Borrowing

A Guide for Alaska Commercial Fishermen

Revised 1990

CRAIG WIESE

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About the Author

Craig Wiese is associate professor of marine science with the University of Alaska Marine Advisory Program, School of Fisheries and Ocean Sciences, in Anchorage. Wiese teaches courses in marine business, and has published articles on his research on modeling fishing fleets, operating charter businesses, and financing for fishermen.

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A GUIDE FOR ALASKA COMMERCIAL FISHERMEN

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Introduction

"[illegible] money [illegible] the majority of small business-men it frequently takes borrowed funds to get into business, and periodic borrowing to keep the business running."

Borrowing is a necessity for most commercial fishermen, a necessity for acquiring a vessel, gear, and a fishing permit if one is required. Often fishermen must also borrow in order to bring seasonal start-up funds ("working capital") to an adequate level. In this respect, fishermen are no different from the majority of small businessmen: it frequently takes borrowed funds to get into business, and periodic borrowing to keep the business running.

Fortunately, Alaska's commercial fishermen have a greater variety of lenders to choose from than do their small business counterparts in nearly every other industry in the state. The Lenders chapter of this publication examines 11 conventional, but sometimes little known, financing alternatives available to Alaskan commercial fishermen. The loan program of each lender is briefly explained, and the terms and conditions for a loan are outlined for easy review and comparison.

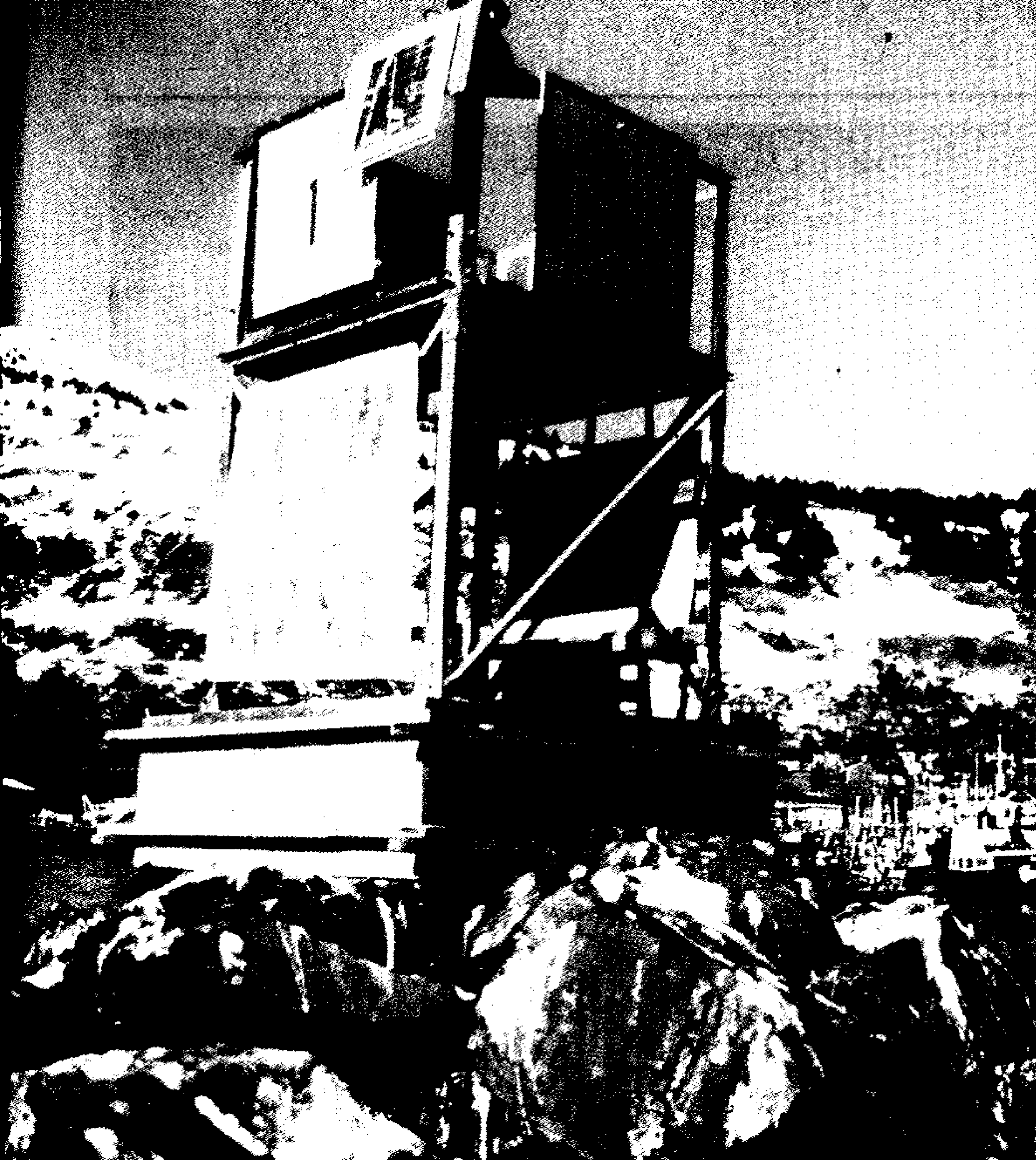
Comparison shopping is the key to finding the right lender, because each offers its own particular combination of terms, conditions, and eligibility requirements. The potential borrower should use this publication to match each loan program's features against his or her borrowing needs. Financial strength, fishing experience, and in some cases residency status are all factors to be considered in determining which lenders may be suitable.

Once one or more lenders have been selected, but before the application paperwork begins, you should take a rough cut at deciding if what you want is affordable at the lender's terms. Use the loan payment schedule on pages 59 and 60 to find the annual payment that matches your borrowing needs and the lender's terms. Enter this amount into the break-even calculation shown in the Break-Even Analysis chapter. This chapter offers a step by step, fill-in-the-blank guide to performing a break-even analysis that will determine how many pounds of one or more species must be caught to meet fishing expenses, loan payments, and living expenses. If your expected catch is greater than the break-even catch, and you have used realistic estimates of ex-vessel price and operating expenses (in other words you aren't fooling yourself), then feel comfortable about proceeding to the application.

For those who do not apply for loans on a regular basis, one of the most frustrating parts of completing an application is trying to decipher the meaning of the financial jargon while at the same time second-guessing what the lender really wants. The Application chapter addresses this dilemma by explaining much of what isn't obvious or isn't explained on a commercial fishing loan application. Reading that chapter can save you hours of confusion, not to mention the loss of days or weeks of time through correspondence with lenders over incomplete paperwork. How many times have interest rates risen beyond affordability, while the loan application process dragged on and on?

Finally, before moving to the chapter on lenders, you should know that no borrower is eligible for every loan program discussed in this publication, no matter how wealthy he or she may be. To help you find the programs that are right for you, a few requirements and features of each are listed on page 6.

After reading the discussions in the text about the programs that fit your borrowing situation, make an appointment with a loan officer at these lending institutions. You need to do this to get up-to-date information on the latest terms, conditions, and internal lending policies for the type (vessel, permit, gear, etc.) and size of loan that you want. If there is one constant in the financing field, it is that terms and policies change regularly for every lender.



The Lenders

"Fortunately, Alaska's commercial fishermen have a greater variety of lenders to choose from than do their counterparts in nearly any other state."

LOAN OPTIONS FOR ALASKA FISHERMEN

1. State of Alaska Division of Investments

Lender of choice for individuals who meet the requirements; its loan terms and interest rates are excellent. Interest rates are fixed for the life of the loan. There are two programs:

A. Permit loans
   a. Borrower must be an Alaska resident the two years preceding the date of application.
   b. Borrower must have had commercial fishing experience at least three of the past five years.
   c. Division of Investments is the only agency besides CFAB that will accept a limited entry permit as collateral for a permit loan.

B. Vessel and gear loans
   a. Borrower must be an Alaska resident the two years preceding the date of application.
   b. Borrower must be unable to get a vessel loan from a commercial lender.
   c. Fishing must have been a traditional way of life for borrower.

2. Alaska Industrial Development & Export Authority (AIDEA)

A. Not for loans below $100,000.
B. Interest rate is fixed.
C. Apply for an AIDEA loan through a bank.

3. Alaska Commercial Fishing and Agriculture Bank (CFAB)

A. Borrower must be an Alaska resident one year.
B. Borrower must have commercial fishing experience.
C. CFAB can accept permits as collateral.

4. Production Credit Association (PCA)

A. Maximum financing is 60%.
B. Borrower must have commercial fishing experience.
C. Refinancing available.

5. Community Enterprise Development Corporation (CEDC)

A. Borrower must live and fish in western Alaska.
B. Maximum loan is $50,000.

6. Farm Credit Bank

Collateral for a loan must be real estate that is used in the fishing business such as a warehouse or land used for storage, or it must be your residence. Boats and gear cannot be used as collateral.

7. Banks

The repayment period for large loans is often shorter than is common for state and federal programs and for cooperative banks. Banks are the principal source of working capital and construction loans.

8. Finance Companies

A. Minimum loan amount is usually [illegible],000 to $300,000 depending upon the company.
B. Loan terms similar to bank.

9. Fisheries Obligation Guarantee Program (FOG)

A. Long payback and good interest rates.
B. Fixed interest rate is available.
C. Relatively slow application process.

10. Processors

Generally no longer providing loans except to most favored fishermen.

11. Capital Construction Fund (CCF)

A tax deferred savings program for vessel owners or lessees.

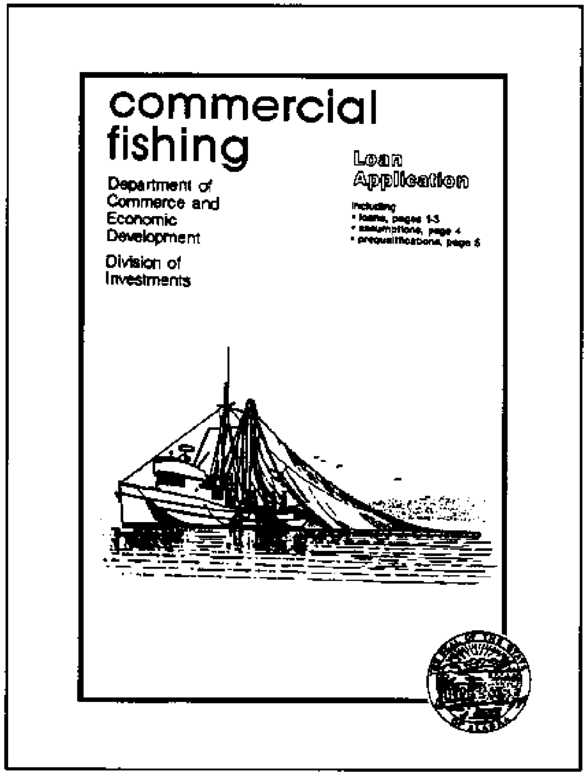
There are two state agencies that make loans to commercial fishermen. Both are housed within the Department of Commerce and Economic Development. One, the **Division of Investments,** manages permit loans for all fishermen who meet the basic requirements for residency and fishing experience. It also makes vessel, gear, and permit loans to individuals, corporations, and partnerships who meet requirements for length of residency, experience, economic dependence, and traditional lifestyle. Vessel and gear loans from this agency are intended mainly for residents of bush communities who do not have other sources of employment and who cannot qualify for a fishing loan from a commercial lending agency.

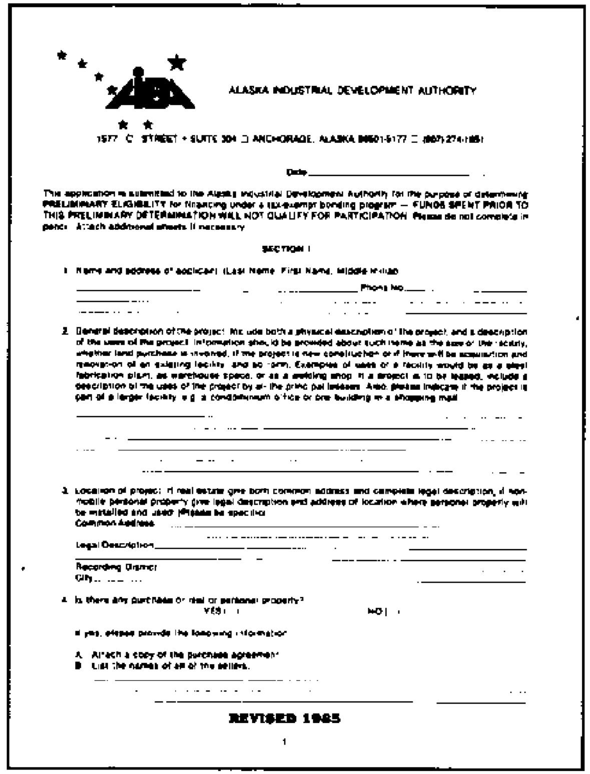
The other state agency involved with fishing industry loans is the **Alaska Industrial Development and Export Authority (AIDEA).** AIDEA is actually a loan underwriter and does not make loans directly to individuals. The way to plug into the AIDEA program is to apply for an "AIDEA participation loan" at a bank. Details about each program follow.

Division of Investments

The **Division of Investments** manages the Commercial Fishing Revolving Loan Fund. The Revolving Loan Fund consists of two separate loan programs entitled "Section A" and "Section B." Section A loans are only for limited entry permits, while Section B loans are for entry permits, vessels, and gear. Each has distinct eligibility and lending limit requirements. The policies and terms for these two loan programs are altered periodically, sometimes in minor ways, sometimes substantially. Before submitting an application to the division, be sure that you have read and completed the latest revision.

The division is the lender of choice for individuals who are seeking an entry permit loan and who meet the requirements for residency and fishing experience. Its loan terms and interest rate are unbeatable, and, most important for many people, the division is the only lending agency besides CFAB that will accept a limited entry permit as collateral for a permit loan. This makes a permit loan possible for individuals who do not have real estate or other assets that can be used as security for a loan from a





commercial lender.

Fishermen who are shopping for a limited entry permit may prequalify for a loan under Section A by filing an application with the division before they have found a seller. The application must be complete except for a purchase agreement, down payment receipt, and other papers associated with a commitment to purchase a specific permit. A $200 nonrefundable prequalification fee must accompany the application. If the application is approved, the loan commitment will be valid for 60 days after the date of approval. If a permit is not located, an applicant may apply for a 60-day extension after providing a new financial statement (profit or loss statement and balance sheet), and paying an additional $200. Extensions may be repeated indefinitely.

Loans under Section B are intended for individuals who cannot qualify for a vessel loan from a commercial lender, do not have job opportunities in their local area other than commercial fishing, or are economically dependent on commercial fishing and for whom commercial fishing has been a traditional way of life. Section B is designed to give members of fishing families in rural towns and villages a chance to compete economically for a boat and permit.

Loans under Sections A and B are assumable. The interest rate for the original borrower is dropped and the current rate for new loans is assigned. Eligibility requirements for assumptions remain the same as for new loans, with one important exception: no prior fishing experience is necessary. The loan committee, however, must be convinced that the applicant is a good financial risk before approval is granted.

DIVISION OF INVESTMENTS

Section A Permit Loans for Individuals	Section B Vessel and Gear Loans
Loans For	
• Limited entry permits. • Reimbursements of an applicant for a permit that was obtained six months or less before receipt of the application by the Division of Investments.	• New or used vessels. • Gear and equipment. • Limited entry permits. • Repair or upgrading of vessels and gear.
Loan Limits	
$300,000 maximum, less the total of any outstanding loan balances from the previous fishing loans made under the Commercial Fishing Revolving Loan Fund.	$100,000 maximum, less the total of any outstanding loan balances from previous fishing loans made under the Commercial Fishing Revolving Loan Fund. Two or more commercial fishermen may apply jointly for a loan and combine their $100,000 individual maximum loan amounts. Outstanding loan balances from previous commercial fishing loans are deducted from the total loan amount.
Interest Rate	
Fixed—10.5%.	Fixed—10.5%.

