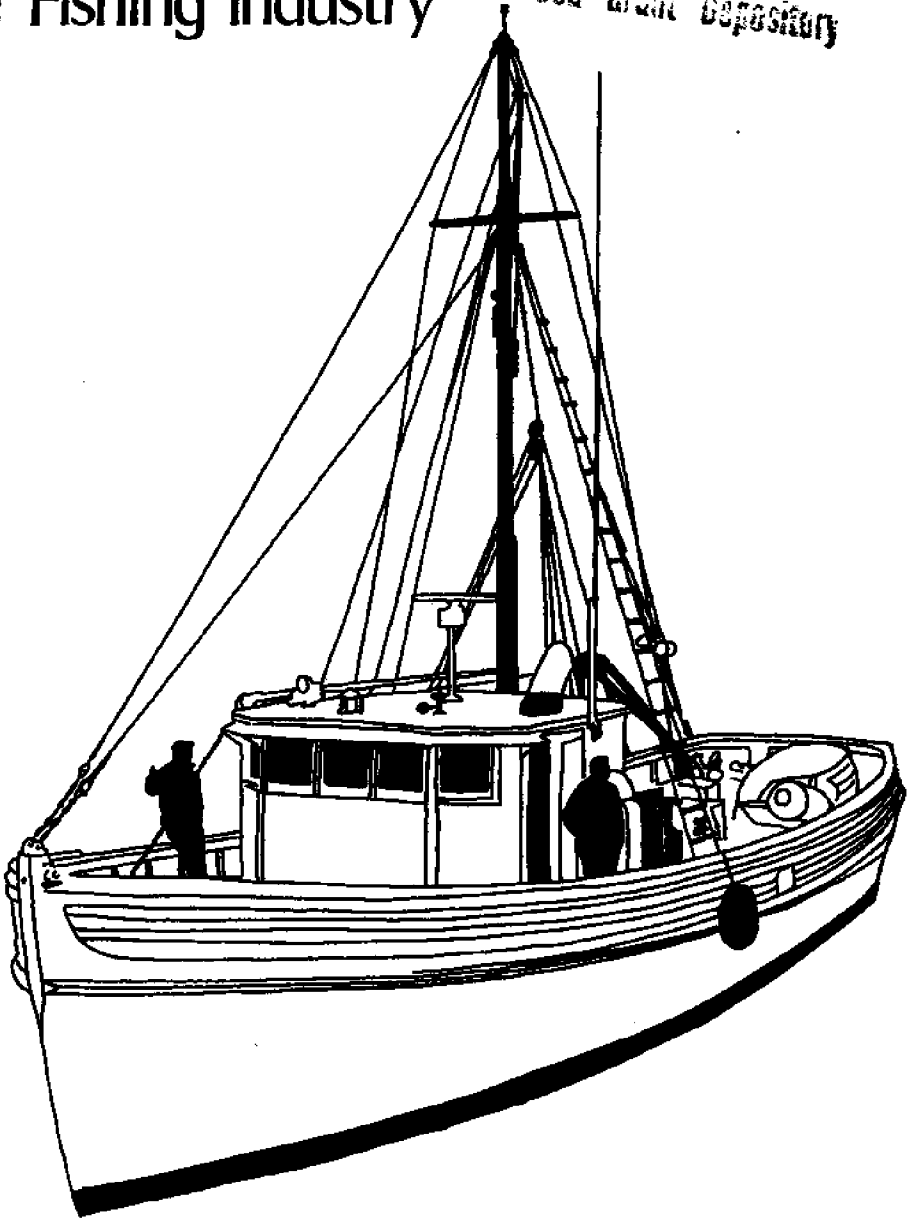


Sources of Financial Assistance Available to the Maine Fishing Industry

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Maine Department of Marine Resources
Fisheries Information Series, No. 2

Cover graphics by Phoebe McGuire and Joel Cowger

SOURCES OF FINANCIAL ASSISTANCE
AVAILABLE TO THE MAINE FISHING INDUSTRY

Joel D. Cowger
Field Extension Agent

Maine Department of Marine Resources
Fisheries Information Series, No. 2

Augusta, Maine 1979

Printing of this publication was made possible partly through funds provided by the National Sea Grant Program, National Oceanic and Atmospheric Administration, U.S. Department of Commerce.

