

ALASKA LEGISLATURE COMMITTEE FILES 1991-1992 8672

7135 HOUSE RESOURCES

FRED DIVISION, Brian J. Allee, Director

DIVISION HISTORY

In the early 1970s, the commercial salmon harvest fell to an all-time low with a statewide catch of 21 million fish. This led to the creation of the Fisheries Rehabilitation, Enhancement and Development (FRED) Division within the Department of Fish and Game, followed by the establishment of a unique private nonprofit (PNP) program in the mid-1970s. The mission of FRED Division is to plan and implement a program that ensures the perpetual and increasing production and use of Alaska's fishery resources (AS 16.05.092).

FRED Division's constituency includes the commercial salmon industry, recreational, personal-use, and subsistence fishermen, mariculturists, and fisheries-related support sectors of various communities and regions. The people of Alaska have benefitted from the statewide enhancement program that today is providing 3,500 resident jobs and over \$100 million in personal income, annually.

In response to legislative and executive direction, the FRED Division has been privatizing the operation of state-owned hatcheries since 1987. In FY 91 FRED Division received specific administrative direction to reduce by \$2.0 million support to state-operated hatcheries. Currently, of the 38 hatcheries statewide, the state owns and operates 10 and operates another 3 funded by regional aquaculture associates (RAA). An additional 7 state-owned hatcheries are now operated by RAAs. There are 18 PNP hatcheries.

Since its creation in the early 1970s, the Alaska fisheries enhancement program has developed into the largest program of its kind in all of North America. However, the current policy direction is to privatize commercial fishery production, where possible. The FRED Division strategic plan now emphasizes continuing programs in fisheries planning, technical services, and sport fish, subsistence, and personal-use fishery enhancement, diversifying into development of marine species enhancement, and increasing stream rehabilitation, public-participation programs, and future oil spill restoration projects.

KEY POLICY ISSUES CONFRONTING THE AGENCY

Short-Range Issues

1. Public hatcheries as a tool for economic development versus privatization of commercial fishery-oriented hatcheries

Public hatcheries enhance commercial fisheries and provide economic development in regions where financing mechanisms are not available to encourage privatization. There is tremendous potential to enhance fisheries opportunities in rural communities, but there is no method for financing such subsistence programs through the PNP sector. The state should consider developing subsistence-oriented programs, with the goal of privatizing these programs as they become self-supporting.

Without state funding or a funding mechanism, many commercial fishery-oriented public hatcheries that cannot be financed by PNP corporations will be closed.

2. Rehabilitation of wild salmon stocks damaged by land-use activities

Insufficient funding is available to initiate a major effort and no alternative financing mechanisms exist. If increased funding was available, statewide community action and public involvement programs would be developed (such as FRED Division's technical support capabilities), and an emphasis placed on hiring and training local residents.

3. Renewable resource development of species other than salmon

Many nonsalmonid species, such as king crab, could be enhanced. Technology for their culture has not been developed in Alaska, and no adequate financing mechanism is in place for PNP corporations to develop this technology. If increased funding was available, this technology could be developed within FRED Division. As culture for these species becomes economically feasible, privatization would be encouraged. If no funding is available, stocks would have to naturally rebuild over decades.

Long-Range Issues

Long range options will be limited based on critical decisions made on the short-range issues.

LEGISLATIVE ISSUES

1. Finfish farming

During the 1990 legislative session, the Senate Resources Committee adopted a letter-of-intent supporting the idea of upland, nonsalmon finfish farming and authorized the department to work with both the Senate and House Resources Committees to develop a proposal enabling upland, nonsalmon finfish farming for introduction before the 17th Alaska State Legislature.

APPENDICES

1. Alaska Statutes, Title 16
2. Alaska Fish and Game Magazine, March/April 1989
3. FRED Division 1989 Annual Report to the Alaska State Legislature

HABITAT DIVISION, Frank J. Rue, Director

DIVISION HISTORY

Beginning in 1970, and continuing through 1981, state government responsibilities for fish and wildlife habitat protection under the State Constitution were delegated to the Habitat Protection Section of the Alaska Department of Fish and Game (ADF&G). Since then, they have been delegated to ADF&G's Habitat Division. There have been no major operational changes in recent years.

Since its inception, the Habitat Division has had six major tasks. These include carrying out legislatively mandated programs to maintain and protect the integrity of anadromous fish streams and ensure fish passage in the state's fresh waters, and manage legislatively designated state critical habitat areas, game refuges, and game sanctuaries. Other tasks include acting under the general powers of the Commissioner to maintain and protect fish, wildlife, and their habitat from disturbance or destruction, and to foster a broad appreciation of habitat values; recommend strategies that will maintain and protect these resources during planning and review of development projects and land planning efforts; and promote and protect access to important fish and wildlife resource areas for the use and enjoyment of the state's residents.

A broad and diverse public is interested in habitat management activities. It includes persons engaged in subsistence, recreational, and commercial fishing and hunting, guiding and tourism, and resource extraction activities such as mining, oil, and gas development, and timber harvest.

KEY POLICY ISSUES CONFRONTING THE AGENCY

Short-Range Issues

1. Fish habitat regulations

Statutes to protect anadromous fish habitat and ensure fish passage were enacted at statehood. However, regulations to implement these statutes and reduce concern that permitting decisions are being made arbitrarily have not yet been promulgated. Industry has been largely instrumental in tabling regulations proposed under each of three previous administrations.

The department believes that fish habitat regulations and public education about the need for habitat protection are critical to ensuring that Alaska's fisheries (and dependent wildlife) do not suffer the dramatic historical declines seen elsewhere prior to such regulations being adopted. Fish habitat regulations for Alaska should be promptly adopted. A less desirable strategy is to continue the status quo.

2. Instream flow

Division staff currently determine minimum acceptable stream flows and request that the Department of Natural Resources include the best possible protection for fisheries resources in its instream flow reservations. See Legislative Issues.

3. Wetland management

People both inside and outside of Alaska derive social and economic benefits from a wide variety of fish and wildlife species, including migratory species, that depend on Alaska wetlands during at least one life stage. At issue is the degree to which a proposed national "no net loss" policy should apply in Alaska.

The rest of the nation used to have wetland base comparable to Alaska's; however, over half the Lower 48's wetlands have now been lost. Alaskan cities and industrialized areas have lost percentages of their original wetlands base that are comparable to those lost elsewhere in the nation. If such losses continue, or if comparable levels of wetland loss are allowed in relatively unimpacted areas of Alaska, more species will suffer the same alarming reductions in numbers that have, for example, befallen the nation's waterfowl populations.

The department recommends education of Alaskans on the importance of wetlands, endorsement of a statewide goal of "no net loss of wetlands by acreage and function," and aggressive implementation of a corresponding state policy which first targets the more heavily developed and most sensitive wetlands in Alaska

4. Forest management

Large forested areas of the state, including state, private, and national forest lands, support valuable fish and wildlife resources. For Alaskans economically dependent on these resources, it is essential that rapidly increasing timber harvest and associated road building in these areas be conducted to provide for old-growth-dependent species, ensure biological diversity, and prevent undue forest fragmentation that risks future habitat productivity. State policy will be implemented in state and federal forest plans, forest practices regulations, federal Tongass legislation, and revision of the Tongass Forest plan.

The state's FPA was revised in 1990. Staff are working with other agencies and groups to craft implementing regulations that meet the law's intent to protect fish streams, water quality, and riparian habitat value (AS 41.17.098(d) and 41.17.115).

5. Management of special areas

Alaska has designated 30 areas for special management by the Department of Fish and Game: state critical habitat areas, game refuges, and game sanctuaries. These are critical fish and

wildlife areas, and the department only permits activities that can be conducted in accordance with the management intent for a particular area.

The department has funds to complete only one management plan per year, thus many special areas in need of long-term planning remain without one. The long-term management and use of these special areas remains a major issue.

The department has little field presence available for monitoring authorized and unauthorized uses, increasing access, providing signs and other information services, and managing existing commercial use such as mining, and oil and gas development.

Long-Range Issues

Review of permit applications and project proposals, anadromous waters catalog and atlas, special area management, state and federal land management planning, forest practices, and petroleum and energy development are discussed in Appendix I, an informational brochure about the division.

LEGISLATIVE ISSUES

1. Instream flow legislation

The state needs a mechanism to better resolve conflicts among users of the state's waters, including nonconsumptive users such as fish--and those animals, including humans, who depend on them. The department has strongly supported legislation that would grant primary water allocations sufficient to protect fish and wildlife populations, before allocations for industrial uses are allowed.

Other states' experiences show that failure to reserve, in perpetuity, adequate water flow in fish streams and their tributaries leads to water quality and depth problems, and thus reducing spawning success and survival of valuable fish and wildlife resources. The department recommends supporting this legislation. It recognizes the critical link that sustained viable fish populations provide in the natural food chain as well as in Alaska's long-term economy.

2. Designation of special areas

The state needs to continue efforts to identify and legislatively protect lands that serve a critical function in the life histories of valuable fish and wildlife populations. The majority of special areas are in the Southcentral, Fairbanks or Juneau areas where the majority of Alaskans live and where the pressures on land use, fish and wildlife harvest, and recreation are the greatest. Proposals for designation of special areas are usually strongly supported by human users or residents of an area, and by their legislators.

OSIAR DIVISION, Gregg K. Erickson, Director

DIVISION HISTORY

In April 1989, Governor Cowper appointed the Commissioner of Fish and Game as the state's natural resources trustee with respect to the Exxon Valdez oil spill (EVOS). The OSIAR Division was established in July 1989. The organization is responsible for the following:

1. State natural resources damage assessment

The division is directly responsible for the state's scientific work on the EVOS case.

2. Management of federal natural resources damage assessment activity

The state trustee shares responsibility with his federal counterparts for the overall conduct of the EVOS case. Day-to-day responsibility has been delegated to a state/federal management team. The OSIAR director represents the state on this body and serves on a rotating basis as its chairman.

3. Restoration

The division is responsible on behalf of the state for planning for restoration of EVOS damage. The Departments of Natural Resources and Environmental Conservation assist with funds provided by the department through a reimbursable services agreement.

4. Inter-divisional oil spill coordination

The director is responsible for coordinating oil spill activities of divisions, and chairs the Inter-Divisional Oil Spill Coordinating Committee.

5. Policy support to the state trustee

As directed, the division provides policy and staff support to the Commissioner in his role as trustee.

Funding for OSIAR activities in FY 91 is provided from the Oil and Hazardous Substances Release Response Fund; no general funds are included. Eighty-eight percent of the OSIAR budget supports the state damage assessment science program.

KEY POLICY ISSUES CONFRONTING THE AGENCY

The state's goal in the Exxon Valdez damage case is to obtain a full, fair, efficient, and--if possible--quick recovery of damages. Unfortunately, in the last year the state has spent much of the time and managerial resources devoted to this case in an unsuccessful effort to resolve disputes with the federal government.

The two governments are cooperating effectively on day-to-day management of scientific studies, but have locked horns over the terms of a memorandum of understanding for cooperation on other aspects of the case. Areas of disagreement include litigation strategy, management of economic studies, the disposition of damages payments, and a host of less important details. Economic studies with annual costs of several million dollars are now being conducted separately by the two governments, each in secret from the other.

Exxon is surely aware of the inter-governmental dissension. Though this case holds great risks for Exxon, the threat to the company is much reduced if the two governments cannot agree on how to conduct the case. Having the two governments at odds may affect Exxon's willingness to enter into serious settlement discussions.

By next March, the state and federal governments will have spent over \$100 million on legal, scientific, economic, and administrative work related solely to the civil damages case against Exxon. Several more years of spending at this rate is in prospect if settlement is not reached. Alaska could carry the case forward on its own, but sustained political and fiscal support would be required.

A new state administration will have to consider whether spending at the current level can be justified in the absence of an agreement between the two governments, and examine the impediments to a state/federal agreement in the context of the state's overall interest.

LEGISLATIVE ISSUES

1. Future funding

The Department of Fish and Game will exhaust its funding for this case in February, due to a partial year appropriation. We understand the Department of Law is in the same situation. ADF&G will need about \$3.3 million to carry the case forward to the end of the fiscal year. Based on its earlier full-year request we estimate Law will ask for \$4.5 million.

ADF&G's FY 91 budget contains \$3.7 million to provide financial assistance to federal damage assessment projects. This is the amount that would be required if it was decided to provide state funding for 50 percent of the state/federal damage assessment total; the item was added to ADF&G's budget last year to encourage federal agreement on an overall memorandum of understanding. If no MOU agreement is reached this money could be made available for other purposes related to the EVOS case.

DIVISION OF SPORT FISH, Norval Netsch, Director

DIVISION HISTORY

The Division of Sport Fish is one of the five original divisions of the Department of Fish and Game, and was actually established in 1950, prior to statehood. The division initially received much of its funding from the sale of a territorial sport fish "license stamp," and operations to this day are self-supporting from sport fish license fees and federal aid funds that result from taxes on sport fishing equipment and recreational boat fuel. License fee revenues go into the fish and game fund, and federal aid funds are apportioned to Alaska for sport fishery activities that meet specific requirements. Allocation is by the Legislature through the budget process. General funds have been provided to divisional programs periodically for supplemental support to special projects or capital developments. A \$270.3 cut in the FY 91 budget resulted in some program reductions.

The division has the responsibility to manage the sport fisheries of Alaska. The primary goals are to manage wild stocks of fish on a sustained yield basis, to provide diversity of recreational fishing opportunities, and to conduct programs in a cost-effective manner. Management activities are accomplished in cooperation with the Division of Commercial Fisheries, FRED, other divisions, and with other natural resource agencies. Public involvement in programs and management planning is essential.

Sport fishing is the most popular recreational activity in Alaska and provides significant economic benefits to the state. During 1988, the last year for which complete figures are available, 377,000 people sport fished and paid nearly \$4.2 million in state license fees. About 66 percent of these anglers were Alaska residents; 47 percent of the resident population participated in the sport. Between 1987 and 1988 there was a 2 percent decrease in resident anglers and a 9 percent increase in nonresident anglers. In 1985, sport fishing contributed \$204.7 million to the state economy and provided 3,033 jobs.

KEY POLICY ISSUES CONFRONTING THE AGENCY

Short-Range Issues

1. Alaska recreational fishery policy

Alaska supports one of the foremost sport fisheries in the world providing recreation, food, and economic benefits to residents and nonresidents alike. The sport fishery is a readily renewable resource that will continue to increase in value and could last forever. The Legislature and the administration must recognize sport fishing as a major resource of the state. Any statewide fishery policy must address development of the growing sport fishing industry.

2. Kenai River management

Allocation and management priorities of king salmon in the Kenai River have been an issue for many years, but are now at an all time high level of controversy. The Board of Fisheries meetings in November and December 1990 will be considering changes in the management plan and other fishery regulations. The Department of Fish and Game and varied interest groups will present information and alternatives that may lead to decisions that could ease tensions and further progress.

3. Fish stocking and its impacts on wildstocks

Over one billion fish are stocked in Alaska each year. Sufficient data and experience are now available to judge the costs and benefits of some stocking proposals as well as the management implications and effects on wild stocks. The department is in the process of reviewing existing policies related to stocking fish and wild stock protection. Within the next year, revisions to policies should be made available for public review and subsequent adoption. This would lead to improved program efficiency and reduced management complications, and would provide greater protection for wild stocks of fish.

Long-Range Issues

1. Salmon allocation issues

Management of salmon to provide maximum benefits to the people of Alaska on a long-range basis is a complex biological, social, economic, and political issue that will continue to intensify as competition for limited resources increases. Allocation between user groups is a major component. Other aspects of the issue that will require resolution include how to deal with our capabilities to manage for a single stock only in mixed stock fisheries, what factors and process should be used to set escapement goals, and how better to deal with social and cultural differences in some areas.

2. Maintaining quality sport fishing

How to maintain quality sport fishing with increasing numbers of anglers and other users of our waterways is a major concern. Areas are becoming more crowded and complaints that "fishing isn't what it used to be" are common. "Quality" fishing means different things to different people, making diversity of opportunity necessary. Innovative approaches must be developed to manage use levels in certain areas. The public must be made aware of the tradeoffs between management alternatives. The department, other agencies, and the public must work together to preserve the world class trophy fisheries of Alaska and provide angling opportunities for the public. Management plans and enforced regulations will eventually be required in all major areas.

LEGISLATIVE ISSUES

1. Increased funding needs

Funding is inadequate to meet the sport fish management needs of fisheries that continue to be more heavily used, complex, and competitive. The public is demanding that diverse fishing opportunities and more and better facilities be provided. As fishing pressure intensifies, costly hatchery programs are required in urban areas and conservative management approaches are needed to protect wild stocks elsewhere. Expensive research is now required to provide the accurate data essential for management decisions. The time and costs of public education and interaction with the public are greatly increasing. All operational costs of sport fish management are now paid by sport fishermen and recreational boaters. The 1990 Legislature approved an increase in nonresident license fees which will provide some additional revenues, but at the same time cut \$270.3 from the Division of Sport Fish. The Legislature should consider additional funding to the division's programs.

