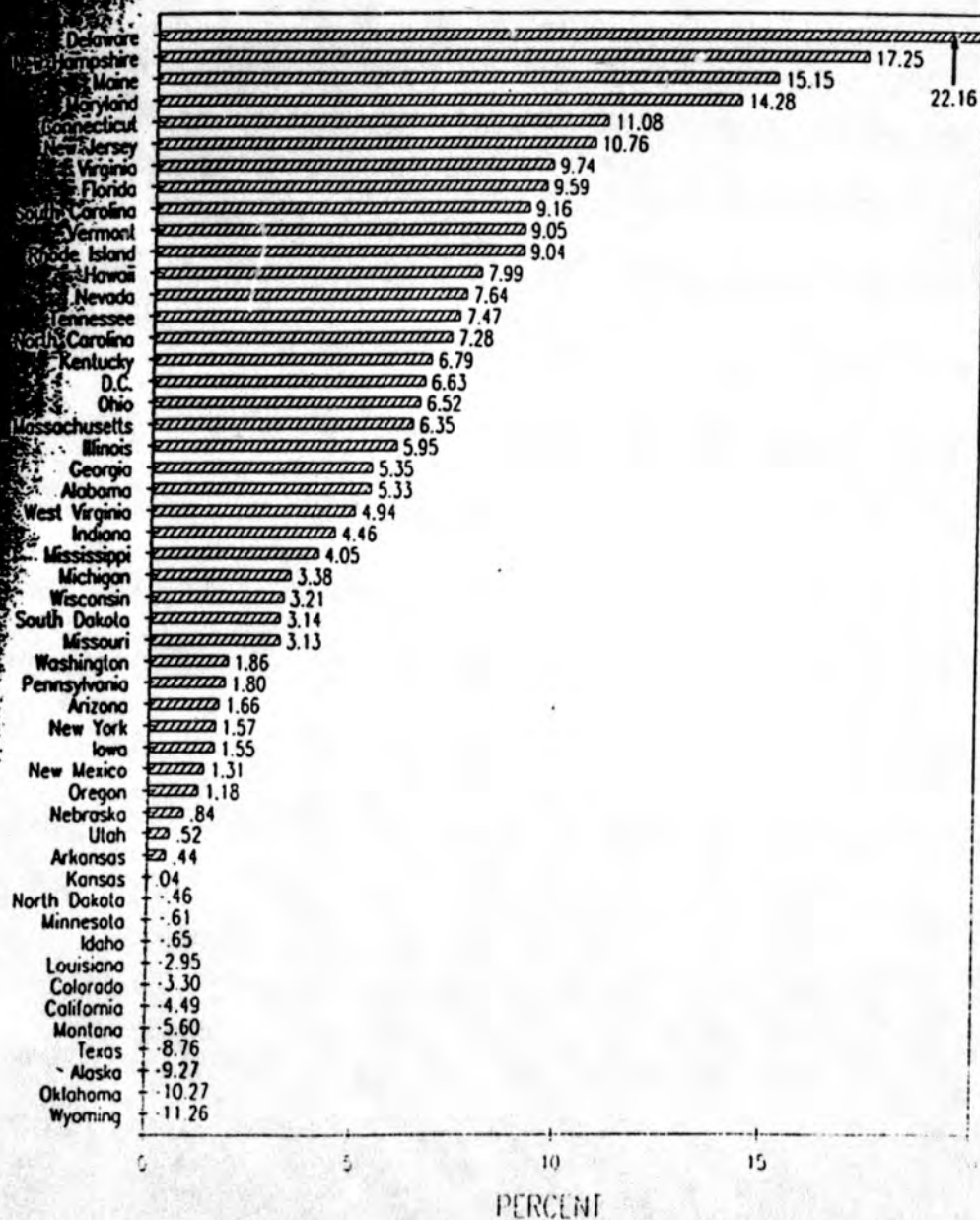
BANK DOMESTIC DEPOSIT GROWTH DECEMBER 31, 1986 to SEPTEMBER 30, 1987