ISBN 0-89737-001-5



Photo by John Ewing

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INTRODUCTION

This booklet was prepared to assist the Maine fishing industry by briefly describing various sources of financial assistance. One should note that programs, availability of money, and interest rates are subject to constant change. This booklet, therefore, is designed to provide only basic information about financial aid sources currently existing. For further information, contact the relevant agencies directly. In addition, the Department of Marine Resources should be contacted for information on new legislation or programs which may provide financial assistance.



Photo by John Ewing

BANKS

Establishing a good business relationship with a bank is most important for anyone in the fishing industry who needs financial assistance at the time or who may need assistance in the future. Several banks, particularly commercial banks, in the coastal area provide substantial services to the industry, and are the source of most capital. These banks have become increasingly knowledgeable about the Maine fishing industry. Many direct loans to the industry are made without the involvement of government guarantee programs.

A bank will generally take into account several factors when considering a loan application from a fisherman: 1) the character, ability, and experience of the applicant; 2) the applicant's financial records for the last few years, in order to establish the success of his performance and to determine the ability to repay a given loan; and 3) the value of the collateral being financed.

New fishing vessels are generally financed up to ten years. Financing of large boats, requiring longer loan terms, may require a government guarantee program.

Loans to fishermen are handled similar to any other business loans. Contrary to the opinion of some fishermen, interest rates are not set to be higher for the fishing industry. If an individual fisherman does not have a good business record, a loan given to him will reflect this and include a higher interest rate. The better fishermen have little trouble obtaining bank financing.

Most banks are competitive, and all differ somewhat in credit requirements, interest rates, and payment schedules. It is always wise to shop around.

Private financing corporations, some of which specialize in marine financing, are also sources of financial assistance. They are generally competitive with banks, although interest rates in some cases are higher.

MAC CREDIT UNION

Credit Unions are good financing organizations for members. One in particular, the MAC Credit Union, is specifically devoted to help meet the financial needs of the fishing industry. Originally established by the Maine Association of Co-ops to serve members of fishermen's co-ops, the MAC Credit Union now provides services to people associated with any fishing industry organization. As of October 1978, there were 360 members, and assets totalled about \$250,000.

Loan applications are handled by the loan officers of the various co-ops, or directly at the Damariscotta office. The interest rate on loans is 1% per month on the unpaid balance. Life insurance on the loan is included at no charge. Each loan amount is limited to 5% of the working capital of the Credit Union at the time the loan is given.

Loan demand is high, and preference is given to those who have savings accounts at the Credit Union. Preference is also given to applicants who need money for business expenses.

For further information:

Treasurer
MAC Credit Union
Box 3269
Damariscotta, Maine 04543
Tel. 563-5360

FARM CREDIT SYSTEM

Through the Farm Credit Act of 1971, short and intermediate term loans are available to fishermen for vessels, engines, gear, and other fishing or family needs. Commercial fishermen can go to their local Production Credit Association (PCA) for these loans, and fishery cooperatives can obtain financing from the Bank for Cooperatives.

To be eligible for a loan from the PCA, the applicant must be a legal entity fishing commercially, and meet at least one of the following requirements: 1) more than 50% of the value or number of shares of its voting stock or equity is owned by the individuals conducting the fishing operation; 2) more than 50% of the assets of the corporation are related to commercial fishing activities; 3) more than 50% of the income originates from commercial fishing.

Fishermen, like farm borrowers, are required to purchase 10% of their loan in PCA stock, which can be borrowed as part of the loan. Interest rates are the same as those charged to farmers of similar credit risk. Repayment of loans are scheduled in accordance with loan purpose. Repayment terms are usually less than seven years, although longer terms are available if necessary.

Loans are normally secured by first lien on the collateral being financed, and/or by other security felt to be necessary to protect PCA. The borrower is encouraged to maintain adequate property and liability insurance to protect both himself and PCA.

Credit standards are similar to those required by commercial banks.

The Bank for Cooperatives may make loans to any association of producers or harvesters of fishery products, or any federation of such associations, or a combination of such associations and fishermen, which is operated on a cooperative basis, is engaged in processing, preparing for market, handling or marketing fishery products; or purchasing, testing, grading, processing, distributing or furnishing fishing supplies, or furnishing fishing supplies or services to eligible cooperatives. Interest on the loans is at a rate which is periodically reviewed by the Board of Directors of the Bank, with approval of the Farm Credit Administration.

