

MEMORANDUM STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES - DIVISION OF AGRICULTURE

TO: Board of Agriculture & Conservation
May 3, 2010 meeting

DATE: April 21, 2010

THRU: Franci Havemeister
Director

FROM: Candy Easley
Loan Officer

SUBJECT: ARLF Loan Interest Rates
BAC Requested

ARLF Loan Interest Rates

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) now sets the ARLF loan interest rates *comparable* to other Alaskan agricultural lenders.

Beginning 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% for long term. The BAC approved these same rates January 21, 2010 with its annual ARLF loan interest rate review.

All the Alaskan agricultural lender programs differ; therefore, it is difficult to make an exact comparison of ARLF interest rates. Since the Statute does not specifically define "comparable", the BAC must make that determination. Historically, the BAC has considered within 1.00% as being comparable.

Alaska Rural Rehabilitation Corporation – Variable rate

ARRC offers conservative financing with a focus on moderate operating loans, chattel loans and farm land purchase financing. Their current interest rates are varied 5% - 9% determined by applicant's credit & collateral and no loan fees with terms of up to 20 years. The majority of the loans are closed at the 5%. Their rates are adjustable every two years with no cap.

USDA Farm Services Agency – Fixed rate

FSA offers financing if other credit is unavailable, along with specific programs such as Disaster Loans, Beginning Farmer and Socially Disadvantaged Farmers. Their chattel loans and real estate loans maximum are \$300,000. Alaska is appropriated approximately \$2 million annually; however, FSA is loaning less than \$500,000 annually in recent years. FSA also offers a guaranteed loan program to eligible lenders and eligible loan applicants. This program guarantees lender's loans from 80% - 95% based on program requirements.

Their interest rates are fixed and are presently 2.875% for short/intermediate term with a maximum of 7-year term and 5.00% for real estate loans with a maximum 40-year term with no loan fees. Their rates change monthly based on Treasury rates and have ranged from 2.625% - 3.125% short/intermediate term and 4.625% - 5.125% over the past 6 months.

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 4.20% - 8.55% and loan fees 0 - 2% with 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 no agricultural loan activity in years. Their loan programs are primarily for the fishing and tourism industries. Their variable rates are not competitive for agricultural loans at 7.25% - 8.50% and 1% loan fee with a maximum 20-year term.

Agricultural Revolving Loan Fund – Fixed rate

ARLF is Alaska's major agricultural lender with emphasis on agricultural development. Based on the March 31, 2010 Balance Sheet, the ARLF is valued at approximately \$22 million, which includes \$12 million loan portfolio, \$5 million cash and other assets. The ARLF currently offers 3.00% short term 1 year, 4.00% intermediate term up to 7 years and 4.50% long term up to 30 years.

NOTE: State Division of Lands agricultural land contract interest rates are based on the prime rate plus 3 percent not to exceed 9.5 percent. The current State ADL contract interest rate as of April 2010 is 6.25 % (3.25 prime rate + 3.00 percent).

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.

The ARLF has received no general funding since 1986, has minimal cash reserves and essentially has no more assets to liquidate. Without new funds to re-capitalize, the ARLF is at risk of not being able to continue to revolve and provide long term lending support to existing agricultural operations or new agricultural development.

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.

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 and would not keep up with the short term need to re-capitalize the ARLF.

As an example, increasing all the ARLF loan interest rates to 5.00% would only increase the ARLF annual revenue approximately \$21,000. This really has little impact on the fund; however, it has a significant long term impact on a producer's marginal cash flow.

ARLF FY2009 interest revenue was \$538,327. Attached is a bar chart illustrating examples of the varying results based on interest revenue for one year only.

Most certainly low loan interest rates result in a positive impact for agricultural borrowers by improving their operating cash flows and encouraging new development. However, a balance is necessary to provide low loan interest rates, yet continue to maintain the ARLF as a long term source of funding for existing Alaskan agriculture and for future agricultural development.

ARLF Loan Interest Rate

Short Term	Chattel	Develop	Irrigation	Product Process	Land Clearing	Real Estate
3.00%	4.00%	4.50%	4.50%	4.50%	4.50%	4.50%
_____ %	_____ %	_____ %	_____ %	_____ %	_____ %	_____ %

Existing Interest Rates
Approved January 21, 2010

Rate changes effective
May 3, 2010

OR

**May 4, 2010
for any rate increase**

Subject to:

