



# Marine Advisory Program

A FLORIDA SEA GRANT PUBLICATION

SUSF-SG-73-004

# The Fisherman and the Farm Credit System

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This information is published by the State University System of Florida as part of the U.S. Department of Commerce National Oceanic and Atmospheric Administration Sea Grant Program in cooperation with the Florida Cooperative Extension Service.

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## INTRODUCTION

Traditionally fishermen and members of the fishing industry have had to depend on personal savings, relatives, or private individuals, boat builders, or retailers, loan companies, insurance companies, commercial banks, or the National Marine Fisheries Service for financing their fishery operations. The Farm Credit Act of 1971 now authorizes the Farm Credit System to make loans for commercial fishing and related operations. The purpose of this paper is to (1) describe to the fishing industry the major features of the Farm Credit System as it has operated for the agricultural industry, and (2) briefly discuss the opportunities and requirements for fishermen desiring to utilize the Farm Credit System as an alternative source of financing.

## THE FARM CREDIT SYSTEM

### Legislative History

The Farm Credit System as it is known today had its origin in federal legislation in 1933. However the first Federal Land Banks were instituted in 1916, and the Federal Intermediate Credit Banks were instituted in 1923. The creation of the Farm Credit Administration in 1933 by executive order brought all existing government agricultural credit programs under its supervision. Enactment of the Farm Credit Act of 1971, as amended, provided specific inclusion of the commercial fishing industry.

The Farm Credit System initially relied heavily on the U.S. Government for capital. However, because the ultimate goal of the Farm Credit System was complete borrower - stockholder ownership, provisions for the retirement of government funds invested in the system were devised by the Farm Credit Board. Since 1968 all banking institutions within the Farm Credit System have been completely owned and controlled by its borrowers. Today the government is involved only to the extent that the system is federally chartered and, as such, is supervised and examined by the Farm Credit Administration, an independent agency in the Executive branch of the federal government. A parallel example is the National Banks which also are privately owned but operate under federal charter.

### National Structure

The United States is divided into 12 farm credit districts for the purposes of the Farm Credit System. Within that framework the Farm Credit System is made up of three principal components: (1) 12 district Federal Land Banks with local Federal Land Bank Associations within each of the 12 districts, (2) 12 district Intermediate Credit Banks with local Production Credit Associations within each district, and (3) the Central Bank of Cooperatives, also with 12 district Banks for Cooperatives.

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## The Federal Land Bank System

Local Federal Land Bank Associations are located within each of the 12 farm credit districts. These associations are owned and controlled by local borrowers. Each borrower purchases capital stock, amounting to at least 5 percent of the loan, in the local Land Bank Association. The local association in turn buys an equal amount of stock in the District Land Bank. The District Land Bank acquires most of its funds for lending by the sale of Federal Land Bank Bonds in the national money markets. The member - borrowers receive dividends on their capital stock when profits are made by the Land Banks.

Land Bank loans are for long-term investments and the loan period may range from 5 to 40 years. These long-term loans are generally for purposes such as the purchase of farms, farmland, construction of buildings and other farm and family needs. The amount of the long-term loan may be up to 85 percent of the appraised normal value of the property plus the value of the association's stock they are required to purchase in connection with their loans. In determining the appraised normal value of the property factors such as income from the property, home advantages and prices paid for comparable property are considered.

## The Production Credit System

There is a Federal Intermediate Credit Bank for each of the 12 farm credit districts. Within each district there are several local Production Credit Associations (PCA). Producers borrow directly from the local PCA's which get most of their loan funds from the Federal Intermediate Credit Banks for their district. The Federal Intermediate Credit Banks obtain their funds from the sale of short-term bonds to the investing public through the investment markets of the nation.

PCA loans are made mostly for current production purposes and intermediate capital purchases. Most production loans are written to mature within one year. Intermediate term capital loans may be written for up to seven years. To obtain a loan, a producer is required to purchase voting stock (class B) equal to at least 5 percent of the loan. The farmer can borrow for any agricultural purpose, including family living expenses. The maximum amount of the loan is determined by the strength of his financial position and his ability to repay from his income. Interest rates depend on the discount rate of the Federal Intermediate Credit Bank, operating expenses of the local PCA and necessary reserve requirements. When the producer repays his loan, he may retain his voting stock for up to two years in case he needs it for a new loan. After two years the voting stock is converted to nonvoting stock (class A) to insure the association is controlled by the persons currently using it. A member who does not have a loan outstanding may offer his stock for sale to other members at any time. The stock owned by local borrowers is one source of capital for the association.