(cont. on page 9)

Division of Investments applications and information:

Division of Investments
Pouch D
Juneau, AK 99811
(907) 465-2510

Division of Investments
3601 C Street, Suite 778
Anchorage, AK 99503
(907) 562-3779

	Section A **Permit Loans for Individuals**	**Section B** **Vessel and Gear Loans**
Percent Financing	Up to 80% of the Limited Entry Commission value if only the permit is used as collateral. Up to 100% of Limited Entry Commission value if other collateral in addition to the permit is offered as security.	Up to 80% of the Limited Entry Commission value of a permit, 75% of appraised value or cost (lowest) of a vessel, and 60% of equipment value or cost. 100% of financing is available when sufficient collateral is offered in addition to the item being purchased. Borrower must have at least three years of experience as a commercial fisherman **in the fishery to which the permit applies** and must not have owned a limited entry permit in the year just preceding the application for the loan.
Loan Term	Up to 15 years. Depends upon the amount to be borrowed and the financial strength of the borrower. Normally less than 15 years, even for large loans, so that if extensions are necessary, the extensions will not exceed the 15-year maximum.	Up to 15 years. Depends upon the loan amount and the financial record of the borrower.
Eligibility	State residency for the two years immediately preceding the date of application.	State residency for the two years immediately preceding the date of application.

(cont. on page 10)

Section A
Permit Loans for Individuals

Eligibility

Must have held a limited entry permit, commercial fishing license, or crew member license for the year preceding the date of application and any two of the past five years, and have actively participated in the fishery during those periods.

For each year claimed above, either 30% of total gross income must have come from commercial fishing, **or** 25 days of the year must have been spent commercial fishing, **or** an individual must have fished 50% or more of the days that a particular fishery was open. Any one of these conditions will satisfy the eligibility requirement in each year claimed.

A loan received under Section A makes an individual ineligible to borrow under Section B.

Special Fees

- Application fee—$25.
- Credit report fee—$25.
- Prequalification application fee—$200.
- Origination fee—1/2% of the loan amount (if application is approved).
- Assumption fee—1/2% of the assumable amount (if application is approved).

Section B
Vessel and Gear Loans

Eligibility

The borrower must have no local occupational opportunities other than commercial fishing because of lack of job opportunities in the area of residence, **or** lack of training, **or** the borrower must have traditionally fished in Alaska and be dependent on commercial fishing for a livelihood.

Loans under Section B are intended for individuals who do not have alternative sources of financing available to them.

An individual who has received a permit loan under Section A is ineligible to borrow under Section B. However, an individual who has borrowed under Section B can later borrow under Section A once the Section B loan has been repaid.

Special Fees

- Application fee—$25.
- Credit report fee—$25.
- Origination fee—1/2% of the loan amount (if application is approved).
- Assumption fee—1/2% of the assumable amount (if application is approved).

Alaska Industrial Development and Export Authority

The Alaska Industrial Development and Export Authority (AIDEA) has two bond financing programs that may be used by commercial fishermen, the **Taxable Umbrella Bond Program** and the **Tax-Exempt Umbrella Bond Program.** In nearly every case, a vessel construction, reconstruction, or refinancing project will fall within the guidelines of the Taxable Umbrella Bond Program. The only exception is a processing vessel that manufactures a fish (shellfish) product that is substantially different from the fish in the round. For example, surimi manufacturing can qualify for tax-exempt bond financing, but a heading and gutting operation will not.

It should be noted that the cost of a surimi processing project may not entirely qualify for tax-exempt financing if the vessel also fishes. The "fishing" portion of a surimi factory trawler must be funded with taxable bond dollars while the "processing" portion is eligible for lower interest, tax-exempt bonding. The interest rate difference is roughly 2%.

AIDEA does not make loans directly to borrowers. It is a loan underwriting agency. As such, it will purchase up to 80% of a loan from a commercial lender. As commitments by AIDEA to purchase loans from banks and other lenders are approved, they are consolidated until the total package reaches approximately $10 million to $25 million. AIDEA then sells bonds to finance the package of consolidated loans, hence the term "umbrella financing."

The loan process for AIDEA financing begins by going to a commercial lender, usually a bank, or perhaps the Commercial Fishing and Agriculture Bank (CFAB), and asking for an "AIDEA participation loan." If the project has taxable bond financing status, the process continues by completing the commercial lender's application. The lender then submits the application to AIDEA for consideration.

If tax-exempt funding is being requested, the commercial lender must submit a preliminary application to AIDEA. The preliminary application allows the AIDEA review board to determine if the project and borrower fall within Internal Revenue Service tax-exempt financing guidelines and meet AIDEA lending regulations. If the project and borrower are approved for tax-exempt funding, the commercial lender's application is completed by the borrower and submitted by the lender to AIDEA.

As noted above, AIDEA will fund up to 80% of a new loan or 60% of a refinance loan. A commercial lender must finance the remaining 20% or 40%. The

AIDEA UMBRELLA BOND FINANCING PROGRAM

Loans For

- New or used vessels.
- Capital improvements.
- Capital equipment.
- Real estate.
- Refinancing.

Loan Limits

- $10,000,000 maximum.
- There is no minimum, but bankers are reluctant to deal with loans for much less than $100,000 because the income they make on their 20% portion (the usual cut) is not enough on smaller loans to make the paperwork worthwhile.

Interest Rate

Fixed—10% to 11% in October 1990.

The interest rate that is charged to borrowers depends upon the interest rate that AIDEA must pay to buyers of its bonds. Once bonds to finance a package of loans are sold, the interest rate to borrowers in that package will remain fixed for the terms of their loans.

AIDEA purchases up to 80% of a loan from a commercial lender. The commercial lender holds the remaining 20% of the loan. AIDEA's interest rate is fixed. The interest rate on the bank's or other lender's portion floats. It moves with the prime rate. Because the commercial lender's piece of the loan is so small, fluctuating interest rates on this portion will cause only minor changes in the overall rate for the loan, probably not more than 1/2%.

Percent Financing

Up to 75% of the purchase price or survey value, whichever is lower.

Commercial lenders decide the percentage of purchase price or survey value that will be loaned. AIDEA funds up to 80% of the amount the lender decides to loan. AIDEA will fund up to 60% of refinancing loans.

Loan Term

Up to 15 years, depending upon the commercial lender.

Eligibility

The hailing and home ports must both be in Alaska.

Special Fees

- $100 preliminary eligibility application fee.
- 1.5% taxable bond sale fee.
- 2.0% tax-exempt bond sale fee.

total loan package cannot exceed 75% of the project construction cost or purchase price.

AIDEA umbrella bond loans are usually large loans of a few hundred thousand dollars or more.

In addition to loan financing, AIDEA also provides loan guarantees. Loan guarantees offer assurance to a lender that a loan will be repaid of a borrower defaults. Two programs exist that may be of use to fishermen. The **Export Assistance Program** guarantees principal and interest on loans for export transactions. The maximum amount guaranteed is $1,000,000. The **Business Assistance Program** guarantees up to 70% of loans for equipment and machinery, real estate, inventory, or working capital. A $1,000,000 maximum applies here as well. An interesting feature of this program is that AIDEA is obligated to provide guarantees statewide in an equitable manner based upon both geographic region and population density. For details about both programs, contact an AIDEA representative or ask your lender to contact AIDEA.

For more information about AIDEA financing, write or call:

Alaska Industrial Development & Export Authority
480 W. Tudor Rd.
Anchorage, AK 99501-5177
(907) 561-8050

Alaska Commercial Fishing and Agriculture Bank

The **Alaska Commercial Fishing and Agriculture Bank (CFAB)** is a lending cooperative that serves only the fishing, farming, and timber industries in Alaska. It was created in 1980 because of limited availability of financing for certain sectors of these industries. CFAB is a private lending institution; however, the state provided its initial funding by purchasing a large block of stock that the bank must eventually repurchase.

CFAB is the only lender besides the State of Alaska Department of Commerce and Economic Development that can use a limited entry permit as security (collateral) for the purchase of a permit or vessel. Acceptance of a permit as collateral is advantageous to borrowers who have no major assets except for their boat, permit, and house, and feel reluctant to secure a boat loan with their home.

CFAB loans cover a broad spectrum of borrowers in the fishing industry. They include harvesters, processors, suppliers, and marketers. Loans may be made for a variety of purposes. Fishermen, for example, may obtain loans for the purchase of new and used vessels, gear, equipment, processing supplies (for on board processing), and fishing permits, and to meet a variety of construction, repair, and operating expense needs.

The cooperative has no standard formula for establishing loan payments. Interest rate, financing percentage, and repayment period, the three loan payment determinants, each vary within ranges. CFAB works with individual applicants to find a combination within these ranges that is appropriate to the applicant's cash flow, financial and fishing record, loan collateral, and the purpose of the loan.

The interest rate that a borrower may negotiate, based upon the factors listed above, can vary over a 2% range. The starting rate also varies because the interest that CFAB pays for money it borrows to relend to applicants varies with swings in the economy. Financing provided for vessels is usually in the range of 50%–75% of cost or appraised value. Again, more or less may be offered depending on loan collateral, fishing record, and other payment factors. Maximun repayment terms for vessels and permits is usually 12 years.

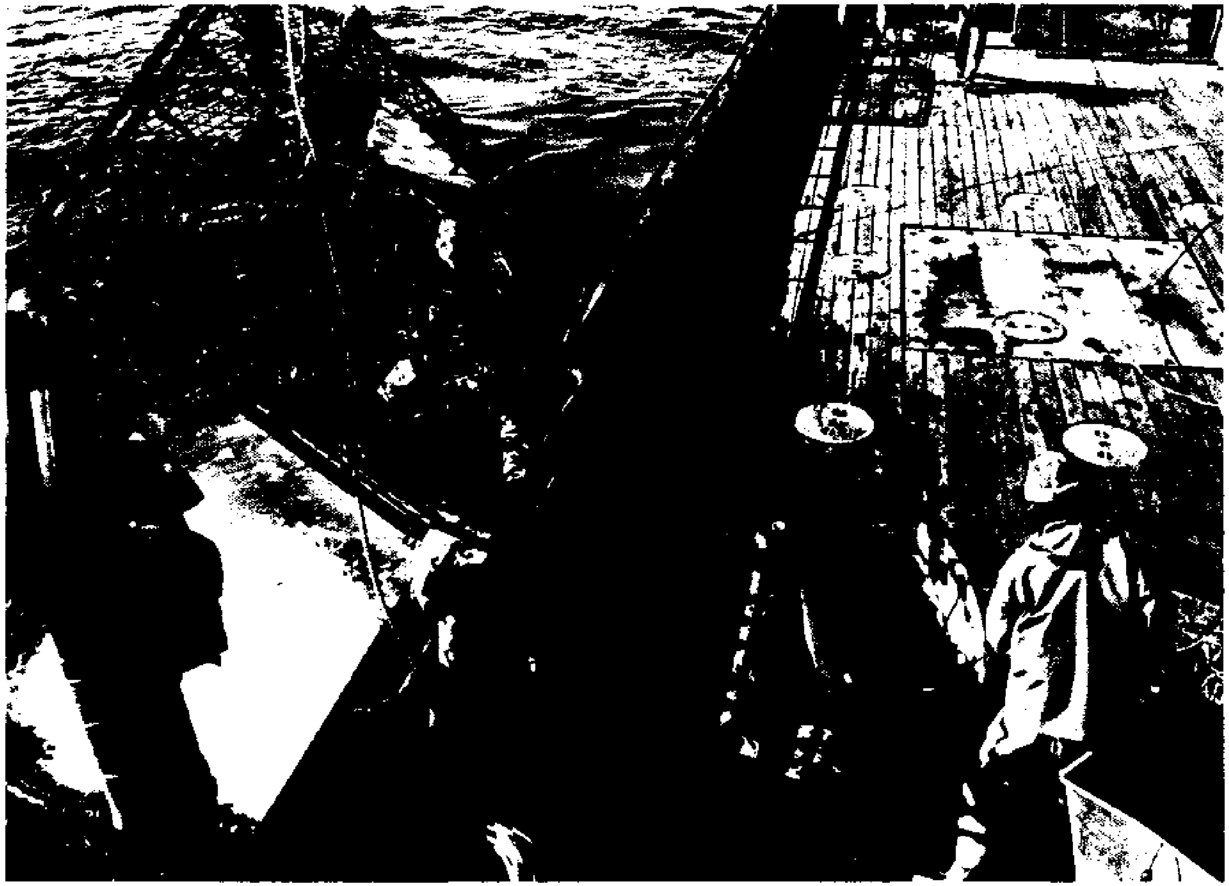
Loans are made only to individuals who have been Alaska residents for at least one year and who have recent fishing experience as an operator or as a crew member. Other eligibility requirements apply to partnerships and corporations (see the accompanying table.)

Because CFAB is a cooperative lending association, borrowers must become stockholders in the association. The amount of stock purchased must equal 5% of the loan amount. The cost of stock is often added to the loan, but the net effect on annual payments is slight.

The CFAB loan table begins on page 13 and shows terms and conditions that apply only to fishermen.

For applications and additional CFAB information contact:

Alaska Commercial Fishing and
Agriculture Bank
2550 Denali St., Suite 1201
P.O. Box 92070
Anchorage, AK 99509
(907) 276-2007



Production Credit Association

Farm Credit Services

Production Credit Associations (PCAs) are Farm Credit System financing cooperatives originally formed 50 years ago to assist farmers and ranchers. In 1971 PCAs were authorized to make loans to "producers or harvesters of aquatic products"—primarily commercial fishermen.

The interest rate at PCAs is variable and changes periodically during the life of a loan in conjunction with the rise and fall of bond interest rates. In addition, Production Credit Associations and other Farm Credit System lenders have a differential interest rate program by which rates can be adjusted up or down from the average variable rate according to a borrowers' financial position after the loan is made. In other words, if a borrower's financial position improves from year to year, the interest rate can be adjusted down to reflect the lower risk of default.

Being a financing cooperative means that borrowers must become shareholders in the cooperative in order to obtain a loan. Different Farm Credit System lenders have different stock ownership programs. At PCAs, borrowers must maintain stock ownership equivalent to

4% of their loan balance. Funds to purchase stock are automatically added to a vessel or gear loan and a borrower consequently pays interest on a loan balance that is 104% of the amount received for business purposes. The net effect is to increase the effective interest rate about one percentage point above the stated rate. The stated rate remains low enough, however, that the effective rate is always competitive.

Loan terms may be extended to 15 years on new vessels and to 10 or more years on used vessels. The combination of competitive interest rates and long repayment terms makes for some of the most affordable annual loan payments available among lenders with variable (floating) interest rates. Production Credit Associations are geared to meet a variety of fishing industry borrowing needs including refinancing, interim construction loans, and working capital loans.

One drawback of the PCA for some prospective borrowers is that maximum financing for new vessels is only 60% of the purchase price, and for used vessels it is 50% of cost or survey value. That leaves a borrower with a relatively large down payment requirement, a minimum of 40% or 50% respectively for a new or used vessel. In addition, a borrower must have adequate working capital reserves available to cover seasonal start-up costs.

Those who can afford the high equity

CFAP	PCA
Loans For	
• Purchase of new or used vessels, equipment, and gear. • Repair or reconstruction of existing vessels. • Working capital. • Limited entry permits.	• Purchase of new or used vessels, equipment, and gear. • Vessel repair and reconstruction. • Purchase of gear and equipment. • Interim construction if the long term financing is also carried by the PCA. • Seasonal working capital for members with vessel loans. • Refinancing.
Loan Limits	
None.	None.
Interest Rate	
Floating—average rates in October 1990 for boats, permits, and boat-permit combinations are: • Boat 12%. • Permit 10.5%. • Combination 11%.	Floating or fixed—rates are individually determined based upon risk of default. Average floating effective rate is about 2% over prime. Fixed rates include a hedge against future interest rate increases and are generally a little higher than the floating rate during periods when the prime rate is fairly stable.
Percent Financing	
Variable—depends largely on catch history, financial strength, and collateral, e.g. vessel—usually in the 50%–75% range.	• New vessels—up to 60%. • Used vessels—up to 50%.

