

STATE OF ALASKA

Division of Agriculture

TO: Board of Agriculture & Conservation

DATE: January 23, 2014

THRU: F

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Director

FROM: Amanda Swanson

Loan Officer

SUBJECT: ARLF Loan Interest

Rates & Good Borrower Credits

11 AAC 39.071: Interest rates on loans (a) At least annually, the board will review and establish interest rates for new loans that are comparable to the rates charged by other agricultural lending institutions in the state for similar types of loans.

(b) The interest rate that will be charged on a new loan is the rate that is in effect on the date that the new loan is approved by the board or the emergency loan committee.

The ARLF loan interest rate for all loan types had been 8% pursuant to Statute for a number of years. As a result of 2000 legislation, the Board of Agriculture and Conservation (BAC) must set the ARLF loan interest rates *comparable* to other Alaskan agricultural lenders.

On December 18, 2001 the BAC set the ARLF short term operating loan interest rate at 6% and all other ARLF loan types at 7%. January 16, 2003 all ARLF loan interest rates were set by the BAC at 5%. The BAC reviewed the ARLF loan interest rates and good borrower credit rate February 26, 2009 and set rates at 3.00% short term, 4.00% intermediate term, and 4.50% long term. The BAC reviewed and made no changes to these same rates January 21, 2010, May 3, 2010, January 20, 2011, January 30, 2012, and February 26, 2013.

All the Alaskan agricultural lender programs differ. Therefore, it is difficult to make an exact comparison of ARLF interest rates. The applicable Statute does not specifically define "comparable." *Historically, the BAC has considered within 1.00% as being comparable.*

Alaska Rural Rehabilitation Corporation – Variable Rate

ARRC is a non profit organization that offers conservative financing with a focus on moderate operating loans, chattel loans, and farm land purchase financing. Their current interest rates are varied 5.00%-9.00% based on the applicant's credit and collateral. The application fee is \$100.00 for new borrowers and \$50.00 for existing borrowers. ARRC has no loan fees with terms of up to 20 years. Their interest rates are adjustable every two years with no cap. Interest rates were last reviewed on November, 2013.



USDA Farm Service Agency - Fixed Rate

FSA makes loans to farmers and ranchers to promote, build, and sustain family farms to support an agricultural economy. FSA provides loans to individuals ineligible for loans from other sources, with some program loan funds specifically targeted for disasters, beginning farms, and socially disadvantaged farmers. Their chattel loan and real estate loan maximums are \$300,000.00. Alaska is appropriated \$2 million annually however FSA is loaning approximately \$1 million annually. In 2012, FSA lent a total of \$1,226,320 in direct operating and farm ownership loans. Their rates on operating loans are currently 1.875% and their farm ownership interest rates are 4.125%.

Farm Credit Services- Variable Rate

Farm Credit Services offers conservative financing with FSA guarantees and has only made a few agricultural loans in Alaska over the years. They do not have an Alaskan office and process Alaskan requests out of Washington or Oregon. Their interest rates are variable rates with a cap and presently range from 3.40% - 5.85% with loan fees of 0-2% for a maximum 20 year term. Borrowers may be eligible for .50%- .70% annual interest refund. There may be prepayment penalties.

Commercial Fishing & Agriculture Bank- Variable Rate

CFAB has had very minimal agricultural activity and focuses primarily on Alaska's commercial fishing industry. This is mainly due to competition from ARRC, ARLF, and FSA who offer lower interest rates on agricultural loans. Interest rates offered by CFAB vary depending on the borrower's credit risk plus the "base rate." The base rate is established annually by their board. The current base rate is 4%. CFAB has a 1% loan fee in addition to loan closing expenses. Based on the borrower's credit and collateral offered, they can finance up to 100% loan to value.

Agricultural Revolving Loan Fund-Fixed Rate

ARLF is Alaska's major agricultural lender with emphasis on promoting agricultural development within the state. Based on ARLF's financial statement for fiscal year ending June 30, 2013, ARLF is valued at approximately \$22.3 million in fund equity with \$6.3 million cash available. The ARLF currently offers 3.00% short term one year operating loans, 4.00% chattel loans with a maximum seven year term, and 4.50% long term loans with a maximum thirty year term.

AS 03.10.010 Declaration of policy. It is the policy of this chapter to promote the more rapid development of agriculture as an industry throughout the state by means of long-term low-interest loans.

AS 03.10.030 Limitations on loans. (4) Shall bear interest at a fixed rate comparable to that charged by other agricultural lending institutions in the state for loans similar to those referred to in this subsection.

The ARLF FY2013 interest revenue was \$619,311. Adjustments to the ARLF loan interest rates may cause some degree of impact over the long term. However, increasing the interest rates would have very little immediate impact for the ARLF. Attached is a bar chart illustrating examples of the varying results based on interest revenue for one year only.