## Banks for Cooperatives

In each of the 12 farm credit districts and at the same location as the District Federal Land Bank and the Federal Intermediate Credit Bank there is also located a Bank for Cooperatives. In addition a Central Bank for Cooperatives is located in Washington, D.C. (soon to be relocated in Denver, Colorado). The Banks for Cooperatives were instituted to provide loans and general business services to cooperatives engaged in marketing agricultural products, purchasing farm supplies or furnishing farm business services.

Local cooperatives may obtain all of their financing needs from one source. The Banks for Cooperatives extends short-term loans for seasonal needs, intermediate-term loans for working capital needs, and long-term loans for capital construction and improvements. Interest charged depends on the cost of money obtained by the bank, operating cost and reserve and capital needs. Interest rates may vary among banks from time to time. Each co-op borrowing from the Banks for Cooperatives is required to purchase class C stock from the bank from which it is borrowing.

There are no local associations through which cooperatives obtain loans. Rather, they deal directly with the District Bank for Cooperatives. The Central Bank for Cooperatives assists the District Banks when large loans exceed the lending limits of the District Bank or when a District Bank requires a direct loan. The Banks for Cooperatives, like the other banks in the Farm Credit System, obtain the bulk of their funds in the public money markets. They sell consolidated debentures to private investors. Peak demands for funds between issues of debentures are met by borrowing from commercial banks, other Farm Credit Banks or from their own net worth.

## FINANCING AVAILABLE TO THE COMMERCIAL FISHING INDUSTRY

### Authority

The Farm Credit Act of 1971 expanded the role of the Farm Credit System to include certain non-farm financing. Producers or harvesters of aquatic products (hereafter referred to as fishermen) may now borrow from local Production Credit Associations. Fishery marketing, supply or service cooperatives may apply directly to the District Bank for Cooperatives for financing and business management services. Less important to the fishing business, but important to the fisherman's family, are the new guidelines for the Federal Land Banks. Federal Land Banks may now make long-term loans for rural non-farm housing. Although all three sources of loan funds are either directly or indirectly important to the fishermen, the remainder of this bulletin is concerned with the PCA loans to fishermen or fishing firms.

## General Policies

The extension of loans to fishermen is generally a new experience for the PCA. In the past only fish-farmers, such as trout and catfish farmers, have been eligible to borrow from the Farm Credit System. Due to the lack of experience on the part of the PCA and fishermen's lack of familiarity with PCA procedures, joint cooperation is needed to make the PCA's adventure into fishery financing a mutually successful endeavor. Specific guidelines and procedures will have to be developed as experience is gained in fishery financing. Presently, a general policy for extending PCA fishery loans has been developed by the Federal Intermediate Credit Bank.

The general policy statement specifies several points concerning PCA fisheries loans. The fisherman must establish his qualifications as a producer or harvester of aquatic products. A legal entity (such as a corporation) must meet the same requirements and at least one of the following qualifications: (1) individuals conducting the aquatic operation must own more than 50 percent of the value or number of shares of its voting stock or equity, (2) assets relating to the production or harvesting of aquatic products must exceed 50 percent of the value of the assets of the legal entity, and (3) income originating from the production or harvesting of aquatic products must make up more than 50 percent of the total income of the legal entity.

Fishermen or fishing firms qualifying as producers or harvesters of aquatic products may apply for short and intermediate-term credit funds for several items. Operating costs, including family living requirements, are eligible. With respect to capital items, a fisherman may apply for funds for refinancing, capital purchases, and construction and reconstruction. It is important to note that these loans are not limited to expenditures relating to the vessel or fishing gear. Items such as a pier, refrigerating facilities or a truck qualify for loans. The total amount of credit extended cannot exceed the value of the firm's assets devoted to the production or harvesting of aquatic products.

Terms of loans currently in effect for agriculture will generally apply. Operating loans are to be paid out at the end of each loan period. Term loans will mature within a maximum of seven years.

## Loan Application Procedures

Complete financial and other operating information similar to that required by commercial banks or other lending institutions is required for security. Local PCA's are encouraged to utilize professional appraisers and consultants to develop collateral evaluation standards. Normally accepted collateral will consist of the assets used in the operation of the fishing business. However, other assets may be pledged if necessary. In addition to collateral, adequate marine insurance will be required when deemed appropriate (Appendix A contains a partial list of marine insurers in Florida). The local associations are urged to take advantage of the various government agency guaranty and insurance programs offered at both the state and federal level.