(cont. on page 15)

CFAB	**PCA**
Loan Term	
• Vessels—up to 12 years. • Permits—up to 12 years. • Gear—up to 3 years. • Equipment—up to 7 years. • Working capital—end of season.	• New vessels—up to 15 years. • Used vessels—up to 12 years.
Eligibility	
1. Alaska resident—1 year. 2. 2–3 years fishing experience. 3. CFAB is a cooperative lending association, and borrowers must become members of the cooperative by purchasing stock in the organization.	1. 2–3 years fishing experience. 2. Corporations and partnerships must meet one of the following requirements: a. More than 50% of the stock in a corporation that is applying for a loan, or, in the case of a partnership, more than 50% of the equity must be owned by fishermen. b. 2–3 years fishing experience. c. More than 50% of the corporation's or partnership's assets must be related to fishing. 3. PCAs are cooperative lending associations and borrowers must become members of the cooperative by purchasing stock.
Special Fees	
• 1% permit loan fee. • 2% vessel loan fee.	• 1% loan fee.

requirement should put the Interstate PCA on their shopping list of loan sources to investigate. They have been a significant source of capital for the Northwest and Alaska fishing industry during the past 15 years.

Production Credit Association loans for Northwest and Alaska fishermen are processed and managed by the Interstate PCA staff in Salem, Oregon. A branch office of the Interstate PCA is located at Fishermen's Terminal in Seattle.

A consolidation of Farm Credit Services functions may take place in early 1991. If that occurs, the Interstate PCA will become known as the Northwest Agriculture Credit Association.

Additional PCA information may be obtained from:

Interstate Production Credit Association
P.O. Box 1009
Salem, OR 97308
(503) 581-7511

Interstate Production Credit Association
Fishermen's Terminal
West Wall Bldg., Rm. 102
Seattle, WA 98119
(206) 282-8806

Community Enterprise Development Corporation

CEDC

If you live and fish in the region bounded by Cape Sepping on the north, the Aleutian Islands to the south and west, Bethel and Marshall along the Kuskokwim and Yukon, and including the Pribilof Islands, this program may be for you. It is intended for fishermen of this region who cannot get financing from a conventional lender, and whose borrowing needs do not exceed $50,000. The **Community Enterprise Development Corporation (CEDC)** manages a revolving loan fund of approximately $1,300,000. A revolving loan fund starts with a fixed amount of money to lend. After the initial distribution to borrowers, the amount that is annually available for future borrowing depends upon how much is returned each year in loan payments. When a borrower misses a payment or defaults on a loan, there is less to relend. On the average there is approximately $200,000 to relend each year. This normally supports 10 to 20 loans. More than any other lender to the state's fishing industry, CEDC gambles on the integrity of its borrowers to keep its program alive.

Criteria used by conventional lenders for approving a loan include a strong credit record, ability to meet a 25% to 50% down-payment, good collateral, and evidence of earnings sufficient to make loan payments in addition to all other expenses. CEDC lends to people who cannot meet all of these requirements. To avoid making bad loans, CEDC loan personnel concentrate on an individual's work history, consumer credit, reputation in the local community, fishing experience, and the last three years' income tax returns. Total family income and expenses during each of the prior three years are also closely reviewed.

In order to meet funding source demands, CEDC requires a 10% down-payment. The loan approval criteria are different from a conventional lender's, but they still relate to ability to repay a loan, which is the feature that all lenders are trying to judge.

The application period for CEDC loans runs from December 1 to the end of the first week in February. All loan requests are reviewed and approved or declined by the third week of February. Because the application period that begins in December is short, and because the lending pool is relatively small, an applicant should begin early in the fall to prepare a good application.

For CEDC applications and information:

Community Enterprise Development Corporation
1577 C Street Plaza, Suite 304
Anchorage, Alaska 99501
(907) 274-5400

Farm Credit Bank

Farm Credit Services

Why is the **Farm Credit Bank** in the fishing financing business you may be wondering? The answer is the Farm Credit System. The Farm Credit Bank (FCB) is a long-term real estate lender in the Farm Credit System and is a cousin to PCAs. As harvesters of food products, farmers and fishermen are equally eligible for financing, according to Farm Credit System philosophy. The FCB began making loans to fishermen and processors in 1982.

The important distinctions between the Farm Credit Bank program and that of virtually all other lenders to the fishing industry are: (l) the FCB is a long-term lender, and (2) the security (collateral) for a loan must be real estate that a fisherman uses in his fishing business or it may be his home. How long is long-term? Would you believe 30 years? Yes, it is possible to get 30 year financing for a vessel. Fifteen year financing is not at all uncommon. What's the catch? Only that your income record proves that you can handle increased loan payments in addition to all other expenses, and that you have adequate equity in fishing-related real estate to secure a loan.

	CEDC	FCB
Loans For	• New or used vessels. • Equipment and gear. • Conversion or reconstruction.	• New or used vessels. • Gear or vessel shed. • New or used home. • Limited entry permit. • Set net site. • Refinancing. • Gear and equipment. • Aquaculture facilities. • Operating funds.
Loan Limits	Up to $50,000.	None.
Interest Rate	Fixed at 12%.	• Variable. • Fixed, or • Adjustable. • All are approximately 12% as of October 1990.
Percent Financing	Up to 90%—vessels, gear, and equipment.	Variable—depends on the value of real estate offered as collateral and on the resale market for that collateral. It is not tied to the fisheries equipment or property that is being purchased.

(cont. on page 18)

	CEDC	FCB
Loan Term	• New vessels—up to 7 years. • New motors and nets—3 years. • Vessel and motor combinations—up to 7 years. • Loan terms are shorter for used vessels and equipment.	Up to 30 years. The range is 15 to 30 years, depending upon the life expectancy of the real estate used as collateral, the size of the loan, and the borrower's ability to repay the loan.
Eligibility	Alaska resident, permanently residing in the Western Alaska region bounded by Cape Sepping on the north, the Aleutian Islands on the south and west, Bethel and Marshall along the Kuskokwim and Yukon rivers, and including the Pribilof Islands.	• Loans are made only to individuals, partnerships, or corporations who are, or will be, involved in the commercial fishing industry. • The borrower must own real estate that can be used as collateral for a loan and which will be used for fishing business purposes, or is a home. • Borrowers must become stockholders in the cooperative.
Special Fees	None.	Appraisal fee—$250 (charged only to borrowers whose loan is approved and who cannot be reached by road from a Farm Credit Services office).

Fishing-related real estate may include your home (you need shelter for your family and your personal property while you fish), a boat or gear shed, land on which you store a vessel or equipment, dock facilities, and processing facilities if you process your catch. In order to be suitable collateral, the real estate also must have good resale potential. If it is run down, unfinished, in a low demand location, or not up to FCB construction standards, it may not be suitable collateral, which means it may not have any loan value, no matter what its appraised value may be. On the other hand, if it is in excellent condition and there is a high demand for the property, the loan value may be 80% to 85% of the appraised value.

There are no upper or lower limits on the amount that can be borrowed, but the largest loan granted in Alaska up to fall of 1990 is $180,000. Bear in mind that the size of a loan is determined not by the value of the vessel or equipment you wish to purchase but, again, by your equity in fisheries-related real estate, its resale potential, and your net income record during the past few years. Net income history is determined from income tax returns, recordkeeping books, catch records, and living expenses. Average net income is usually the limiting factor in setting loan size. The combination of net income, equity, and resale potential is different for every borrower, which means that the amount that can be borrowed is judged on a case-by-case basis. There is no formula.

Two other interesting features of this program are that refinancing is available, and that the program is open to part-time as well as full-time commercial fishermen. Part-time fishermen must of course have a good earning history in the fisheries. Like other Farm Credit System programs, the Farm Credit Bank requires a borrower to become a stockholder in the bank in order to receive a loan. Stock ownership is set at 5% of the amount originally borrowed and remains at that amount until the loan is completely repaid. The Farm Credit Bank loan program, like the Production Credit Association program, is managed at regional Farm Credit Services offices. Two offices serve Alaskans. Southeast fishermen should contact the office in Mount Vernon, Washington, while new loans to fishermen living elsewhere in Alaska are handled by the Palmer, Alaska, office.

For FCB applications and information:

Farm Credit Services
248 E. Dahlia St.
Palmer, AK 99645
(907) 746-3390

Farm Credit Services
P.O. Box 307
Mt.Vernon, WA 98273
(206) 424-4151

Banks

Banks in Alaska make relatively few vessel loans. One reason is that they have found it difficult to compete with the longer repayment period and lower interest rates offered by state loan programs, CFAB, PCAs, and the National Marine Fisheries Service Fisheries Obligation Guarantee Program. Banks are predominantly short and intermediate term lenders. Most bankers prefer to be repaid for a vessel loan in three to seven years, depending upon the vessel cost. Fishing income and expenses are such that most fishermen cannot afford to pay for a new boat in less than 10 to 15 years—a period that falls into the category of long-term financing. Also, banks do not like to deal with the level of risk that is created by the rise and fall in fish and shellfish populations and the consequent, but not always proportional, fall and rise in ex-vessel prices.

It should be emphasized that banks are still the fisherman's major source of short-term loans for construction, seasonal working capital, and gear and equipment purchases.

Some banks are meeting the long-term vessel financing challenge by obtaining Small Business Administration (SBA) guarantees for these loans. In doing so they are able to offer competitive terms and interest rates and still maintain their short to intermediate term financing role. An SBA guarantee takes most of the risk of default out of the lender's hands and leaves it with the U.S. government. With little risk of losing bank money, a banker can stretch repayment terms over more years and offer a slightly better interest rate than would otherwise be possible. The attraction of an SBA guarantee for a bank is that it can be sold. A federally guaranteed loan is a marketable financial commodity like bonds, certificates of deposit, and stocks. Consequently, a bank can make a longer term loan and still turn over its money as quickly as desired.

Although the interest rate on a bank loan varies over the life of the loan (a floating interest rate), some banks are willing to establish level term loan payments (the payments remain the same each year for the term of the loan) even though the interest rate floats. A level term arrangement can be advantageous to a borrower because it greatly improves financial planning and cash flow management. During the course of the loan, when interest rates are higher than the rate set for the level term payments, more of each payment goes toward

BANKS	FINANCE COMPANIES
Loans For	
• New or used vessels. • Construction. • Remodeling. • Refinancing. • Gear and equipment. • Operating funds.	• Purchase of new and used vessels. • Major reconstruction.
Loan Limits	
$500,000 maximum for an SBA guaranteed loan, otherwise no loan limits.	Minimum range is from $100,000 to $300,000, depending on the lender.
Interest Rate	
Floating—prime rate plus 1% to 2%. Fixed rates are available when the loan is earmarked for sale to a mortgage-buying institution such as AIDEA.	Fixed—prime plus 1% to 2.5%.
Percent Financing	
• New vessel—up to 75%. • Used vessel—up to 66%. • Gear and equipment must be backed by collateral such as a vessel, land, or other substantial asset worth at least 200% of the value of the equipment being purchased.	• New vessel—up to 80%. • Used vessel—up to 75%.

(cont. on page 21)

BANKS	FINANCE COMPANIES
Loan Term	
• New vessel—up to 10 years. • Used vessel—3 to 7 years. • Repayment terms vary significantly from bank to bank. • See note at end of table.*	• Up to 10 years for large loans (near $1,000,000 and more). • 3 to 7 years is common. • Longer amortization schedules. See note at end of table.*
Eligibility	
The lending bank may require a savings account, checking account, or some other customer relationship.	None. Fishing experience required.
Special Fees	
None.	None.

*It is not uncommon for banks and finance companies that offer relatively short repayment terms (for example, six years on a $500,000 loan) to set up payments as if the loan was stretched over a longer period of time, often 12 to 15 years. The advantage is that during the first few start-up years, the annual payments are based upon a long-term amortization schedule and are relatively affordable. However, a "balloon payment" consisting of the entire remainder of the loan comes due at the end of the last year—in our example the sixth year. The lender at that time may allow the loan to be refinanced. If the loan is from a bank and guaranteed by the SBA, the bank is obligated by the SBA to provide refinancing if the borrower so wishes.

interest charges and less toward principal. Conversely, when rates are lower than the level term rate, more goes toward principal. Over the life of the loan, if the average rate is lower than the level term rate, the loan is automatically paid off early. If the average rate is higher, there is extra principal to pay on the last payment. It becomes a balloon payment of sorts.

When dealing with a bank, keep in mind that each loan officer views an individual's financial picture and the income potential of a fishery differently. This is not to say that investment proposals that are clear winners or clear losers won't be obvious to everyone. But a middle-ground proposal may need the right loan officer to recognize its potential. If your loan request is turned down by one lender, don't be afraid to shop for another. One thing to be aware of, though, is that a borrower is expected to be a customer at the bank that approves your loan. This may mean switching accounts to the new lending agency, or establishing additional accounts.

Finance Companies

Few finance companies lend money for fishing vessels these days. They were a major player during the height of the king crab fishery, but many got burned when the crash hit. Most now view fishing as too risky.

Loan terms of finance companies working with the fishing industry are very similar to bank terms. Interest rates fall in the range of 1% to 2.5% over prime, the maximum repayment period is 10 years for large loans (over $1,000,000) and 3 to 7 years for smaller amounts, 75% to 80% financing is available on new vessels, or 65% to 75% on used equipment. Like banks, finance companies will give a 5 to 10 year loan a 15 to 20 year amortization schedule with a balloon payment due at the 5, 7, or 10 year termination point (whatever was established in the loan agreement). This allows affordable payments in the early years of a fishing enterprise. If a borrower cannot make the balloon payment, the remaining balance can normally be refinanced.

The minimum loan for finance companies will vary from $100,000 to $300,000 or even higher depending upon the lender. This is one of the characteristics that distinguishes a finance company from a bank. Banks have no minimums. Another important distinguishing feature is finance companies can often react more quickly on a loan request than other lenders.

Finance companies are traditionally more collateral oriented than banks. They place more emphasis on the value of the equipment being purchased (and other collateral used to secure a loan if necessary) to ensure repayment while banks put more emphasis on income and cash flow to ensure repayment. Banks are more inclined than finance companies to include covenants in a loan agreement that require a borrower to maintain a certain level of cash or liquid worth. These covenants tend to restrict a borrower's flexibility in managing money. For poor money managers, it can be a blessing in disguise, but for careful money managers, the loss of flexibility can make finance companies a preferable lending option.

Fisheries Obligation Guarantee Program

The main attractions of the **Fisheries Obligation Guarantee (FOG)** program are long repayment terms and good interest rates. Fisheries Obligation Guarantees are a form of federal financial assistance provided by the National Marine Fisheries Service (NMFS). The purpose of the program is to make long-term financing available to the U.S. fishing industry by guaranteeing repayment of loans made for the construction of vessels and "shoreside facilities," or the reconstruction, reconditioning, purchase, or refinancing of existing fishing vessels and shoreside facilities.

Shoreside facilities are defined as "any land, or structure or equipment on land, used for loading, receiving, holding, processing, or distributing fish of every kind (including fish caught as a result of commercial passenger-carrying fishing operations)." Shoreside facilities, incidentally, can be located inland as well as at shoreside. Notice that the definition does not limit shoreside facilities to processing operations.

A fishing vessel is "any vessel, boat, ship, or other craft which is documented under United States law and is used for ... commercial fishing (including commercial passenger carrying fishing vessels) or aiding or assisting one or more vessels at sea in the performance of any activity relating to fishing (including, but not limited to, preparation, supply, storage, refrigeration, transportation, or processing)." It is worth mentioning that the purchase and reconstruction of used vessels built in foreign countries, that were not used for harvesting fish, may be financed under the program if they are subsequently reconstructed or reconditioned in the United States, and are documented as U.S. vessels.