2. Instream flow

Instream flow legislation that would ensure adequate flows of water to protect fishery resources was debated but not passed by the last Legislature. This legislation should be reintroduced and passed during the next session. Alaska has an opportunity that other western states regrettably did not exercise 50 to 100 years ago. Many of their fishery resources are now paying the cost of this lack of foresight.

APPENDICES

The following materials contain additional information that may be of interest:

- **ECONOMIC IMPACT OF SPORT FISHING IN THE STATE OF ALASKA 1986**, by Sport Fishing Institute, Suite 100, 1010 Massachusetts Avenue, N.W., Washington, D.C. 20001.
- **SOUTHCENTRAL ALASKA SPORT FISHING ECONOMIC STUDY -Executive Summary 1988**, prepared for the Alaska Department of Fish and Game by Jones & Stokes Associates, Inc., Sacramento, California.
- **JUNEAU AREA SPORT FISHING ECONOMIC STUDY, Executive Summary 1986**, prepared for the Alaska Department of Fish and Game by Jones & Stokes Associates, Inc., Sacramento, California.
- **ALASKA STATEWIDE SPORT FISHERIES HARVEST REPORT 1988, Fishery Data Series No. 122**, prepared for the Alaska Department of Fish and Game by Mike Mills, Division of Sport Fish Research and Technical Services.
- **FISHERY DATA SERIES REPORTS**, results of all research conducted by the Alaska Department of Fish and Game, Division of Sport Fish, prepared by various authors depending on the project.

- **ALASKA'S RECREATIONAL BOATING & SPORT FISHING ACCESS PROGRAM, PROJECT F-13, June 1990**, prepared by Alaska Department of Fish and Game, Division of Sport Fish. (Individual project completion reports available)
- **COOK INLET & COPPER RIVER BASIN RAINBOW/STEELHEAD TROUT MANAGEMENT POLICY 1986**, developed by the Cook Inlet Sport Fish Planning Team and the Alaska Department of Fish and Game, Division of Sport Fish.
- **BRISTOL BAY RAINBOW TROUT MANAGEMENT POLICY 1990**, prepared by the Alaska Department of Fish and Game, Division of Sport Fish.
- **DIVISION OF SPORT FISH: A "user-pay" program**. Description and organization of the Division of Sport Fish and its programs, including the FY 91 budget request.
- **ALASKA FISH AND GAME magazine**, special sport fishing issues 1990, 1989, 1988.

These materials are available through:

Alaska Department of Fish and Game
Division of Sport Fish
P.O. Box 3-2000
Juneau, AK 99802-2000
(907) 465-4180

DIVISION OF SUBSISTENCE, Steven R. Bahnke, Director

DIVISION HISTORY

The Division of Subsistence was created by statute in 1978. It was one part of the legislative package which initially established the definition and preference for subsistence uses of fish and wildlife in Alaska.

Information about Alaskans' uses of fish and wildlife is critical to implementation of the state subsistence law. If reliable data are not available, the Boards of Fisheries and Game run the risk of not giving enough protection to subsistence dependent people, or of giving them more protection than necessary at the expense of recreational or commercial uses.

Division of Subsistence duties (AS 16.05.094) center on gathering information "on all aspects of the role of subsistence hunting and fishing in the lives of the residents of the state." They include providing this information to the public, the Boards of Fisheries and Game, and other agencies to assist in implementing the subsistence law.

Significant changes in the way the state deals with subsistence are underway as a result of the Alaska Supreme Court ruling in *McDowell v. State* in December 1989. The Legislature's subsequent failure to take action to avoid federal takeover of subsistence management on federal lands has increased the complexity of management, created public confusion, increased the division's workload, and resulted in loss of federal funds.

KEY POLICY ISSUES CONFRONTING THE AGENCY

Short-Range Issues

1. Increased costs due to the *McDowell* decision

The cost of fish and game management has increased significantly due to the *McDowell* decision. Some of these additional costs are due to implementation of "Tier 2" hunts, including extra board meetings, printing, distribution, and scoring of the Tier 2 applications, and loss of drawing permit revenues. Extra costs are also being incurred because of the need for increased coordination with federal agencies (see #2, Long-Range Issues).

In addition, the Divisions of Boards and Subsistence may lose \$750,000 in federal funds. The operation of the state's advisory committee system and a portion of the department's costs for providing subsistence information has been subsidized by federal funds since 1981. Since the state no longer meets the standards of ANILCA, the federal agencies are reprogramming these funds.

For FY 91 the department is requesting a supplemental appropriation for the costs of the Tier 2 hunts and other regulatory adjustments required by the *McDowell* decision. It is also pursuing federal reimbursement related to the costs of the

state's advisory committee system as part of discussions concerning cooperative agreements with the federal agencies (see #2, Long-Range Issues).

2. Subsistence Review Commission

During the 1990 special session on subsistence, the Legislature established a Subsistence Review Commission. It is charged with reviewing state and federal laws relating to subsistence and how they have been implemented. Findings and recommendations must be reported to the Governor and Legislature by January 15, 1993. The Commission is made up of 11 members appointed by the Governor, as well as ex-officio representatives of the Legislature, the boards, and state and federal agencies. A key issue is funding and staffing of the commission.

Long-Range Issues

1. Providing for subsistence uses

The Alaska Supreme Court ruled in the *McDowell* case that the state constitution prohibits a preference based on rural residency. Therefore, the state cannot provide a subsistence preference for rural residents as required by ANILCA Title VIII. The superior court subsequently ruled that the rest of the state subsistence law remains in effect but applies to all Alaskans.

These rulings have had major impacts on fish and game management. First, because more people now qualify for subsistence, regulations must be adjusted where subsistence demand is greater than supply for specific fish stocks or game populations. This disrupts existing uses. It also increases the workload and costs for the boards and the department. Second, the federal government has taken over subsistence management on federal lands, with the consequences of this described below.

During early 1990, the administration explored a full range of options, ranging from suing the federal government to introducing legislation to redefine subsistence. The final choice was to seek a constitutional amendment clarifying that the Legislature could use rural residence as a basis for defining subsistence. The Legislature failed to pass the required resolution to put the issue before the voters in the 1990 general election.

A constitutional amendment probably remains the best solution. The only real alternative would be to amend both the state and federal subsistence laws to make them consistent. Alaska's congressional delegation has indicated that this will not occur without full agreement and cooperation among sportsmen groups, commercial fishing interests, and Alaska Native organizations. While this consensus seems unlikely at this time, it is possible that the Subsistence Review Commission could contribute to identifying areas of common ground among these groups.

2. Federal subsistence management takeover

On July 1, 1990, the federal government assumed responsibility for management of fish and wildlife used for subsistence on federal lands in Alaska. This was required by ANILCA Title VIII because the state no longer has "laws of general applicability" providing a subsistence preference for rural residents.

One of the major consequences of federal subsistence management is Alaskans' loss of control of fish and game management in 60 percent of the state. The Alaska public has lost influence over decisions that affect their lives and livelihoods.

Another major consequence is the increased risk of overharvest of fish or wildlife populations being managed under two different systems and sets of regulations. Increased complexity and confusion about which regulations apply to which areas are likely to reduce compliance with regulations and ability to enforce them.

The department and the federal agencies are developing a MOU which spells out respective roles and responsibilities, ways to minimize public confusion, and ways to resolve disputes. However, the need to deal with five different federal agencies, under two different departments, has delayed completion of a MOU. Involvement of the Boards of Fisheries and Game in federal management issues has scarcely begun, and will probably also be a difficult area.

LEGISLATIVE ISSUES

1. Need for a FY 91 budget supplement

As described above, several divisions, including Subsistence, are incurring extra costs to implement the provisions of the supreme court decision in *McDowell*. A request for a budget supplement has been submitted.

2. Need for a FY 92 budget increment

For the reasons described above, the department anticipates increased costs in future fiscal years. In particular, the number of hunts where "Tier 2" of the state subsistence law must be implemented are expected to increase. This will drive up costs to the department for covering board meetings and for administering Tier 2 hunts. A request for a FY 92 budget increment to cover these new subsistence costs is being prepared.

If extra funds are not appropriated, the department will have to reprogram existing funds. Other basic functions would have to be eliminated or reduced, with consequent loss of resource management services and information.

DIVISION OF WILDLIFE CONSERVATION, W. Lewis Pamplin, Director

DIVISION HISTORY

The Division of Wildlife Conservation (formerly the Division of Game) was one of the original divisions established in the Alaska Department of Fish and Game shortly after statehood. The legal basis for the division is included in AS 16.05.090.

The division is responsible for the conservation and management of Alaska's wildlife resources, including game and nongame species. The division has two primary goals: to protect, maintain, and enhance the wildlife resources of Alaska; and to provide for sustained optimum use, both consumptive and nonconsumptive, of these resources consistent with sound biological principles and the needs of the public.

The division operates as the primary entity within the department responsible for wildlife management and research programs. Management programs include annual survey and inventory projects of big game (e.g., moose, caribou, Dall sheep, bears), furbearers (e.g., lynx, beaver), and waterfowl. The surveys are conducted to determine the biological status and trends of wildlife populations important for public use. Nongame management projects focus on raptors, loons, and the species of high public interest. The division also conducts wildlife research projects to provide new biological information or make improvements in investigative techniques for application to management activities. Information and recommendations from management and research programs are summarized for presentation to the Alaska Board of Game for the state regulatory process.

Public service projects include response to public inquiries on wildlife-related issues, general wildlife educational programs, distribution of educational materials (e.g., Project WILD and Alaska Wildlife Week) to elementary and secondary schools throughout the state, and a statewide hunter education and safety program. The division also provides technical assistance to other state and federal agencies, public institutions, and private organizations.

Nearly 100,000 people hunt in Alaska each year. Alaska residents spend about \$71 million a year on hunting activities and nonresident hunter expenditures exceed \$11 million. The big game guiding industry brings between \$22 and \$25 million into the state. Over 60,000 big game animals are harvested each year with a replacement meat value estimated at \$38 to \$42 million annually. Resident trappers collect about \$5 million a year in raw pelt values. Surveys by the Division of Tourism indicate most visitors come to Alaska to view scenery and wildlife. Nonconsumptive use of wildlife (viewing, photography) may contribute as much as \$100 million a year to in-state expenditures. In total, Alaska's wildlife generates more than \$250 million a year to the state's economy.

KEY POLICY ISSUES CONFRONTING THE AGENCY

Short-Range Issues

1. Funding shortfalls

The most significant administrative policy issue facing the division is how to continue adequate protection and management of Alaska's wildlife resources when funding shortfalls appear to be inevitable. In FY 86 and 87, the division lost nearly half of its general fund allocation (\$1.6 million) which resulted in the elimination of 32 positions, closure of two area offices, and substantial reductions in some major wildlife programs (e.g., elimination of moose habitat enhancement projects). The division is currently "treading water" in terms of having adequate funding to provide for basic wildlife management programs.

2. Subsistence management

With the state out of compliance with Title VIII of ANILCA, managing Alaska's wildlife has become extremely complex and difficult. The state still maintains responsibility for management of nonsubsistence uses on federal lands and for all uses on state and private lands. The quilt-work of landownership across Alaska, the migratory nature of most animal populations, and the inconsistent management policies and philosophies of six different federal land managers are major factors which, when combined, create an unworkable situation for ensuring the long-term conservation of Alaska's wildlife. Since the federal government has "taken over" some management responsibilities, the fiscal costs to the state have increased, not decreased. Instead of one regulatory body governing Alaskans' use of wildlife, there are now two. New federal regulations, tighter restrictions, more influence on federal decision makers from national special interest groups, and other factors will result in diminished opportunities for Alaskans. Actions must be taken in the near future to prevent this temporary turmoil in management of Alaska's wildlife from becoming permanent.

Long-Range Issues

1. Oil and gas development in ANWR

The Arctic National Wildlife Refuge can be developed for oil and gas in an environmentally sound manner. However, special attention needs to be given to the Porcupine caribou herd and its primary calving areas, other sensitive wildlife habitats, and timing of construction activities to minimize potential harm to the area's wildlife populations.

2. Timber harvesting

Logging of old growth forests (e.g., Tongass, Prince William Sound) can have serious long-term impacts on wildlife populations. Economic information on the values of old growth forest as wildlife habitat, for recreation and subsistence uses, and for tourism should be considered in cost benefit analyses of clearcut logging and incorporated into mitigation plans.

3. Alaska gas pipeline

A natural gas pipeline could be constructed in an environmentally sound manner. The technology, environmental information and stipulations, and government monitoring systems used during the construction of the trans-Alaska oil pipeline should be used as much as possible to ensure protection of wildlife resources.

4. Marine mammal management

Like all wildlife species, marine mammals should be managed according to sound biological principles. Consideration should be given to the state resuming management from the federal government of certain species of critical importance to Alaskans (e.g., polar bear, walrus, sea otters). The state should become more involved in marine mammal issues (e.g., decline in Steller sea lions) which can directly affect other resources and uses (e.g., commercial fishing).

5. Opening the Haul Road

There is considerable interest in opening the Dalton Highway to Prudhoe Bay for year-round public use and access. The costs and benefits of this action should be seriously considered. If adequate funds are made available for enforcement of fish and game regulations and monitoring of off-road vehicle use, potential impacts to wildlife could be minimized. However, these increased efforts are very expensive.

6. Nonconsumptive wildlife uses

The nonconsumptive use of wildlife is increasing rapidly. Although the term "nonconsumptive" is not precisely correct, it is generally understood to mean wildlife viewing, photography, recreational hiking and camping, bird watching, and other outdoor activities that do not directly take fish or game resources for trophies or food. This group represents a growing constituency for the department. While traditional harvesters of our fish and game resources help pay for management through annual hunting and fishing licenses, no method has yet been established to enable nonconsumptive users to contribute financially to the department's efforts. Various nonconsumptive user groups have indicated strong preliminary support for an Alaska wildlife trust fund. It is imperative, however, that such a fund be carefully constructed if it is to have any long-term value to the department and to the user group.

7. Anti-hunting and trapping movement

There is increasing pressure on a national and international level to eliminate hunting and trapping of wildlife, particularly on federal public lands like national wildlife refuges. If successful, these efforts could seriously affect Alaskans' use of wildlife on millions of acres of land across the state. The state should work closely with other state wildlife agencies and interested parties to better educate the public on the values and

benefits of hunting and trapping and the need for professional wildlife management.

LEGISLATIVE ISSUES

1. Innovative funding sources

Efforts should be undertaken to create an Alaska wildlife trust fund, whereby private donations or other sources of revenue could be used to supplement management programs for both consumptive and nonconsumptive uses of wildlife. In addition, the department should be permitted, as are similar agencies in other states, to engage in revenue generating efforts through the licensing of the department's official seal or through direct efforts to sell merchandise identified with the department

2. Regulation of guide-outfitters

A state system for regulating guide-outfitters across the state, similar to that proposed by the Legislative Task Force on Guiding and Game, should be implemented to protect wildlife resources and provide stability for a viable big game guiding industry. Such legislation failed to pass the 1990 Legislature, and the issue is now being addressed through administrative regulations. However, the possibility of additional legislation still exists.

Overview

CFAB

1-21-92



2550 Denali Street, Suite 1201
P. O. Box 92070
Anchorage, Alaska 99509-2070
(907) 276-2007

January 8, 1992

Willis F. Kirkpatrick, Director
Division of Banking, Securities, and Corporations
Department of Commerce & Economic Development
Post Office Box D
Juneau, Alaska 99811

Dear Mr. Kirkpatrick,

You are aware the CFAB's status, structure, origins and purposes combine to make it the platypus of the State of Alaska's collection of exotic agencies and entities -- there's nothing else like it! Its effective ties to state government are limited in both scope and substance; yet its existence and operations are founded on a specific statute whose provisions can be addressed only by the Legislature. The "real-world" dynamics of commercial law and of lending to Alaska's seafood industry seem to routinely produce or highlight needs for legislative attention to that statute. Efforts to address those needs are inevitably hampered in the legislative process by distracting misunderstandings and misperceptions.

In an effort to provide more background to interested legislators and to meet the requirement for accountability to the Legislature which is implied by CFAB's statute, we have offered to participate in "oversight" hearings before the House and Senate Resources, and Labor and Commerce, Committees (the committees to which CFAB-related legislation is routinely referred). Enclosed is a copy of the relevant letter which was sent to the Chairs of those Committees.

As a result of that letter, CFAB is scheduled to appear before the Senate Labor and Commerce Committee at 3:30 PM on January 20, 1992, and before the House Resources Committee on January 21 at a time not yet determined -- probably 3:00 or 3:30 PM. Because of the role your office plays in the relationship between CFAB and the State of Alaska, I would like to respectfully offer you the opportunity to attend either or both of those hearings and make whatever comments you might wish and/or respond to whatever questions legislators might direct to you. Please understand that we do not anticipate any critical or controversial issues to arise, and we will not be at all offended if it is inconvenient for you to participate.

Alask. Commercial Fishing and Agriculture Bank

Willis F. Kirkpatrick, Director
January 8, 1992
Page 2

For your information, we are extending this same offer to
Randy Welker, Legislative Auditor.

Very truly yours,



Edward E. Crane
President

Enclosure

For most fishermen, an Alaska Limited Entry Permit is an important part of his or her participation in Alaska's fisheries. It's a key to producing and protecting income opportunities, and there's certainly no reason to think of a permit as "a problem."