To receive a PCA loan a fishing firm must present a balance sheet showing its assets, debts, and net worth. In addition, a statement concerning the firm's profits and losses for the past several years and a statement forecasting profits and losses for several years in the future will be valuable in determining profitability of the firm and its loan repayment potential. Appendix B contains sample financial statements which may be of value in obtaining a PCA loan.

#### SUMMARY

The Farm Credit System has expanded its scope to include commercial fishing operations. The program is not a government sponsored program. Joint cooperation of the fishing industry and the local PCA's potentially can provide an additional source of credit to the fishing industry which for years has suffered from a lack of financial resources. Fishermen interested in PCA loans are encouraged to contact their local PCA offices (local district credit offices in Florida are listed in Appendix C). The general lending criteria to be considered in obtaining a PCA loan are (1) the individual borrower, (2) purpose of the loan, (3) financial position and progress, (4) repayment plan, and (5) collateral.

APPENDIX A

Partial List of Marine Insurors (Florida)<sup>a</sup>

Southwest Insurance Company  
517 Whitehead Street  
Key West, FL 33040

Associates Marine Underwriters, Inc.  
124 Security Trust Building  
Miami, Florida 33131

Brunk-Miller Insurance Agency  
Naples, FL 33940

Donald A. Bolton & Company  
2115 Hendrix Avenue  
Jacksonville, FL 32207

Commander Insurance, Inc.  
1142 Edgewood Avenue  
Jacksonville, FL 32205

Davis Marine Insurance, Inc.  
Shaw Maritime Bldg.  
501 N.E. 1st Avenue  
Miami, FL 33132

Hyde & Dinkel Insurance Agency  
P. O. Box 1146  
Ft. Myers, FL 33902

Y. E. Hall, Inc.  
916 Barnett National Bank Building  
Jacksonville, FL 32202

Harlan Insurance of Florida  
P. O. Box 1379  
Jacksonville, FL 32201

Des Champs & Gregory, Inc.  
P. O. Box 1100  
524-9th St., West  
Bradenton, FL 33506

Northwest Florida Insurance Agency  
P. O. Box 2173  
Panama City, FL 32401

A. R. Mead & Company  
2626 East Commercial Blvd.  
Ft. Lauderdale, FL 33308

Charles H. Blume & Company  
924 Hendricks Avenue  
Jacksonville, FL 32207

Intercontinental Marine Underwriters,  
Inc.  
Gulf Life Towers  
Jacksonville, FL 32203

King Insurance Agency  
652-5th Avenue South  
Naples, FL 33940

Molten, Allen & Williams Insurance  
Agency  
502 South Dale Mabry  
Tampa, FL 33609

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<sup>a</sup>Source: "Marine Economics Data: Partial List of Marine Insurors"  
Marine Memorandum No. 2, Marine Advisory Program, University of Florida,  
December 1972. Preliminary: Additional names will be added as they become  
known to the Marine Advisory Program.

APPENDIX B  
Sample Financial Statement<sup>a</sup>

		PROFIT AND LOSS SUMMARY				
		1968	1969	1970	1971	1972
ASSETS		Total Sales _ _ _ _				
Cash and Checking Accounts _ _ _ _		Trip Expense _ _ _ _				
Savings Account _ _ _ _		Crew Shares _ _ _ _				
Notes Receivable _ _ _ _		Repairs _ _ _ _				
Accounts Receivable _ _ _ _		Gear and Supplies _				
Inventories _ _ _ _		Insurance _ _ _ _				
Total Current Assets _ _ _ _		Interest _ _ _ _				
Land _ _ _ _		Depreciation _ _ _				
Buildings, Furniture _ _ _ _		Other Expenses _ _				
Vessels and Gear _ _ _ _		Profit Before Tax _				
Life Insurance _ _ _ _		Other Net Income				
Autos, Trucks _ _ _ _		(other than vessel)				
Other _ _ _ _		Income Taxes _ _ _				
Total Non-Current Assets _ _ _ _		After-tax Net Income				
Total Assets _ _ _ _						
Less Total Liabilities _ _ _ _						
NET WORTH _ _ _ _						
LIABILITIES		PROFIT AND LOSS FORECAST				
Notes Payable-Suppliers _ _ _ _		1973	1974	1975	1976	
Notes Payable-Banks _ _ _ _		Estimated Catch (based on				
Notes Payable-Others _ _ _ _		averages of past 4 yrs.) _				
Income Taxes Owed _ _ _ _		Trip Expenses _ _ _ _				
Total Current Liabilities _ _ _ _		Crew Shares _ _ _ _				
Mortgages _ _ _ _		Repairs _ _ _ _				
Other Debts _ _ _ _		Gear & Supplies _ _ _ _				
TOTAL LIABILITIES _ _ _ _		Insurance _ _ _ _				
		Interest _ _ _ _				
		Depreciation _ _ _ _				
		Other Expenses _ _ _ _				
		Profit Before Tax _ _ _ _				
		Estimated Tax _ _ _ _				
		Amount Available for Loan				
		Repayment From Vessel				
		Operation _ _ _ _				
		Estimated Non-fishing				
		Income _ _ _ _				