Refinancing is a feature of the FOG program that can be beneficial to vessel and shoreside owners who have existing loans with high interest rates and short repayment schedules. The resulting large loan payments may be reduced significantly by taking advantage of FOG long repayment terms and modest interest rates. For example, the annual loan

FISHERIES OBLIGATION GUARANTEE PROGRAM

Loans For

- New vessels or shoreside facilities.
- Reconstruction or reconditioning of existing vessels or facilities.
- Refinancing used vessels or processing facilities.

Loan Limits

None, although the practical lower limit is $100,000 because it is difficult for NMFS to find a buyer for a loan under that amount.

Interest Rate

Fixed or variable rates are available.

Fixed rate—generally prime to prime plus 1%, occasionally less than prime.

Variable rates—approximately prime to prime minus 1%.

Percent Financing

Up to 80% for new or used vessels or shoreside facilities.

Approximately 30% to 40% equity is needed at the time of closing to satisfy the following program equity requirements:

1. 20% down payment.
2. First year guarantee fee (1% of the loan balance).
3. First years premium for all required insurance.
4. Working capital equal to at least 8% of the cost of a vessel. The actual amount is to be determined on a case-by-case basis.
5. Other additional amounts as deemed necessary by the program on a case-by-case basis.
6. Shoreside facilities and processing vessels will be required to have acceptable lines or letters of credit for all investory financing needs during at least the first year of operation.

Loan Term

- Vessels under $500,000—up to 15 years.
- Vessels over $500,000—up to 20 years.
- Shoreside facilities and vessels over several million dollars—up to 25 years.

Eligibility

1. All vessels must be documented and must have been constructed in the U.S. The one exception is that existing foreign vessels that were not used for harvesting, (for example, used for processing) are eligible if they are to be reconstructed or reconditioned in a U.S. shipyard and documented as U.S. vessels.
2. All general partners in a partnership must be U.S. citizens. Up to 25% of a partnership may be owned by limited partners who are not U.S. citizens.
3. At least 75% of a corporation must be owned by U.S. citizens.
4. Applicants must have an adequate history of ability, experience, and success in the industry.
5. Equity contributors who do not have the requisite experience and proven success in the industry may not collectively own more than 49% of the business seeking guaranteed financing.

Special Fees

- Filing and Commitment Fee—1/2% of total financing. 25% of the fee will be returned if: (a) the application is not approved, or (b) the borrower decides not to obtain the loan before the loan is approved.
- Guarantee Fee—1% of the outstanding loan balance. This fee is charged annually.

The loan amount for a project may include architectural, engineering, or inspection expenses, expenses for interest on an interim construction or reconstruction loan, expenses of NMFS-required consulting services, dredging, and other costs deemed by the program to be necessary.

payment on $500,000 borrowed at 14% interest over 10 years is $95,857. If the repayment period is stretched to 15 years and the interest rate drops to 10%, the annual payment drops to $65,737.

Application for FOG program assistance is made directly to the nearest NMFS Financial Assistance Office. For Alaskans the nearest office is in Seattle. National Marine Fisheries Service personnel will help individuals through the application procedure (they will not actually prepare the application) and, if the financing guarantee is approved, NMFS personnel will locate a buyer for the resulting guaranteed debt, which is to say that they will find a lender. The agency, at least on the West Coast, has acquired a reputation for being conservative in assessing an applicant's ability to repay a loan. This means that a borrower's fishing record, credit, and current financial position must be in excellent shape, better than many bankers would demand.

One drawback of the program is that the application process is slow. Partnerships and corporations should plan on six months from the time an application is received until the loan is closed. Sole proprietors (one individual or family owns the vessel or shoreside facility) can get through the process in less time because fewer credit and reference checks are run, and less time is lost in correspondence and coordination.

Members of partnerships and corporations considering a FOG loan should be aware of a provision in the program regulations that relates to limitations of liability. The provision reads, "In no instance will equity contributors be permitted to limit their liability on a guarantee only to the amount of their initial equity contribution. Equity contributors will, additionally, be required to be at least jointly and severally liable for the amount of the guaranteed obligation that corresponds to the percentage of their ownership interest in the project. Such equity contributors may, however, be required to be liable for more than such percentage."

Conditional Fisheries

Everyone familiar with NMFS financial assistance programs is aware of the "conditional fisheries" concept. It is the NMFS version of limited entry. It applies only to vessels, not to shoreside facilities. There are six fisheries in the United States that NMFS feels should not experience additional fishing pressure. In Alaska, the only conditional fishery is king crab. Alaska salmon fisheries were eliminated from the conditional fishery status in 1991. Financial assistance for new or used vessels that will engage in any conditional fishery is governed by the guidelines below. The vessel to be purchased or reconditioned must comply with **at least one** of these guidelines. Keep in mind as you read them that the intent is to prevent an increase of fishing effort in the conditional fisheries.

Conditional Fisheries Guidelines

1. The vessel whose financing is to be guaranteed must be fully capable of operating in an "underutilized" fishery, for example, groundfish trawling. It may also operate in conditional fisheries.
2. The vessel to be purchased must replace a vessel of comparable fishing capacity that had operated in the conditional fishery prior to the designation of the fishery as conditional. The Alaska king crab fishery became conditional on September 22, 1975. Consequently, a vessel that is being replaced must have been contracted to be built on or before this date.
3. The vessel whose financing is to be guaranteed must have been contracted to be built prior to the conditional fishery dates. That is, there is no conditional fisheries restriction on the purchase of a king crab vessel if it was contracted to be built before September 22, 1975.
4. The guaranteed financing must be used for the reconstruction or reconditioning of a vessel already in the conditional fishery.
5. The application for a guaranteed loan must be submitted before a fishery is designated as conditional. This statement pertains to fisheries that may become conditional in the future.

For further information on FOG:

Financial Services Branch
National Marine Fisheries Service
7600 Sand Point Way N.E.
Bin C15700, Bldg. #1
Seattle, WA 98115
(206) 526-6122

The Processor as Lender

Very few processors provide financing for fishing or tender vessels. This is a role that they were driven out of in the mid-1980s when cash flow problems developed from a series of events that included high interest rates, botulism, and poor seasons. They have stayed away from long-term financing ever since. Even those companies that will offer financial assistance for a vessel purchase provide only supplemental funding, which is to say the fisherman must provide the majority of financing or find it elsewhere.

The kind of vessel purchase assistance that a fisherman is more likely to get from the processor is help finding a bank or other lender that will make the desired loan and help with the application. This service is commonly available to fishermen who need it and who have a good relationship with their processor.

Seasonal operating expense assistance is the financial role that processing

companies most often fill. Many (not all) continue to extend credit to their regular fishermen for major pre-season and in-season expenses, including gear purchases, expensive repair parts, and insurance. Interest is charged on these borrowed funds, and the total is deducted from income earned from fish deliveries. The interest rate is typically equivalent to bank rates.

Since processors, for all practical purposes, are out of the long-term financing picture, a table of loan terms is not included.

Capital Construction Fund

The Capital Construction Fund (CCF) is actually a savings plan rather than a loan source. The National Marine Fisheries Service, however, bills it as a means of getting "an interest-free loan from the federal government."

The CCF program allows vessel owners, or fishermen leasing a vessel, to put fishing income or proceeds from the sale of a vessel into a CCF account and defer income taxes on the account funds. Money that is earned by the account in the form of interest or dividends also goes untaxed so long as it remains in the account.

Any U.S. citizen "who owns or leases a fishing vessel of at least two net tons and who has devised an acceptable program for constructing, reconstructing, or under limited circumstances, acquiring an existing fishing vessel of at least two net tons" is eligible for the CCF program.

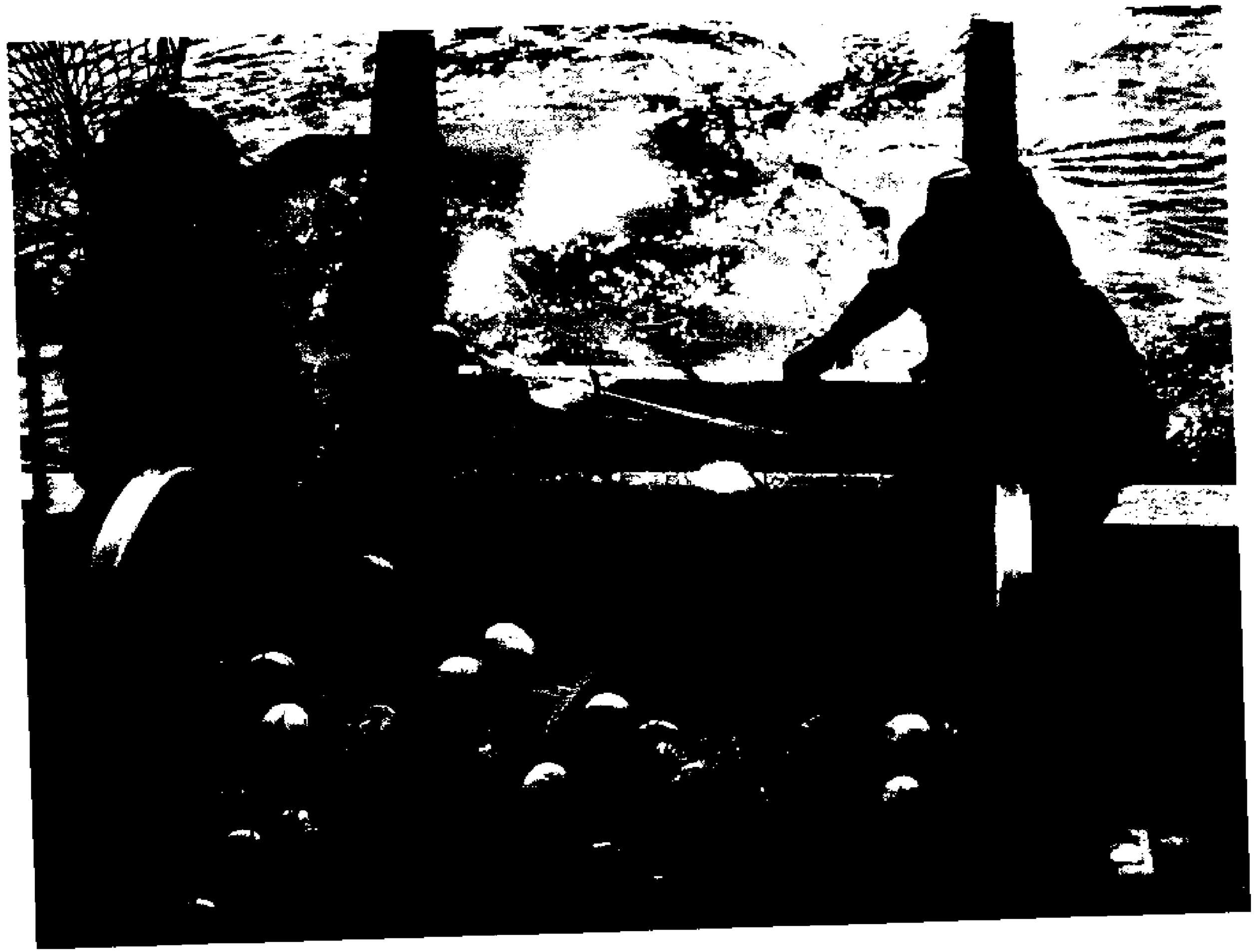
The program's primary function is to provide fishermen and other commercial vessel owners (tenders, charter boats, freighters, etc.) with a means of accumulating a cash fund faster than savings can be accumulated with "after tax dollars." Vessel owners in the 28%–33% tax brackets, for example, can build up an account nearly 50% faster through the CCF program than they can with "after tax dollars." When vessel costs are increasing at a rapid rate, the CCF provides one of the few no-risk opportunities to gather money for a down-payment faster than inflation devalues it.

Not only is money in the account tax deferred; it can also be placed in certain low-risk, investments such as treasury bills, certificates of deposit, and approved mutual funds.

Notice that the CCF is a tax deferral, not a tax avoidance program. The Internal Revenue Service recoups lost revenue after a vessel is put into service. It does so by not allowing a depreciation deduction on that portion of a vessel's purchase price or reconstruction cost that is paid out of the CCF account. For example, if a vessel is purchased for $100,000, and $25,000 comes from a CCF account, the depreciable value of the boat for tax purposes is $75,000. Although reducing the depreciation basis results in a higher taxable income, so long as an individual maintains a CCF account, excess net income beyond that needed for living expenses and taxes on those living expenses can be put back into the CCF account tax-free.

When a new or rebuilt vessel is placed in service, an amount equal to the mortgage payments can be deposited into the CCF account, and then withdrawn to make the payments. This allows a tax deduction on the principal as well as the interest portion of a loan payment. Again, the portion that goes toward principal cannot be depreciated, but this is no tax handicap as long as the CCF account is continued. Once the new or rebuilt vessel has been paid off, the account can be maintained to accumulate funds for an additional or replacement vessel.

The "conditional fisheries" concept affects the CCF program just as it does the Fisheries Obligation Guarantee (FOG) program. Neither program can be used if an increase in the amount of gear in a conditional fishery will result. The practical effect for Alaska fishermen is that the use of CCF account funds is limited if the vessel to be purchased or reconstructed will be used in the king crab fishery. The limits are listed below. Note that these limits are much less restrictive than the conditional fisheries guidelines for the FOG program. The most important distinction is that under CCF guidelines, a boat that is removed from a fishery to make room for a new boat purchased with CCF funds must only have operated in that fishery during



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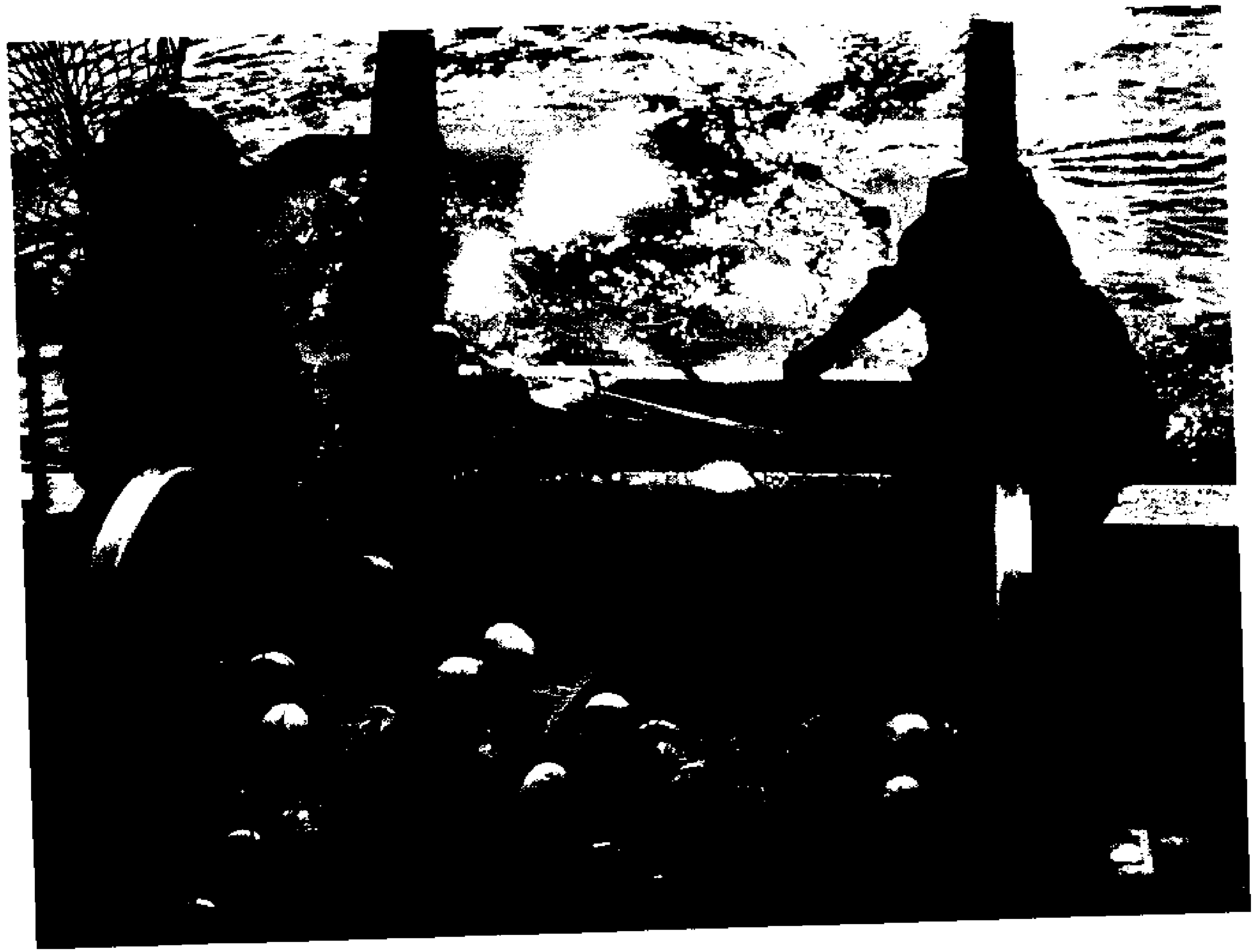

the previous 18 months. It did not have to operate in the fishery at the time the fishery became conditional as is the case with the FOG program. Easier guidelines also apply to the purchase or reconstruction of a used vessel. Remember that the vessel to be purchased or reconditioned must comply with **at least one** of these guidelines.