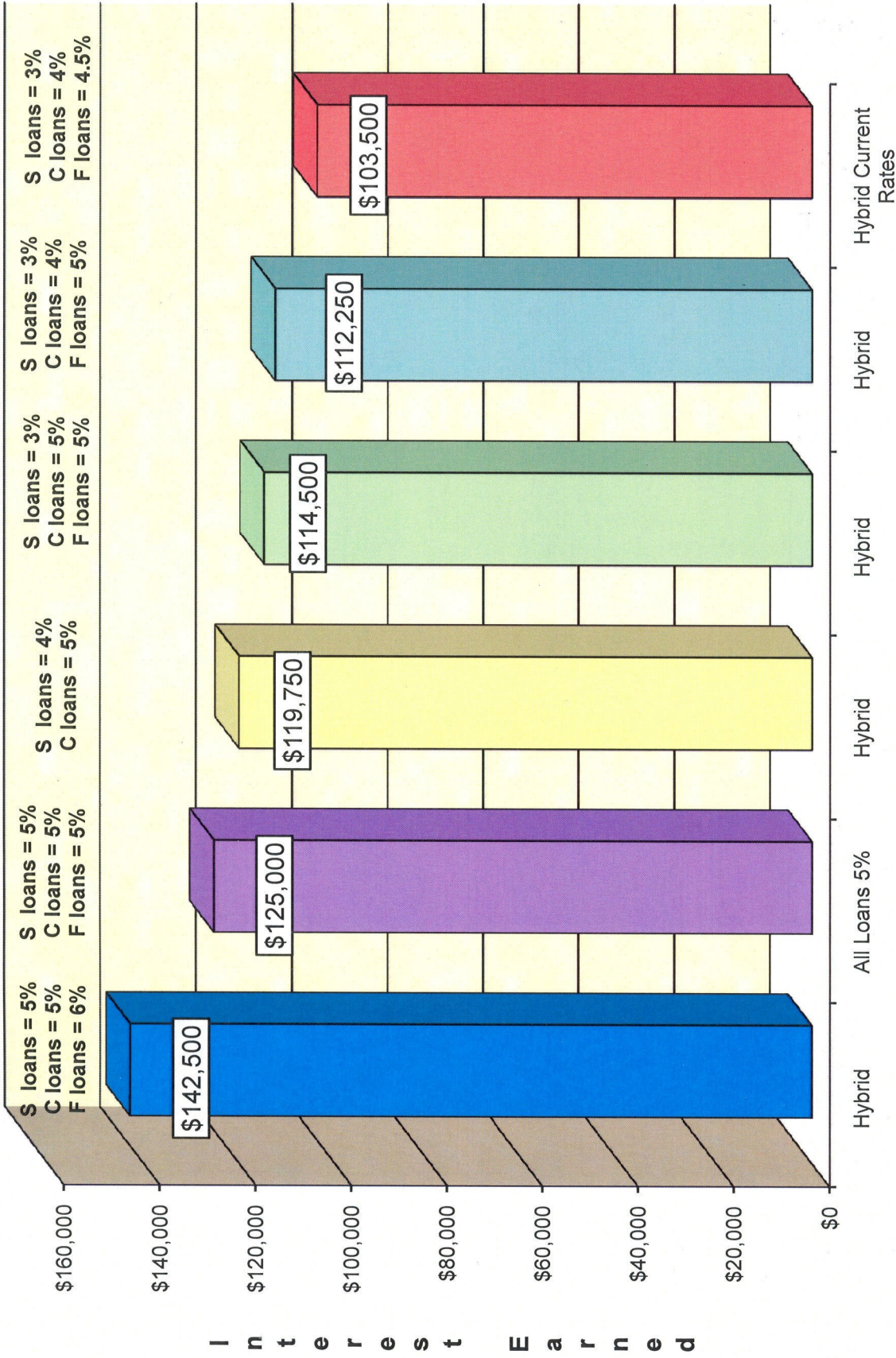
BAC CHAIR _____ Date

Alaska Agricultural Loan Interest Rates

April 1, 2010

Lender	Short Term	Chattel	Development/ Construction	Irrigation System	Product Processing	Land Clearing	Real Estate	Comments
ARLF								
Interest - Fixed	3%	4%	4.50%	4.50%	4.50%	4.50%	4.50%	Fees - \$50
Term	1 year	7 years	30 years	30 years	30 years	20 years	30 years	Loans limited to 75% CLTV Alaskan residents only
Good Borrower Credit may not reduce rate to less than 5%								
ARRC								
Interest - Variable	5-9%	5-9%	5-9%	5-9%	5-9%	5-9%	5-9%	Fees - \$100 new borrower, \$50 existing borrower
Term	1 year	7 years	20 years	20 years	20 years	20 years	20 years	Loans limited to 70% CLTV Rate & Terms determined by collateral & credit
Interest rate adjustment every 2 years with no interest rate cap								
FSA								
Interest - Fixed	2.875%	2.875%	5.000%	5.000%	5.000%	5.000%	5.000%	Credit Report \$13.50 individual & \$20.25 joint, \$75 Entity
Term	1.5 years	7 years	40 years	40 years	40 years	40 years	40 years	Loans limited to 100% CLTV Terms available 'up to' maximum period listed Other credit must not be available
5% rate can be applied for Limited Resource Borrowers								
Farm Credit								
Interest - Variable	4.20-7.95%	4.20-7.95%	4.10-8.55%	4.10-8.55%	4.10-8.55%	4.10-8.55%	4.10-8.55%	Fees - 0 to 2%
Term	1.5 years	15 years	20 years	20 years	20 years	20 years	20 years	Loans limited to 75% CLTV Rate & terms determined by collateral & credit Ag Vision Program - Young, beginning, small, minority
Interest rate adjustment varies with interest rate cap. May have prepayment fees. Fixed & ARM rates are also available. May be eligible for .50% - .70% annual interest refund								
CFAB								
Interest - Variable	7.25 - 8.5%	7.25 - 8.5%	7.25 - 8.5%	7.25 - 8.5%	7.25 - 8.5%	7.25 - 8.5%	7.25 - 8.5%	Fees-1% loan fee + \$200 - \$400 expenses
Term	1 year	7 years	12 years	12 years	12 years	12 years	20 years	Loans limited to 100% CLTV, 70% to 80% standard Rate & LTV determined by collateral & credit Alaskan residents only

ARLF One Year Interest Rate Earnings Analysis



Interest Rate

\$2,500,000 Estimated Loan amounts:
 C - \$225,000 F - \$1,750,000 S - \$525,000
 Note: This chart represents one Fiscal Year estimated earnings only

Legend: Hybrid (Blue), All Loans 5% (Purple), Hybrid (Yellow), Hybrid (Green), Hybrid (Teal), Hybrid Current Rates (Red)