State and Regional Trends

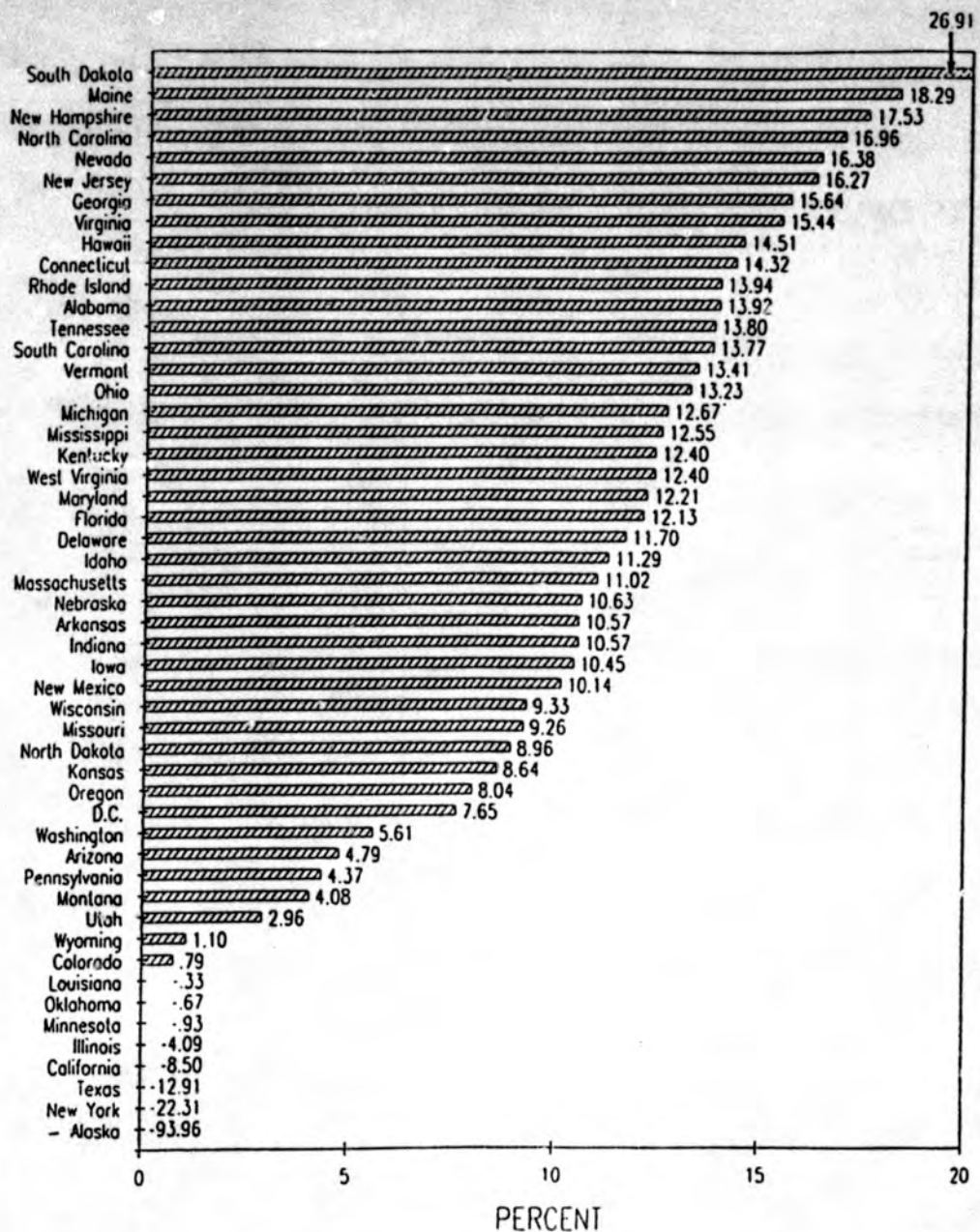
BANK DOMESTIC LOAN GROWTH

DECEMBER 31, 1986 to SEPTEMBER 30, 1987



State and Regional Trends

RETURN ON EQUITY FIRST THREE QUARTERS 1987



A TASK FORCE REPORT:
STABILIZATION OF THE HOUSING MARKET

DRAFT SUMMARY

March 3, 1988

Alaska Housing Market Council

The housing market in Alaska first showed signs of excess supply as early as the 1983 construction season when housing starts set an all time high. Construction in the low end of the market, for condominiums and zero lot lines (\$60K - \$90K), lead the market saturation.

There was little control exercised by lenders and investors on the type, number, or quality of units built. The inability, or unwillingness, to measure market demand disguised potential saturation, while a generally buoyant economy concealed the depth of the pending problem.

Home buyers, encouraged by annual appreciation on residential real estate in the 12-18% range, began to view homeownership as a high yield investment instead of a method for providing shelter. Alaska's traditionally high wages and salaries gave comfort to both buyers and lenders that homeowners would always be able to make their monthly mortgage payments.

These attitudes and practices collided with the dramatic drop in the per barrel price of oil in early 1986. The immediate loss of one billion dollars by the State resulted in a dramatic decline in publicly funded construction, local government revenue sharing, mortgage loans, and a host of other mechanisms which had

driven the Alaska economy for five years of record growth. Alaska entered an economic recession.

The housing market showed immediate signs of the recession. Delinquency rates mounted as homeowners struggled to keep up mortgage payments based on previous earnings. Lenders and investors tightened up the money supply and began to apply the most conservative interpretation to regulatory controls. The subsequent decline in population, combined with tighter lending policies, contributed to the reduction in housing demand. The level of prices fell as the surplus developed. Some homeowners saw the value of their homes drop by as much as 40% in just two years.

It is this series of events which lead to the formation of the Alaska Housing Market Council by Governor Steve Cowper. In an effort to provide the public sector, private sector, and policy makers with direction in bring positive change to the housing market, three regional task force groups were formed. These groups, representing Interior, Southeast, and Southcentral Alaska, each consist of knowledgeable individuals familiar with the housing market.

It is important to understand the interdependency of public and private interests in the housing market to be able to assimilate the recommendations contained in this report. While some of the

suggested actions may stand alone, these recommendations are presented as a package designed to achieve market stability.

As there is no one cause for the current market condition, there is no one solution. All sectors of the Alaskan economy must share the responsibility for returning the housing market to a stable condition.

In mid-February, several members from each housing task force met in Juneau to integrate the recommendations from each region. The following are the recommendations from the Combined Housing Task Force. The suggested actions have been group into several categories:

- A. Reducing the housing supply.
- B. Increase the demand for housing.
- C. Decrease delinquencies and foreclosures.
- D. Education of market players.

A. REDUCE HOUSING SUPPLY.

1. Make available institutionally owned housing for public interest use, such as student, elderly, low-income or transitional housing.
2. Develop and initiate plans for the demolition of institutionally owned properties (REOs) which are unsafe and/or substandards in quality.

3. Develop a mechanism, where appropriate, to hold property off the market and reduce holding costs through the consolidation of properties into a consortia such as a "bridge bank" or Real Estate Investment Trust (REIT).
4. Any cooperative program that is developed for the disposal and utilization of REOs should provide a balanced approach in regards to both the rental and the sales market.

B. INCREASE DEMAND FOR HOUSING.

1. All mortgage loan agencies, particularly Alaska Housing Finance Corporation (AHFC), should provide clear and consistent loan guidelines which are no more restrictive than those of the national, secondary investors and/or insurers.
2. All mortgage loan agencies, particularly AHFC, take whatever action is necessary to provide for a more timely response to all routine business matters.