1. The vessel that is to be financed in part with CCF funds must be fully capable of operating in an underutilized fishery, for example, groundfish trawling. It may also operate in conditional fisheries.
2. The vessel to be purchased must replace a vessel of comparable fishing capacity that operated in the conditional fishery at least 18 months prior to construction or purchase of a new vessel. The vessel to be removed from a conditional fishery must be removed within one year of delivery of the new vessel and must permanently be placed in fisheries that are not conditional or be taken out of commercial fishing altogether.
3. The guaranteed financing must be used for the reconstruction or reconditioning of a vessel that has already operated in the conditional fishery for at least 36 months prior to reconstruction or reconditioning.

   The application for a guaranteed loan must be submitted before a fishery is designated as conditional. This statement pertains to fisheries that may become conditional in the future.

An aspect of the CCF program to keep in mind is that money that is put into a CCF account cannot be easily withdrawn for purposes other than the one for which the account was established. Account monies cannot be used for personal expenses. There are certain "qualified reasons" for taking money from the account, such as providing emergency funds to keep your present vessel operable, and of course to fund the planned construction or reconstruction project. Other reasons are considered "unqualified" and may result in termination of the account along with charges for back taxes and tax penalties.

For CCF applications and information:

Financial Services Division
CCF Program F/TS1
1335 East-West Highway
Silver Spring, MD 20910
(301) 427-2393

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2. The vessel to be purchased must replace a vessel of comparable fishing capacity that operated in the conditional fishery at least 18 months prior to construction or purchase of a new vessel. The vessel to be removed from a conditional fishery must be removed within one year of delivery of the new vessel and must permanently be placed in fisheries that are not conditional or be taken out of commercial fishing altogether.
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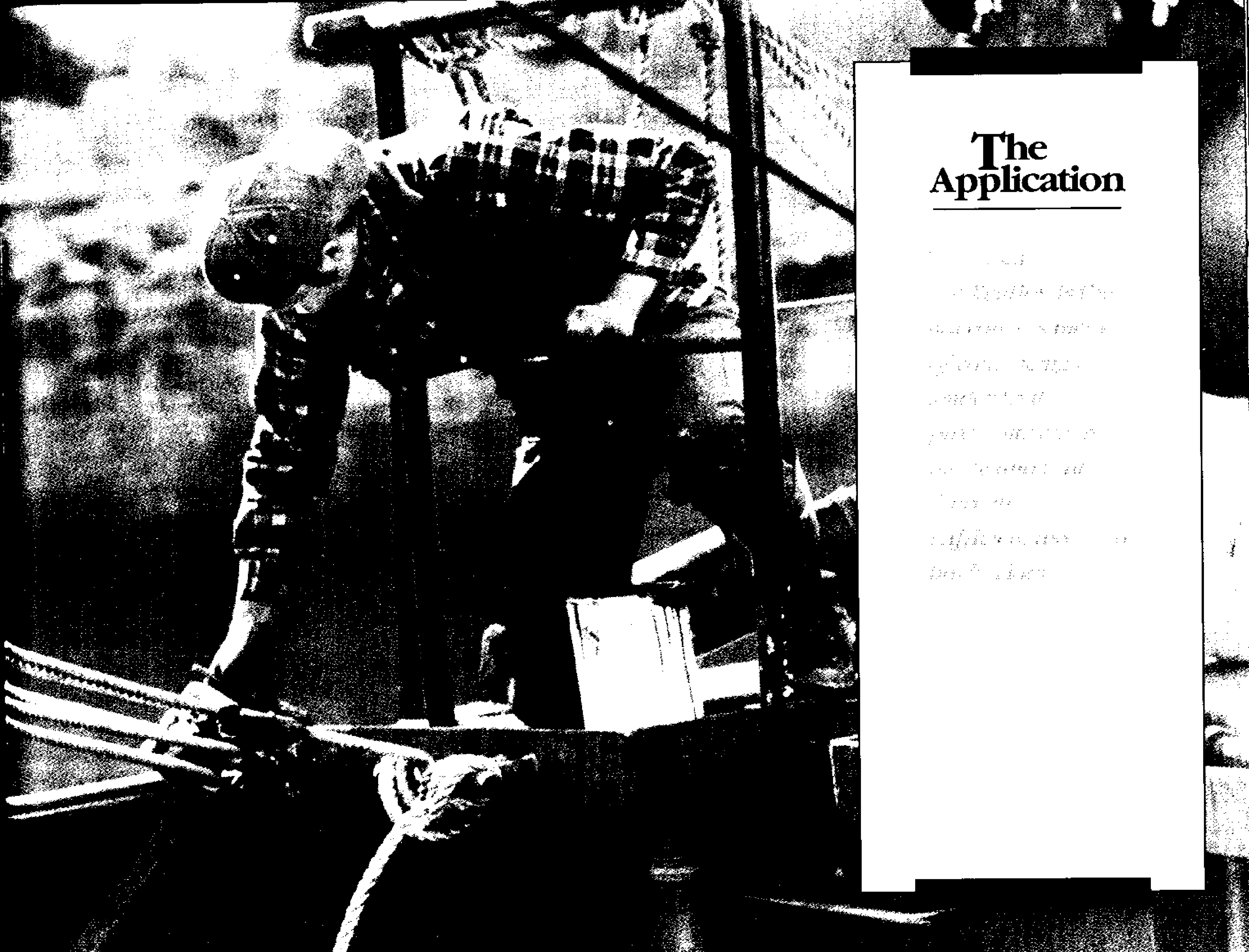

The Application

The loan application is the borrower's means of convincing a lender that payments can be made and that there are sufficient assets to back a loan. The financial statement, tax returns, and projected profit and loss statement are the principal tools used to make that case. The remainder of the loan application is support material and normally includes a résumé of fishing experience, authorizations to verify financial information and catches, copies of the purchase agreement and marine survey (if a vessel is being purchased), and blueprints or photographs of the vessel, gear, and other assets to be offered as collateral.

The purpose of this section is to clarify the information that a loan officer expects to find in a completed loan application. The balance sheet, which is included in the financial statement, regularly causes the most confusion, so we will begin there and explain it line by line. The remainder of the application is easier to understand and will be explained in less detail.

The State of Alaska Division of Investments commercial fishing loan application is used in the example on the following pages. The borrower in the example is a fictitious Bristol Bay drift gillnet fisherman with few assets other than a house, a car, and fishing equipment; and few debts other than loans for his house, car, and a fishing permit. As you learn how to complete the different parts of an application, try to picture in your mind the information that you would plug into the blanks of your own application, and then picture where that information can be found. Prior planning of this nature will make the task of preparing an application less of a chore. The hard part is gathering all of the necessary information; filling in the blanks is the easy part.

The major components of a loan application are similar for all lenders. They include a financial statement, projected income statement, résumé, credit check authorizations, income tax returns, and a form called the application. Applications will differ from lender to lender mainly in the amount of detail required in each component and in the amount of supplemental information required, such as photographs, purchase receipts, surveys, appraisals, and catch records. The state's fishing loan application is well thought out and is representative of what a fisherman can expect from most lenders.

Let's begin with a close look at the financial statement.

The Financial Statement Overview

The acceptability of a commercial loan request depends largely upon information presented in the financial statement. The financial statement has three parts:

1. The **balance sheet,** also known as the statement of assets and liabilities, tells a lender how much you own and how much you owe.
2. The **contingent liabilities** section catalogs debts that you may incur in the future as a result of pending legal judgments or by being a guarantor on someone else's loan. Pending legal judgments may result from divorce, a bankruptcy, or a lawsuit that is in process.
3. The **profit and loss statement,** in conjunction with income tax returns for the past three years, shows the profit trend for your fishing operation over a three to four year period. The profit and loss statement is also commonly called the "income statement."

A lender will try to determine two things from the financial statement and from the income tax returns which must accompany it:

1. The borrower's ability to make current and future loan payments, and
2. If the borrower has assets that can be sold to make loan payments or repay the loan balance if profits are consistently inadequate.

Take the time to familiarize yourself with the financial statement on the following pages. Review the types of assets and liabilities on the balance sheet. Then look on the back side (page 2) of the balance sheet for the seven balance sheet "schedules" which detail these assets and liabilities. Finally, pay particular attention to the list of fishing and living expenses in the profit and loss statement. This will help make more sense of the comments that follow. Remember, only the balance sheet is explained item by item. The remainder of the financial statement and the other parts of the application are more self explanatory, and comments are made only on those topics that consistently leave applicants confused.

Balance Sheet

The purpose of the balance sheet, once again, is to show what you currently own (assets), what you owe (liabilities), and the difference between the two (net worth). It should reflect the most recent changes in your cash, property, and debts, and should not be more than 90 days out of date at the time the application is submitted to a lender.

A minor issue, but one that often bothers people, is the fact that by the time a lender does credit checks on checking, savings, cannery, and credit card accounts, the account balances will be different from the balance sheet figures for those accounts. This is normal and nothing to worry about unless the credit check and balance sheet figures are greatly different.

Now let's go through the balance sheet to see what information the lender is expecting.

Balance Sheet Assets

1. CASH ON HAND: This is the total cash you have at home and on the boat that is set aside for petty cash, contingencies, and savings.
2. CASH IN BANKS: List the sum of your checking and savings account balances in banks, credit unions, savings and loan institutions, stock brokerage companies, and other financial institutions. Credit checks will be done on some, if not all, of these accounts. Individual balances for each account will be shown on the back of the balance sheet in Schedule No. 1.

   If you have a Capital Construction

Fund (CCF) or a retirement account, show these separately in the "Other" category at the end of the asset column. These are for special purposes and should not be lumped together with general cash reserves.

Information about each account in each financial institution must be provided in the schedule titled "cash accounts" on the back of, or accompanying, the balance sheet. Schedule No. 1 of the example illustrates the type of information that is typically requested. Our Bristol Bay fisherman has one checking and one savings account, both at the same bank. He can conveniently include information about both on a single line in the State of Alaska application, but the format may be different on applications from other lenders.

Notice in Schedule No. 1 that different lines are designated for accounts at different types of financial institutions; line one for a bank, line two for a savings and loan, and so on. Disregard this. You may have four accounts at two different banks and none at other types of institutions. The institution types are listed to jog your memory more than anything else. List your accounts in any order you desire.

Include the name of the bank or other institution, the city in which it is located, the account number, and the current balance.

DIVISION OF INVESTMENTS
ALASKA DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
P.O. Box D
Juneau, AK 99811-0802

COMMERCIAL FISHING LOAN
FINANCIAL STATEMENT (Individual)

Name: Joeseph A. Andersun	Social Security Number: 474-00-1111	Date: 11-7-90
Mailing Address: P.O. Box 100	City: Western Village	State: AK — Zip: 99999

The undersigned makes the following statement of financial condition as of 31st day of October, 19 90.

	ASSETS	$	LIABILITIES	$
1	Cash on Hand	500	Vessel Mortgages (Schedule 4)	
2	Cash in Banks (Schedule 1)	2,500	Real Estate Mortgages (Schedule 5)	53,500
3	Notes, Contracts & Accounts Recievables (Schedule 2)		Notes Payable to Banks (Schedule 6)	2,400
			Notes Payable to Others (Schedule 7)	13,115
4	Due from Canneries	2,000	Owing to Canneries - Open Account	
5	Securities (Schedule 3)		Owing to Canneries - Other	
6	Vessels Owned (Schedule 4)	30,000	Other Payables Not Listed Above	
7	Real Estate Owned (Schedule 5)	94,000		
8	Automobiles	2,200	Taxes	
9	Personal Property	10,000		
10	Fishing Equipment			
	Nets	6,000		
	Pots			
	Long Lines			
	Other			
11	Limited Entry Permits (by fishery)	220,000		
			TOTAL LIABILITIES	$ 69,015
12	Other			
	TOTAL ASSETS	$ 367,200	NET WORTH (Total Assets minus Total Liabilities equal Net Worth)	$ 298,185

CONTINGENT LIABILITIES

☐ Yes ☒ No	Are you a co-maker, endorser, or guarantor on any loan or contract? If "yes" to whom?	Amount $
☐ Yes ☒ No	Are there any unsatisfied judgments or collections against you?	Amount $
☐ Yes ☒ No	Have you filed for bankruptcy in the last 14 years?	Year
Other Obligations: Child Support, Alimony, etc.		

In submitting the foregoing statement the undersigned applicant guarantees its accuracy with the intent that it be relied upon by the division in extending credit to the applicant and warrants that information has not knowingly been withheld that might affect the applicant's credit risk; and that the applicant agrees to notify the division immediately in writing of any material change in the applicant's financial condition.

Signature *Joeseph A. Andersun* Date 11-7-90

Signature *Mary G. Andersun* Date 11-7-90

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SCHEDULE NO. 1. CASH ACCOUNTS

BALANCE SHEET SCHEDULES

Bank Branch 1st National Bank Dillingham	Checking Acct. No [illegible]	Current Balance 1,245	Savings Acct. No. 0-010 [illegible]	Current Balance 1,255
Savings and Loan Branch	Mailing Address		Savings Acct. No.	Current Balance
Credit Union	Mailing Address		Savings Acct. No.	Current Balance
Other	Mailing Address		Savings Acct. No.	Current Balance

SCHEDULE NO. 2: NOTES RECEIVABLE/ACCOUNTS RECEIVABLE. MORTGAGES AND CONTRACTS OWNED

Description	Name of Debtor	Original Balance	Present Balance	Monthly Payment	Amount Past Due

SCHEDULE NO. 3: SECURITIES

Number of Shares	Description	To Whom Pledged	Market Value	Cost	Income Received Last Year

SCHEDULE NO. 4: VESSELS OWNED

Description of Vessel and Year Built	Year Acquired	Cost	Present Value	Amount Owed		Owed To	Payment Amount	When Due
				Original	Present			
1970 32' Gillnet Boat	1983	[illegible]	30,000	10,000	-0-	---	---	---

SCHEDULE NO. 5: REAL ESTATE OWNED

Description and Location	City and State	Date Acquired	Cost	Current Assessed Value	Lender	Mortgages		
						Original Balance	Present Balance	Payment Amount
Lot 4 Blk 6	Western							
Alaska Sub	Village	[illegible]	77,[illegible]	94,000	1st Nat. Bank	[illegible]	[illegible]	[illegible]

Is any real estate being purchased on a contract of sale? __________ If so, which one? __________
From whom? __________

SCHEDULE NO. 6: NOTES PAYABLE TO BANKS (Do not include mortgages listed in Schedule 5)

Name and Address of Bank	Collateral	Date Incurred	Original Amount	Present Amount	When Due	Payment Amount	
						Monthly	Annual
1st National Bank	Truck	[illegible]	6,000	2,400	10th	[illegible]	2,[illegible]

SCHEDULE NO. 7: NOTES PAYABLE TO OTHERS

Name and Address of Creditor	Collateral	Date Incurred	Original Amount	Present Amount	When Due	Payment Amount	
						Monthly	Annual
State of Alaska	Salmon Permit	[illegible]	[illegible]	[illegible]	Yearly		4,5[illegible]1

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3. NOTES, CONTRACTS, AND ACCOUNTS RECEIVABLES: Notes receivable is the total of all loans you have made to individuals or businesses and for which you fully expect to be repaid. "Notes" refers to promissory notes. A promissory note is a written agreement signed by both you and the borrower that states that the borrower agrees to pay you a certain amount of money (presumably the amount you lent plus interest) either on demand (whenever you ask) or on a specific date.