When the day comes, however, that you decide to sell your permit, it's quite likely you'll find that the special features and qualities of permits can surround a sale with very real problems.

You can encounter the most troublesome problems when you've decided that you really want to sell your permit to a specific individual, especially if he or she is a young person with little experience. It's very difficult for such a person, a young "beginner," to obtain financing to buy a permit. And few young people, especially in rural Alaska, have had the chance to accumulate the amount of cash necessary to buy a permit at today's prices.

That leaves you with a most difficult choice. You can go ahead and transfer the permit to the young person you have in mind, and take an unsecured promise of payment. Your own imagination — and your own common sense — can probably tell you the pitfalls of that approach. Your only other likely alternative, though, is to forget about passing on your permit to your son or daughter or another young person — find someone else with the cash, or access to credit, to buy your permit outright. That's one way so many permits leave rural Alaska!

If you really want your daughter or nephew or favorite crewman, etc., to have your permit; and if that person has a reasonable background of fishing experience and of personal financial management; and if you're willing to sell your permit for an amount which a young person's fishing results can predictably pay over a number of years — then you should find out about CFAB's "Unlimited Entry" Program.

**When Your Permit Becomes
A Problem....**

**Look to CFAB's
Unlimited Entry Program
For The Solution!**



Alaska Commercial Fishing
and Agriculture Bank
P.O. Box 92070
Anchorage, Alaska 99509-2070
(907) 276-2007 / (800) 544-2228



**Alaska Commercial Fishing
and Agriculture Bank**

How does the Unlimited Entry Program work?

In a nutshell — If you'll share with CFAB in the risk of lending money to your son (for example) to buy your permit, CFAB will share with you the protective benefits of its lien on the permit.

I'm confused. Where will I get the money to lend my son to buy the permit from me?

It does sound confusing, but it will work pretty simply. Suppose you and your son have agreed on a price for the permit, and CFAB has agreed to lend him \$160,000 under the Unlimited Entry Program. Now imagine the three of us — you, your son, and CFAB — sitting around a table. CFAB will hand your son \$160,000, and he'll sign the loan documents. Then he'll give you the \$160,000, and you'll hand him the permit. Then you'll give CFAB \$80,000 (half of the \$160,000) to buy a half-interest in CFAB's loan to your son. Actually, we don't have to sit around a table to do it — but that's the way it works!

OK, I'm a little less confused but how can I buy a half-interest in a loan?

What you'll receive is a piece of paper which says you're the legal owner of a half-interest in that loan. That document is called a participation certificate. In it, CFAB will promise to treat your son's loan like every other permit loan. We'll also promise to send you half of all of the payments your son makes to CFAB.

So, exactly when do I get my \$80,000 back?

It depends on the loan term. If it's a ten-year loan, for example, you'll receive your \$80,000 as your son makes his payments over the ten years. You'll also receive one-half of the interest portion of each payment CFAB collects, so your participation should be a pretty good investment for you. Please note that CFAB will charge you an annual service fee of 1/8% of the total loan, so that will decrease your interest rate somewhat.

I guess I understand the financial part of it. Explain to me how I'm protected.

Since CFAB has a lien on the permit, your son would not be able to sell it without paying his CFAB loan in full. If that happens, you will of course receive your half of the proceeds. Also — if the worst happens, and CFAB must foreclose its lien and sell the permit in order to pay off the loan, you'll receive your half of the proceeds.

You said I would be sharing in some risk. I don't see how I could possibly lose.

Like any lender, CFAB tries to analyze and structure each loan to minimize the risk of loss. But unfortunate things occur. Let's suppose your son turns out to be a total failure and never makes a loan payment. If CFAB forecloses its lien but is only able to sell the permit for \$140,000, there would be a \$20,000 loss. You would suffer half of that loss, and you would not have received any interest.

"Foreclosure" seems awfully harsh to me. After all, we're using my son as an example! Is foreclosure the only option available if things don't work out?

No, it's definitely not the only option. We mentioned foreclosure, and sale at a loss, only to give you an idea about "worst case" possibilities. There are a number of other options. For example, it's not difficult to arrange for you to re-acquire the permit, in most cases. Or for the permit and the debt to be transferred to a daughter, or to a second son, etc. Because commercial fishing is a business of uncertainties, CFAB tries to build flexibility into every program it creates, and every loan it makes. That means it's very difficult to tell you what all of the possibilities are!

I understand that CFAB is only for Alaskans, and I live in Oregon. So how can your Unlimited Entry Program help me out?

CFAB can make individual loans only to Alaska residents. If your son, who will be the borrower, is a bona fide Alaska resident the Unlimited Entry Program can be used no

matter where you live. Also, of course, the borrower does not need to be your son — or even a relative — as long as he or she is an Alaska resident.

Will CFAB automatically lend as much money as I want to sell my permit for?

No. CFAB doesn't "automatically" make any kind of loan. We will only lend as much as a borrower's projected ability will allow him or her to pay back. The relationship of that amount to the selling price may vary considerably from one situation to another. The important things to remember are that CFAB is here to make loans; that the Unlimited Entry Program is intended to help keep permits in Alaska; and that the more information you provide, the easier it is to get the right decision.

What do I do to get started on an Unlimited Entry Program loan?

We'll need a completed loan application from the potential permit buyer. Just call or write to CFAB and ask for an application. If you have further questions, ask to speak to a Loan Officer. CFAB also has Loan Correspondents in most major fishing communities. We'd be happy to tell you of the one nearest to you.

You can write to CFAB at the mailing address below; drop in to see us at 2550 Denali St., Suite 1201, in Anchorage; or call (907) 276-2007.

Alaska Commercial Fishing and Agriculture Bank
P.O. Box 92070
Anchorage, Alaska 99509-2070

CFAB Toll-Free Number
(800) 544-2228

Alaska Commercial Fishing and Agriculture Bank (CFAB) is the only private lender with legal authority to accept the pledge of a limited entry permit as collateral for a loan to an Alaska commercial fisherman. The next few pages are to summarize for Alaska commercial fishermen the circumstances under which their limited entry permits may be effectively used for constructive business credit purposes.



Alaska Commercial Fishing
& Agriculture Bank
2550 Denali Street, Suite 1201
Anchorage, Alaska 99503
(907) 276-2007

Limited Entry Permits CFAB And You



Alaska Commercial Fishing
& Agriculture Bank

For What Kinds Of Loans Can CFAB Accept The Pledge Of My Limited Entry Permit As Collateral?

There are essentially two kinds. One is specific — the other is broad. The first, specific, kind is a loan for the purchase of the limited entry permit itself (ordinarily, such a loan will be for an amount which is less than the actual permit purchase price). An applicant for such a loan must have been an Alaska resident for a continuous period of two years immediately preceding the application date. The applicant must also obtain a certification from the Alaska Commercial Fisheries Entry Commission that he or she is qualified under that commission's regulations to purchase the permit.

What's The Other Kind?

The other kind can best be described as, "For any fishing-related purpose." These would be cases in which the applicant is already the owner of the permit. Also, in such cases, only CFAB's basic one-year residency requirement must be met. A limited entry permit may be pledged as collateral (or part of the collateral) for a loan for the purpose of:

1. Purchase, repair, restoration, or improvement of a commercial fishing vessel or commercial fishing gear;
2. Construction of a commercial fishing vessel;
3. Purchase or improvements of set net sites and related equipment;
4. Most fishing-related working capital or seasonal operating requirements.

Can My Permit Be Used As Collateral For More Than One Loan?

Yes, if each of the loans involved is for one or more of the purposes mentioned above. For

example, if your permit is pledged as part of the collateral for a 10-year vessel purchase loan, and three years later you request an additional term loan for a major gear purchase, your permit may be considered as eligible partial collateral for the second loan as well.

Can I Use My Permit As Collateral For A Loan To Refinance Other Debts?

Yes, if all of the proceeds of the refinanced debts were used for one or more of the fishing-related purposes mentioned earlier.

So It Really Sounds Like Anybody Who Owns A Limited Entry Permit Can Borrow Money From CFAB, Doesn't It?

It may sound like that - but a more realistic way to say it is that any resident Alaska commercial fisherman is eligible to be considered for financing by CFAB. CFAB's business is to make sound and constructive loans. The granting of a loan to a fisherman is always subject to CFAB's evaluation of creditworthiness. While the existence and value of collateral are significant considerations, there are many other equally important credit factors. Because a limited entry permit is a basic and very important element of every commercial fisherman's business, it should not be exposed to unreasonable risk in any loan transaction.

Is CFAB Telling Me That I'm Risking My Limited Entry Permit If I Use It As Collateral?

Yes. In that respect, it's no different than any other kind of collateral; and one of the purposes of collateral is to provide an ultimate source of repayment of the loan if the expected sources don't materialize. CFAB will not make a loan unless we are satisfied that there is a willingness and an ability to repay it. Nevertheless, com-

mercial fishing involves unusual risks of all kinds, and in rare cases there are serious failures. In those cases, CFAB or any other lender will usually exercise its right to foreclose no matter what the collateral might be.

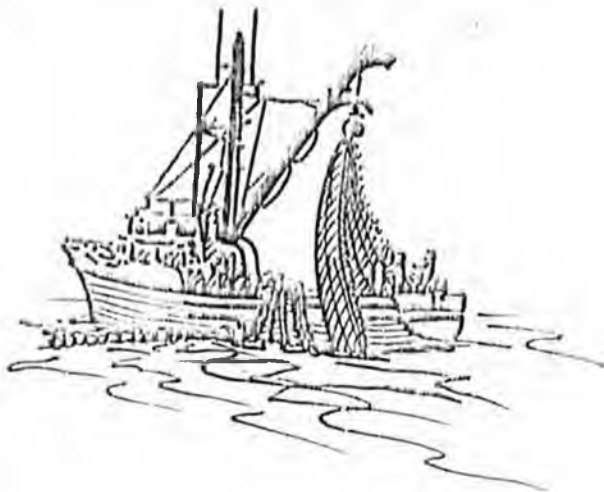
Now That I've Learned All This, I'm Ready To Talk To CFAB About A Loan. How Do I Do That?

That's easy. Although CFAB's only office is in Anchorage, we also have a network of local and independent **Loan Correspondents** available to assist you. For the name of the one nearest you, just call us and ask to speak with a loan officer, or drop us a line. If you're in Anchorage, stop in and visit. There's only one basic requirement — **YOU MUST BE AN ALASKAN COMMERCIAL FISHERMAN**. That's who we're here for!

Alaska Commercial Fishing and Agriculture Bank
2550 Denali St., Suite 1201
Anchorage, Alaska 99503
(907) 276-2007

Toll-free in Alaska and the Pacific Northwest
800-544-2228





CFAB was established, and is here today, to finance Alaska Fishermen - along with processors, farmers, and timber operators. Over the years, more than 90 percent of CFAB's loans have been to individual fishermen. That remains true today, and will undoubtedly always be true.

For most fishermen, a boat (or perhaps more than one) is one of the most important and costly assets, so CFAB quite likely holds more boat mortgages than any other private lender in Alaska. Yet, the real productive value of a fishing boat is determined and controlled by the man or woman who operates it. That's why, at CFAB, we say - "We Finance Fishermen, not Boats!"

If you're an Alaska fisherman who's looking for fishing-related term financing, you need to visit with a CFAB loan officer. If you want to buy a new or used fishing boat, refurbish or modify an existing one, or perhaps have a new boat built - we'll have plenty to talk about! Here are just a few of the CFAB advantages:

Terms

At CFAB, we don't try to shoehorn every fisherman into "The Program." We understand that each fisherman is an individual with needs

unique to his or her specific circumstances. Our loan application has therefore been designed to permit each fisherman to define the specific combination of loan terms that best fit those needs.

Experience

No other financial institution in Alaska has a credit staff totally and only involved in financing fishermen and processors. Several of that staff have also had commercial fishing experience, and some are still part-year fishermen today. Also, CFAB does most of its own loan documentation, saving you extra costs *and* time.

Commitment

CFAB is here to serve fishermen today *and* tomorrow. We're not in the business when times are good, and out of it when other things look better.

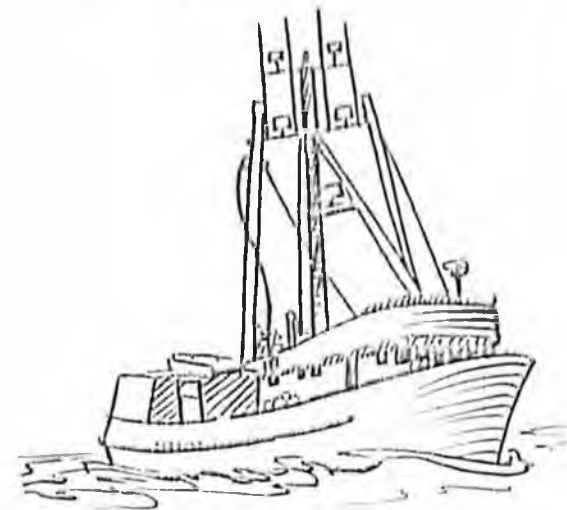
Flexibility

There aren't many businesses with the ups and downs there are in fishing. We've grown accustomed to that, and our record is full of quick responses to the need to re-write or modify existing loans. And there's no penalty for pre-payments, either!



Boat / Permit Packages

CFAB is the only private lender who can accept an Alaska Limited Entry Permit as collateral when a fisherman's needs or circumstances require it.



Although CFAB's only office is in Anchorage, we also have a network of local and independent **Loan Correspondents** available to assist you. For the name of the one nearest you, just call us and ask to speak with a loan officer, or drop us a line. If you're in Anchorage, stop in and visit. There's only one basic requirement — **YOU MUST BE AN ALASKAN COMMERCIAL FISHERMAN.** That's who we're here for!

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*...to provide financing
to the commercial
fishing and agriculture
industries in Alaska.*

One Mission

One Commitment...



Alaska Commercial Fishing
& Agriculture Bank
2550 Denali Street, Suite 1201
Anchorage, Alaska 99503
(907) 276-2007



**Alaska Commercial Fishing
& Agriculture Bank**

What is CFAB?

Alaska Commercial Fishing and Agriculture Bank (CFAB) began operations in 1980. Its sole mission is to provide financing of all kinds to the commercial fishing industry and the agriculture industry (including timber) in Alaska.

What kinds of loans and repayment programs are available from CFAB?

CFAB can make loans for almost any fishing-related or farming-related purpose. The most common purposes are the purchase, modification, or refinancing of a vessel; purchase of a limited entry permit; gear, engine, or equipment replacement or upgrade; general operating capital; and fish processing, etc. There are no "standard" repayment terms or programs — we work with each applicant to determine a repayment schedule appropriate to that particular loan transaction.

Who may borrow from CFAB?

In order to be eligible for consideration as a CFAB borrower, an applicant must be commercially involved in one of the industries mentioned earlier. An individual applicant must be a bona fide Alaska resident. A partnership must be comprised of Alaska residents. If the applicant is a corporation, the majority ownership and control must rest with Alaskans. There are some exceptions to the latter rule for companies which are involved in shorebased fish processing.

Eligibility, however, is only a first step. To obtain a CFAB loan, an applicant must be found by CFAB to be capable and creditworthy within the context of the specific loan request. The standards used by CFAB are essentially the same as those of any responsible lender. However, CFAB's specialized purposes, and the experience we have gained, may permit us to consider a broader range of applicants than do most other lenders.

Who owns CFAB?

CFAB is a cooperative. This means that each borrower becomes an owner through a modest purchase of CFAB stock when a loan is made. The State of Alaska is also an owner. CFAB was established by a special Alaska statute, and the State made an initial investment of "seed money" — that money is expected to be returned to the State as borrowers' ownership grows.

Does that mean the State operates CFAB?

CFAB's statute provides for it to be operated as a private cooperative rather than as a State agency. Its basic policies and directions are established by a seven-person Board of Directors, which hires professional management and staff to operate the business. Five of the Directors must be borrower-owners of CFAB and are elected by the total borrower-ownership. The other two Directors are appointed by the Governor of Alaska. All Directors' terms are for three years. CFAB holds an ownership meeting each year - borrower-owners have the opportunity to vote on important matters, to receive reports from Directors and management, and to elect Directors. The State's stock is non-voting, although CFAB provides periodic reports to State officials.

Where does CFAB get its money to loan?

CFAB is not limited as to its source of funds. Since its inception, CFAB has borrowed funds for re-lending from the Federal Farm Credit System.

What is CFAB's interest rate and how is it set?

Although CFAB occasionally makes fixed rate loans, the vast majority of its loans are on a variable rate basis. That is, the rate will change — up or down — as CFAB's costs change. There is no single initial rate — the initial rate is based on the

kind of loan involved. Most important, we use a procedure to objectively analyze the creditworthiness of each individual applicant, which permits us to offer the most favorable interest rates to the most desirable risks. CFAB's interest rates overall are set to provide sufficient income to pay its own interest costs and operating expenses and to provide a small margin. Since CFAB is a cooperative, any margin which is actually produced is either returned to the borrower-owners or otherwise used to their benefit.

How does one do business with CFAB?