3. Lenders/investors should remove restrictions to the straight assumption regulations which require down payments from otherwise qualified borrowers.
4. Increase the number of loans an individual can receive from AHFC for a three year trial period.
5. Investors should relax current owner-occupancy ratios for condominium mortgage loans.
6. Trades of property should be utilized wherever feasible.
7. The entry of new lenders, investors and mortgage insurers should be encouraged in order to increase financing options.
8. Delinquency rate ceilings should be increased for loans through the Alaska Industrial Development Authority (AIDEA), the Public Employees Retirement System (PERS), and the Teacher Employees Retirement Systems (TERS).

C. DECREASE DELINQUENCIES AND FORECLOSURES.

1. Investors should provide more flexibility in, and the increased use of, modification, refinance, or forbearance plans.
2. Investors should be required to allow delinquent borrowers an opportunity to apply for a modification, refinance, or forbearance plan prior to any initiation of foreclosure proceedings, provided that the borrower has not abandoned his/her property.

In the case of condominium owners, the investor should include delinquent association fees in any modification, refinance, or forbearance plan.

3. Seller/servicers should provide trained, consistent, and centralized staffing to assist borrowers in danger of default or delinquency. Said staff must be located within the state of

Alaska.

All investors, including those out of state,
should be encouraged to set clear guidelines

regarding availability of personal contact for
servicing agreements and enforce those guidelines.

4. The State of Alaska should expand the existing
Mortgage and Information Referral Hotline,
operated by the Alaska Housing Market Council
(AHMC), outside of the Anchorage area -
particularly to Juneau and Fairbanks.
5. Investors should encourage the development of
statewide mortgage counseling programs and promote
early referrals for borrower counseling.
6. The maintenance of abandoned and institutionally
owned homes should be encouraged.
7. Local and state government should mitigate the
impact of housing abandonments through community
education and "neighborhood watch" type programs.

D. EDUCATION OF MARKET PLAYERS.

1. The Alaska Housing Market Council (AHMC) should continue to provide information and education on housing and mortgage loan issues to the public and to state decision makers.
2. The State of Alaska should provide complete and accurate information on the status of the state housing market through regular compilation and publication of relevant data.
3. Lenders, investors and the State of Alaska should educate the public on the short and long-term effects of homeownership, particularly in regards to housing as a necessity as opposed to it being an investment.

NEW MATERIAL

3/16/88

Alaska Housing and Recession.

Minutes 3/7/88.

NBA letter re: SB471 fm Sieberts.

Tony Smith memo 3/7/88 re: evaluation of economic recovery proposals.

House resolution on Willow Park demolition.

Committee endorsement memo to Rep. Gruenberg.

Hallwood financial performance report.

Ak Housing Market Council report on market stabilization.

Pat Stewart testimony on AHFC mobile homes 3/15/88.

SB 392, AIDA, new version.

SB 484, Restructuring of Ag debt.

ENDORSED SB 471, Redraft and backup.

Sen. Faiks memo on evaluation of economic recovery proposals.

Residential Real Estate Resolution (draft).

AIDA equity participation.

Lending institution equity participation.

IRS negative equity resolution.

ALASKA BOTTOMFISH DEVELOPMENT PLAN

If a company were in deep economic trouble it could do two things:

1. Analyze its strengths and invest resources into realizing the potential of these strengths so as to rebuild the company.
2. File bankruptcy and go out of business.

Our State does not have the luxury of going out of business for the people. We must build on our strengths, especially when different cities and regions of the State can cooperate with each other in real economic development.

The booming Alaska Bottomfish industry is such an opportunity - not our only opportunity - but an opportunity that is immediately realizable. There is a high rate of return to the State, and the potential for creating thousands of jobs for Alaskans.

The stakes are huge: 2 million metric tons of 43 different species of Bottomfish in the Bering Sea are harvested annually. That is 4.5 billion pounds of fish! The Bering Sea can be a perpetual Prudhoe Bay if we manage it wisely.

The Japanese estimate that the Bering Sea fishery is responsible for more than 500,000 jobs in Japan. This includes fishing and processing, value added reprocessing, transportation, marketing and the service industry necessary to keep it all operating. To make the best decisions they have the best fisheries research and information systems available.

As the Foreign fleets are being phased out, this fishery is being Americanized. But how much of this Americanization will benefit Alaska? That depends on what we do to take advantage of this opportunity. The State of Washington commissioned a study to determine its role in the Alaska Bottomfishery and found that 93% of the value of the fishery goes to Washington.

Now is the time for Alaska to stake our claim on the enormous economic potential of this industry during its developmental stage. This is an opportunity to put the "Bush vs: Anchorage" syndrome behind us and work together to put our State back on a sound economic footing.

Some of these plan elements are immediate, some are more long term. Along with seizing the immediate opportunities, we need to look out for the long-term interests of the whole State in this endeavor. As a coordinated effort this plan is substantial enough to really accomplish something. The plan includes capital projects and policies designed to capture a large share of the Bottomfish industry for Alaska.

The capital projects portion of the plan would be a supplemental capital budget. We do not seek to alter the Governor's Jobs Bill as it is a necessary relief measure which will distribute State money throughout the whole State. However, along with relief, it is necessary for the State to target economic development projects which will move the State's economy ahead.

PLAN ELEMENTS:

1) Primary production: Many companies want to locate onshore in Alaska. Our communities do not have the basic infrastructure to accommodate this development. \$6 million in capital projects in Unalaska/Dutch Harbor will bring \$60 million dollars of private investment in fish processing, cold storage, salvage and other associated services. The projects are a water and sewer extension and an 800 foot extension of the City Dock. (See attached project description #1). It is Unalaska's #1 capital projects priority.

St. Paul harbor completion - \$4 million is already included in the Governor's capital budget so the Bottomfish industry can locate some of their operations in the Pribilofs.