"Accounts Receivables" is the sum of all amounts owed to you for the sale of fisheries products or equipment excluding any amount owed you by canneries. Income from canneries is listed in the "Due from Canneries" section (see asset item 4). An account receivable may be income owed to you for the sale of fish products sold directly to a wholesaler or retailer, income owed for the construction and sale of equipment (such as a skiff or a boat trailer), or wages owed for your labor in repairing a hull, rigging crab pots, or other fisheries-related work. "Contracts" is the total still owed you for the sale of major assets. If you sold a home, vessel, or parcel of land and the buyer is making payments to you, you need to know how much the buyer still owes.

Show the total amount owed to you for all properties sold.

On a separate schedule, Schedule No. 2 in the example, list the remaining balance of each mortgage or sales contract you own along with the name and address of the debtor, the amount of each payment, and the number of payments per year. From Schedule No. 2 and line three of the assets you can see that our Bristol Bay fisherman does not have any anticipated income from outstanding notes, contracts, or accounts receivable. It is not uncommon, however, for fishermen to have money due from the sale of equipment or the performance of work.

4. DUE FROM CANNERIES: The sum of your cannery settlement sheet balances—not including loan balances—goes here. However, if your total settlement sheet balance is negative, which means that you purchased more supplies and parts than you earned from the sale of fish, then list what you owe in the liability category "Owing to Canneries-Open Account."

   If the cannery settlement sheet includes a loan balance, the loan should be itemized on the liability side of the balance sheet. If the loan is for a vessel it belongs under the heading "Vessel Mortgages." If it is for operating capital or gear, list the remaining balance in "Notes Payable to Others" or "Owing to Canneries—Other."

5. SECURITIES: In this block, indicate the total current value of marketable (traded on a stock exchange) stocks and bonds. Most financial statements will have a schedule for itemizing securities like Schedule No. 3 in the example. List each security, the issuing corporation, the number of shares owned, original cost per share, and current value per share. Some lenders will ask for the name of the exchange (for example New York Stock Exchange) trading the security and if the security was purchased on margin or paid in full. Stocks purchased on margin should be listed as liabilities.

6. VESSELS OWNED: The combined market value of all vessels owned is shown in this blank of the balance sheet. Information about each vessel is then detailed in the "Vessels Owned" schedule on the back. In the "Vessels Owned" schedule provide a very brief description of each vessel, as well as the original cost, present value, percentage of ownership (if more than one owner is involved), the remaining balance on the vessel loan, the loan payment amount, and the number of payments per year. Be prepared to offer a survey or some other creditable substantiation of the market value. Schedule No. 4 of the example shows our fisherman's entries for his gillnet boat.

7. REAL ESTATE OWNED: List the total current value of all buildings and land you own, including business, residence, vacation, and investment properties. You should have tax assessments, surveys, appraisals, or other creditable means of proving the value of these assets. These will be requested by your loan officer.

   Information about each piece of property must be itemized in the "Real Estate Owned" schedule and must include property description, value, and remaining loan balance. Our fisherman has entered information about his home in the "Real Estate Owned" schedule of the example. Remember that property you have sold but on which you are carrying the financing (and may still have title to) is listed in the "Notes, Contracts, and Accounts Receivables" section.

8. AUTOMOBILES: List the total local market value of your operable cars and trucks. Include both personal and business vehicles. Use local market value rather than "blue book," as blue book values do not include transportation costs, which may be considerable to some isolated cities and villages.

   Outstanding loans on any of these vehicles should be explained on the back of the balance sheet in the schedules titled "Notes Payable to Banks" or "Notes Payable to Others," whichever is appropriate. Incidentally, the term "Notes Payable to Banks" means notes payable to any financial institution including credit unions, savings and loans, and stock brokerage companies. Schedule No. 6 in the example shows an entry for our fisherman's pickup truck.

Notice that one of the columns in the "Notes Payable to Banks" and "Notes Payable to Others" schedules asks that the collateral used to secure the loan be listed. This bit of information is important to both a lender and a borrower because an asset used for collateral for one loan can seldom be used for another until the first loan is repaid.

9. PERSONAL PROPERTY: Record the total current value of your household furniture, precious jewelry, valuable art, and other items of significant worth, excluding commercial fishing equipment and permits (these are itemized elsewhere). There is no schedule on most balance sheets for this category of assets but it is often required that on a separate page you list each item valued at $2,000 to $3,000 or more and provide: (l) a brief description, (2) original cost, (3) current value, (4) outstanding loan or payment amount, and (5) to whom payments are made. An appraisal, insurance policy, or some other means of verifying the value of each piece of itemized property should be on hand. Do not list household furniture, except for valuable antiques.

10. FISHING EQUIPMENT: Show the cumulative value of each category of fishing gear owned. For example, indicate separately the value of all salmon and herring nets, then the value of all shrimp and crab pots, then of longline gear, and so on. Other equipment that didn't get included in the value of "vessels owned" such as seine skiffs, brine systems, and operable electronic gear, should be added here. There is no schedule for listing each piece of equipment individually. Show current used values, not replacement values for your equipment.

11. LIMITED ENTRY PERMITS: List each limited entry permit you own and its current market value. If you are unsure of the average value, review the advertisements for permits in fisheries trade journals or call a permit-boat broker. If your balance sheet does not have a section for fishing permits, list them as "other assets," or list them on a separate page. Loans on permits should be itemized in the "Notes Payable to Banks" or "Notes Payable to Others" schedules. Our Bristol Bay fisherman chose to list his State of Alaska permit loan in Schedule No. 7, "Notes Payable to Others."

12. OTHER: These assets may include the value of shares in a fishing cooperative, all-terrain vehicles, airboats, airplanes, and other assets not listed elsewhere. Group the assets by type and show the total value for each type. For instance, lump together the value for all recreational vehicles. If you are making loan payments on any of these assets, give the appropriate information for each loan in the "Notes Payable to Banks" or "Notes Payable to Others" schedules.

    If you have a Capital Construction Fund account, this a good place to list it. Or you may prefer to make a separate category for it in the asset section by lining through a category which may not apply (such as cash value of life insurance) and writing in "CCF." No matter where you list it, be sure to clearly identify it as a CCF account and to separate it from other monies. Do not, for example, combine your CCF account with other "Cash in Banks" or other securities. It is important that your lender realize that you have money set aside for the purchase or reconstruction of a vessel.

An asset category seen on other applications but not listed on the state's fishing loan balance sheet is CASH

VALUE OF LIFE INSURANCE. The total amount paid into "ordinary" or "whole life" life insurance policies along with interest earned on these payments is entered in this category. This sum is called the "cash value" of the policy. Term insurance policies do not have a cash value. You can find the accumulated cash value in a table that is part of the explanation of terms and conditions of your policy. It shows cash accrued at the end of each year you have been making payments. If you do not find it, ask your insurance agent to look it up.

Do not subtract amounts borrowed against your life insurance policy. Borrowed funds will be accounted for on the liability side of the budget sheet.

Now that all of the property, equipment, cash, and securities you own have been accounted for and a total value calculated (the total value of our fisherman's assets is $367,200), let's look at the other side of the balance sheet and list what you owe on some of these assets.

Balance Sheet Liabilities

If you have already completed the asset side of the balance sheet and filled in the appropriate schedules on the back of the balance sheet, the liability side is easy. It is mostly a matter of looking at the schedules and picking off the amounts still owed on your assets. The following explanation of the liability section as-

DIVISION OF INVESTMENTS
ALASKA DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
P.O. Box D
Juneau, AK 99811-0802

COMMERCIAL FISHING LOAN
FINANCIAL STATEMENT (Individual)

Name: Joseph A. Anderson	Social Security Number: 474-00-1111	Date: 11-7-90	
Mailing Address: P.O. Box [illegible]	City: Western Village	State: AK	Zip: 99999

The undersigned makes the following statement of financial condition as of 31st day of October, 19 90.

ASSETS		LIABILITIES		
Cash on Hand	$ [illegible]	Vessel Mortgages (Schedule 4)	$	13
Cash in Banks (Schedule 1)	[illegible]	Real Estate Mortgages (Schedule 5)	53,500	14
Notes, Contracts & Accounts Recievables (Schedule 2)		Notes Payable to Banks (Schedule 6)	2,400	15
		Notes Payable to Others (Schedule 7)	13,115	16
Due from Canneries	[illegible]	Owing to Canneries - Open Account		17
Securities (Schedule 3)		Owing to Canneries - Other		18
Vessels Owned (Schedule 4)	[illegible]	Other Payables Not Listed Above		19
Real Estate Owned (Schedule 5)	[illegible]			
Automobiles	[illegible]	Taxes		
Personal Property	10,000			
Fishing Equipment				
Nets	6,000			
Pots				
Long Lines				
Other				
Limited Entry Permits (by fishery)	[illegible]			
		TOTAL LIABILITIES	$ 69,015	
Other				
TOTAL ASSETS	$ 367,200	NET WORTH (Total Assets minus Total Liabilities equal Net Worth)	$ 298,185	

CONTINGENT LIABILITIES

☐ Yes ☒ No	Are you a co-maker, endorser, or guarantor on any loan or contract? If "yes" to whom?	Amount $
☐ Yes ☒ No	Are there any unsatisfied judgments or collections against you?	Amount $
☐ Yes ☒ No	Have you filed for bankruptcy in the last 14 years?	Year
Other Obligations: Child Support, Alimony, etc.		

In submitting the foregoing statement the undersigned applicant guarantees its accuracy with the intent that it be relied upon by the division in extending credit to the applicant and warrants that information has not knowingly been withheld that might affect the applicant's credit risk; and that the applicant agrees to notify the division immediately in writing of any material change in the applicant's financial condition.

Signature *Joseph A. Anderson* Date 11-7-90

Signature *Mary G. Anderson* Date 11-7-90

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SCHEDULE NO. 1: CASH ACCOUNTS — BALANCE SHEET SCHEDULES

Bank/Branch	Checking Acct. No.	Current Balance	Savings Acct. No.	Current Balance
1st National Bank Dillingham	1-010 000	1,245	0-030 001	1,255
Savings and Loan/Branch	Mailing Address		Savings Acct. No.	Current Balance
Credit Union	Mailing Address		Savings Acct. No.	Current Balance
Other	Mailing Address		Savings Acct. No.	Current Balance

SCHEDULE NO. 2: NOTES RECEIVABLE/ACCOUNTS RECEIVABLE, MORTGAGES AND CONTRACTS OWNED

Description	Name of Debtor	Original Balance	Present Balance	Monthly Payment	Amount Past Due

SCHEDULE NO. 3: SECURITIES

Number of Shares	Description	To Whom Pledged	Market Value	Cost	Income Received Last Year

SCHEDULE NO. 4: VESSELS OWNED

Description of Vessel and Year Built	Year Acquired	Cost	Present Value	Amount Owed		Owed To	Payment Amount	When Due
				Original	Present			
1970 32' Gillnet Boat	1983	12,000	30,000	10,000	-0-	---	---	---

SCHEDULE NO. 5: REAL ESTATE OWNED

Description and Location	City and State	Date Acquired	Cost	Current Assessed Value	Lender	Mortgages		
						Original Balance	Present Balance	Payment Amount
Lot 4 Blk 6	Western							
Alaska Sub	Village	1982	77,000	94,000	1st Nat. Bank	57,000	53,500	500

Is any real estate being purchased on a contract of sale? ________ If so, which one? ________
From whom? ________

SCHEDULE NO. 6: NOTES PAYABLE TO BANKS (Do not include mortgages listed in Schedule 5)

Name and Address of Bank	Collateral	Date Incurred	Original Amount	Present Amount	When Due	Payment Amount	
						Monthly	Annual
1st National Bank	Truck	1988	6,000	2,400	10th	199	2,388

SCHEDULE NO. 7: NOTES PAYABLE TO OTHERS

Name and Address of Creditor	Collateral	Date Incurred	Original Amount	Present Amount	When Due	Payment Amount	
						Monthly	Annual
State of Alaska	Salmon Permit	4/83	30,000	13,115	Yearly		4,511

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sumes that the asset side has been completed.

13. VESSEL MORTGAGES: Start at the "Vessels Owned" schedule and total up the amount presently owed on all vessel loans listed. Usually there will be just one loan, which makes the task easy. Show the total on the "Vessel Mortgages" line of the balance sheet. Our fisherman, unlike most, has no vessel mortgage and leaves the "Vessel Mortgages" line blank.

14. REAL ESTATE MORTGAGES: The "Real Estate Owned" schedule is your source for determining the amount to list in this category. Total the amount owed on loans or notes for your home, gear shed, vacation property, investment property, and any other land or buildings included in the real estate figure on the asset side. The "Real Estate Owned" schedule in the example shows that our fisherman has a balance of $53,500 on his home loan. He has no other real estate loans, so this is the amount that is transferred to the "Real Estate Mortgages" line of the balance sheet.

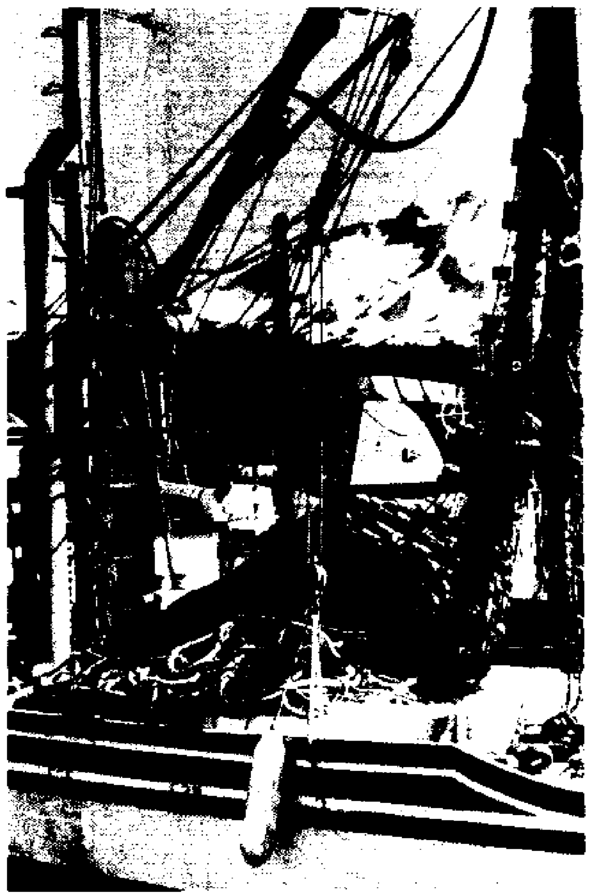
15. NOTES PAYABLE TO BANKS: Calculate the total remaining balance on loans from banks, credit unions, and other commercial lenders, listed in the "Notes Payable to Banks" schedule. The fisherman in our example has listed a truck loan. The "Present

Amount" owed is $2,400. Since this is the only loan from a commercial lender that he has other than loans for his house and boat, which are listed elsewhere, this is the amount shown on the balance sheet for "Notes Payable to Banks."