That's easy. Although CFAB's only office is in Anchorage, we also have a network of local and independent **Loan Correspondents** available to assist you. For the name of the one nearest you, just call us and ask to speak with a loan officer, or drop us a line. If you're in Anchorage, stop in and visit. There's only one basic requirement — **YOU MUST BE AN ALASKAN COMMERCIAL FISHERMAN.** That's who we're here for!

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(907) 276-2007

Toll-free in Alaska and the Pacific Northwest
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ALASKA COMMERCIAL FISHING AND AGRICULTURE BANK

CODE OF BYLAWS

ARTICLE I

Offices and Registered Agent

Section 1. Business Offices. The principal business office of the Alaska Commercial Fishing and Agriculture Bank (hereinafter referred to as the "Bank") shall be at 2550 Denali Street, Suite 1201, Anchorage, Alaska 99503, or at such other location in the State of Alaska as the Board of Directors may designate by resolution. The Bank may have such other business offices, either within or without the State of Alaska, as the Board of Directors may designate or as the business of the Bank may require from time to time.

Section 2. Registered Office and Agent. The registered office of the Bank may be, but need not be, identical with the principal business office. The address of the registered office and the designation of the Bank's registered agent may be changed from time to time by the Board of Directors by resolution and upon filing a notice of such change as may be required by law.

ARTICLE II

Members and Meetings of Members

Section 1. Stock Ownership Requirement. A member of the Bank is any individual, partnership, corporation, or joint venture that becomes a holder of one share of Class A Membership Stock in the Bank. No member may own more than one share of Class A Membership Stock in the Bank.

Section 2. Membership Agreement. Each member shall execute a membership agreement in a form as required by the Bank. Each member shall also be provided a copy of the Bank's Articles of Incorporation and Bylaws upon first becoming a member, and shall be provided copies of all amendments thereto after the adoption of such amendments.

Section 3. Membership Restrictions. Only an individual, partnership, corporation, or joint venture that is actively and currently engaged in the commercial fishing or farming industry as a producer, harvester, processor, supplier, or marketer of agricultural or aquatic products within the State of Alaska may become a holder of Class A Membership Stock. For the purposes of these Bylaws:

(a) "Farming" includes actively in connection with producing, harvesting, processing or marketing any agricultural or horticultural commodity, including the raising, shearing, feeding, caring for, training, and management of livestock, bees, poultry, and fur-bearing animals and wildlife, and the planting, cultivating, caring for, or cutting and/or processing of trees on a sustained yield basis.

(b) A "supplier" is considered engaged in the commercial fishing or farming industry in Alaska if more than one-half of that supplier's annual gross revenue is derived from providing goods or services which are directly related to commercial fishing and/or farming activity to individuals, partnerships, corporations, or joint ventures engaged in commercial fishing or farming in Alaska.

Section 4. Membership for Co-Borrowers. In an instance where an eligible individual wishes to become a member of the Bank in anticipation of a subsequent borrowing from the Bank, and in which in connection with that borrowing the Bank requires that a second person such as a spouse or parent who is not significantly involved in the member's commercial fishing or farming activity become conditionally or otherwise responsible for repayment of the loan, only the actual commercial fisherman or farmer shall become an owner of one share of Class A Membership Stock.

Section 5. Voting Limitations. No member shall be entitled to more than one vote upon each matter submitted to a vote at an annual or special meeting of members except as specifically provided in these Bylaws or in the Bank's Articles of Incorporation. At each election for directors, each member entitled to vote at such

election shall have the right to one vote for each director position or on any matter then being voted upon, but the member shall not be entitled to cumulate the member's vote.

Section 6. Record Date. For the purpose of determining members entitled to notice of, or to vote at, any meeting or any adjournment thereof, or in order to make a determination of members for any other proper purpose, the record date for any such determination of members shall be thirty days prior to the date on which the action requiring such determination of members is to be taken. When a determination of members entitled to vote at any meeting has been made as provided in this section, such determination shall apply to any adjournment thereof.

Section 7. Voting Eligibility. In order to be eligible to vote, a member must at the date of determination as provided in Section 6 above: (a) be an active borrower from the Bank; or (b) have been an active borrower from the Bank within two years prior to the date of determination; or (c) be engaged in a business relationship with the Bank, other than as a borrower; or (d) have been engaged in a business relationship with the Bank, other than as a borrower, within two years prior to the date of determination; or (e) be the owner of \$2,500 or more of Retained Membership Earnings and/or Class B Preferred Stock.

In the event that a member is not eligible in accordance with the foregoing, the member shall not be entitled to vote on any matter except as may be provided in the Bank's Articles of Incorporation.

Section 8. Voting by Proxy. Members may not vote by proxy. However, a member which is a corporation, partnership, or joint venture may designate, by written notice to the Secretary of the Bank, a representative to cast its vote. In the absence of such written designation, a member corporation may be represented by any of its officers, a member partnership may be represented by any of its partners, and a member joint venture may be represented by any of its joint venturers.

Section 9. Annual Meetings. An annual meeting of the members of the Bank shall be held not less than ninety days and not more than two hundred and ten days following the end of each fiscal year of the Bank, for the purposes of electing Directors, receiving reports of the Bank, and transacting such other business as may properly come before the meeting.

Section 10. Special Meetings. A special meeting of the members of the Bank may be called by the Board of Directors or by the Chairman of the Board of Directors acting alone. A special meeting of the members shall be called by the Board of Directors within thirty days of the filing with the Secretary of the Bank of a petition by the lesser of (a) one hundred members of the Bank or (b) ten percent of the members of the Bank. Such petition must state the business to be properly brought before the meeting.

Section 11. Meeting Locations. The Board of Directors may designate any place, either within or without the State of Alaska, as the place of meeting for any annual meeting or for any special meeting called by the Board of Directors or by the Chairman of the Board of Directors. If a special meeting is called pursuant to a petition by members, the place of meeting shall be in Anchorage, Alaska. An annual meeting, or a special meeting called by the Board of Directors or by the Chairman of the Board of Directors, may be held in two or more sessions and in two or more places with the meeting being recessed for the period(s) between such sessions. In the event that a meeting is held in two or more sessions, nominations for director candidates from the floor of the meeting or matters properly presented from the floor for consideration by the voting members may be submitted only at the first of such sessions. Ballots cast by members at any session except the final session shall be sealed until all ballots have been cast at the final session, at which time all ballots including mail ballots shall be tallied. The results of such tally shall be announced at the final session.

Section 12. Meeting Notices. Written notice stating the place, day and hour of the meeting shall be delivered not less than fourteen days nor more than thirty days before the date of the meeting, or the date of the first session of a multi-session meeting, either personally or by mail to each member entitled to vote at the meeting. The notice of a special meeting shall also state the purpose(s) for which the meeting is called. If mailed, such notice shall be deemed to be delivered when deposited with first class postage repaid in the United States mail, addressed to each member as that member's address appears on the records of the Bank.

Section 13. Voting List. The Bank shall prepare a complete list of members entitled to vote at each meeting or any session or adjournment thereof. The list shall be arranged in alphabetical order and shall show the name and mailing address of each member entitled to vote as well as the number of shares of each class of stock held by that respective member. The list shall be kept open at the time and place of the meeting and shall be available for inspection by any member during the whole time of the meeting.

Section 14. Mail Ballots. The Board of Directors may present for voting by mail ballot any question to be voted on at a member meeting, including the election of directors. In that event, a ballot on each question and a ballot envelope shall be mailed to each member eligible to vote, along with the notice of the meeting. In order to be valid, a mail ballot must be sealed in the ballot envelope provided; and the sealed ballot envelope bearing the eligible voter's signature must be returned to the Bank prior to the tallying of votes at the meeting.

Section 15. Quorum. Ten percent of the members of the Bank entitled to vote, represented in person or by valid mail ballots, shall constitute a quorum at any meeting of members. If less than a quorum is present in person or by mail at a meeting, the Chairman must adjourn the meeting. An adjourned meeting may be recalled to order from time to time, with or without notice. At such meeting recalled to order, if a quorum is present, any business may be transacted which might have been transacted at the meeting as originally noticed. If a meeting is held in two or more sessions, a member eligible to vote and who attends any session of the meeting shall be counted in any determination of a quorum; however, a determination of a quorum shall be made only at the final session of a multi-session meeting, and a member eligible to vote and who attends two or more sessions of a multi-session meeting shall not be counted more than once for the purpose of determining the presence of a quorum. The members present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough members to leave less than a quorum.

Section 16. Attendance of Ineligible Members. A member of the Bank who is not eligible to vote as provided in Section 7 above may attend any meeting of members and may participate in any activity at, or in connection with, such a meeting except that a member not eligible to vote may not be counted in any quorum determination, nor may such a member be permitted to vote on any matter.

Section 17. Member Warranty. By subscribing or applying for, or becoming an owner of record of, one share of Class A Membership Stock of the Bank, each subscriber, applicant, or owner of record expressly warrants that he/she/it/they meet(s) the requirements expressed in Section 3 above. In addition, each member expressly agrees that if the member is determined to be ineligible to vote at a meeting of members as provided in Section 7 above, that during the period of such ineligibility the member shall have no vote in any matter, including the election of directors, to be considered or transacted at a meeting of members.

Section 18. Termination of Memberships. A member of the Bank who has no loan from the Bank, or any other financial obligation to the Bank, and who is not the owner of Class B Preferred Stock or of Retained Membership Earnings in any amount, may request termination of that membership. The Board of Directors shall, upon such request, terminate the membership by recalling the member's Class A Membership Stock Certificate and paying its par value in cash to the member.

The Board of Directors may act to terminate the membership of a member who has been determined to be ineligible to vote at two consecutive annual meetings of members, and who has no loan from the Bank or other financial obligation to the Bank, and who is not the owner of Class B Preferred Stock or of Retained Membership Earnings in any amount. Such termination shall be effected by mailing notice of cancellation of the member's Class A Membership Stock Certificate and paying its par value in cash to the member.

The Board of Directors shall act to terminate the membership of a member who has defaulted on a loan from the Bank or any other financial obligation to the Bank and with regard to whom the Bank has exercised its right of offset against the entire amount(s) of the member's Class B Preferred Stock and Retained Membership earnings. Such termination shall be effected by mailing notice of cancellation of the member's Class A Membership Stock Certificate and paying its par value into any valuation reserve account or unallocated surplus or reserve account of the Bank.

ARTICLE III

Board of Directors

Section 1. General Powers. The management of the Bank and of its assets, business, and affairs, as well as the establishment of the Bank's policies, shall be vented in its Board of Directors.

Section 2. Number of Directors. There shall be seven directors. As provided in AS 44.01.020(a), five directors shall be elected by the members of the Bank and two directors shall be appointed by the Governor of Alaska. One of the five elected directors must be an Alaskan farmer.

Section 3. Term of Office. Directors' terms of office shall be for three years. Terms of the five elected directors shall be staggered so that not less than one term and not more than two terms shall expire at the time of each annual meeting.

Section 4. Director Qualifications. Each elected director must be a member of the Bank and must remain a member of the Bank throughout his or her term as a director. For the purposes of this section, "a member of the Bank" may be an individual who is an officer of a corporation which is a member of the Bank or a principal of a partnership or joint venture which is a member of the Bank.

At the time of election, re-election, or appointment to a vacancy, each individual serving in an elected director position except that which is designated as the Alaska farmer position must meet the member voting eligibility requirements of Article II, Section 7, of these bylaws and must not be a party to any formal litigation initiated by the Bank against the member or initiated by the member against the Bank.

At the time of a call for nomination of candidates for election to the Alaska farmer director position, the Board of Directors shall determine and express qualifications for that position. Such qualifications must include membership in the Bank, must also include objective standards to assure that each candidate for that position has substantial historical and current direct and personal experience as an Alaska farmer, and must provide that the candidate not be a party to any formal litigation initiated by the Bank against the member or by the member against the Bank.

No regular, full-time, or salaried employee of the Bank is eligible to serve as a director.

Section 5. Nominations and Elections. Not less than sixty days before the date of a meeting at which directors are to be elected, the Board of Directors shall issue a call for nomination and declaration of candidates. Such call shall be mailed to each member of the Bank and shall provide for nominations or declarations to be submitted, in writing, to an Assistant Secretary of the Bank on or before the last business day which is not less than thirty days prior to the meeting date.

An individual member of the Bank, including an individual who would be eligible as a representative of a legal entity which is a member of the Bank as provided in Section 4 above, may submit his or her own name as a candidate for election. One or more members of the Bank may submit the name of another member of the Bank as a candidate for election.

It shall be the duty of the Assistant Secretary of the Bank only to determine that each member nominated or declared as a candidate for election is eligible as provided in Section 4 above.

The name and address of each eligible candidate shall be mailed with the notice of meeting to members. In the case of a mail ballot, the listing of candidates' names and addresses shall be accomplished on the mail ballot itself. If a candidate is a representative of a legal entity which is a member of the Bank as provided above, the name and address of that member, as well as a notice of the candidate's affiliation with that member, shall also be provided.

A candidate for election may be nominated from the floor at a meeting, or at the first session of a multi-session meeting.

Except for an election for the Alaska farmer director position, the election of more than one director shall be conducted on an at-large basis and neither nominations nor voting shall be for designated positions.

In the event that fewer than two eligible candidates have been nominated for each of the number of at-large positions subject to election or for election to the Alaska farmer position prior to the mailing of the meeting notice to eligible voting members, the notice shall state that no election(s) will be held. In that case, the incumbent director(s) shall continue to occupy the position(s) until the following annual meeting, at which time election(s) for the remainder of the then-unexpired term(s) shall be held. If an incumbent director declines to occupy the position for the additional year under these circumstances, the Board of Directors shall declare the position vacant and shall fill that vacancy in the manner provided in Section 8 below.

Section 6. Eligible Voter List. So that each eligible candidate for a director's position may communicate with eligible voting members in whatever manner that candidate may wish, the Bank shall provide to each eligible candidate who requests it a list of eligible voting members of the Bank which shows only the name and mailing address of each such member. If it is practicable, the Bank shall also provide with the list one complete set of mailing labels addressed to the eligible voting members of the Bank. A candidate's request for such service shall be in writing and shall include a statement that the material and information will not be used for any purpose other than communications in connection with that election.

Section 7. Removal From Office. An elected director may be removed from office, creating a vacancy, by vote of a majority of the eligible members attending or casting a mail ballot at a special meeting called for that purpose in accordance with Article II, Section 10, of these Bylaws. An elected director may be removed from office, creating a vacancy, in accordance with AS 44.81.090.

Section 8. Vacancies. Any vacancy of an elected director position must be filled by action of a majority of the remaining directors at the next regular meeting of the Board of Directors after the vacancy arises. An individual appointed by the Board of Directors to fill a vacancy shall meet the same eligibility requirements as if he/she were an eligible candidate for election by members. A director so appointed shall serve only until the next annual meeting of members, at which time an election by eligible voting members shall be held to fill the unexpired term, if any, of that director position.

Section 9. Annual Organizational Meeting. There shall be an annual organizational meeting of the Board of Directors not more than fifteen days following each annual meeting of members of the Bank. At the organizational meeting, officers of the Board shall be elected and officers of the Bank shall be appointed.

Section 10. Regular Meetings. The Board shall annually adopt a schedule of at least five regular meetings in addition to the annual organizational meeting. Regular meetings, and the annual organizational meeting, shall be held at a time and place either within or without the State of Alaska as designated by the Chairman of the Board.

Section 11. Special Meetings. A special meeting of the Board of Directors may be called by or at the request of the Chairman of the Board or any two directors. The person(s) calling a special meeting may fix the time and place either within or without the State of Alaska for the holding of that meeting.

Section 12. Meetings by Telephone. The Board of Directors may adopt a resolution which provides for a meeting other than the annual organizational meeting, or for a portion of a meeting other than the annual organizational meeting, to be held by means of a telephonic conference call.

Section 13. Meeting Notices. Written notice of any meeting of the Board of Directors shall be delivered personally to each director or by mail to each director's business address at least five days prior to the meeting. If mailed, such notice shall be deemed to be delivered when deposited with first class postage attached in the United States mail, addressed to each director at that director's business address. The notice need not specify the purpose of the meeting. Any director may waive notice of any meeting. Attendance of a director at a meeting shall constitute a waiver of notice of that meeting, unless a director attends the meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened.

Section 14. Quorum. A majority of the number of directors then serving shall constitute a quorum for the transaction of business at any meeting of the Board of Directors. If less than a quorum is present at a meeting, a majority of the Directors present may adjourn the meeting from time to time without further notice.

Section 15. Manner of Acting. The act of the majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

Section 16. Conflicts of Interest. No director may vote on a transaction of the Bank if that director is a direct or indirect party to, or a direct or indirect beneficiary of, that transaction. Because the Bank is a cooperative institution, a director is not deemed for the purpose of this section to be a party to any matter which may affect that director by reason of the director's membership in, or patronage of, the Bank.

Section 17. Compensation of Directors. Members of the Board of Directors shall receive compensation not to exceed \$250.00, as determined by the Board of Directors, for each day of a meeting if they attend the meeting. Directors are also entitled to reimbursement for necessary expenses incurred on behalf of the Bank.