2) Services and marketing: Anchorage is the logical location for the service center for Alaska's Bottomfish industry. It means millions of dollars a year to Seattle's economy and it can mean the same thing for Anchorage's economy if we analyze which segments of the service industry it is reasonable to locate in Anchorage. We can then design an aggressive campaign to show our existing businesses which services are needed and also convince new businesses to locate in Anchorage.

The obvious industries are cold storage and transportation at Anchorage International Airport, banking, primary and secondary processing, office location (the price is right), fisheries data bank location, retailing parts and commodities to rural fish production centers such as marine repair parts, food, automobiles, processing equipment, etc.

The cost of this project is \$232,000. (See attached project description #2)

3) Value added processing: Most of the value added in the Bottomfish industry is in processing the product to final form. Most of our seafood leaves the State in the least processed form possible, sometimes even frozen whole.

The purpose of the Fisheries Industrial Technology Center (FITC) in Kodiak is to provide research and training on value added processing techniques. Dr. Jong Lee expresses the philosophy of the Center: "When I think of fish I see money -- Kodiak is left with the fish guts and the smell and somebody else gets the money."

The FITC will be an important addition to Alaska's strategy to keep more of the jobs in Alaska. This project is 7 million dollars and is Kodiak's #1 capital project priority. (See attached Project Description #3)

4) Information Systems: A computerized fisheries information system is necessary to provide information on fisheries performance, research and import/export marketing information. This information system would be a function of the Port of Anchorage through a working agreement with other ports and private users in Alaska who would pay for operational costs through users fees. The cost for establishing the system, including hardware is \$250,000. (See attached project description #4)

5) To become more self-sufficient in port and harbor development, Southwest Alaska should form into an Economic Development District under EDA or should join with Anchorage and other Alaskan ports to form the Alaska Port Authority.

6) Support the proposal by Southwest Alaska Municipal Conference before the North Pacific Fisheries Management Council (NPFMC) to implement the priority U.S. cargo carriers and bulk fuel distributors are given under the Magnuson Act. The proposal would require foreign JV processors to utilize domestic support capacity before foreign operations could be brought in. This would mean millions of dollars of support activity for Alaskan ports.

7) Support the allocation of a percentage of the total Bottomfish quota directly to Alaska coastal communities as a Community Development Quota. The smaller villages especially need this development quota to ensure that they will benefit from Bottomfish development. Federal Bottomfish limited entry proposals could otherwise legally disenfranchise our people from participating in the fishery.

8) Orient our local and University school systems to train Alaskans so they can fully participate in the development of the fishery. So often we wring our hands about other people taking our work when in fact we also need to make the commitment to offer qualified people.

The State legislature should amend the State raw fish tax law to allow processors to check off 3% of their fish tax which would be administered by the Department of Education. Funds would be granted to secondary school systems to allow for development of fisheries education programs in local schools.

9) Establish the Governor's proposed Alaska Science and Technology Foundation. This is necessary to accomplish applied research to keep us current with new trends in the industry.

10) Extend the effective date of the State's investment tax credit program on fish tax to encourage on shore processing development. Last year this program was responsible for more than \$49 million of private investment in onshore operations.

11) Resource protection: Establish a mandatory observer program on floating processing vessels. Support enforcement measures to control foreign fishing in our waters, including a mandatory check-in, check-out system. Support bi-lateral agreements with the Soviet Union on taking fish management control in the "Donut hole" under the closed and semi-closed seas section of the Law of the Sea Convention. Oppose increases in the Bottomfish quota at this time until illegal foreign fishing and other management uncertainties can be eliminated.

CONCLUSION: The State has a responsibility not only to provide relief for hurting Alaskan communities. We also have the responsibility to build our economy for the future. This Bottomfish development plan is an ambitious but realistic proposal to ensure that Alaskans benefit from this developing industry. Other people may be able to indicate further opportunities in Bottomfish development. This is a good start.

The additional capital project portion of this plan is \$13.7 million dollars. The appropriation of these funds is a sound investment in the future of Alaska.

For more information contact:

Paul Fuhs, Mayor, City of Unalaska, (907)581-1251
Jerome Selby, Mayor, Kodiak Island Borough, (907)486-5736
Tom Fink, Mayor, City of Anchorage, (907)343-4804

CITY OF UNALASKA

P.O. BOX 89
UNALASKA, ALASKA 99685
(907) 581-1251

SYNOPSIS OF ESSENTIAL CAPITAL PROJECTS CITY OF UNALASKA FY 89



Ballyhoo Road Water and Sewer

WATER

The water project would replace approximately twenty thousand feet of World War II vintage water line varying in size from 3 inch galvanized iron to 12 inch wood stave line. The new line would be 12"-20" ductile iron pipe.

The Delta Western Complex which presently exists is seriously under utilized because there is not enough water pressure to provide sprinklers in two of their new warehouses.

Icicle Seafoods has brought in a barge for fish processing and has a long term development plan for property they have leased from the Ounalashka Corporation. Without additional water capacity these plans will not be able to be carried out.

The Ounalashka Corporation has had a number of inquiries from processors, and service providers about leasing land along the road, but the lack of city services makes the land undevelopable. There is no other area of the community that is close to tidewater that can be used by deep draft vessels. The total cost of the water project is estimated to be \$2,638,000.

With the addition of the Icicle barge which is now processing fish, there has been a substantial reduction in water pressure at the Ballyhoo Dock, the major watering point for large vessels. This slows the turnaround time on the dock, worsening the dock congestion problem.

SEWER

The sewer project would extend the city sewer system to this area which is presently unserved. It would bring in approximately 10,000 feet of sewer line which would make the area useful. DEC has prohibited further development of the area without a public sewer.