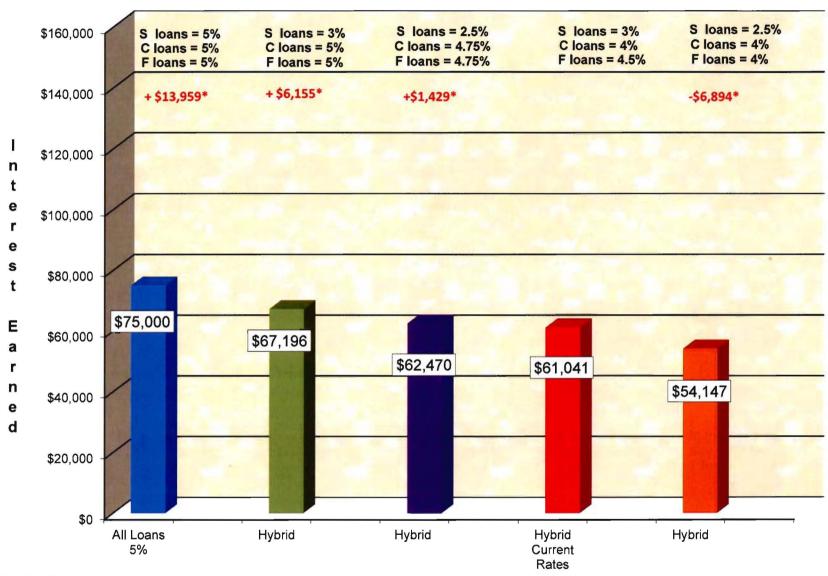
ARLF Good Borrower Credit Rate

11 AAC.39.511. Interest credit for borrowers who maintain good financial standing. (a) At least annually the board will establish an interest rate credit rate to encourage the prompt payment of loans under AS 03.10.50. Unless precluded by AS 03.10.050 (f), the board may approve interest credit on a loan granted under this chapter. The interest credit granted may not reduce the fixed rate to less than five percent a year.

Interest credit may not reduce the fixed rate to less than 5%. The majority of the ARLF portfolio has been refinanced to a 5% interest rate or less. Loans with interest rates greater than 5% may not have refinanced because of standard non- qualifying reasons, low payoff balances, or they are unwilling to apply.

Recommend "0.00%" Good Borrower Credits be approved for 2014.

ARLF One Year Interest Earnings Analysis



\$1,500,000 Estimated Loan Amounts: C - \$121,174 F - \$988,605 S - \$390,221

Note: This chart represents 12 months estimated earnings only *Difference in revenue compared with current interest rates

Alaska Agricultural Loan Interest Rates January 23, 2014

Lender	Short Term	Chattel	Development/ Construction	Irrigation System	Product Processing	Land Clearing	Real Estate	Comments						
ARLF								Fees - \$50						
Interest - Fixed	3%	4%	4.50%	4.50%	4.50%	4.50%	4.50%	Loans limited to 75% CLTV						
Term	1 year	7 years	30 years	30 years	30 years	20 years	30 years	Alaskan residents only						
	Good Borrower Credit may not reduce rate to less than 5%													
ARRC					==			Fees - \$100 new borrower, \$50 existing borrower						
Interest - Variable	5.00-9.00%	5.00-9.00%	5.00-9.00%	5.00-9.00%	5.00-9.00%	5.00-9.00%	5.00-9.00%	Loans limited to 70% CLTV						
Term	1 year	7 years	20 years	20 years	20 years	20 years	20 years	Rate & Terms determined by collateral & credit						
Interest rate adjustment every 2 years with no interest rate cap. Last reviewed November, 2013.														
FSA								Credit Report \$13.50 individual & \$20.25 joint, \$75 Entity						
Interest - Fixed	1.875%	1.875%	4.125%	4.125%	4.125%	4.125%	4.125%	Loans limited to 100% CLTV						
Term	1.5 years	7 years	40 years	40 years	40 years	40 years	40 years	Terms available 'up to' maximum period listed						
	FSA Emer	Other credit must not be available												
	1 211 2120	gone, noun	2.07070											
Farm Credit								Fees - 0 to 2%						
Interest - Variable	3.40-4.00%	3.30-4.60%	4.25- 5.85%	4.25- 5.85%	4.25- 5.85%	4.25- 5.85%	4.25- 5.85%	Loans limited to 75% CLTV						
Term	1 year	7 years	30 years	30 years	30 years	30 years	30 years	Rate & terms determined by collateral & credit						
Interest rate adjustment varies daily with interest rate cap. May have prepayment fees. Fixed & ARM rates are also available. May be eligible for .50%70% annual interest refund														
CFAB			The second section of the section of the second section of the section of the second section of the section of the section of the second section of the					Fees-1% loan fee + \$200 - \$400 expenses						
Interest - Variable	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	Loans limited to 100% CLTV, 70% to 80% standard						
Term	1 year	7 years	12 years	12 years	12 years	12 years	20 years	Rate & LTV determined by collateral & credit						
								Alaskan residents only						

Loan interest rate dependent on borrower's risk plus the base rate established by the board.

ARLF Loan Interest Rate

	Short Term	Chattel	Development	Irrigation	Processing	Clearing	Real Estate						
Existing Interest Rates	3.00%	4.00%	4.50%	4.50%	4.50%	4.50%	4.50%						
Rate Changes Effective January 24, 2014	%	%	%	%	%	%	%						
Good Borrower Credit Rate													
2013 GBC Rate	0.00%												
GBC Rate Effective January 24, 2014	%												
Subject to:													
BAC ChairSignature			Date		_								