Directors may also receive compensation for personal time and efforts expended for the furtherance of the Bank's interests or business other than on meeting days. Compensable activities may include but not be limited to (a) travel for official purposes, including meetings; (b) Bank representation for business, ceremonial, or promotional purposes; (c) providing testimony in litigation to which the bank is a party; (d) business-related seminars, conferences, and training sessions. All such activities must be determined by the Chairman, on specific occasions or generically from time to time, to be in the interests of the Bank. Compensation for such activities may not exceed \$50 per hour, subject to a maximum payment of \$350 per day. The total of such payments, combined with the total of compensation for meeting days, shall be clearly identified as "Directors' Fees" in the annual report to the Bank's members.

Section 18. Indemnification. The Bank shall indemnify each director, officer and employee (and the heirs, executors, and administrators of each directors, officer and employee) against all liabilities and related expenses including, but not limited to, court costs and attorney fees, judgments, and the cost of reasonable settlements, incurred by them in connection with or arising out of an action of proceeding brought against them because of an act or omission in the performance of their official duties as directors, officers or employees of the bank regardless of whether they were directors, officers or employees at the time the expenses or liabilities are incurred. The foregoing right of indemnification shall not be exclusive of other rights to which any directors, officer or employee may be entitled as a matter of law.

ARTICLE IV

Officers and Committees

Section 1. Officers. The Board of Directors shall elect from among its members a Chairman, a Vice Chairman, a Secretary and a Treasurer of the Bank. One director may be elected to hold the combined offices of Secretary-Treasurer.

The Board of Directors shall appoint a President and one or more Vice Presidents of the Bank. The Board of Directors may designate any Vice President(s) as a Senior Vice President or Executive Vice President. The Board may appoint one or more Assistant Vice Presidents, one or more Assistant Treasurers, or one or more Assistant Secretaries. The Board may appoint other officers to meet the needs of the Bank as may be determined by the Board. The Board may appoint individuals to hold two or more offices, except the President may not be appointed to any other office of the Bank.

Section 2. Term of Office. Officers of the Bank shall be elected or appointed by the Board of Directors at its annual organizational meeting or as soon thereafter as is convenient. Each officer shall hold office until that officer's successor shall have been duly elected or appointed and shall have qualified or until that officer's death or until that officer shall resign or shall have been removed in the manner hereinafter provided.

Section 3. Removal. Any officer, employee or agent may be removed by the Board of Directors whenever in its judgment the best interest of the Bank will be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Election or appointment of an officer, employee or agent shall not of itself create contract rights.

Section 4. Vacancies. A vacancy in any office because of death, resignation, removal, disqualification or otherwise, may be filled by the Board of Directors for a term of office continuing only until the next annual organizational meeting of the Board.

Section 5. Bond. The directors may, at their discretion, require any or all officers and employees of the Bank to furnish such fidelity bond or bonds as the directors may determine; the Bank to pay all premium charges on such bonds furnished.

Section 6. The Chairman of the Board. The Chairman of the Board shall, when present, preside at all meetings of the members and of the Board of Directors. The Chairman may sign, with the Secretary or any other proper officer of the Bank thereunto authorized by the Board of Directors, certificates for shares of the Bank, any deeds, mortgages, bonds, contracts, or other instruments which the Board of Directors has authorized to be executed, except in cases where the signing and execution thereof shall be expressly delegated by the Board of Directors or by these Bylaws to some other officer or agent of the Bank, or shall be required by law to be otherwise signed or executed; and in general shall perform all duties incident to the office of Chairman of the Board of Directors and such other duties as may be prescribed by the Board of Directors from time to time.

Section 7. The Vice Chairman of the Board. In the absence of the Chairman of the Board or in the event of the Chairman's death, inability or refusal to act, the Vice Chairman of the Board shall perform the duties of the Chairman of the Board and when so acting, shall have all the powers of and be subject to all the restrictions upon the Chairman of the Board. The Vice Chairman of the Board may sign, with the Secretary or an Assistant Secretary, certificates for shares of the Bank; and shall perform such other duties as from time to time may be assigned to the Vice Chairman by the Board of Directors.

Section 8. The Secretary. The Secretary shall: (a) keep the minutes of the proceedings of the members and of the Board of Directors in one or more books provided for that purpose; (b) see that all notices are duly given in accordance with the provision of these Bylaws or as required by law; (c) be custodian of the Bank records and of the seal of the Bank and see that the seal of the Bank is affixed to all documents, the execution of which on behalf of the Bank under its seal is fully authorized; (d) keep a register of the post office address of each member and shareholder; (e) sign with the Chairman of the Board, the Vice Chairman of the Board or the President certificates for shares of the Bank, the issuance of which shall have been authorized by resolution of the Board of Directors; (f) have general charge of the books of the Bank; and (g) in general perform all duties incident to the office of Secretary and such other duties as from time to time may be assigned to the Secretary by the Board of Directors or the Chairman as appropriate.

Section 9. The Treasurer. The Treasurer shall: (a) have charge of and be responsible for all funds and securities of the Bank; (b) receive and give receipt for monies due and payable to the Bank from any source whatsoever, and deposit all such monies in the name of the Bank in such banks, trust companies or other depositories as shall be selected in accordance with the provisions of Article VIII of these Bylaws; and (c) in general perform all the duties as from time to time may be assigned to the Treasurer by the Board of Directors or the Chairman as appropriate.

Section 10. The President. The President shall be the chief executive officer and principal administrative officer of the Bank in control of all administrative functions and in general charge of all the ordinary business of the Bank. The President's powers shall include that of signing certificates for shares of the Bank, the right and authority to make and deliver receipts for the payment of any indebtedness owing and paid to the Bank and to execute valid releases for any and all security instruments or mortgage liens given to the Bank as security for such indebtedness. The President shall perform such duties and functions as may be assigned by the Board of Directors or the Chairman.

Section 11. Vice Presidents. The Vice Presidents or any one of them shall perform such duties as may be assigned by the Board of Directors or the President and may act in the place of the President when so authorized by the Board of Directors or the President.

Section 12. Assistant Secretaries and Assistant Treasurers. The Assistant Secretaries, when authorized by the Board of Directors, may sign with the Chairman of the Board, the Vice Chairman of the Board or the President, certificates for shares of

the Bank the issuance of which shall have been authorized by a resolution of the Board of Directors. The Assistant Secretaries and Assistant Treasurers, in general, shall perform such duties as shall be assigned or delegated to them by the Secretary or the Treasurer, respectively, the Board of Directors or the President.

Section 13. Assistant Vice Presidents. The Assistant Vice Presidents or any one of them shall perform such duties as may be assigned to them by the Board of Directors, the President or the Vice Presidents. They may act in the place of a Vice President when authorized to do so by the Board of Directors or the President.

Section 14. Executive Committee. The Board of Directors may act by resolution to create an Executive Committee of the Board of Directors. The Executive Committee shall have only those powers and authorities as may be specifically delegated to it by resolution of the Board. The Chairman of the Board shall chair the Executive Committee, and the Executive Committee shall be comprised of the Chairman, the Vice Chairman, the Secretary, and the Treasurer; however, if one director holds the combined offices of Secretary-Treasurer, then the Board of Directors shall elect one other of its members to serve on the Executive Committee if it is created.

Section 15. Other Committees. The Chairman of the Board may establish such other committees as the Chairman may from time to time determine to meet the needs of the Bank, and the Chairman shall make all appointments to such committees. Any such committee may be comprised of any combination of directors, staff persons, or members of the Bank, and it shall be chaired by a director. Each such committee shall be considered to be advisory to the Board of Directors and shall have no powers or authority to act on behalf of the Board of Directors or on behalf of the Bank except as may be specifically provided by resolution of the Board.

ARTICLE V

Business with Members; and Class B Preferred Stock

Section 1. Loans to Members. Each member who borrows from the Bank shall be required to invest in Class B Preferred Stock of the Bank at the time the loan is closed, or from time to time.

Section 2. Other Business. Each member who enters into a business relationship other than a borrowing relationship with the Bank may be required to invest in Class B Preferred Stock of the Bank.

Section 3. Basis of Investment. Any required investment in Class B Preferred Stock of the Bank shall be proportionate to the amount borrowed or anticipated to be borrowed from the Bank, or to the amount of business done or anticipated to be done with the Bank; and it shall be based on the terms and provisions of a Class B Preferred Stock Program as adopted or amended from time to time by resolution of the Board of Directors.

Section 4. Preferred Stock Program. The Class B Preferred Stock Program of the Bank shall be the principal vehicle for the investment of patron equity in the Bank in order to meet the capital needs of the Bank as those needs may be determined by the Board of Directors from time to time. All investments required and made in accordance with the provisions of the Class B Preferred Stock Program are conclusively presumed to be investments of capital in the Bank and not earnings. A description of the Class B Preferred Stock Program, or a copy of a resolution adopting, amending, or revising the Class B Preferred Stock Program, shall be provided to each new member of the Bank.

Section 5. Amendments and Revisions. Amendments or revisions to the Class B Preferred Stock Program may be adopted by resolution of the Board of Directors at any meeting, but they may be made effective only at the beginning of a fiscal year subsequent to that meeting. A copy of each amendment or revision, or of the resolution adopting an amendment or revision, shall be mailed to each member of the Bank prior to the effective date of such revision or amendment.

ARTICLE VI

Allocation of Income and Losses

Section 1. Allocation of Income. "Net Patronage Income" is hereby defined to be the net proceeds derived from all business done by the Bank during a fiscal year on a patronage basis with or for its borrowers after operating expenses, charges (including

over-advances and charges for amortizing or reducing any operating loss for any preceding year), interest and/or dividends, if any, on all classes of stock, book credits, capital funds or allocated reserves, reasonable valuation reserves and losses in excess of any such valuation reserves, have been deducted. Such Net Patronage Income shall be allocated to such borrowers in proportion to their patronage during said year and distributed in cash, book credits or allocated reserves, or any combination thereof, all as the Board of Directors shall determine. For the purpose of determining the borrowers' proportionate share of Net Patronage Income, each borrower's patronage is considered to be the amount of interest on a loan to that borrower which is paid in cash in such fiscal year but which does not exceed the amount of interest on that loan earned or accrued by the Bank during the 365 days prior to the date of the cash payment of interest. The Board may deduct from Net Patronage Income and place into an unallocated reserve reasonable reserves [not to exceed ninety percent (90%) of Net Patronage Income totaling One Million Dollars (\$1,000,000) or less; eighty percent (80%) of Net Patronage Income in excess of One Million Dollars (\$1,000,000) and less than Two Million Dollars (\$2,000,000); seventy percent (70%) of Net Patronage Income in excess of Two Million Dollars (\$2,000,000) and less than Three Million Dollars (\$3,000,000); and sixty percent (60%) of Net Patronage Income in excess of Three Million Dollars (\$3,000,000)] in anticipation of the statutorily-required retirement of Class C Stock.

Allocations described hereunder shall be paid in whole or in part in cash or in Class B Stock or in whole or in part in credits, or in such other form as the Board of Directors may deem appropriate from time to time based upon the financial needs of the Bank. The amount allocated to each patron member of the Bank and not paid in cash or in Class B Stock or in some other form as determined by the Board of Directors shall be credited to Retained Membership Earnings in the name of such patron member on the books of the Bank.

The Bank may allocate to the members who patronize it any portion of the net earnings from business done on a non-patronage basis ("Net Non-Patronage Income"), less any dividends paid on Class B Stock, or may retain such amounts and add to its unallocated surplus accounts. Any Net Non-Patronage Income allocated to borrowers shall be paid or be credited to the Retained Membership Earnings account of the member in the same manner as for Net Patronage Income.

As soon as practicable after the close of each fiscal year, a statement shall be issued to each patron member showing the amount of Retained Membership Earnings that said patron member has been credited with by the Bank in that fiscal year.

Section 2. Refunding of Excess Retained Membership Earnings. In order to maintain and further the cooperative structure and nature of the Bank, it shall refund any portion of its Retained Membership Earnings at such time as the Board of Directors finds that the current and projected financial condition of the Bank will so permit. The Board of Directors shall annually determine the current and anticipated capital requirements of the Bank and after so doing shall review the capital made available to the Bank through Retained Membership Earnings. If the Board of Directors determines that the capital made available through Retained Membership Earnings is in excess of the requirements of the Bank, any or all of such excess may be refunded to patrons as funds are available. In so doing the Board of Directors may establish priorities for payments to classes of patrons which the Board of Directors determines have made capital available in excess of their proportionate shares.

Section 3. Allocation of Losses. In the event of a net loss in any fiscal year, the Board of Directors may, in its sole discretion and authority, charge all or any part of such loss in the manner that it determines to be equitable to any one or more of the following:

- (1) Unallocated reserve, contingency or surplus accounts.
- (2) Allocated reserve, contingency or surplus accounts.
- (3) Other Retained Membership Earnings accounts.
- (4) Impairment or cancellation of capital stock.
- (5) Unallocated loss account.

Section 4. Records and Accounts. The Bank shall maintain its books and records in accordance with the provisions of the income tax codes and regulations as they may be in effect from time to time. In order to assure the Bank and its members appropriate tax treatment as a cooperative, the Bank shall account for its income and expenses on a patronage and non-patronage basis. The Bank shall maintain in the name of each patron a Retained Membership Earnings account within which each form, allocation, and amount of Retained Membership Earnings shall be shown separately.

Section 5. Tax Reporting. Each person, corporation, partnership or joint venture who hereafter becomes a member of the Bank, and each member of this Bank on the effective date of this bylaw who continues as a member after such date, shall, by such act alone, consent that the amount of any distributions with respect to that member's patronage which are made in written notices of allocation with respect to such distributions (as defined in 26 U.S.C. § 1308) and which are received by said member from the Bank, will be taken into account by said member at their stated dollar amounts in the manner provided in 26 U.S.C. § 1305(a) as to qualified written notices of allocation in the taxable year in which such written notices of allocation with respect to such distributions are received by said member and that said member will account for non-qualified written notices of allocation as required under U.S.C. § 1305(c).

Section 6. Right of Offset; Security Interest. The Bank shall have the right to offset the defaulted indebtedness of its member borrowers against the borrower's interest in the Retained Membership Earnings standing to the credit of the member borrower so in default or against said borrower's interest in his Class B Stock, or against the cash portion of said borrower's patronage dividend(s), or a combination thereof, whether now owned or hereafter acquired, when the Board of Directors, in its sole discretion and authority, deems such offset is conducive to promoting and preserving the Bank's financial condition and is not motivated by a desire to unfairly or inequitably discriminate against non-defaulting member borrowers. Each member borrower does hereby make, constitute and appoint the Bank such member borrower's true and lawful attorney-in-fact for him and in his name, place and stead, for his use and benefit, to sign, endorse and deliver to the Bank such portion of the cash portion of such member borrower's patronage dividend as may be necessary to satisfy such defaulted indebtedness.

Notwithstanding such offset practice, the Bank reserves the right to proceed against the defaulting member borrower or the member borrower's assets for payment of the member borrower's indebtedness to the Bank, even after the Bank has conducted an offset as herein described, provided, however, that at such time as said indebtedness is wholly satisfied, by way of collection in full as authorized under this paragraph, or by way of such collection when combined with amounts offset as described hereunder, the bank shall recredit the member borrower's Retained Membership Earnings in the reverse order of priority pursuant to which the same were offset, to the extent said sources, when combined with the sums collected hereby, exceed the member borrower's indebtedness to the Bank.

The offset rights created hereunder are exercisable only at the initiation of the Bank, its officers, employees and agents, and shall in no way be construed to create any rights of offset in its member borrowers.

In addition to the right of offset described herein, each member borrower hereby grants to the Bank a Uniform Commercial Code security interest in the member borrower's Retained Membership Earnings, his Class B Stock and in the cash portion of his patronage dividend, whether such interests are now owned or are hereafter acquired, to secure repayment of any and all present and future indebtedness owing by such member borrower to the Bank. In addition, each member borrower shall take any and all actions requested of it by the Bank which are necessary to perfect CFAB's security interest therein.

Section 7. Consent and Authorization. By becoming a member of the Bank, or by remaining a member of the Bank after receipt of any amendment to these Bylaws, a member agrees to be bound by the Allocation of Income and Losses provisions set forth in this article.

ARTICLE VII

Dissolution

Section 1. Voluntary Dissolution. A resolution for voluntary dissolution of the Bank may be considered only at a special meeting of members called for that purpose. In the case of a vote on a resolution for voluntary dissolution of the Bank, an owner of Class B Preferred Stock in any amount and/or of Retained Membership Earnings in any amount shall be entitled to cast one vote whether or not that owner is entitled to cast one additional vote as an eligible voting member. Passage of a resolution for voluntary dissolution requires the affirmative vote of a majority of the Class B Preferred Stock/Retained Membership Earnings votes cast and the affirmative vote of two-thirds of the eligible member votes cast.

Section 2. Distribution of Proceeds. The distribution of proceeds arising out of voluntary dissolution shall be in accordance with the Bank's Articles of Incorporation.

ARTICLE VIII

Contracts, Loans, Checks, Deposits and Investments

Section 1. Contracts. The Board of Directors may authorize any officer or officers, agent or agents, employee or employees, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Bank, and such authority may be general or confined to specific instances.