The Ounalashka Corporation and the City of Unalaska, both of which are land owners along Ballyhoo Road have had to turn down requests for long term land leases because of the lack of a public sewer in the area.

The City of Unalaska has had some preliminary engineering done on this project which gives a cost estimate of \$1,298,000 for a conventional system. This would assure a relatively trouble free line which would be handling extensive industrial activity.

DOCK EXPANSION

The third priority component of the City of Unalaska's capital requests is the expansion of the Ballyhoo Dock. This project would include an 800 foot extension to the existing 400 foot dock, removal of rock from a hillside on the property to provide additional staging area, and placement of the rock in the water to increase the amount of available land for storage and transshipment of cargo.

We expect fifteen to twenty factory trawlers to be using the facility in the next year. We have presently seven factory trawlers each using the facility every twenty days to load supplies and unload three million pounds of fish product at each off load.

In addition Petro Marine Services has put a multi-million dollar tank farm on the uplands on the Ballyhoo Dock property. This tank farm has pumped many millions of gallons of fuel oil to fishing, processing, and cargo vessels in the six months it has been in operation. The agreement we have with Petro Marine calls for first priority to be given to vessels loading and unloading cargo. The lack of additional docking facility reduces Petro Marine's ability to deliver fuel, and revenue to the city from the sale. In the first two weeks of this year, 114 fishing vessels were denied moorage at city dock facilities due to lack of space.

The companies desiring to locate on Ballyhoo Road if we can provide the basic infrastructure are: Icicle Seafoods, Artic Storm, Amfish and Golden Alaska (fish processors); Sunmar, Delta Western and Sealand Services (shipping and cold storage); Fred Devine Salvage and Marco-Seattle (vessel repairs); and Hokodate Seimo Sengu a net manufacturer.

The total cost of the dock project is \$2,350,000.

MEMORANDUM

State of Alaska

DEPARTMENT OF LAW

RECEIVED
DEC 09 1987

TO: Mark Weaver
Director
Division of Agriculture

DATE: December 7, 1987

FILE NO: 661-87-0376

TELEPHONE NO: 276-3550

SUBJECT: ARLF Board Guidelines

RECEIVED
DEC 09 1987

THRU:

FROM:

Joan Travostino
Assistant Attorney General
Commercial Section-Anchorage

You have inquired whether ARLF can institute debt restructuring as contained in ARLF Board Guidelines for Restructuring, June 25, 1987, without revision of AS 3.10.

Specifically, you inquire whether ARLF has the authority to expend funds to maintain assets and investment which have been acquired through loan servicing, to expend funds for other loan servicing expense, and to change the terms and conditions of current loans. Changing the terms and conditions of current loans would involve an exchange of assets in return for forgiveness of accrued interest and penalties, obtaining additional collateral, setting aside a portion of the loan to accrue no interest for a certain time, and consolidating different types of loans into one repayment schedule. In addition, you inquire whether ARLF may suspend the requirement for repayment of clearing loans, provided the land to which the clearing loan attaches is used only for agricultural purposes.

You indicate a number of reasons for the June 25, 1987 guidelines including:

1. an average delinquency rate as of December 31, 1986 of 58 percent;
2. an average delinquency rate as of December 31, 1986 of 75 percent if current loan payment moratoriums did not exist;
3. high debt loads of ARLF borrowers, in many cases debt/asset ratios exceeding 75%; and
4. depressed agricultural economics in Alaska and in the nation.

The types of questions you raise fall into the category of loan servicing, and are commonly understood in the banking industry as loan servicing functions, except for the treatment of clearing loans. A review of the federal regulations covering the Farmer's Home Administration (hereafter FMHA) and the Farm Credit System confirm this. Chapter XVIII of 7 C.F.R. covers the Farmer's Home Administration. Part 1951 covers loan servicing. 7 C.F.R. 1951.25 covers servicing actions "such as consolidation, rescheduling, reamortization or deferral . . ." for loans. 7 C.F.R. 1951.33 covers consolidation and rescheduling for "existing loans." Rescheduling is defined as "rewriting rates and/or terms". 7 C.F.R. 1951.40 covers reamortization, which is defined as rearranging "the installments of a loan which may include changing the interest rate and terms of the loan." 7 C.F.R. § 1951.41 covers set asides, which is postponing a portion of principal repayment for a number of years at zero percent rate of interest. 7 C.F.R. 1951.44 covers payment deferrals. There is an understanding by the FMHA that consolidation, rescheduling, reamortization, set asides, and deferrals are loan servicing functions.

Subpart N of Chapter VI of Title 12 covers Loan Servicing Requirements for the Farm Credit Administration. Subpart N, beginning with 12 C.F.R. § 614.4510 considers extensions, deferments, reamortization, and forbearance as loan servicing functions.

The FMHA also considers expending funds for collection, litigation, taxes, appraisals, and similar expenses as part of loan servicing. The payment of delinquent taxes is covered by 7 C.F.R. § 1863. 7 C.F.R. § 1872 covers servicing for real estate loans. Section 1872.4 covers the cost of appraisals when needed to make servicing decisions. Section 1872.2 covers the ability of the FMHA to manage, care for, and maintain real estate which is security for FMHA loans. A review of the Farm Home Administration and the Farm Credit Administration indicate that expending funds to collect loans, locate and gather collateral, keep assets in good working order, and operate businesses (if necessary to preserve asset value) are considered part of the loan servicing function.

ARLF has implied powers from AS 3.10 to perform loan servicing functions.

The next question is whether ARLF has authority to use the June 25 loan servicing options. Generally, state agencies have the authority to perform those functions that are necessary and helpful to carrying out specific legislative program, even

though the legislation may not specifically provide specific authority for these functions. Dickey v. Raisin Proration Zone, 151 P.2d 505, 513 (Cal. 1944). Crawford v. Imperial Irrigation Dist., 253 P. 726, (Cal. 1927); Island-Gentry Joint Venture v. State, 554 P.2d 761, 765 (Hawaii 1976); State v. Fin & Feather Club, 316 A.2d 351, 355 (Me. 1974); Adams County Golf, Inc. v. Colorado Dept. of Rev., 610 P.2d 97,99 (Colo. 1980).