For further information:

Production Credit Association
615 Minot Avenue
Auburn, Maine 04210
Tel. 784-0193

NATIONAL MARINE FISHERIES SERVICE (NMFS)

NMFS presently administers the following financial assistance programs:

1. FISHING VESSEL OBLIGATION GUARANTEE PROGRAM - designed to help fishermen get loans to finance or refinance up to 87½% of the cost of constructing, reconstructing, or reconditioning fishing vessels of at least five net tons. Facilities or equipment other than vessels (such as fishing gear which is attached to the vessel during fishing operations) may also be eligible for guarantees.

Obligation guarantees are given with interest rates that the Secretary of Commerce determines to be reasonable, taking into account the range of interest rates prevailing in the private market for similar loans. The amount of collateral required is based on the applicant's ability to repay.

Reconstruction or reconditioning must cost at least \$40,000 or 20% of the vessel's replacement value, whichever is less.

The guarantee fee is ¾ of 1% per year on the unpaid principal balance. In addition, a small investigation fee and commitment fee are charged for initial administration.

2. FISHING VESSEL CAPITAL CONSTRUCTION FUND - this program allows owners or lessees of commercial fishing vessels of at least two net tons to defer the federal income tax on all or part of the income earned from the vessel for the purpose of accumulating funds with which to construct, reconstruct, or acquire a commercial fishing vessel of at least two net tons. The deferred taxes are, in effect, an interest-free loan from the Government.

3. FISHERMEN'S PROTECTIVE ACT - the Fishermen's Protective Act of 1967, as amended, is administered by both the Department of State and the National Marine Fisheries Service of the Department of Commerce's National Oceanic and Atmospheric Administration. When a vessel of the United States is seized by a foreign country on the basis of rights or claims in territorial waters or on the high seas which are not recognized by the United States and there is no dispute of material facts with respect to the location or activity of such vessel, the Act provides for reimbursement by the Secretary of State of the cost of fines, license fee, registration fees, and other direct charges paid by a vessel owner to secure the prompt release of a vessel

and crew, and payment of actual costs incurred by a vessel owner during (and as the direct result of) the seizure and detention period resulting from (a) damage, destruction, or confiscation of a vessel, gear, or other equipment, (b) dockage fees or utilities, (c) the market value of catch confiscated or spoiled during detention, and (d) 50 percent of gross income lost as a result of seizure and detention.

1978 amendments to the Fishermen's Protective Act have established the Fishing Vessel and Gear Damage Compensation Fund, whereby the owner of a U.S. fishing vessel is eligible for monetary compensation for any damage to, loss of, or destruction of the vessel, or any associated fishing gear, if the vessel was fishing within the 200-mile limit and the damage is attributable to a foreign vessel. These amendments take effect on January 1, 1979. Final regulations are not available at the time of printing of this booklet.

For further information on the above programs:

Fisheries Development Division
Financial Assistance Branch
National Marine Fisheries Service
Post Office Building, Box 1109
Gloucester, Mass. 01930
Tel. (617) 281-3600



Photo by Gareth Coffin

NEW ENGLAND FISHERIES DEVELOPMENT PROGRAM

The New England Fisheries Development Program (NEFDP) was organized in 1973 by the National Marine Fisheries Service (NMFS) at the recommendation of the fishing industry. The purpose of the NEFDP is to help revitalize the New England commercial fishing industry by assisting in the development of industries based on underutilized species. The fishing industry, through the New England Fisheries Steering Committee, recommends projects to NMFS for funding, and is responsible for activities conducted under the program.

The NEFDP has funded projects in Maine to develop fisheries for mussels, crabs, squid, and offshore herring. Other NEFDP-funded projects have been designed to increase utilization of whiting, mackerel, dogfish, and ocean quahogs. About \$300,000 was available for NEFDP projects in fiscal year 1979.

To be eligible for funding, proposals must meet the following criteria:

- 1) Proposals must be considered through the New England Fisheries Steering Committee Task Force.
- 2) The species (fisheries) considered must be either underutilized resources (by U.S. interest) or offer the potential for significant savings or economic gain through harvest or processing methods studied. Areas considered should include: a) resource availability; b) production capability; c) processing capability; and d) marketing potential, U.S. and foreign.
- 3) The activity selected for funding must be eligible within the administrative framework of NMFS, either through contract or other funding mechanism.
- 4) The duration for completion of individual projects must be 18 months or less.
- 5) The project selected must have broad application, with the possibility of benefit throughout New England and possibly the whole country.