Section 2. Loans. No loans shall be contracted on behalf of the Bank and no evidences of indebtedness shall be issued in its name unless authorized by a resolution of the Board of Directors. Such authority may be general or confined to specific instances.

Section 3. Checks, Drafts, Etc. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Bank, shall be signed by such officer or officers, agent or agents, employee or employees, of the Bank and in such manner as shall from time to time be determined by resolution of the Board of Directors.

Section 4. Deposits. All funds of the Bank not otherwise employed shall be deposited from time to time to the credit of the Bank in such banks, trust companies or other depositories that the Board of Directors may select.

Section 5. Investment of Surplus Funds. Funds of the Bank which are surplus to the current loan or operating needs of the Bank may be invested so as to bring a maximum yield to the Bank, provided that such investment may only be made in such securities as would be allowed for funds of any State-chartered financial institution in the State of Alaska.

ARTICLE IX

Certificates for Shares and Transfers

Section 1. Certificates for Shares. Certificates representing shares of Class A Membership Stock of the Bank shall be in such form as shall be determined by the Board of Directors. Such certificates shall be signed by the Chairman of the Board, Vice Chairman of the Board or the President, and the Secretary or an Assistant Secretary and sealed with the corporate seal or facsimile thereof. All certificates for shares shall be consecutively numbered or otherwise identified. The name and address of the member to whom the share represented thereby is issued and date of issue shall be entered on the records of the Bank. The member in whose name shares stand on the books of the Bank shall be deemed by the Bank to be the owner thereof for all purposes. All certificates surrendered to the Bank shall be cancelled. In case of a lost, destroyed or mutilated certificate a new one may be issued therefor upon such terms and indemnity to the Bank as the Board of Directors may prescribe. Ownership of Class B Preferred Stock may be shown on the records of the Bank and no certificate need be issued.

Section 2. Transfers of Class B Preferred Stock. Class B Preferred Stock shall not be transferable except (a) in the case of death of an owner, (b) by operation of law, or (c) as may be permitted by the provisions of the Class B Preferred Stock Program as they may exist from time to time. For purposes of this section the term "by operation of law" shall include, but not be limited to, transfers to trustees in bankruptcy or to successors in interest to a member which has been dissolved or liquidated, or by decree of divorce or other court order. The Bank may require such documentary evidence or execution of such documents as may be deemed necessary by the Bank as a condition precedent to any transfer.

ARTICLE X

Miscellaneous Provisions

Section 1. Fiscal Year. The fiscal year of the Bank shall begin on the first day of June and end on the last day of May in each year.

Section 2. Reports and Publications. The Board of Directors shall publish an annual report to the Bank's members. The Board of Directors may also publish such other reports as it considers desirable to carry out its purposes. The annual report shall contain financial statements including at least a balance sheet, a statement of earnings, a statement of changes in capital accounts, and a statement of changes in financial position, which have been examined by independent outside auditors. The annual report shall be mailed to each member of the Bank not later than fifteen days prior to the date of the annual meeting.

Section 3. Corporate Seal. The Board of Directors may provide for the adoption of a corporate seal.

Section 4. Waiver of Notice. Whenever any notice is required to be given to any member or director of the Bank under the provisions of these Bylaws or under the provisions of the Articles of Incorporation or under the provisions of any statute, a waiver thereof in writing signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice.

ARTICLE XI

Amendments

These Bylaws may be altered, amended or repealed and new Bylaws may be adopted by the Board of Directors at any regular or special meeting of the Board of Directors.

ALASKA COMMERCIAL FISHING AND AGRICULTURE BANK

CREDIT POLICY

ADOPTED DECEMBER 14, 1989

The cornerstone of CFAB's credit policy and lending activities is its statute, AS44.81, supplemented by other State and Federal laws or regulations which apply to lenders generally.

While it is CFAB's policy to adhere strictly to both the letter and the spirit of AS44.81, CFAB also intends that all loan applications and proposals be thoroughly investigated and analyzed to be certain that rejections are not unnecessarily or inappropriately premised on the superficial application of that statute.

Residency

CFAB is authorized to finance only residents of Alaska (or legal entities which are primarily owned and controlled by Alaska residents). The term "resident" is not extrinsically defined for CFAB, however. It shall be CFAB's policy to require applicants or principals to offer a range of evidence as to their respective residencies, including but not limited to: Place(s) of domicile; driver's license; real property ownership; voter registration; foreign income tax status; Alaska Permanent Fund dividend status; and sport fishing/hunting license, etc. Absent an awareness of contradictory factors or

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matters suggesting further investigation, CFAB shall accept all such representations at face value if they are certified as correct by the submitters. Questionable situations must be referred to a CFAB senior officer for review, and that officer's conclusion with regard to residency must be reported in a signed memorandum which documents the evidence considered.

In general, CFAB shall consider circumstances existing for a year or more in its determinations of residency. As a specific exception, however, AS44.81.210.(a)(20) provides that a loan whose purpose is to finance the purchase of an Alaska limited entry permit may be made only to a person who has continuously been a state resident for the preceding two years.

Industry Orientation

CFAB's statute permits and directs it to make loans to entities "...who are engaged in commercial agriculture or fishing, including harvesters, processors, suppliers and marketers..." Of the various terms used, only "supplier" is defined by the statute; it "...means a person whose main source of income is from providing goods or services that are directly related to commercial fishing or agriculture to individuals, corporations, partnerships or joint ventures engaged in commercial fishing or agriculture."

In its Bylaws, CFAB has defined "farming" in broad and comprehensive terms and has incorporated into it many activities related to forest

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products. In addition, the Bylaws interpret the above supplier's "main source of income" to mean "...more than one-half of that supplier's annual gross revenue..."

It is CFAB's policy to recognize "commercial fishing" to be any form of activity related to seafood or aquatic products which cannot be otherwise and affirmatively recognized as subsistence, sport, or recreational fishing.

While CFAB intends never to knowingly or inadvertently exceed the implied and expressed limitations of AS44.81, its policy is to be aggressive in seeking and accepting applications for loans and to consider the total context of its mandate to serve the entire Alaska commercial fishing and agriculture industries in making determinations as to eligibility with regard to industry.

Loan Purpose

CFAB's statute contains no general limitations with regard to the purposes of loans. There are, however, specific limitations with regard to the eligible purposes of certain loans, especially those which are secured by the pledge of a limited entry permit. It is CFAB's policy and intention to observe those specific limitations in every respect. With respect to other loans, however, CFAB shall consider the purpose of a proposed loan within the contexts of (1) the applicant's total circumstances and (2) the projected

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source(s) of repayment funds. This is especially true of loans to fishermen, since the nature of Alaska's fisheries permits participation under an extremely broad range of circumstances for individuals who are generically referred to as "commercial fishermen." For example, a loan to finance the purchase of an out-of-state condominium by an individual who teaches school for nine months annually, and fishes commercially for four weeks only, would not be considered as for an appropriate purpose. An application by that same individual for a loan to re-power a commercial fishing vessel would have a clearly valid purpose. The first example, however, might be viewed differently if the applicant were an individual who fished commercially ten months annually, whose sole -- or almost sole -- income is derived from fishing, and whose total lifestyle is tied to his or her status and activities as a commercial fisherman.

Discrimination

In the solicitation and analysis of loan applications, in the granting of loans, and in the administration of every other of its activities, CFAB shall not discriminate, nor exhibit tendencies for discrimination, in any way related to gender, race, color, age, creed, religion, national origin, or mental or physical handicap (except as the latter may be objectively perceived to be an immutable barrier to repayment performance).

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The analysis of applications for credit is by definition a highly discriminatory process, but CFAB shall limit its exercise of judgment to those objective factors which are determined, or have been determined, to clearly influence or aid in the projection of an applicant's ability and inclination to manage loan funds and make repayments in accordance with contractual terms.

Bases for Credit Relationships

CFAB's policy is to function as a commercial lender; i.e., it will make loans and disburse loan funds for its borrowers to use in the furtherance and enhancement of commercial operations which can be reasonably projected to reliably generate sufficient cash to service and amortize the debt, with an ample margin appropriate to the year-to-year uncertainties of resource-based operations. As suggested in the discussion of Loan Purpose, however, the nature of those resource-based operations together with (1) the extreme range of levels of participation, (2) the limits of alternative or supplemental income opportunities in much of Alaska, and (3) the environmental realities of Alaska's geography, often makes it difficult to clearly distinguish between an applicant's commercial activities and his or her lifestyle in total. It is intended, then, that this policy be implemented through the recognition and accommodation of a broad range of circumstances in determining that any particular loan may be properly characterized as "commercial" in nature.

Collateral for Loans

It shall be CFAB's general policy to make only secured loans, with provision for exceptions in those instances or circumstances in which CFAB's professional credit staff determines that the extension of unsecured credit is appropriate and advantageous to both CFAB and the borrower(s).

The ultimate role of collateral is to provide a source of funds for loan repayment in the event that none of the projected primary or secondary sources materialize or prove adequate. The acquisition and liquidation of collateral is often a costly and time-consuming process, destructive to the interests of both CFAB and the borrower involved. Notwithstanding the presumed or projected value of collateral offered in any particular case, then, it shall be CFAB's policy to premise its loans on the anticipated generation of cash for repayment as discussed in the Bases for Credit Relationships section; except in the most unusual of circumstances the existence of apparently ample collateral should not be viewed as a substitute for projected repayment ability under normal operating conditions. On the other hand, the absence or unavailability of presumed collateral values should not be viewed as fatal to a loan proposal when there is unusual strength or certainty with respect to primary credit factors.

In keeping with its posture as a commercial lender, CFAB's practices with regard to the taking of collateral should be directed toward assuring

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that, insofar as possible, the opportunity for the borrower's other creditors or claimants to disrupt the borrower's operation is limited. This is of special concern with regard to both fishermen and fish processors, since the seasonality of their operating activities is usually highly focused and compressed. Although it shall also be CFAB's general policy to acquire an enforceable senior lien on any capital item being purchased, improved, or refinanced by a CFAB loan, the inadequacies and uncertainties of marine mortgages demand that additional collateral be sought whenever feasible in the case of a vessel loan.

Finally, a general objective with regard to loan collateral shall be that it represent a substantial equity investment by the borrower relative to the amount of loan funds involved. This is especially significant with regard to the financing of fishermen, who normally have total and absolute control over their commercial fishing operations and who carry on those operations with no opportunity or provision for observation or evaluation by CFAB.

Insurance Requirements

It is CFAB's policy that all insurable risks, direct or indirect, which are incurred through lending activities be covered by insurance policies in CFAB's favor. Insofar as possible, the amount of coverage in each case should be at least as great as CFAB's financial exposure; borrowers should be encouraged to extend that coverage to the level of their respective exposures as well.

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The foregoing statement of policy is intended to establish a clear and firm standard. It is recognized, however, that the practical availability of insurance coverage to desired levels -- in general or in specific cases -- is subject to the practices and inclinations of insurance industry members. It is also recognized that the legal, financial, and practical relationship between CFAB and a borrower may change subsequent to the establishment of a loan contract. It is intended, then, that CFAB's professional staff shall have the responsibility and authority to respond from time to time to circumstances beyond CFAB's control which preclude adherence to the letter of the stated policy.

Pricing

Except for loans which may be made under any fixed interest rate program which has been specifically approved by CFAB's Board of Directors, or loans which are subject to a fixed rate as mandated by AS45.45.010(b), all CFAB loans shall be made subject to provision for a variable rate of interest. In each case, the interest rate shall be referenced to CFAB's Variable Base Rate so that CFAB's Board of Directors, by approving a change in the Variable Base Rate, may simultaneously increase or decrease the interest rate charged to all borrowing members.

CFAB shall adopt, by approval of the Board of Directors, a schedule of loan categories or classifications which shall be based on all of -- or

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some combination of -- loan purpose, loan term, loan collateral, and loan administration and collection costs, so that the Board of Directors may establish or approve a differential schedule of interest rate surcharges (i.e., above the Variable Base Rate) which equitably reflects the relative risks and costs borne by CFAB for each of those classifications or categories.

CFAB may also develop and adopt a program of differential pricing to be applied to all borrowing members and which relate to the quantification of standard and objective credit risk factors, so that somewhat lower interest rates may be offered in those cases which clearly imply lesser credit risk for CFAB.

CFAB's overall pricing strategy, as implemented through adjustments to its Variable Base Rate, shall be to periodically forecast, on at least a one-year basis, those factors affecting its operating results and net cash flow; and to maintain a Variable Base Rate which -- on the basis of such forecasts -- will reliably result in current net margins in amounts consistent with the need to acquire an ability to retire the State of Alaska's investment in CFAB by the year 2000.

Loan Terms

Except as may be appropriate to accommodate generic needs for specific purposes, and except for a requirement that each loan shall provide

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for at least one payment of interest and principal annually, CFAB shall avoid the development or adoption of "standard" loan terms into which borrowers' needs must be conformed. This is in keeping with CFAB's creation as a user-owned cooperative whose sole purpose is to provide commercial financing to participants in resource-based industries. It is incumbent on CFAB's credit staff that its members acquire and apply an uncommon ability to analyze and define the discrete and specific needs of each applicant so that the terms of any loan granted will enhance that borrower's opportunities for success within his or her industry.

Loan Collection Activities

It shall be CFAB's policy to anticipate performance by borrowers within the terms of their respective loan contracts. At the same time, CFAB must recognize that the establishment of a loan's terms is an expression of mutual expectations with regard to events which will occur, or which will become possible, over a period of several years. When there is a failure to achieve those expectations, as manifested by non-payment of principal and/or interest amounts due to CFAB or by violation of substantive provisions of a loan contract, it shall be CFAB's policy to accept responsibility for timely investigation, analysis, and evaluation of the circumstances in order to determine whether the breach simply represent developments which require a modification of expectations or if it indicates an irremedial and worsening breakdown of the loan relationship. While accepting that responsibility, CFAB

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shall demand and expect substantive communications and other forms of cooperation by the borrower-member involved.

When it can be determined by CFAB that the breach of a loan contract is due to circumstances beyond the control of the borrower-member, or to the actions or failures of third parties, or to an inevitable but presumably temporary downturn in a segment of the fishing or agriculture industry, and when it is perceived by CFAB that there has been no significant and/or irreversible deterioration of the basic credit factors present at the time of the original loan decision, CFAB may make one or more proposals to the borrower-member to address the situation. These proposals may include, but need not be limited to: Forbearance, restructuring of payment schedule or modification of other loan terms, refinancing, waiver of breach, extension, consolidation with other debt, etc. The borrower-member is expected to pay all reasonable costs and fees associated with whatever transaction takes place, and it shall be CFAB's objective in every case -- except those in which, in CFAB's view, it is a practical impossibility -- to collect in cash all interest then due and/or in arrears.

When CFAB determines that the circumstances of a default signal an irremedial deterioration in the quality, value, and ultimate collectibility of a loan, it shall immediately evaluate the actions available to it to minimize the risk of loss. This shall include a determination of the extent to which the borrower-member is willing and able to cooperate and to assist in a

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process which will prove least damaging to his/her interests and/or the interests of other creditors. When a borrower-member is unwilling to cooperate, or takes steps to force the loan liquidation process into an adversarial mode, CFAB's actions shall be premised on the objective of minimizing the potential loss which must be borne by its other, and future, borrower-members and stockholders.

Access to Credit Facilities

CFAB shall maintain one or more offices and such staff as its Board of Directors and management determine will permit it to offer credit services to its mandated market throughout Alaska on an effective basis; CFAB's configuration and activities, however, must also be guided by the need to maintain a cost structure which can be covered through reasonable interest charges to borrower-members. It shall be CFAB's policy to aggressively seek and structure the utilization of other entities and individuals, of all forms of communications media, and of all forms of technology as may be available to assure that all potential borrower-members throughout Alaska have unhindered access to CFAB's credit services.

Referrals and Reports to Other Lenders and Credit Reporting Agencies

It shall be CFAB's policy, when requested, to assist ineligible applicants, unsuccessful applicants, and borrower-members through referrals to

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other financial institutions; however, those referrals must be made in such a manner and under such circumstances as will preclude the creation or assumption of liability for CFAB.

CFAB shall also share with other lenders and with credit reporting agencies (subject to the provisions of AS44.81.260) its experience with individual borrower members. However, such information shall not be shared -- unless it is unqualifiedly favorable -- when it is clear to CFAB that the practices, purposes, or philosophies of the inquiring party will not permit that party to place and utilize the information within the context of commercial financing to a participant in the Alaska seafood or agricultural industries.

Loan Limits

It shall be CFAB's policy to limit the credit which may be extended to any single borrower without the express approval of the Board of Directors to an amount equal to 15 percent of its total capital accounts at the time a relevant credit decision is made. Within the context of this policy, "credit" shall include outstanding loan balances, undisbursed commitment amounts, and contemplated new loan fund advances, and shall also include contingent or indirect liability to CFAB as an endorser or guarantor. "Borrower" shall include any single natural or legal entity, any affiliate or subsidiary in which that entity owns an interest greater than 20 percent, and any corporate

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parent or ownership interest of greater than 20 percent. "Total capital accounts" means all amounts carried on CFAB's records which represent equity investments by members, borrowers, the State of Alaska, or others as well as any amounts representing retained allocated or unallocated patronage earnings or other net margins, reduced by any allocated or unallocated patronage loss or other loss, and excluding any amount of Class B Preferred Stock for which CFAB has a redemption obligation in connection with any loan transaction(s).