AS 3.10.010 states that it is the

policy of this chapter to promote the more rapid development of agriculture as an industry throughout the state by means of long-term low-interest loans.

AS 03.10.020 provides three methods for carrying out the policy in AS 3.10.010. The methods are to make loans, establish amortization plans, and enter into agreements with private lenders, state agencies, and federal agencies.

AS 3.10 sets out some terms and conditions for the initial loan transaction, for example, farm development loans cannot exceed 30 years and have specific interest rates. AS 3.10.030(a)(1), (4). AS 3.10 covers no form of loan servicing, except for a reference to a three-year extension of a short term loan. AS 3.10.030(c). The ability to perform loan servicing functions is essential to a loan program, because loan servicing provides modifications to improve the potential for loan repayment. Under some circumstances, changing loan terms and conditions allow the lender to obtain a greater income stream than selling the collateral after enforcing loan terms as they were written originally. In addition, loan servicing allows the lender to realize the full value of collateral through programs for upkeep and maintenance of assets.

For example, the loan servicing program contained in the ARLF Board Guidelines allows a portion of past due loans to accrue no interest but allows recovery of all principal. ARLF will realize some recovery on the defaulted loan through reduced borrower payments. The alternative for ARLF would be foreclosure and repossession. ARLF would have equipment, livestock or land to sell before receiving income. Because the Alaska agricultural industry is small, the market for equipment, livestock and agricultural land is limited, thereby significantly reducing the potential income from assets. This is particularly true in the current economic climate in Alaska which exacerbates the limited market. In conclusion, without loan servicing functions, a loan program would be limited to collection and asset maintenance

options that would not necessarily be in the best interest of the State of Alaska.

As a revolving loan fund, money received on loans and through loan servicing efforts is returned to the fund. Loan servicing options can provide a greater income stream, thereby enhancing the revolving nature of the fund. The financial integrity of the fund can be improved by the use of the full range of loan servicing options. A financially sound revolving fund is in a better position to make long term loans as required by AS 3.10.010.

The loan servicing program that was outlined in the June 25, 1987 memo, including expanding ARLF money to maintain assets, and changing terms and conditions of current loans is within the implied powers of AS 3.10.010.

The need for farm-oriented banks and government agencies across the nation to devise new loan servicing programs for farms became critical in 1986. The guidelines contained in the June 25, 1987 memorandum are based on a proposal by the American Farm Bureau dated March 6, 1986 and the standards for troubled debt restructuring as affected by Financial Accounting Standard Board Rule 15 approved by the Comptroller of Currency for the United States Treasury in March 1986. The Comptroller of currency issued banking circular on March 28, 1986 allowing significant modification of interest rates and other loan terms when the modifications allowed improvement of the overall portfolio performance. (Comptroller of the Currency, Banking Circular: Capital Forbearance Policies, Mar. 28, 1986, pp. 1, 7). These programs and their justifications were not available when John A. McDonagh wrote his January 31, 1986 memorandum to Jerry Brossia. Therefore, this memorandum supersedes the January 31, 1986 memorandum because of the changes in national accounting rules and banking procedures regarding loan servicing through work outs.

The June 25, 1987 memo also includes a suspension of clearing payments, provided the land is devoted to agricultural use. The suspension, as stated, does not enhance the repayment possibility of the clearing loan.

The suspension significantly alters the clearing loan transaction between ARLF and the borrower. A loan of money is defined as a contract by which one delivers money to another and the latter agrees to repay the money at a later date. United States v. Neifert-White Co., 247 F. Supp. 573 (1965), affirmed 372- F.2d 372 (9th Cir. 1967), reversed and remanded on other

grounds, 390 U.S. 229 (1968). Because payment is suspended indefinitely, the transaction is not longer a loan. The question becomes whether ARLF has the authority to alter a loan transaction to another type of transaction.

The June 25, 1987 guidelines identify two types of clearing loans, those funded directly from ARLF and those funded by the Agricultural Action Council and administered by ARLF. ARLF has the authority to make clearing loans under AS 03.10.030(g). However, there is no legislative authority for a transaction other than a loan. Therefore, ARLF generally lacks authority to institute a program that changes a loan into another type of transaction. The exception is ARLF funded clearing loans on the Delta Projects, which can be forgiven under the provisions of SLA 1986, Chap. 109.

The legislation for the AAC clearing loans provided more flexibility. SLA 1979, Ch. 80, sec. 25, p. 67, l. 34 to p. 68 l. 7 appropriated \$4.736 million to "final clearing" for the Delta I project. SLA 1981, ch. 82, sec. 30, p. 156, l. 24 to p. 157, l. 10 appropriate \$4 million for Delta II project "clearing loans". SLA 1982, ch. 25, sec. 4, p. 11, ll 7-11 appropriated \$402,000 for Delta I "clearing loans". The legislative authority was for some funds for loans, for other funds, the legislation does not specify the type of clearing transaction. SLA 1986 chap. 109, requires that the commissioner of natural resources forgive clearing loans on the Delta Projects if forgiveness is requested as part of relinquishment.

If a Delta clearing loan is involved as a part of a restructuring request under the June 25, 19887 guidelines that does not include a relinquishment request, then the source of funds must be determined. For those loans made with funds which were appropriated for loans, there is no legislative authority for suspension. For those loans made with funds which were appropriated for clearing, a suspension program is within the intention of the legislation.

