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BANKS MAKE A PLEA BUT DON'T CALL IT A BAILOUT, THEY SAY

STAN JONES
Daily News reporter

Staff

Three moneylosing Alaska banks are asking the legislature to boost their industry with up to \$25 million in state cash, but they say it's to help their customers, not themselves. Alaska Statebank, Alaska Continental Bank and Home Savings Bank have hired three heavyweight lobbyists at a cost of \$75,000 to try to get their proposal, called "The Economic Stabilization Act of 1988," through the legislature.

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

"Our basic premise is of course that, to stabilize the economy, you need to stabilize the banking system," said Alaska Statebank president Derrell Smith. "We are concerned that there will be a lack of credit available."

Without the state help, he said, banks might not have enough money to lend to small business customers to get them through the recession and keep their employees at work.

"We think that even if we take this money and we use it to, say, keep a gas station alive that fails in three years, in three years its employees will have a better chance of finding other employment in Anchorage than they have now," he said.

The state's investment, which Smith estimated could total \$15 million to \$25 million, would take the form of preferred stock or a type of loan called a "subordinated debenture."

In either case, if the bank later failed, the state would recover its investment out of any money left after the bank's depositors and creditors were paid off, but before its stockholders got anything, according to Smith.

The bill would limit the program to statechartered banks with assets of less than \$150 million. According to a report from the Alaska Division of Banking and Securities, that boils down to the three banks behind the bill, plus three more: Denali State Bank and Mt. McKinley Mutual Savings Bank in Fairbanks, B.M. Behrends Bank of Juneau and Mt. McKinley Mutual Savings Bank of Fairbanks.

All three of the bankers pushing the bill lost money in 1987, according to reports from various bank regulators and the banks themselves. Home Savings and Alaska Statebank lost \$6.3 million each and Alaska Continental lost \$1.5 million.

Alaska Statebank and Alaska Continental finished the year with net worths of \$7.8 million and \$1.5 million, respectively.

Despite the injection of some \$4 million in fresh capital over the past 18 months by its owners, the losses whittled Home Savings' equity capital or net worth to \$168,000 at the end of 1987, according to a report from the Federal Home Loan Bank of Seattle, which regulates and finances the institution.

In a Feb. 29 memo to Rep. Red Boucher, DAnchorage, Home Savings chairman **Bob Gillam** discussed a federal plan to help banks in the southwestern United States and said the adoption of a similar plan for Alaska was "critical to our survival and to that of the entire savings bank industry in Alaska."

Despite their losses, the bankers say they need state money only to better serve their customers, not to stay afloat. "Our bank, we feel, will make it without it," said Smith. "This isn't a doordie bill for Alaska Statebank."

Buz Hoffman, president of Alaska Continental, said he needs to raise \$400,000 to meet regulatory guidelines, and can do so without help from the state. But he said he would be interested in the state program if it gave him a chance to expand his lending activity.

"This loan, if authorized, would allow our company to make hundreds of millions of dollars worth of real estate loans in the state of Alaska at a time when no one else will do it," said **Gillam** of Home Savings.

Smith said the proposal would allow him to keep many of his recessionbitten small business borrowers in operation until the economy revives.

When banks close, said Smith, troubled business people who had lines of credit at the failed banks are unable to establish new credit at a new bank, whereas their old banks would have kept them afloat in hopes of a recovery. So Smith believes it's a mistake for economic recovery plans to focus exclusively on bank assets now in the hands of the Federal Deposit Insurance

Corp.

"It's like the paramedics coming to the scene of a major accident to work on dead people," he said. "What we need is to have the paramedics work on the people that are wounded but will make it."

Even if the banks that got the money should close and leave the state with no way to get its investment back, said Smith, the extra time the money would give the bank and its customers would make it worthwhile for the state.

Alaska Continental's Hoffman said the money is needed to preserve Alaska's mix of stateregulated and federally regulated institutions. "The state is running a real danger of losing the small banks it controls that push loans to the small person," said Hoffman.

He rejects any suggestion that the program would constitute a bank bailout since the state would, in theory at least, earn interest on its investment and get it back some day.

In Juneau, the proposal is under study by the state Department of Commerce and Economic Development.

"As drafted, it's a long way from anything that would be acceptable," said Commerce Commissioner Tony Smith. "My sense is that we will not go for any bank bailout, but if there's an investment that makes sense that can be properly secured, it may be considered."

Smith and state bank regulator Willis Kirkpatrick said that that if the commerce department does endorse the idea, it will probably attach several conditions. The state's investment would have to be fully secured, possibly with liens on the bank's office buildings and branches, they said. Also, any management problems would have to be cleaned up, the bank wouldn't be allowed to pay dividends until the state got its money back, and there would be salary limits for bank officials.

"If I were to recommend to the governor that we end up owning stock in the banks, I think he'd level me," Smith said. "Our goal is a sound, diversified banking system not owned by the state."

Ed Dankworth, one of three lobbyists hired to push the proposal, agreed the plan will probably have to include some restrictions to protect the state and prevent anyone in the bank from benefitting directly if it is to have any hope of passage. "I don't think there's a great mood to go bail anybody out," he said.

But he said he was optimistic that a reasonable plan might fly. "They've loaned money to a lot of other people, to agriculture and every other kind of

business, so I'd like to see them at least take a look at our proposal," Dankworth said.

The other lobbyists on the project are Mitch Gravo and Bill Miles. Each of the three will be paid \$25,000 for his work, with the three banks splitting the cost equally.

Legislators seem to regard the idea of bank assistance with considerable skepticism, even though they don't reject it outright.

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

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

Policy considerations aside, said Brown, there's the question of where the money would come from. "If we have limited funds, are we going to be putting them into propping up banks?"

Brown's cochairman is Rep. Steve Rieger, RAnchorage. He said he would approach with caution any effort to relieve the commercial sector of the economy. "The committee has been exceedingly reluctant to get into that area, either because it didn't look like the state could make proper or prudent business decisions in that area or it just wasn't an appropriate use of state money."

Some bankers are also skeptical about the state buying into their industry. "I really don't think the state has any business investing in banks on a basis like this," said Bill Moran Jr., the head of First Bank in Ketchikan. But he said he wouldn't object if the investment was properly underwritten.

Bob Gray, president of the National Bank of Alaska, believes the public policy question confronting the legislature is whether the state should invest in any business. "If it was a big retailer of some kind, nobody would think of the state coming in and taking an equity position," Gray said.

Gray takes issue with the proposition that maintaining small, statechartered banks is necessary to ensure that small customers will find a place to do business.

NBA, he noted, serves small customers from Skagway to Barrow in communities not capable of supporting a standalone bank.

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