Special Applications and Loans

It shall be CFAB's policy to not recognize any "special" applications or loans other than those which involve a Director, an entity in which a Director holds an ownership interest, or an entity of which a Director is a principal officer. All such applications or loans shall be subject to CFAB's normal evaluation and analysis processes and must conform to CFAB's normal credit standards and requirements. Such loans shall be subject to the approval of a majority of the remaining and non-involved Directors in response to a recommendation by CFAB's Senior Management.

Chapter 81. Alaska Commercial Fishing and Agriculture Bank

Sec. 44.81.010. Alaska Commercial Fishing and Agriculture Bank.

(a) There is established the Alaska Commercial Fishing and Agriculture Bank. The exercise by the bank of the powers conferred by this chapter is considered to be for a public purpose. The bank is exempt from the provisions of AS 06.05 (Alaska Banking Code) and AS 10.15 (Alaska Cooperative Corporation Act) in the exercise of powers granted by this chapter.

(b) For the purpose of the funding of the bank's operations, the board of directors may issue nonvoting, preferred shares of stock in the bank and determine the value of each share. The State of Alaska, through appropriate agencies, may purchase the nonvoting, preferred shares issued by the bank. Shares purchased by the state shall be repurchased by the bank within 20 years after their purchase. If the bank fails to repurchase the shares within 20 years, the commissioner of commerce and economic development may dissolve the bank.

(c) After the board of directors has completed the necessary organizational matters described in AS 44.81.030 - 44.81.040, the commissioner of revenue may purchase with funds from the general fund up to \$2,000,000 of preferred stock of the bank during fiscal year 1979 at such time and with terms agreed upon by the commissioner and the board.

Sec. 44.81.020. Board of Directors. (a) The bank shall be managed by a board of directors consisting of seven members. Five board members shall be elected by the members of the bank, with at least one of the elected board members being an Alaska farmer, and two board members shall be appointed by the governor until the repurchase of all the nonvoting, preferred shares initially issued by the bank and purchased by agencies of the state. After

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repurchase is completed, all board members shall be elected by the members of the bank. The board members shall annually elect a chairman from among themselves. The purpose of the board is to manage the assets of the bank.

Sec. 44.81.040. Bylaws. The board of directors shall adopt the initial bylaws of the bank. The power to alter, amend or repeal the bylaws is vested in the board of directors. The bylaws may contain provisions for the regulation and management of the affairs of the bank not inconsistent with this chapter or other provisions of law.

Sec. 44.81.050. Membership meetings. Upon filing the articles of incorporation, the board of directors, with the assistance of the commissioner of commerce and economic development or the commissioner's designee, may hold public meetings throughout the state for the purpose of explaining to members of the commercial fishing and farming industries the functions of the bank and to encourage membership in the bank.

Sec. 44.81.060. Membership stock. (a) The board of directors shall issue shares of membership stock in the bank in the amounts and with the value determined by the board and stated in the articles of incorporation.

(b) Loans made to members of the bank under the provisions of this chapter shall be in accordance with a schedule of maximum amounts adopted by the board of directors based upon proportional ownership of shares of capital stock.

Sec. 44.81.070. President; officers and employees. (a) The board of directors shall employ a president. The president may not be a member of

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the board of directors. The president serves at the pleasure of the board of directors. The president is the chief executive officer of the bank.

(b) The board of directors shall appoint one or more vice-presidents, as prescribed in the bylaws of the bank, a secretary, a treasurer and other officers as the board of directors considers necessary. The board of directors may appoint one person to more than one of the positions described in this subsection. The officers described in this subsection are not required to be members of the board of directors.

(c) The president may hire employees of the bank reasonably necessary for the efficient performance of the functions of the bank. Subject to the approval of the board of directors, the president may also contract for and engage the services of professional and technical advisors. The board of directors shall prescribe the duties and compensation of employees of the bank. Employees of the bank are not employees of the state and are not considered to be employees of a public organization for the purposes of AS 39.30.150 - 39.30.180 or AS 39.35.010 - 39.35.690.

Sec. 44.81.090. Term of office and removal. The members of the board shall serve for terms of three years, and they may serve successive terms. Terms shall be staggered. An elected member of the board who releases confidential information in violation of AS 44.81.260, commits serious ethical misconduct that relates to the member's fitness to serve as a member of the board, or maintains a chronically and irredeemably substandard borrowing relationship with the bank may be removed from the board by affirmative vote of a majority of the members of the board.

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Sec. 44.81.100. Quorum. A majority of the members of the board constitutes a quorum for the transaction of business and the exercise of the powers and duties of the board.

Sec. 44.81.110. Compensation of board members. Members of the board receive compensation not to exceed \$250 as determined by the board for each day the board meets if they attend the meeting.

Sec. 44.81.160. Pledge of the state. The state pledges to and agrees with any lender to the bank and with the federal agency or regional institution of the federal farm credit system that loans or contributes funds in respect of a project, that the state will not limit or alter the rights and powers vested in the bank by AS 44.81.010 - 44.81.350 to fulfill the terms of any contract made by the bank with the lender to the bank or federal agency or regional institution of the federal farm credit system, or in any way impair the rights and remedies of the lender to the bank or federal agency or regional institution of the federal farm credit system. The bank is authorized to include this pledge and agreement of the state, insofar as it refers to a lender to the bank in a contract with the maker of a loan, and insofar as it relates to a federal agency or regional institution of the federal farm credit system, in a contract with a federal agency or regional institution of the federal farm credit system.

Sec. 44.81.190. Conflicts of interest. A member of the board of directors may not vote on a transaction of the bank under this chapter if the member is a party to the transaction.

Sec. 44.81.200. Reports and publications. The board of directors

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shall publish an annual report to the bank's members. The report shall be made available to the public and shall include financial statements audited by independent outside auditors, a statement of the bank's investments, a description of the bank's loan activity during the period covered by the report, an analysis of economic and other effects of loan decisions on the state's commercial fishing and agriculture industries, and any other information that the board believes would be of interest to the governor, the legislature, and the public, or that the legislature requests the board to include. The board may also publish other reports it considers desirable to carry out its purposes.

Sec. 44.81.210. Powers of the bank. (a) The bank may

(1) make variable rate or fixed rate loans to individuals who are residents and who are engaged in commercial agriculture or fishing, including harvesters, processors, suppliers and marketers, or to corporations, partnerships or joint ventures engaged in commercial agriculture or fishing, the majority interest of which is beneficially owned by residents of the state and a majority of the owners of which are residents of the state, if the recipient of the loan is a member of the bank; however, the bank may make a loan under this paragraph to a corporation, partnership, or joint venture for the purchase of a new or existing fishing vessel or for the repair or renovation of an existing fishing vessel, the primary purpose of which is to commercially harvest fishery resources, only if the corporation, partnership, or joint venture is wholly owned and controlled by residents of the state and if the recipient of the loan is a member of the bank;

(2) make and alter bylaws necessary or desirable to carry out its corporate functions;

(3) establish amortization plans for repayment of loans, which

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may include extensions for poor fishing or farming seasons, or for adverse market conditions for Alaskan products;

(4) enter into agreements with regional institutions of the federal farm credit system, private lending institutions, and other state agencies or agencies of the federal government, to carry out the purposes of AS 44.81.010 - 44.81.350;

(5) adopt, alter, and use a corporate seal;

(6) sue and be sued in the name of the bank;

(7) issue bonds to carry out any of its corporate purposes and powers;

(8) sell, lease as lessor or lessee, exchange, donate, convey or encumber in any manner by mortgage or by creation of any other security interest, real or personal property owned by it, or in which it has an interest, when, in the judgment of the board of directors, the action is in furtherance of its corporate purposes;

(9) incur secondary liability by guaranty or endorsement of the obligations of another corporation or legal entity when, in the judgment of the board of directors, the action is in furtherance of its corporate purposes;

(10) make loans as provided in (1) of this section in participation with financial institutions, and establish and regulate the terms of the loans;

(11) make contracts and execute instruments necessary or convenient in the exercise of its corporate powers;

(12) acquire by purchase, lease, bequest, devise, gift, the satisfaction of debts, or the foreclosure of mortgages, and hold, maintain, use, operate, and convey real or personal property;

(13) borrow money and issue secured and unsecured evidence of

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indebtedness for a corporate purpose or to fund, refund, pay, or discharge outstanding obligations, and enter agreements and contracts concerning these obligations;

(14) secure the payment of its obligations by pledge or mortgage or other lien on its contracts, revenues, income, or property;

(15) appoint officers, employees, trustees for certificate holders, and agents, and prescribe their powers and duties;

(16) provide technical services to members of the bank; for the purpose of this paragraph, "technical services" includes services that will enhance the ability of the member to obtain financial assistance from the bank;

(17) make loans, as provided in (1) of this section, secured by liens subordinate to valid first liens and security agreements granted to a private lending institution;

(18) participate with state departments and agencies in formulating policy and in planning for the development of commercial fishing and agriculture in the state;

(19) do what is necessary or desirable to carry out the corporate purposes and powers expressed or implied in AS 44.81.010 - 44.81.350;

(20) make loans to individual commercial fishermen for limited entry permits; a loan under this paragraph may be made only to an individual commercial fisherman who has been a state resident for a continuous period of two years immediately preceding the date of application for the loan; loans made under this paragraph are subject to AS 44.81.230;

(21) indemnify directors, officers or employees of the bank and their heirs, executors and administrators against all liabilities and related expenses including, but not limited to, court costs and attorney fees, judgments, and the cost of reasonable settlements, incurred by them in connection with or arising out of an action or proceeding brought against them

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because of an act or omission in the performance of their official duties as directors, officers or employees of the bank regardless of whether they were directors, officers or employees at the time the expenses or liabilities are incurred;

(22) accept the pledge of a limited entry permit as security for a loan made under this chapter subject to the conditions set out in AS 44.81.230 - 44.81.250 on pledges of limited entry permits;

(23) make a loan to a person, regardless of residency, if the board of directors of the bank determines that the loan is necessary to preserve the value of property held by the bank as security for a loan that was made under (a) (1) of this section and that is in default.

(24) issue certificates of loan participation to members and to other individuals, corporations, partnerships, and joint ventures, but the bank may not issue a certificate of loan participation if the certificate would allow participation by the member, individual, corporation, partnership, or joint venture in loans that individually or cumulatively involve more than 20 percent of the commercial fishery entry permits issued for one type of gear in a specific fishery resource administrative area.

(b) The provisions of (a)(21) of this section do not authorize the bank to indemnify a director, officer or employee of the bank who is adjudged liable for negligence or misconduct in the performance of official duties.

(c) Notwithstanding (a)(1) of this section, the bank may make a variable or fixed rate loan to a shore-based fish processor, a timber processor, or an agricultural processor or harvester that does not meet the resident ownership requirements of (a)(1) of this section for capital investment or operating capital if a facility of the processor or harvester is

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located in the state and the majority interest in the processor or harvester is beneficially owned by residents of the United States.

Sec. 44.81.220. Transition. Notwithstanding the provisions of AS 10.15.005, upon the repurchase of all the nonvoting, preferred shares initially issued by the bank and purchased by agencies of the state, the provisions of AS 44.81.010 - 44.81.350 lapse and the bank may proceed to operate solely as a private cooperative corporation under the terms of its bylaws and the provisions of AS 10.15.010 - 10.15.600.

Sec. 44.81.225. Small Loans. (a) To facilitate the development of commercial fisheries in geographic areas in which factors such as geographic considerations, uncertainties of communications, or limited demands do not encourage normal lending activities, the bank may make small loans to qualified borrowers who are not members of the bank.

(b) The provisions of this chapter apply to loans authorized by this section except that

(1) the borrower is not required to be a member of the bank at the time the loan is approved; and

(2) the principal amount of the portion of the loan made by the bank may not exceed \$25,000.

(c) The total amount of money that may be loaned under this section may not exceed eight percent of the total capital of the bank.

(d) To service loans made under this section, the bank may contract or make other arrangements with a public agency or with a legal entity that the bank determines to be responsible and competent to administer the loan.

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Sec. 44.81.230. Loans for purchase of Alaska limited entry permits.

(a) A loan under AS 44.81.210(a)(20) or 44.81.225 for the purchase of a limited entry permit may be made only upon certification by the commission that the fisherman is a person who qualifies as a transferee for the permit under AS 16.43 and the regulations adopted by the commission.

(b) Upon approval by the bank, a permit to be purchased may be pledged as security for a loan made under (a) of this section, AS 44.81.225, or 44.81.235 if

(1) the certificate for the pledged permit lists the bank as the legal owner of the permit;

(2) the certificate for the pledged permit lists the debtor as the equitable owner of the permit;

(3) all annual permit cards issued under the pledged permit list the name of the debtor;

(4) all obligations and responsibilities of a permit owner are assumed by the debtor;

(5) co-signers or other sureties for performance under the note are not vested with any rights in the pledged permit and their obligation is limited to satisfaction of the note and payment of costs directly incurred by the bank in administering the loan.

(c) Upon satisfaction of the note by the debtor, the bank shall certify to the commission that the note has been satisfied.

(d) Upon certification as provided in (c) of this section, the commission shall amend the permit certificate to list the debtor as the legal owner.

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(e) In addition to the permit of the debtor pledged as security for a loan under (a) of this section, the debtor may pledge another limited entry permit as security for that loan if the bank approves and the permit to be pledged meets the requirements of (b) of this section.

(f) In anticipation of possible foreclosure on an entry permit under AS 44.81.250, the debtor may nominate a person to assume a note for a loan made under AS 44.81.210(a)(20), 44.81.225, or 44.81.235. If the person nominated qualifies under (a) of this section at the time of the foreclosure, the person may assume all rights and liabilities of the debtor in the event the bank forecloses on the entry permit.

Sec. 44.81.235. Limitations on pledge of permits. (a) The bank may issue a loan secured by a limited entry permit for

- (1) purchase, repair, restoration, or improvement of a commercial fishing vessel or commercial fishing gear;
- (2) construction of a commercial fishing vessel;
- (3) working capital, including insurance premiums, fuel, bait, and boat storage and launching expense; or
- (4) purchase and improvement of set net sites and associated equipment.

(b) A limited entry permit may be used as security for more than one loan if each loan meets the requirements of AS 44.81.210(a)(20) or (a) of this section.

(c) A limited entry permit may be used as security for a loan to refinance existing debts if the proceeds of each original loan were used in accordance with AS 44.81.210(a)(20) or (a) of this section.

Chapter 81. Alaska Commercial Fishing and Agriculture Bank

Sec. 44.81.240. Default and foreclosure of loans for limited entry permits. (a) If the debtor defaults upon a note for which a limited entry permit has been pledged as security under AS 44.81.230, the bank shall provide the debtor, by registered or certified mail sent to the debtor's last known address on file with the bank, with a notice of default which includes

(1) a description of the security given for the note including the number assigned to the pledged permit by the commission;

(2) the date upon which the default occurred;

(3) the amount of arrearages as of the date of the notice, the total amount remaining on the note less unearned interest, and the amount of daily interest;

(4) a statement that the debtor may, within 15 days of the postmark date of the notice, request a hearing at which the debtor may submit evidence showing the debtor has not defaulted;

(5) a statement that the note may be reinstated if brought current within 60 days from the postmark date of the notice;

(6) a statement that the note may be paid in full less unearned interest within 90 days from the postmark date of the notice;

(7) the place where reinstatement or repayment in full may be made; and

(8) a notice in at least 10-point bold type stating:
"IMPORTANT: YOUR FAILURE TO REINSTATE OR PAY THIS NOTE IN FULL BY THE DATE SPECIFIED WILL RESULT IN A FORFEITURE OF ALL RIGHTS TO THE PERMIT AND THE POSSIBILITY OF LEGAL ACTION BEING INSTITUTED AGAINST YOU."

(b) Upon the debtor's failure to reinstate or satisfy the note within the time specified in (a) of this section, the debtor's equitable interest is terminated by operation of law without further notice. Any entry

Chapter 81. Alaska Commercial Fishing and Agriculture Bank

permit cards issued to the debtor under the permit shall be canceled immediately upon receipt by the commission of a certificate of termination containing a copy of the notice required by (a) of this section issued by the bank.

Sec. 44.81.250. Deficiencies and transfer of entry permits after foreclosure. (a) Upon a foreclosure on an entry permit as provided in AS 44.81.240, the bank shall offer the commission a right of first refusal if the permit is subject to a buy-back program under AS 16.43.290 - 16.43.330 at a price equal to the amount outstanding on the note plus any costs the bank directly incurred in administering the loan.

(b) If the commission does not exercise its right of first refusal within 30 days after it receives the offer, or if the permit is not subject to a buy-back program under AS 16.43.290 - 16.43.330, the bank shall promptly notify the debtor of this fact. If the debtor has not previously nominated a qualified person to assume the note under AS 44.81.230(f), the debtor has 30 days from the postmark date of the notice to nominate a person qualified to assume the note. The person nominated must qualify under the requirements of AS 44.81.230(a). If qualified, the person nominated may assume all rights and liabilities of the original debtor.