16. NOTES PAYABLE TO OTHERS: In the example, our fisherman has borrowed from the state for a limited entry permit and entered the loan in the "Notes Payable to Others" schedule. He could have entered it in "Notes Payable to Banks" just as well, but chose not to because the state is not a typical commercial lender. Since there are no other loans listed in this schedule, he transfers the $13,115 balance of his permit loan to the Notes Payable to Others line of the balance sheet. Items that may also fit in this category include loans from other people, and money owed to retailers for furniture, appliances, automobiles, and other goods purchased with "in-house" financing from the merchant. Loans on life insurance policies also fit here if there is not a separate heading for life insurance loans.

17. OWING TO CANNERIES—OPEN ACCOUNT: If the balance of your cannery settlement sheets is negative (you bought more supplies and parts than you earned from selling fish), list what you owe here. Remember that the balance on a long-term cannery loan should not be included here. It belongs with one or more of the other liability categories, most likely with "Vessel Mortgages."

18. OWING TO CANNERIES—OTHER: Because canneries are doing very little lending these days and are even reluctant in many cases to extend credit for parts and supplies, this liability category is becoming less relevant than it was a few years ago. Any loans or credit from a cannery that do not belong in one of the other liability categories should be added here.



19. OTHER PAYABLES NOT LISTED ABOVE: This is the catch-all category where you list any debts that are not shown elsewhere. These may include credit card balances and account balances at the grocery store, hardware store, and other retail or wholesale outlets where you buy goods and services on credit. Other common payables that belong here are child support, alimony, and income taxes that are due.

That wraps up the discussion of assets and liabilities listed on the state's balance sheet. Since applications vary from lender to lender, let's look at four more liability categories that you may run into on other applications.

In the LOANS ON LIFE INSURANCE category, list the balance of loans you have taken against the cash value of your "whole life" or "ordinary life" insurance policies. Your insurance agent may have to help you with this one. This is the liability counterpart to the asset category, "Cash Value of Life Insurance."

CHATTEL MORTGAGES, for the purposes of a fisherman's balance sheet, are long-term loans (loans having a repayment period of more than one year) on any personal property except fishing vessels, fishing equipment, and permits. Remember, these are listed separately. "Chattel" is an item of personal property. Personal property includes all property with the exception of securities (stocks and bonds), and "real" property, as in real estate. Mortgages on trucks and cars are the most common types of chattel mortgages.

ACCOUNTS PAYABLE is similar to the "Other Payables Not Listed Above" category. Credit card balances, charge account balances, child support, and income taxes due are typical "Accounts Payable."

MARINE MORTGAGES refers only to mortgages on documented vessels in the narrowest sense. In the broader sense it encompasses all boat mortgages whether or not the boat is documented.

That truly wraps up the liability and asset section. Once assets and liabilities have been itemized, the next step in the balance sheet process is to calculate "net worth."

Net Worth

Net worth is the difference between the value of the assets you own and the amount you still owe on them. Other terms for net worth are "equity" and "owner's equity." Our Bristol Bay fisherman has assets valued at $367,200 and liabilities of $69,015, for a net worth of $298,185 ($367,200 - $69,015 = $298,185). The value of his assets is 3.6 times greater than his liabilities, which is considered a good ratio of net worth to debt. A positive net worth (assets greater than liabilities) is essential for obtaining a loan, and the more positive the better. From a lender's standpoint, an individual's debt should not be greater than the quick-sale value of his assets, not including essential assets like household furniture and clothes, and hard to sell items for which there is a very limited market—some artwork for example. Quick-sale value is usually 50% to 75% of appraised or market value.

Even though a good, positive net worth with assets two times greater or more than liabilities is desirable, it does not tell the whole story of an individual's financial position. It does not, for instance, say anything about one's credit record—how reliably bills are paid—nor does it provide information about cash flow status.

Many fishermen find themselves short of cash during the pre-season start-up period. In the past, processors often provided the necessary credit to get through this phase of the fishing cycle. Now, however, they are cutting back or eliminating start-up of financial assistance. When processor credit is not available, what option does a fisherman have? One answer is to obtain a short-term start-up loan from a commercial lender, using business or personal assets as collateral. One requirement, of course, is that an individual's assets be sufficiently greater than his or her liabilities. Short-term loans of this nature are called "working capital" loans and constitute one of the most common lending services that banks offer to all types of businesses.

	Total Liabilities	**$69,015**
+	**Net Worth**	**$298,185**
	Total Assets	**$367,200**

The "Balance" in Balance Sheet

The column of assets on every balance sheet ends with the entry "Total Assets." The column of liabilities normally ends with "Total Liabilities and Net Worth" (the balance sheet in our example does not). The asset side of a balance sheet must balance (equal) the liability side, which means that total assets must equal total liabilities plus net worth. If they do not, a simple adding or subtracting error has been made (assuming that asset and liability entries were made accurately). The reason is that net worth is calculated by subtracting total liabilities from total assets. When you turn that calculation around, the addition of net worth to total liabilities must equal total assets. It is simple arithmetic. People becoming acquainted with financial statements for the first time sometimes think that the procedure is more complicated.

Contingent Liabilities

Financial obligations that may arise, but at an unknown cost and with an unknown probability of happening, are called **contingent liabilities**. An example is the expense you may someday incur if you co-sign or guarantee a loan made to a business or individual. Of course, that business or individual is responsible for making payments; however, you have signed an agreement with the lender to pay the debt if the borrower defaults. Pending legal judgments are another form of contingent liability. The most common are anticipated divorce settlements, lawsuits, and fines for infractions of the law. Contingent liabilities reduce your effective net worth by adding to the risk that you may be unable to make your own loan payments because other obligations might appear.

When completing this section, make separate estimates of the potential cost of each type of contingent liability—guaranteed loan, divorce settlement, lawsuit, and so on. If an estimate cannot be made, at least acknowledge that you are involved in legal proceedings. Your signature at the bottom of a financial statement "warrants that information has not knowingly been withheld that might affect the applicant's credit risk."

The contingent liability section of our sample financial statement is very straightforward to complete. Our fisherman has indicated that neither he nor his wife has contingent liabilities of any nature.

CONTINGENT LIABILITIES

☐ Yes ☒ No	Are you a co-maker, endorser, or guarantor on any loan or contract? If "yes" to whom?	Amount $ ______
☐ Yes ☒ No	Are there any unsatisfied judgments or collections against you?	Amount $ ______
☐ Yes ☒ No	Have you filed for bankruptcy in the last 14 years?	Year ______
Other Obligations: Child Support, Alimony, etc.		

In submitting the foregoing statement the undersigned applicant guarantees its accuracy with the intent that it be relied upon by the division in extending credit to the applicant and warrants that information has not knowingly been withheld that might affect the applicant's credit risk; and that the applicant agrees to notify the division immediately in writing of any material change in the applicant's financial condition.

Signature Joseph A. Anderson Date 11-7-90

Signature Mary G. Anderson Date 11-7-90

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Actual Profit and Loss Statement

The **Actual Profit and Loss Statement**, commonly referred to as the **P&L**, and sometimes called the **Income Statement**, is a summary of income and expenses that have accrued since the end of your last income tax period. The tax year ends December 31, unless you have filed with the IRS to operate on a fiscal year basis. The reason the application P&L needs to cover fishing activities only for the current year is that copies of federal income tax returns for the past three years must accompany a loan application. Each tax return includes a profit and loss statement for that tax year, "Schedule C, Profit or (Loss) from Business or Profession." Since tax returns show profit for the period prior to the present tax year, only current year P&L information is necessary. A fisherman completing a loan application in October, for example, should include all income and expenses from January 1 of the current year to the date of the application or the end of the previous month, whichever is most practical.

The P&L statement is relatively self-explanatory, but a few clarifying remarks may be helpful:

1. OTHER INCOME: This category

acquainted with financial statements for the first time sometimes think that the procedure is more complicated.

Contingent Liabilities

Financial obligations that may arise, but at an unknown cost and with an unknown probability of happening, are called **contingent liabilities**. An example is the expense you may someday incur if you co-sign or guarantee a loan made to a business or individual. Of course, that business or individual is responsible for making payments; however, you have signed an agreement with the lender to pay the debt if the borrower defaults. Pending legal judgments are another form of contingent liability. The most common are anticipated divorce settlements, lawsuits, and fines for infractions of the law. Contingent liabilities reduce your effective net worth by adding to the risk that you may be unable to make your own loan payments because other obligations might appear.

When completing this section, make separate estimates of the potential cost of each type of contingent liability—guaranteed loan, divorce settlement, lawsuit, and so on. If an estimate cannot be made, at least acknowledge that you are involved in legal proceedings. Your signature at the bottom of a financial statement "warrants that information has not knowingly been withheld that might affect the applicant's credit risk."

The contingent liability section of our sample financial statement is very straightforward to complete. Our fisherman has indicated that neither he nor his wife has contingent liabilities of any nature.

CONTINGENT LIABILITIES		
☐ Yes ☒ No	Are you a co-maker, endorser, or guarantor on any loan or contract? If "yes" to whom?	Amount $ ______
☐ Yes ☒ No	Are there any unsatisfied judgments or collections against you?	Amount $ ______
☐ Yes ☒ No	Have you filed for bankruptcy in the last 14 years?	Year ______
Other Obligations: Child Support, Alimony, etc.		

In submitting the foregoing statement the undersigned applicant guarantees its accuracy with the intent that it be relied upon by the division in extending credit to the applicant and warrants that information has not knowingly been withheld that might affect the applicant's credit risk; and that the applicant agrees to notify the division immediately in writing of any material change in the applicant's financial condition.

Signature Joseph A. Anderson Date 11-7-90

Signature Mary G. Anderson Date 11-7-90

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Actual Profit and Loss Statement

The **Actual Profit and Loss Statement**, commonly referred to as the **P&L**, and sometimes called the **Income Statement**, is a summary of income and expenses that have accrued since the end of your last income tax period. The tax year ends December 31, unless you have filed with the IRS to operate on a fiscal year basis. The reason the application P&L needs to cover fishing activities only for the current year is that copies of federal income tax returns for the past three years must accompany a loan application. Each tax return includes a profit and loss statement for that tax year, "Schedule C, Profit or (Loss) from Business or Profession." Since tax returns show profit for the period prior to the present tax year, only current year P&L information is necessary. A fisherman completing a loan application in October, for example, should include all income and expenses from January 1 of the current year to the date of the application or the end of the previous month, whichever is most practical.

The P&L statement is relatively self-explanatory, but a few clarifying remarks may be helpful:

1. OTHER INCOME: This category

should encompass all other income earned by you and your spouse or co-applicant, including full-time and part-time wages, military reserve pay, interest or dividend income, contract work, child support, and crew share income. Most fishing families and partnerships have other income of some sort. The couple in our example shows other income of $10,000 earned by the wife through October 31.

2. CREW SHARES: These expenses should not include share payments to the owner-operator or the boat. Income to the owner-operator and the boat is the profit remaining after other crew members and suppliers of goods and services have been paid.

3. VESSEL REPAIR and GEAR REPAIR: These expenses result from normal maintenance. Parts and labor costs associated with keeping a boat, fishing gear, and equipment in proper operating condition falls into the "Repair" category. The cost to set-netters and some gillnetters of keeping fish camp facilities in good condition is also a repair expense.

4. GEAR AND EQUIPMENT PURCHASES: In this category new engines, new complete nets (not just replacement web), radars, power blocks, and other major purchases should be grouped. If your P&L statement does not have this ex-

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ALASKA DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
P.O. Box D
Juneau, AK 99811-0802

COMMERCIAL FISHING
ACTUAL PROFIT AND LOSS STATEMENT

Applicant's Name Joeseph A. Anderson Social Security Number 4[illegible]4-[illegible]

For the period beginning January 1, 199[illegible] and ending October 31, 199[illegible]

	INCOME	
	Gross Sales: Salmon (Troll)	
	Salmon (Seine)	
	Salmon (Gillnet) Bristol Bay	70,000
	Salmon (Beach)	
	Halibut	
	Crab	
	Shrimp	
	Black Cod	
	Herring Togiak	4,000
	Other	
1	Other Income (specify source) Spouse's Wages	10,000
	TOTAL INCOME	$ 84,000

Your income must be verified with copies of your fish tickets or a cannery statement. If your income was from crewing, you must provide a signed affidavit from your skipper.

Comments:

Living expenses are for 10 months

EXPENSES		
Crew Shares	14,[illegible]	2
Fuel	3,000	
Groceries	[illegible]	
Bait and Ice		
Vessel Repair	10,000	3
Gear Repair	[illegible]	3
Insurance	1,500	
Vessel Lease or Rent Permit Payment	4,811	
Gear & Equipment Purchases	5,[illegible]	4
Taxes		
Other Miscellaneous	6,000	5
TOTAL FISHING EXPENSES	$ 4[illegible],[illegible]11	
Personal Living Expense	10,550	
Food Allowance	4,[illegible]	
Utilities	1,450	
Insurance	[illegible]	
Medical Expenses	417	
Other Support	-0-	
Other	3,000	
TOTAL LIVING EXPENSES	$ 24,[illegible]	6
TOTAL EXPENSES	$ [illegible]	

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pense heading or something similar, add major purchases to "Other" expenses. But then be certain to state in the "Comments" section (most P&L statements have a comments section) what was purchased, the month it was purchased, its cost, and in which expense category you have shown the cost. Do not mix major purchases with repair expenses—doing so can grossly distort the picture of normal operating expenses. Your loan officer will be trying to get a handle on normal operating expenses by comparing the profit and loss statements (Schedule C) from your last three years' tax returns, the application P&L (the financial form we are now discussing), and the application "Projected Profit and Loss Statement."

5. OTHER expenses: This is a category for all your unlisted expenses. Many P&L statements designed for fishing operations do not list certain expense items—usually because of space limitations—that may turn out to be fairly expensive; some examples are aquaculture assessments, property taxes, transportation to and from the fishing port or to and from the grounds, and moorage and storage fees. Think about all the unlisted expenses that you encounter and lump them into the "Other" expense category.
6. TOTAL LIVING EXPENSES: These expenses may be asked for on the P&L statement, after fishing expenses are totaled. If so, again, be honest with yourself and list them all. A systematic approach to determining living expenses is to go through your checkbook or receipts for a six-month period and add up actual costs for food, miscellaneous supplies, clothing, recreation and vacations, gifts and special events (include Christmas), and medical care. Divide the total by six to arrive at an average monthly figure. Combine this figure with monthly payments for rent, electricity, heat, phone, cable TV, loans, credit cards, child support, insurance, and other recurring living expenses. The result will be "total monthly expenses." Multiply total monthly expenses by the number of months to the date of your application to determine your current year living expenses. Our fisherman and his wife calculated total living expenses of $24,067 for the first 10 months of the year.

DUES AND LICENSES include only license payments and dues that recur annually. Examples are expenses for vessel, truck, and interim-use permit licenses, and for fishing association memberships.

DEPRECIATION is an accounting convention for spreading the cost of major items of equipment such as fishing vessels, trucks, and nets, over a period of years. If your loan application includes depreciation as a fishing expense, use the depreciation figure on Schedule C of your most recent income tax return. Because depreciation is not an out-of-pocket expense (you don't actually pay for depreciation—it doesn't affect your cash flow), some lenders disregard it and simply add it back to net profit to determine how much is available for living expenses and loan payments. Those lenders who do use depreciation to estimate the annual decrease in value of vessels, gear, and equipment, calculate it differently from the way the IRS now wants it done. Be prepared to provide these lenders with the original cost of your depreciable assets; it is a necessary part of the depreciation equation.