For further information:

Program Manager, New England Fisheries
Development Program
National Marine Fisheries Service
14 Elm Street
Gloucester, Massachusetts 01930
Tel. (617) 281-3600



Photo by John Ewing

ECONOMIC DEVELOPMENT ADMINISTRATION (EDA)

Although not usually a source of direct financial aid to individual fishermen, the EDA has several programs which have benefited the Maine fishing industry.

1. GRANTS FOR PUBLIC WORKS AND DEVELOPMENT FACILITIES - this program is intended to attract new industry and business expansion in areas of high unemployment and low family income. Applicants may include the State, local subdivisions, Indian tribes, or non-profit corporations. In Maine, fisheries-related projects funded partially by this program have included the recent construction of commercial piers in Lubec and Milbridge, and construction of facilities for the Marine Trades Center in Eastport. Construction of the public landing and boat facility in Jonesport was jointly funded by the EDA and by the State Bureau of Parks and Recreation.

2. BUSINESS DEVELOPMENT ASSISTANCE - direct loans or loan guarantees may be made under this program for the purpose of improving the local economy in EDA-eligible areas by creating permanent jobs. Applicants may include the State, local subdivisions, Indian tribes, non-profit organizations, and business enterprises. EDA business development assistance is intended for large projects which do not qualify for SBA loans or loan guarantees. EDA's share of a project is usually \$500,000, and therefore, is not of great usefulness to most of the Maine fishing industry.

3. TECHNICAL ASSISTANCE - EDA may provide technical assistance in the form of outside services, or may grant funds directly to the applicant for the purpose of carrying out feasibility studies of various projects to improve the local economy. Pilot or demonstration projects may also qualify for technical assistance grants. Fisheries Development Corporation in Yarmouth is partially funded by this program.

4. LOCAL PUBLIC WORKS (LPW) - in 1976 and 1977 funds were made available under this special program to combat unemployment and aid the construction industry. Projects completed with the use of LPW money included a public dock on Vinalhaven, a fish pier and processing facility for the Passamaquoddy Indian tribe in Eastport, construction of a dormitory for the Marine Trades Center and WCVTI in Eastport, and Maine State Pier rehabilitation in Portland. Funds have not been made available for a third round of LPW projects.

5. SECTION 304 FUNDS - the State of Maine receives about \$130,000 of 304 funds each year, which the Governor may use to supplement an existing EDA project or to provide basic funding for an eligible project. 304 funds were used to supplement EDA funding of the Lubec fish pier and the Marine Trades Center in Eastport. Basic 304 funding was provided for the Portland fish pier feasibility study.

For further information:

Economic Development Administration
Federal Building
40 Western Avenue
Augusta, Maine 04330
Tel. 622-6171 Ext. 271

SMALL BUSINESS ADMINISTRATION (SBA)

The Small Business Administration (SBA) has no specific guidelines for fishermen or fishing related activities. Generally, if the activity is classified as a small business, it is eligible for SBA consideration.

Loans, under the regular business loan program, may be granted for the purchase of or repair of fishing vessels, acquisition of gear, for working capital or for any other bona-fide business purpose. In most situations, a proposal involving the construction or reconstruction of a documented vessel must first be presented to the National Marine Fisheries Service (NMFS) to determine if financing is available under the Fishing Vessel Obligation Guarantee Program. A decline by NMFS normally would enable the fisherman to approach SBA for loan consideration.

Most SBA loans are made through banks on a guaranty basis with the Bank providing the funds and SBA guaranteeing up to 90% of the loan. The borrower pays the Bank's rate of interest which cannot exceed a maximum rate established by SBA. The rate is generally geared to the prime rate and normally is one and one half to two points over prime.

Standard credit factors are considered in evaluating an application.

Processing time is generally two to four weeks depending on existing workload.

A new business venture generally requires a cash down payment of approximately 25% of the total project cost. Established businesses may be eligible for 100% financing depending upon the scope of the proposal and their overall financial condition. The SBA can guarantee up to \$350,000 (\$500,000 in some situations) with a maximum term of 10 years (proposals involving the purchase or construction of real estate may qualify for a term of 20 years).

The Economic Opportunity Loan (EOL) program is designed primarily to assist individuals who are economically and/or socially disadvantaged. These loans can be made for the same business purposes outlined above with a maximum amount of \$100,000 and a maturity not to exceed 15 years. A new business enterprise qualifying as an EOL is required to have a cash down payment of 15% of the total project cost. An established business may be able to finance on its equity.

The SBA has been active in supporting the Maine fishing industry. During 1978 through the regular business loan program and the Economic Opportunity Loan Program, SBA has made loans to lobstermen, draggermen, aquaculturists, and seafood processors and distributors.