SLA 1980, chap. 70, sec. 1, grants \$3.6 million to the AAC for Point MacKenzie "land clearing". The AAC chose to use the money for clearing loans. DNR assumed the administration of the AAC loans in 1984. SLA 1984, Chap. 171, sec. 49. By the June 25 guidelines, DNR, through ARLF, has chosen to change the clearing loans to a conditional grant. Since grants are one way of accomplishing land clearing, the change is permissible under the legislation.

Mark Weaver

December 7, 1987
Page 6

In summary, if the clearing loan is attached to land that is part of the Delta projects, the loan must be forgiven of part of a relinquishment request. If the loan is not part of a relinquishment request, the source of funds must be discovered to determine whether the changing a loan to a conditional grant program by payment suspension is permitted by legislation.

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STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907 465.3800

MEMORANDUM

February 29, 1988

SUBJECT: Authority to restructure mortgage loans
(Work order 5-2012)

TO: Representative Steve Frank
ATTN: Rick Solie

FROM: Jack Chenoweth
Legislative Counsel

You have asked for a review of the ability of the state agencies that manage residential mortgage lending programs to restructure those loans under current law.

The sources of the principal residential mortgage loan programs are:

-- loans made under one of the various housing assistance programs by the Alaska Housing Finance Corporation under authority of AS 18.56; 1/

-- loans made from the Housing Assistance Loan Fund and the Homeownership Assistance Funds by the Division of Housing Assistance of the Department of Community and Regional Affairs under the authority of AS 44.47.360 - 44.47.560. 2/

Though their total numbers are significantly below the numbers of loans made by each of the entities mentioned above, loans for residential purposes may also be made by

-- the Alaska Permanent Fund Corporation;

-- the commissioner of revenue, acting in the capacity of treasurer of the state's retirement systems for the pension fund surpluses of the Public Employment Retirement System and the Teachers' Retirement System.

"Restructuring of mortgage loans" is usually understood to mean at least one of the following:

-- forbearance arrangements or agreements, authorizing the borrower to reduce or suspend regular mortgage payments for a stated period; or,

- modification of the terms of a mortgage, including
 - reduction of payments of principal
 - without affecting the total debt obligation of the mortgagor on the mortgage loan; or
 - accompanied by a concomitant reduction in the total debt obligation of the mortgagor on the mortgage loan;
 - reduction of the interest payment payable on the loan; or
 - delay or postponement of the due date of the mortgage obligation.

Alaska Housing Finance Corporation mortgage loans:

The Alaska Housing Finance Corporation enjoys wide latitude as to how it may address delinquent loans and those that may become delinquent. In the enumeration of the general powers of the corporation, AS 18.56.090(11) provides that the corporation may, "for its . . . corporate purposes":

consent to the modification of the rate of interest, time of payment of any installment of principal or interest, or any other terms, of the mortgage loan, mortgage loan commitment, construction loan, temporary loan, contract or agreement of any kind to which the corporation is a party;

While this statutory language sets no limits, there are some practical constraints.

AHFC principally finances its programs through the use of bond proceeds. AS 18.56.110 generally prescribes limitations applicable to the bonds and notes of the corporation. AS 18.56.110(f)(3) authorizes the corporation to "covenant as to the use and disposition of any and all payments of principal and interest received by the corporation on mortgage loans . . . or other investments held by the corporation." Under AS 18.56.120,

The pledge of assets or revenue of the corporation to the payment of the principal or interest on any obligations of the agency is valid and binding from the time the pledge is made and the assets or revenue are

immediately subject to the lien of the pledge without physical delivery or further act. . . .

So it is to the covenants that support the underlying bond issues rather than to provisions of state law that one must look to determine whether AHFC's various mortgage loan programs permit restructuring of outstanding loans. One must also consider the agreements between AHFC and, on the one hand, agreements entered into with the Federal National Mortgage Association (and similar entities) covering sales of mortgages and loans and, on the other hand, agreements with the corporation's own mortgage seller/servicers. Each of these groups of agreements may include provisions limiting the corporation's flexibility in responding to defaults and potential defaults by the borrowers.

These agreements notwithstanding, AHFC does authorize loan modifications under certain circumstances. The corporation's seller/servicer manual identifies those as limited to instances in which the mortgagor's income has been permanently affected by accident or illness, or in which the mortgagor's income has been reduced or eliminated altogether for a temporary period and which has not recovered sufficiently to maintain the current mortgage. The corporation will also consider a modification "if the servicer [of the mortgage] feels that changing the terms of the mortgage would not only cure [a] present delinquency but also prevent future delinquencies." AHFC must give prior approval and "will consider . . . reamortizing the debt to include the delinquent payments or extending the term of the loan by the number of past due installments." AHFC Seller/Servicer Manual sec. 9002.06.

In summary, current state law generally appears to provide sufficient latitude for the Alaska Housing Finance Corporation to modify loans and loan provisions for loans that are delinquent or may become delinquent. Legislative initiatives to amend the law to redefine or extend AHFC's authority need to be concerned with possible claims against impairment of contracts entered into by the corporation, particularly with bond underwriters, federal government agencies that purchase the mortgages, and the corporation's seller/servicers.

Department of Community and Regional Affairs mortgage loans:

State law applicable to management of the department's mortgage loan programs does not specifically provide the department latitude to restructure repayment of principal and interest on its loans. The department's own regulations are also silent on the point.

The department has asserted to you that it may not reduce interest payable. Its assertion seems to be borne out by the following:

- the interest rate payable by a borrower under the rural owner-occupied housing program is, by statute (AS 44.47.410(b)), tied to the rate based on the most recent AHFC bond sale;

- the interest rate payable by a borrower under the rural non-owner-occupied housing program is set by statute (AS 44.47.520(b)) as an amount not to exceed $10\frac{1}{2}$ percent; the department advertises that the rate is $10\frac{1}{2}$ percent;

- the interest rate payable by a borrower under the homeownership assistance housing program, the interest-subsidy assistance program, directs by statute (AS 44.47.382(b)) that, for qualifying borrowers, the subsidy allowable shall be sufficient to reduce the actual interest rate paid on the mortgage to six percent.