<sup>a</sup>"Marine Economics Data: Sample Financial Statements," Marine Memorandum No. 1, Marine Advisory Program, University of Florida, December 1972. Based on information originally published by Oregon State University as part of the Department of Commerce, National Oceanic and Atmospheric Administration, Sea Grant Program.



APPENDIX C

Third Farm Credit District Production Credit Associations  
Serving Coastal Counties in Florida

District Credit Office	Counties in District
<p>Big Bend Production Credit Association P. O. Box 429, U. S. Highway 90 West Monticello, Florida 32344 W. H. Pickenpaugh, President</p>	<p>Franklin, Gadsden, Jefferson, Leon, Liberty, Madison, Taylor and Wakulla Counties</p>
<p>Central Florida Production Credit Association 1916 North Orange Avenue Orlando, Florida 32804 John P. Payne, President</p>	<p>Brevard, Lake, Orange, Osceola, Semi- nole and Volusia Counties</p>
<p>Farmers Production Credit Association P. O. Box 518 Tamiami Station 780 Tamiami Canal Road Miami, Florida 33144 Charles B. Long, Jr., President</p>	<p>Broward, Collier, Dade, Indian River, Martin, Monroe, Okeechobee, Palm Beach and St. Lucie Counties</p>
<p>Gulf-Atlantic Production Credit Association P. O. Box 1546, 1206 E. Memorial Boulevard Lakeland, Florida 33802 Russell D. Willis, President</p>	<p>Citrus, Hernando, Hillsborough, Pasco, Pinellas, Polk and Sumter Counties; citrus growers in entire citrus belt of Florida</p>
<p>Marianna Production Credit Association P. O. Box 920, 311 N. Jefferson Street Marianna, Florida 32446 C. F. Morton, General Manager</p>	<p>Bay, Calhoun, Escambia, Gulf, Holmes, Jackson, Okaloosa, Santa Rosa, Walton and Washington Counties</p>
<p>Mid-Florida Production Credit Association P. O. Box N, 4310 S.W. 13th Street Gainesville, Florida 32601 Henry M. Frazee, General Manager</p>	<p>Alachua, Bradford, Dixie, Gilchrist, Levy, Marion and Union Counties</p>
<p>Northeast Production Credit Association P. O. Box 1259, 120 Main Street Palatka, Florida 32077 J. E. Dukes, President</p>	<p>Baker, Clay, Duval, Flagler, Nassau, Putnam and St. Johns Counties</p>
<p>Southwest Florida Production Credit Asso- ciation P. O. Box 71, 1501 Manatee Avenue, East Bradenton, Florida 33505 Herbert E. Cook, President</p>	<p>Charlotte, DeSoto, Glades, Hardee, Hendry, Highlands, Lee, Manatee and Sarasota</p>

## MAJOR REFERENCES USED IN THIS BULLETIN

1. Columbia Bank for Cooperatives 1972 Annual Report, Columbia Bank for Cooperatives, Columbia, South Carolina.
  2. "Information on PCA Loans," National Fisherman, April 1973, pp. 18-A and 23-A.
  3. "Policy for Financing Producers and Harvesters of Aquatic Products by Production Credit Associations in the Third Farm Credit District," Federal Intermediate Credit Bank of Columbia, Columbia, South Carolina, 1972.
  4. The Farm Credit Lender, Vol. 7, No. 2, Third Farm Credit District, Farm Credit Bank of Columbia, Columbia, South Carolina, Fall 1972.
  5. The Farm Credit System, Farm Credit Administration Circular 36, U. S. Government Printing Office, Washington, D. C., December 1970.
  6. URI Commercial Fisheries Newsletter, Vol. IV, No. 4, University of Rhode Island, Kingston, Rhode Island, October 1972.
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