For further information:

Small Business Administration
Federal Building
40 Western Avenue
Augusta, Maine 04330
Tel. 622-6171 Ext. 225



Photo by Steve Muskie



Photo by John Ewing

FARMER'S HOME ADMINISTRATION (FmHA)

The FmHA is an agricultural-oriented organization which provides no assistance to fishermen. However, aquaculture is considered by the FmHA to be equivalent to an agricultural operation, and is therefore eligible for agricultural loans or loan guarantees. To be eligible, applicants must be unable to obtain bank financing.

Farm emergency loans are available to assist operations which have suffered as a result of a natural disaster. Farm emergency loans (3% interest at that time) were given to several oyster growers because of substantial stock loss during the hard winter of 1976-77. Farm operating loans (currently at 8½% interest) are also available to aquaculturists.

A new FmHA program will provide up to \$400,000 in loans or loan guarantees to an aquaculture business which is experiencing problems as a result of an economic emergency.

For further information:

Farmer's Home Administration
Main Office
U.S.D.A. Building
Orono, Maine 04473
Tel. 866-4928

or

Local FmHA Office

MAINE GUARANTEE AUTHORITY

The loan guarantee program administered by the Maine Guarantee Authority permits a loan guarantee for any fishing vessel documented or to be documented as a fishing vessel under the laws of the United States, which is designed to be used for catching, processing, or transporting fish, or any vessel outfitted for such activity. The term of the loan cannot exceed 20 years, and the principal amount of the loan cannot exceed 80% of the cost of the project. Legislation may be introduced in the near future to expand loan eligibility to include any vessel registered within the State of Maine.

Before an application is considered, a local development corporation (LDC) must be created. The LDC is a non-profit organization whose purpose is to foster, encourage, and assist the physical location, settlement, and resettlement of industrial, manufacturing, fishing, agricultural, recreational, and other business enterprises within the state. The LDC is the borrower, and holds title to the vessel.

The LDC, consisting of seven people, must raise the difference between the cost of the project (or vessel) and the amount of the guaranteed loan. The cost to the borrower is the interest rate calculated by the bank plus a fee of from one-half of one percent to two percent of the guaranteed portion of the loan.

The Maine Guarantee Authority's vessel financing program is similar to the Small Business Administration guarantee program, and to the National Marine Fisheries Service (NMFS) Fishing Vessel Obligation Guarantee Program.

Loan guarantees may also be given to shore processing facilities or other business operations. Guidelines are different from those of the vessel financing program, and should be discussed directly with the Guarantee Authority.

For further information:

Maine Guarantee Authority
122 State Street
Augusta, Maine 04330
Tel. 289-3095

MAINE SMALL BUSINESS LOAN AUTHORITY

and

MAINE VETERANS SMALL BUSINESS LOAN AUTHORITY

Many banks have found that administrative paperwork required for processing Small Business Administration loan guarantees of less than about \$20-25,000 is excessive, and for that reason are not eager to provide services under that program. The Maine Veterans Small Business Loan Authority and the newly-created Maine Small Business Loan Authority were established to help remedy this situation. Under each of these two programs, which are administered from the same office, up to 80% of a maximum \$30,000 loan may be guaranteed. The two programs are identical- except that veterans may apply for assistance under both programs, raising the maximum loan to \$60,000.

These programs have proven very useful to Maine fishermen. At the time of this publication, more than 30 loan guarantees had been made to help finance capital expenditures of fishermen - more guarantees than given by those programs to any other type of Maine industry.

For further information:

Maine Small Business Loan Authority
One Community Drive
Augusta, Maine 04330
289-2094

PRIVATE INVESTMENT

Some fishing ventures may wish to attract private investment capital. Private investment is often more attractive and available than other sources of money, but it means that control of the business is often shared by more than one person.

Although one may be able to get a direct loan from a private source, attracting private investment usually requires the formation of a corporation or a partnership. Each has significantly different results with respect to the taxation and liability of the parties involved. If one is considering formation of either a corporation or a partnership as a method of acquiring investment capital, it would be well-advised to obtain legal counsel or to discuss the options with someone familiar with their characteristics.