The net effect of the three statutes cited suggests that the department is without discretion to adjust or reduce interest payable by a borrower under any of the three programs.

The department has also represented to you that, while it may adjust payments of principal on outstanding housing program loans, its authority to adjust the payments is limited to modifying current principal payments without reducing the mortgagor's total debt obligation under the mortgage loan. In other words, the department believes that it may reduce monthly payments, but the reductions corresponding serve to extend the repayment obligation to an additional period; the department may not cancel or forgive a portion of the borrower's indebtedness.

The source of the department's mortgage lending activity is the housing assistance loan fund. That fund is established by statute (AS 44.47.380) and was, by a 1983 amendment, made

a revolving loan fund. 3/ A revolving loan fund is commonly thought of, and in Alaska legislation has been nearly universally treated, as a fund that is continually expended and replenished, from which withdrawals are made as loans but with a corresponding obligation to repay the fund in order to keep it intact. 4/ Legislative appropriations for state revolving loan funds are typically treated as non-lapsing appropriations, and any repayments of principal on loans purchased or originated with these appropriations should be deposited into the fund and made available from the fund for subsequent expenditure.

In my judgment, the department's representation to you seems to be fully consistent with its duty to maintain the integrity of the housing assistance loan fund as a revolving fund. A reduction in principal payments accompanied by a cancellation of a portion of a borrower's indebtedness would compromise the fund balance and the ability of the agency to use the fund balance as a source of loans in subsequent years.

Investments of the Alaska Permanent Fund Corporation:

Under authority granted in AS 37.13.120(g)(16), the corporation may invest in

notes secured by mortgages granting a first lien on commercial or residential real estate improved by completed buildings [subject to specific mortgage insurance requirements];

Like the Alaska Housing Finance Corporation, the Alaska Permanent Fund Corporation enjoys broad authority to manage investments. The corporation is authorized to "enter into and enforce all contracts necessary, convenient, or desirable for purposes of the corporation." (AS 37.13.120(f)). The residential mortgages purchased by the corporation as investments become assets of the corporation subject to the corporation's general asset management policies.

Since the Permanent Fund Corporation regularly receives income from sources other than those that support the mortgage lending activities of AHFC or the Housing Assistance Division, it is not constrained by the same considerations that circumscribe loan management practices of those two entities. Within the broad authority of the statutes directing its activities, the Permanent Fund

Representative Steve Frank
Page 6
February 29, 1988

Corporation appears to have ample legal authority to structure or restructure loans that are potentially or actually delinquent.

Retirement Funds investments:

The commissioner of revenue may invest the surpluses of the Public Employees' Retirement System and the Teachers' Retirement System in, among other permissible investments specified by law, residential mortgages. AS 39.35.-110(a)(10) (for the Public Employees' Retirement System) and AS 14.35.180(b)(10) (for the Teachers' Retirement System) authorize the commissioner to invest in "first lien real estate mortgages guaranteed by the federal Veterans Administration." AS 39.35.110(a)(11) and (12) and AS 14.35.-180(b)(11) and (12) authorize investments involving other kinds of residential mortgages, subject to specific limitations set out in those paragraphs and in AS 39.-35.110(e) and AS 14.25.180(e), respectively.

As to each of the two retirement programs, the commissioner is authorized by law to "do all acts whether or not expressly authorized which are considered necessary or proper for the protection of the investments held in the pension fund." AS 39.35.110(d); AS 14.25.180(d).

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FOOTNOTES

1/ The loans of the Alaska Housing Finance Corporation may be classified among the following specific loan programs:

- home ownership assistance program (a program to provide mortgage subsidies to persons of low and moderate income);

- mobile home loan purchase program (a program to provide low-cost financing for mobile homes);

- pledged account mortgage program (a program to assist persons with sufficient assets but whose income does not meet the minimum monthly income requirements generally applicable to the corporation's loan programs);

- second mortgage loan program (a program to provide low-interest loans for home improvements or rehabilitation in order to make the units more habitable, and to finance second mortgages in order to allow home purchases);

- taxable mortgage program conventional loan (the principal AHFC homeowner assistance program, applicable to owner-occupied units);

- tri-plex and four-plex mortgage loan program (a program to allow the purchase of owner-occupied tri- and four-plex units);

- veterans' mortgage program (a program to provide additional assistance to qualifying veterans through a reduced interest rate);

2/ The Department of Community and Regional Affairs' loans involve the following specific programs:

- rural owner-occupied housing (a program to provide financing to qualified borrowers for the construction, purchase, or rehabilitation of a housing unit, limited to single family units and duplexes, for use as the borrower's principal residence);

- rural non-owner-occupied housing (a program to provide financing to qualified borrowers for the construction, purchase, or rehabilitation of a multiple unit housing project, generally two to eight units, though larger under extraordinary circumstances);

Representative Steve Frank
Page 8
February 29, 1988

-- home ownership assistance housing (a program to provide assistance to persons of lower and moderate income to purchase or construct single-family, owner-occupied dwellings, through the use of subsidized interest payment support).

3/ A January 23, 1984, Opinion of the Attorney General provides guidance to the Department of Community and Regional Affairs as to the proper handling of the repayments of principal and interest earnings on loans made from the loan fund before and after the 1983 amendment establishing it as a revolving fund.

4/ "Revolving loan funds provide for the return to the fund of repayments by borrowers of the principal (and frequently the interest on that principal) which was loaned to them from the fund so that new loans can be made on a continuing basis." 1982 Opinions of the Attorney General #13, November 30, 1982, at page 12.

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