(c) If the debtor is unable to nominate a qualified person to assume the note under (b) of this section, the permit must be made available to a qualified person, chosen as provided in this section, who shall assume the note subject to all rights and liabilities of the original debtor. The commission shall provide the bank with a list of persons chosen by lottery who qualify as transferees of entry permits under AS 16.43 and regulations adopted

Chapter 81. Alaska Commercial Fishing and Agriculture Bank

by the commission and who have met the residency and commercial fishing participation requirements of AS 44.81.210(a)(20). The bank shall then determine, in order of presentation, any remaining qualifications. The bank shall allow the first applicant meeting all qualifications to assume the note.

(d) Nothing in this section affects the right of the bank to institute legal action for a deficiency resulting from a default on a note for a loan made under AS 44.81.210(a)(20), 44.81.225, 44.81.230, or 44.81.235. In addition to any deficiency, the debtor is liable for the costs of administering the note and for costs and attorney fees.

(e) If the commission is unable to provide a list of one or more qualified persons as provided in (c) of this section within 15 days, or if no person listed is determined by the bank to be qualified to assume the note, the bank may sell the permit to an individual commercial fisherman who has been a state resident for two years immediately preceding the date of the sale. If the proceeds of the sale of a permit exceed the amount necessary to pay the note in full, plus interest to date of sale, penalties, costs, and attorney fees, the bank shall remit the excess to the original debtor.

Sec. 44.81.260. Confidentiality of records. (a) The records of the bank that are identified with, or identifiable as being derived from the records of, a specific borrower, member of the bank, or applicant for a loan are confidential and may not be disclosed by the bank or by its directors, officers, employees, or agents to a person other than the directors, officers, or agents of the bank, except

- (1) when required by a federal or state statute;
- (2) under AS 44.81.270;

Chapter 81. Alaska Commercial Fishing and Agriculture Bank

(3) under a search warrant issued under federal law or the law of this state;

(4) under a subpoena or court order issued in a civil action under federal law or the law of this state;

(5) under a subpoena or court order issued in connection with a proceeding before a federal grand jury or grand jury of this state;

(6) under a summons or subpoena issued by an agency or a department of the United States or this state, or an officer, employee, or agent of the agency or department;

(7) under a request by a financial institution, if the request is solely for the stated written purpose of determining the credit worthiness of a member or borrower as an applicant for credit, and if the information disclosed by the bank pertains only to the payment history of the member or borrower;

(8) under a request by a lender that has extended or is considering extending credit to the bank if the credit is or may be secured by the pledge of a loan by the bank;

(9) when disclosed to the attorney general of the United States or to a law enforcement agency of this state if the records may be relevant to a report or investigation of a possible violation of federal law or a law of this state.

(b) The records of the bank that are not subject to (a) of this section may be kept confidential by the bank, subject to the exceptions listed in (a)(1) - (5) of this section.

(c) Notwithstanding (a) - (b) of this section, a borrower, a member of the bank, or an applicant for a loan may authorize the bank in writing to disclose records provided to the bank by the borrower, member, or applicant.

Chapter 81. Alaska Commercial Fishing and Agriculture Bank

(d) In this section,

(1) "member" includes past and present members;

(2) "records" means financial and other records, including information known to have been derived from the records, in any form, including original documents and copies.

Sec. 44.81.270. Audit of bank. (a) The legislative auditor may cause the bank to be audited in the manner and under the conditions prescribed by AS 24.20.271 for audits performed by the legislative audit division. The legislative audit division has free access to all books and papers of the bank that relate to its business and books and papers kept by a director, officer, or employee relating to or upon which a record of its business is kept, and may summon witnesses and administer oaths or affirmations in the examination of directors, officers, or employees of the bank or any other person in relation to its affairs, transactions, and conditions, and may require and compel the production of records, books, papers, contracts, or other documents by court order if not voluntarily produced.

(b) The bank shall be audited annually by independent outside auditors. The legislative auditor may confer with the outside auditors and review the workpapers of the audit. At the direction of the Legislative Budget and Audit Committee under AS 24.20.271, the legislative auditor may conduct an audit of the bank.

(c) The state bank examiners shall perform an annual qualitative examination and evaluation of the bank. The commissioner of commerce and economic development shall assess the bank a fee established under AS 06.01.010(b) for the actual expenses incurred by the Department of Commerce

Chapter 81. Alaska Commercial Fishing and Agriculture Bank

and Economic Development in connection with the examination. The examiners shall report to the board of directors on the examination. The examiners shall prepare a summary report evaluating the bank's loan portfolio quality on a statistical basis and addressing the appropriateness and effectiveness of the bank's policies, practices, and management within the context of the bank's statutory purposes. The examiners shall distribute copies of the summary report to the bank, the legislature, and the governor.

Sec. 44.81.280. Prohibition on disclosure. The legislative auditor and the auditor's employees may not disclose information acquired by them in the course of an audit of the bank concerning the particulars of the business or affairs of a borrower of the bank or another person, unless the information is required to be disclosed by law or under a court order.

Sec. 44.81.350. Definitions. In this chapter

(1) "bank" means the Alaska Commercial Fishing and Agriculture Bank;

(2) "commission" means the Alaska Commercial Fisheries Entry Commission (AS 16.43.020);

(3) "member of the bank" includes a holder of a share of membership stock of the bank or a patron of the bank with retained patronage earnings of \$2,500 or more to the patron's credit;

(4) "supplier" means a person whose main source of income is from providing goods or services that are directly related to commercial fishing or agriculture to individuals, corporations, partnerships or joint ventures engaged in commercial fishing or agriculture.

Overview:

Consumer

Reports...

ASMI

Presentation

1-16-92

Burson-Marsteller

January 16, 1992

VIA FAX: 907/463-3273
10:30 a.m.

MARY GORE
ALASKA SEAFOOD MARKETING INSTITUTE

Dear Mary:

As anticipated, coverage of the Consumer Reports study has been extensive this morning. Following, for your information, is a quick recap of confirmed coverage to date:

Print (faxed under separate cover):

- Associated Press
- USA Today
- Wall Street Journal
- New York Times
- Chicago Tribune
- San Francisco Chronicle
- PR Newswire

Broadcast:

- "Today"/NBC-TV
- "Good Morning America"/ABC-TV
- "CBS This Morning"/CBS-TV
- Cable News Network (news segment repeated four times)
- KABC-TV/Los Angeles (two news segments)
- KFWB-AM/Los Angeles
- KNX-AM/Los Angeles
- KBIG-FM/Los Angeles
- KPWR-FM/Los Angeles
- KCBS-AM/San Francisco
- WJBK-TV/Detroit (CBS affiliate)
- WPVI-TV/Philadelphia (ABC affiliate)

- more -

Mary Gore
Alaska Seafood Marketing Institute
January 16, 1992
Page Two

Broadcast (Cont'd.):

- WCVB-TV/Boston (ABC affiliate)
- WOR-AM/New York
- WCBS-AM/New York
- WMAQ-AM/Chicago
- WBBM-AM/Chicago

We have ordered tapes and transcripts of all television coverage. We will fax you the transcripts as soon as we receive them and will ship you all tapes via overnight delivery. We have ordered transcripts of all radio coverage and will fax these to you also as soon as we receive them.

We will keep you posted and will call you to discuss this coverage. Meanwhile, please call me or Genevieve if you have any questions or need anything else.

Regards,



Marty Gordon

cc: GSilberman
ATortorella

Nation/world

Tainted fish widespread, study claims

Jan 16 1992
Chicago Tribune

New York Times News Service
NEW YORK—In a study of the safety of food in retail fish markets in New York City and Chicago, Consumers Union has found widespread contamination and mislabeling of seafood.

The study was based on 113 samples of fish and claims that were purchased in 40 randomly selected supermarkets and specialty fish shops. The group found that 34 samples were spoiled, 50 were contaminated with fecal coliforms, and 8 of 20 samples of swordfish had more than the permissible level of mercury. What's more, one-third of the sample, taken from a number of different stores, were misidentified, usually as a more expensive variety.

The study contended that there were abuses in handling seafood all along the chain from the fishing vessel to the retail store. But it placed the largest share of the blame at the retail level.

"We clearly know we did not cover the whole waterfront," said Edward Groth, associate technical director of Consumers Union. "We think the look we took is big enough and reliable enough to say there is a problem."

Unlike meat and poultry, the handling of fish is largely unregulated by the federal government, and this report bolsters the contention of independent consumer advocacy groups like the Public Voice for Food and Health Policy that mandatory seafood inspection is necessary.

But the Federal Food and Drug Administration called the findings overblown and said a case could not be made on such a small sampling in just two cities.

Nonetheless, Lee Weddig, executive vice president of the National Fish Producers Institute, a trade association of marketers and processors, acknowledged that the study was "not all that bad as an indicator of the conditions in those areas."

And Richard Lord, a consultant to the Fulton Fish Market in Manhattan who is a recognized authority on fish, said Consumers Union's assertions were justified. "You cannot contradict the report," he said.

The study, which will appear in

The study, which will appear in the February issue of Consumer Reports magazine, looked at six species: salmon, flounder, sole, catfish, swordfish, lake whitefish and clams.

Both Weddig and Douglas Cher, deputy director of the FDA Center for Food Safety and Applied Nutrition, took issue with bacterial standards used by Consumers Union.



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A BUREAU OF AMERICA

TRANSCRIPT

DATE January 16, 1992
TIME 6:30 ~ 7:00 AM
STATION WPVI-TV (ABC) Channel Six
LOCATION Philadelphia
PROGRAM Action News

Monica Malpass, anchor:

An important warning if you often buy raw seafood in the supermarket. A series of tests just released by Consumer Reports magazine has found that the seafood in the supermarket is frequently spoiled or contaminated by pollutants. Officials say half the fish tested was contaminated by fecal bacteria and by varying degrees of PCB's. However, they added that if you cooked the fish properly, it probably would not make you sick.

RADIO TV REPORTS

41 East 42nd Street
New York, NY 10017

FOR	BURSON MARSTELLER	STATION	CNN/TV
PROGRAM	BUSINESS MORNING (NEWS UPDATE)	CITY	NEW YORK
DATE	JANUARY 16, 1992	AUDIENCE	6:48 A.M.

BROADCAST EXCERPT

PATRICK GREENLAW: A new report is warning that much of the raw seafood at stores in the United States may be spoiled or contaminated by pollutants. The magazine Consumer Reports today released the findings of a six-month investigation. Fresh fish from stores and supermarkets in Chicago and New York were tested. Consumer Reports says retailers and others who handle fish are to blame for the spoilage, but the magazine says cooking probably removes any danger of immediate sickness. The National Fisheries Institute disputes the magazine's findings.

JAN-16-1992 11:50 FROM B-M/LOS ANGELES

TO 7802466919074633273 P.07
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JAN 16 '92 13:51 FROM BOSTON



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A BURELLES Article

DATE
TIME
STATION
LOCATION
PROGRAM

January 16, 1992
5:30-7:00 AM
WCVB-TV (ABC) Channel Five
Boston
Newscenter Five Eyeopener

TRANSCRIPT

Jim Boyd, co-anchor:

A new study raises major questions now about the quality and safety of seafood sold in local stores. Consumer Reports magazine conducted a six month investigation and found that much of the raw seafood sold across the counter is spoiled or contaminated by pollutants (Visual of a fish market in New Haven, Connecticut). The magazine says almost thirty percent of the fish tested was spoiled and nearly half was contaminated by bacteria. Here's one positive note. The study also concludes that cooking that seafood thoroughly should prevent sickness.

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A BURRELLE'S ATTORNEY
AT LAW

TRANSCRIPT

DATE January 15, 1992
TIME 11:00-11:30 PM
STATION WJBK-TV(CBS) Channel Two
LOCATION Detroit
PROGRAM Eyewitness News

Sherry Margolis, co-anchor:

Well we expect the fish that we buy at seafood and grocery stores to be wholesome and fresh, but a six month investigation conducted by Consumer Reports reveals that in many cases that is not so.

Consumer Reports had an independent lab analyze one hundred and thirteen samples of salmon, sole, flounder, and catfish bought in New York and Chicago. [Graphic: Consumer Reports Fish Investigation: 30% spoiled, 9% nearly spoiled, 50% contaminated by feces] Nearly 30% was already spoiled; another 9% was nearly spoiled. Half the fish samples were found to be contaminated by human and animal feces. Unfortunately this is just the tip of the iceberg.

We will have much more on the fish investigation tomorrow on First News at 6:00PM.

Huel Perkins, co-anchor: Just one more reason for me not to eat fish.



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A **BURBULET** Affiliate

TRANSCRIPT

DATE January 16, 1992
TIME 7:00-9:00 AM
NETWORK CBS-TV
PROGRAM CBS This Morning

HARRY SMITH, co-anchor:

A new report says much of the raw fish Americans buy is contaminated. A six-month investigation by Consumer Reports magazine found that almost forty per cent of the fish and other seafood bought in stores is spoiled or on the verge of spoiling. It blames the people who handle it on the way to you, and the magazine says the seafood is unlikely to make you sick, that is, if you cook it thoroughly.



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A **RUSSELL'S** Atlanta

TRANSCRIPT

DATE January 16, 1992
TIME 7:00-9:00 AM
NETWORK ABC-TV
PROGRAM Good Morning America

Joan Lunden, co-host:

It's high in protein and low in fat so it's no wonder that health-conscious Americans are eating more and more fish every year but a six-month study by Consumer Reports magazine raises some troubling questions about the quality of fresh fish in this country. The magazine hits the newsstands this month and consumer editor Paula Lyons has a first look at the findings.

Paula Lyons reporting:

Fresh fish. It's one of the most perishable foods we eat. Time and temperature are its enemies. Once fish leaves water it has, according to experts consulted by Consumer Reports, a shelf life of seven to twelve days at best if it is kept very cold, between thirty and thirty-two degrees Fahrenheit. If not, deterioration is faster. (Visual of fishing vessel; fish store)

But think about this. Some fish stays out on the boat five or six days. It may spend another two being processed and transported to a store near you where it could conceivably sit a few more days before you come along and buy it.

So Consumer Reports says you have two problems as a fish consumer. You don't know how long the fish you buy has been out of the water and you don't know at what temperature it's been stored along the way.

An experienced nose can spot bad fish, of course. You can smell it when it starts to turn. But a far more accurate way to measure fish deterioration is to test it in a laboratory and measure the bacteria. That's exactly what Consumer Reports decided to do and report on in its February issue. (Visual of man sniffing a fish; laboratory workers testing fish; Consumer Reports cover Is Our Fish Fit To Eat?)

Its shoppers purchased seven popular species of fish in supermarkets and fish stores in the New York and Chicago metropolitan areas. In all they sent one hundred and thirteen samples in refrigerated containers to an outside testing laboratory. The first test was for freshness and quality. (Graphic: Salmon Swordfish Catfish Clams Lake Whitefish Flounder Sole) (Visual of fish samples in the laboratory)

Trudy Lieberman (Reporter, Consumer Reports): We found an awful lot of fish that was past its prime and not very fresh. Some

JAN-16-1992 11:52 FROM B-M/LOS ANGELES

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forty per cent of our samples could be classified as fair or poor and approximately thirty per cent would be classified as downright poor or even spoiling.

Lyons: How does this happen?

Lieberman: Well, we think what happened is the fish was not held at the proper temperature all along the distribution chain.

Lyons: While Consumer Reports saw problems in processing plants, they saw the most in retail stores. One problem- often the temperature in these display cases. Though experts feel thirty to thirty-two degrees Fahrenheit is the optimum temperature for fish, local laws in the Chicago and New York areas allowed display case temperatures to reach as high as forty-five. (Visual of seafood section of retail store)

Lieberman: We found display cases that were probably too warm, fish that was piled high meaning that the ones at the top of the pile were probably warmer than the ones at the bottom and might not have as long a shelf life.

Lyons: Was there any difference between the kinds of stores you surveyed?

Lieberman: No, the problems we encountered were common to supermarkets as well as fish retailers.

Lyons: Consumer Reports says its shoppers also observed lots of bad sanitation habits in stores.

Lieberman: In one store we found a clerk cutting the fish and then putting the mucous and blood-covered knife back in the ice where it could possibly contaminate another fish that might be placed on the ice. (Visual of workers cutting fish)

Lyons: That bacteria does die with cooking, though.

Edward Groth, III (Associate Director, Consumer Reports): I cook the fish properly it should be safe. (Visual of fish put into hot frying pan) The real damage to the consumer is poor quality of fish that they're getting and the lack of taste and lack of enjoyment of what could be a very pleasant meal.

Lyons: Meanwhile what can you do? Consumer Reports says the following when buying fish. Fish that has dried out; the top of a big pile; cooked seafood displayed next to raw; cross-contamination is possible here. (Graphic: Reject. that is dried out Fish at the top of a pile cooked sea to raw)

And after you buy, use your nose. Bad fish smells refrigerate fish quickly. Wash hands, surfaces, and utensils touched and COOK fish thoroughly. (Graphic: ;

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