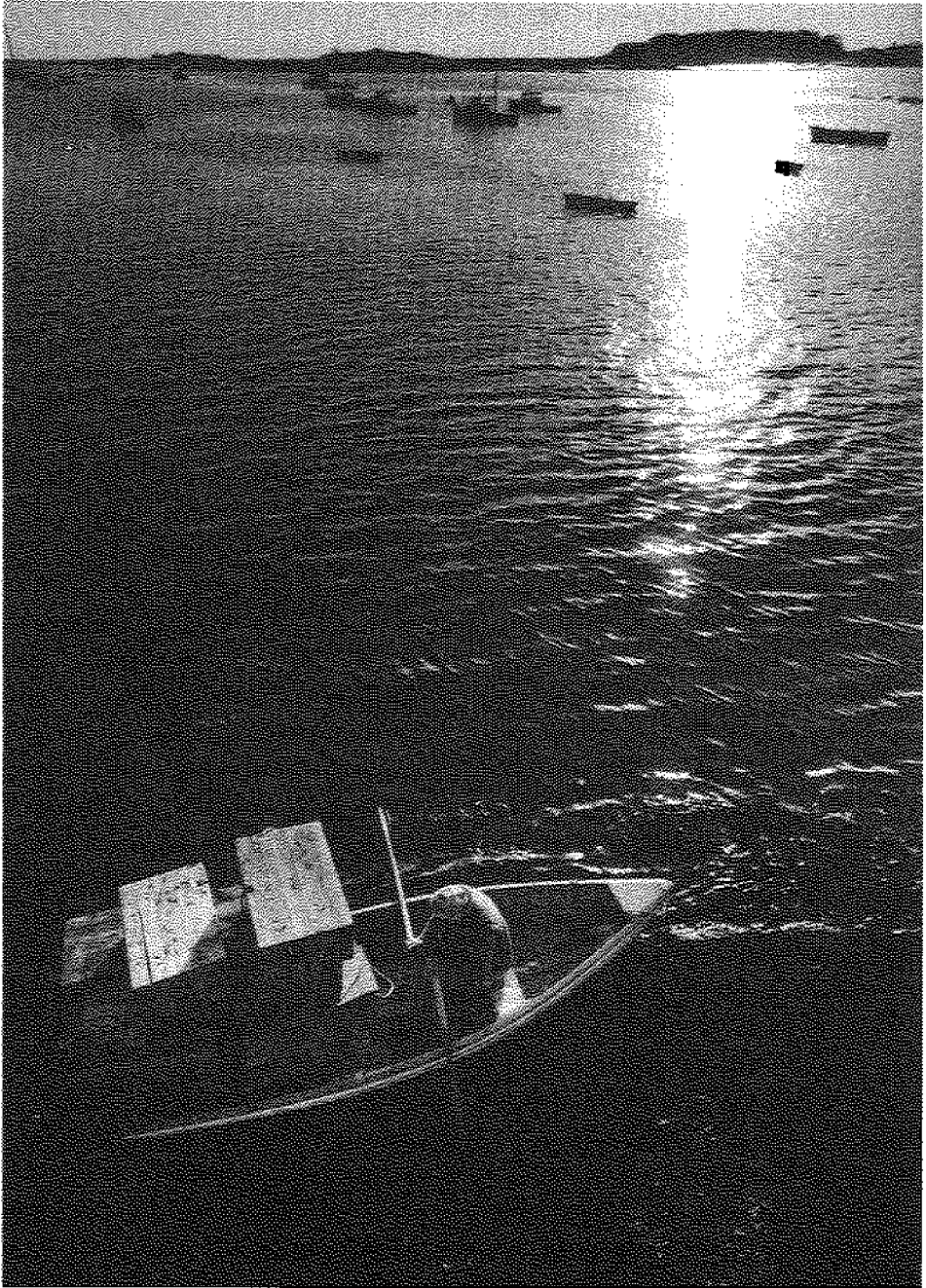


Photo by Steve Muskie

ACKNOWLEDGEMENTS

The author would like to express his appreciation to the following people who provided information used in this publication: Robert Avery, of the Bar Harbor Banking and Trust Company; R. Ewen Farnham, Jr., of Depositor's Trust Company; Richard Johns, of Casco Bank and Trust Company; Ruth Lane, of the MAC Credit Union; Brad Lawes, of the Production Credit Association; Edward Raymond and Warren Rathjen, of the National Marine Fisheries Service; Lorraine Thurston, of the Economic Development Administration; George Coffin, of the Small Business Administration; Michael Hope, of the Farmer's Home Administration; Philip Clifford, of the Maine Guarantee Authority; and Robert O'Malley, of the Maine Small Business Loan Authority.