The total monthly expense figure may be used for the Projected Profit and Loss Statement as well as the Actual Profit and Loss Statement. The Projected P&L is a separate part of the loan package, which we will look at next. It is identical in format to the Actual P&L but is an estimate of future operations, whereas the P&L we have just examined is a summary of past operations.

That concludes the review of the Actual Profit and Loss Statement as well as the review of the entire Financial Statement. Remember, there are three parts to the financial statement; the Balance Sheet, Contingent Liabilities, and the Actual Profit and Loss Statement.

Projected Profit and Loss Statement

This is the point at which you estimate how much you expect to earn during the first year after receiving your new loan and how much your fishing and living expenses will cost. From these figures, your lender will determine what will be left to make payments on the projected loan.

Other terms for Projected Profit and Loss Statement are **Income and Expense Budget** and **Pro Forma Profit and Loss Statement**. They mean the same thing and are used interchangeably.

The most difficult part of projecting income and expenses is avoiding the temptation to exaggerate income and understate expenses. This can reduce your credibility which, in turn, can lead to poorer loan terms. The principal lenders in today's vessel loan market have taken steps to improve their knowledge of fisheries in their region. They have become more expert because of a steady increase in vessel loan defaults in recent years. Some are now compiling data bases of vessel income and operating costs for each fishery. All stay current on the market and catch factors that affect wholesale fish prices. Armed with supply-demand-price information, coupled with a fisherman's catch history, financial statement, and past three years income tax records, a lender is able to review an income and expense projection and judge, better than ever before, how realistic it is. Exaggerated projections reflect on an individual's grasp of the financial side of his or her operation. If finances are not understood and managed well, the risk of loan default increases.

Some lenders use information from a P&L projection to calculate a fisherman's break-even point. Break-even analysis is another tool available to estimate the affordability of a loan proposal. The break-even calculation uses projected ex-vessel prices, fishing and living expenses, and the new loan payment to arrive at the number of pounds of fish that must be caught to cover all costs. The break-even catch is compared with a fisherman's projected catch in conjunction with his catch history to determine if the borrower is likely to catch enough fish to be able to afford new loan payments.

As you work through your income and expense projections keep in mind the following points:

1. COMMENTS: This section is the place to explain fishing income. Most P&L projections have a comments section to show how it is derived. Indicate the expected catch and price of each species that contributes to the total gross income figure. For example, our Bristol Bay fisherman has shown that he expects to sell 5,000 lb of king salmon at $1.50 per lb, 70,000 lb of red salmon at $1.25 per lb, and 4,000 lb of silvers at 80¢ per lb. These combine for a total income of $98,200. He also intends to fish for herring, and in the herring block of the income section he has squeezed in his expected catch and price. They add up to another $5,000.

   Notice that our fisherman anticipates earning nearly 40% more with a new boat than he did the past year with his current vessel. This requires a good explanation. Any lender will be skeptical that catch can be increased so dramatically just by having a new boat. The fisherman explains in the comment section why he is convinced that his catch projection is realistic. The lender may check with other fishermen and with the processor to whom the fisherman sells fish, to determine if the explanation is reasonable. The point here is, if you are going to project that a new boat or piece of equipment will result in a significant increase in catch, be prepared to defend that projection with strong, logical reasons.

2. TOTAL LIVING EXPENSES and TOTAL FISHING EXPENSES may be carried over to the Projected P&L from the Actual P&L if there is no reason to expect these to change much during the projected year. If "other" expenses on the Actual P&L includes equipment purchases, be sure to deduct these before transfer-

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P.O. Box D
Juneau, AK 99811-0802

COMMERCIAL FISHING
PROJECTED PROFIT AND LOSS STATEMENT
(First Year After Receiving Loan)

Applicant's Name Joseph A. Anderson Social Security Number [illegible]

For the period beginning January 1, 1991 and ending December 31, 1991

INCOME	
Gross Sales: Salmon (Troll)	
Salmon (Seine)	
Salmon (Gillnet) Bristol Bay	98,200
Salmon (Beach)	
Halibut	
Crab	
Shrimp	
Black Cod	
Herring 20 Tons at $250/Ton	5,000
Other	
Other Income (specify source) Spouse Wages	12,000
TOTAL INCOME	$ 115,200

EXPENSES	
Crew Shares	25,000
Fuel	3,000
Groceries	2,000
Bait and Ice	
Vessel Repair	2,000
Gear Repair	1,500
Insurance	3,500
Loan or Lease Payment State Loan for Permit	4,511
Gear & Equipment Purchases	5,000
Taxes	3,000
Other	3,000
TOTAL FISHING EXPENSES	$ 52,511
Personal Living Expense	12,000
Food Allowance	5,500
Utilities	3,600
Insurance	3,450
Medical Expenses	500
Child Support	-0-
Other	3,600
TOTAL LIVING EXPENSES	$ 28,650
TOTAL EXPENSES	$ 81,161

Explain the basis for your projections.:

Income is expected to increase by approximately 40 percent for the following reasons:

1) Hold capacity will almost be doubled. This will greatly reduce time lost for deliveries during the peak run.
2) Time lost for repairs should be eliminated. Time has been lost during peak fishing periods the past few years due to repairs.

Comments
3) I will fish for silvers in addition to reds and kings.

```
EXPECTED CATCH
King:    5,000 lbs @ 1.50 = $ 7,500
Red:    70,000 lbs @ 1.25 =  87,500
Silver:  4,000 lbs @ 0.80 =   3,200
                    TOTAL = $98,200
```

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ring that figure to the Projected P&L. "Other" fishing expenses may include transportation, moorage, storage, aquaculture assessment, vehicle, accounting, dues and licenses, property taxes on fishing equipment, and other related taxes or fees.

INTEREST COSTS should include interest only on those fishing loans that currently exist and will continue into the projected year. Do not include interest on the loan for which you are applying. Your banker wants to see all anticipated expenses other than the new loan payment in order to judge whether the new one will be affordable. This category is not on the state form, but you should include the information.

Loan Application

Each application package includes one form which, itself, is called the "application." Here the applicant, co-applicant, and other guarantors or partners briefly state their personal history and financial status. If the lender has eligibility requirements, questions relating to them may be asked on this form. The application is the initial screening device for the lender. Much of the information it asks for will be requested in greater detail in other parts of the application package. Comments on completing the application form follow.

1. Some lenders will ask on the appli-

cation form for the AMOUNT YOU WISH TO BORROW and the number of years desired for repayment. Before you provide these figures, find out what the resulting annual loan payment will be by calling a loan officer at the lending institution from which you wish to borrow. Tell the loan officer the amount you wish to borrow, what you wish to purchase, and the purchase price. He or she can then estimate the number of years you will have to repay the loan and tell you the approximate annual payment amount. You can then use your catch history and the expenses from your P&L statement to judge whether the loan is going to be affordable. Another way to determine affordability is to use the break-even procedure, outlined in the Break-Even Analysis chapter in this book, to see how many pounds of fish must be caught to cover expenses and new loan payments. Again, compare with your catch history. If the loan payments seem manageable, proceed with the loan application.

2. CO-APPLICANT: This may be a spouse, co-habitant, relative, or partner. Partners in a partnership should be prepared to provide separate application forms, financial statements, tax returns, personal histories, and credit references. Co-

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APPLICATION FOR COMMERCIAL FISHING LOAN

Applicant Name: (Last, First, M.I.) Andersun Joseph A.	Current Date [illegible]
	Social Security Number [illegible]
Mailing Address (Street/P.O. Box, City, State, Zip Code) P.O. Box 100, Western Village, Alaska [illegible]	Applicant's Telephone Number (907) [illegible]
Physical Location (if different from mailing address)	How Long at Mailing Address (Yrs./Mos) [illegible] Years
	Date of Birth [illegible]
❶ ☒ I apply for a loan of $ [illegible] to be repaid in [illegible] years	Place of Birth (City and State) Western Village, Alaska
☐ I apply for assumption of an existing loan	☒ Married (including separated) ☐ Not married (including single, divorced, widowed)
☐ I apply for prequalification for a limited entry permit loan in the amount of $______ to be repaid in ______ years.	Number of Dependents (excluding Applicant) [illegible]

Applicant Business Name F/V SUNUP	☒ Individual ☐ Business ☐ Partnership ☐ Corporation	Current Date [illegible]
		Taxpayer Identification Number [illegible]
Mailing Address (Street/P.O. Box, City, State, Zip Code) P.O. Box 100, Western Village, Alaska [illegible]		Business Telephone Number [illegible]

❷ Spouse/Co-Applicant Name (Last, First, M.I.) Andersun Mary [illegible]			Social Security Number [illegible]
			Date of Birth [illegible]
Mailing Address (Street/P.O. Box, City, State, Zip Code) P.O. Box 100, Western Village, AK 99999			Place of Birth (City and State) Anchorage, Alaska
			Gross Monthly Salary (before deductions) $1,900
Spouse/Co-Applicant's Employer Western School District	Occupation/Position Teacher Aide	How Long? Yrs. [illegible] Mos [illegible]	Employer's Telephone Number (907) [illegible]

Nearest Relative not living with you/Contact Person: (Last, First, M.I.) Andersun, Alfred S.	Telephone Number (907) [illegible]
Mailing Address (Street/P.O. Box, City, State, Zip Code) P.O. Box 25, Western Village, AK [illegible]	Put your nearest relative not living with you or a contact person who knows how to reach you when your current mailing address or telephone number may have changed.

❸ ADDITIONAL INCOME (Applicant or Co-Applicant)	Source	Amount Monthly	Amount Yearly
Spouse	Western Village School District	[illegible]	[illegible]

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Have you ever obtained a loan either fully or partially funded by the State or by Alaska Industrial Development Authority? ☒ Yes ☐ No

If yes, complete the following:

Date Loan Received	Amount	Current Balance
September 1985	30,000	15,311

I have been a resident of Alaska since 1963 (year) May (month)

List below the addresses of each place you have resided during the past seven years. Attach a separate sheet of paper if necessary.

DATES FROM	TO	STREET ADDRESS	NAME OF LANDLORD IF RENTING	PHONE CONTACT
Jan. 1983	Present	Western Village	N/A	542-2222

List below the major jobs held during the years being claimed for eligibility.

Employer	Job Description	Salary	Year	Yearly Total

I certify under penalty of perjury that all of the information contained in this application and any attachments to it is true, accurate and complete. I am aware that the maximum penalty for perjury, a Class B felony under AS 11.56.200(c), is a fine of up to $50,000 (AS 12.55.035(b)(2)) and imprisonment for up to 10 years (AS 12.55.125(d)).

I agree that if any information contained in this application and attachments is false, inaccurate or incomplete, the division will deny the application. I also agree that if I receive a loan based on this application and attachments and any information contained in this application and attachments is later determined to be false, inaccurate or incomplete, then the loan will be cancelled and I will be immediately liable to repay the total I owe. I further agree that if any application submitted to the division is denied or if a loan that has been made is cancelled due to false, inaccurate, or incomplete information, I will no longer be eligible for any future benefits under the Commercial Fishing Loan Program.

I understand that the division will, in its discretion, release information contained in this application to the commercial Fisheries Entry Commission and that the division may also obtain information about me from the commission.

November 7, 1990 — Date — Joseph A. Anderson — Signature

November 7, 1990 — Date — Mary G. Anderson — Signature

STATE OF ALASKA
________ JUDICIAL DISTRICT) ss

The foregoing instrument was acknowledged before me this ________ day of ________, 19 ____

by ________________
(Name of person who acknowledged)

____
Notary Public

My commission expires: ________

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applicants, such as a husband and wife, who file joint tax returns, financial statements, and credit references, need not prepare separate application forms.

3. ADDITIONAL INCOME: This is income earned by the applicant or co-applicant from regular or part-time work other than commercial fishing. Additional income may also be investment income from rentals, securities, leases, and other sources.

The Bristol Bay fisherman has asked on his application form for $70,000, to be repaid over 10 years. At 10.5% interest (the state commercial fishing loan program rate) this will generate annual loan payments of $11,639. His Actual Profit and Loss Statement for the current year reveals that his total fishing income is nearly equal to his total expenses. Without his wife's income he would not be able to afford additional loan payments, assuming that his income this year follows the pattern of the past few years. He projects catching nearly 40% more salmon with a new vessel, which would make the new payments affordable. If he isn't fooling himself with his catch projection and he can continue during lean years to depend on his wife's income, he should be in good shape.

Letter of Intent

The purposes of the **Letter of Intent** are: (1) to list the items of equipment you wish to purchase and their value, and (2) to list the assets you are offering as collateral and their value.

Each major piece of equipment to be purchased, such as a boat, net, or permit, should be identified in specific terms. List its manufacturer, model, size, and other appropriate identifying characteristics. Include also the purchase price or survey value of each piece (whichever is less) or, in the case of a construction loan, attach a construction bid. If the vessel or piece of equipment already exists, a sales agreement and survey to verify the anticipated purchase, the price, and its market value, should also be attached.

Some lenders will ask how total borrowed funds are to be applied to each piece of equipment to be purchased. In order to answer this question, a borrower must be aware of the lender's financing policy. For example, suppose that the purchase price of a gillnet boat and nets is $60,000. Assume that the vessel surveys at $50,000 and the nets at $10,000. Suppose further that a lender's financing policy is to lend no more than 75% of the purchase price or survey value of a vessel and 50% of the value of nets. The most that this lender will offer, then, is $37,500 for the boat and $5,000 for the nets. The maximum amount that can be borrowed is $42,500. If the borrower borrows the maximum, then he must indicate that $37,500 will go toward purchase of the boat and

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Juneau, AK 99811-0802

COMMERCIAL FISHING
LETTER OF INTENT
(Attach additional sheets as necessary)

Applicant's Name Joseph A. Anderson

I. I am applying for:

☒ a loan under Section A or B (circle one)

If you receive a loan under Section A, you will not be eligible to borrow under Section B at any future date.

(Check appropriate box and fill in loan amount)

☐	Purchase Permit (attach purchase agreement)	$
☐	New Vessel Construction (attach bid or contract)	$
☒	Existing Vessel Purchase (attach purchase agreement and marine survey)	$ [illegible]
☐	Upgrade Existing Vessel (attach bid or contract)	$
☐	Gear Purchase (attach bid)	$
☐	Other (explain)	$
	Total	$

☐ An assumption of an existing state commercial fishing loan.
Existing borrower ________ Loan Number ________

☐ prequalification for a limited entry permit loan.
Amount ________ Area ________ Gear Type ________

II. Collateral Offered to Secure Loan:

Describe in detail and include documentation to verify the value of the collateral being offered. Include current photographs of the collateral being offered.

1) F/V Bigset, 32' aluminum gillnet vessel with diesel engine, power roller, and power reel
2) Bristol Bay limited entry permit #S03T-10000A
3) The entire $70,000 will be used to purchase the F/V Bigset from Mr. Joe Smith of Dillingham. The purchase price is $90,000. The difference of $20,000 I will pay from the sale of my current vessel, the Sunup, which I have arranged to sell for $30,000 pending approval of this loan request. The survey value of the Sunup is $35,000. The remaining $10,000 is for pre-season start-up costs and to make desired changes to the F/V Bigset.

III. Number of jobs created if loan is approved 1

IV. Applicant's Signature *Joseph A. Anderson* Date [illegible]

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$5,000 to the nets. However, if he borrows less than the maximum, which means that he has a larger down payment, he still must consider the lender's financing percentage. For example, if the borrower has $20,000 for a down payment and needs to borrow $40,000, he cannot simply state that his down payment will be split, with $10,000 going to the nets and the remaining $10,000 to the boat. That would leave him requesting $40,000 for the purchase of the boat, which is above the lender's 75% maximum. The borrower must distribute his down payment so that he pays for at least 25% of the cost of the boat, $12,500, and 50% of the nets, or $5,000. He can choose to apply the remaining $2,500 of his $20,000 down payment to either the boat or the nets. Since the nets lose value more quickly than the boat, he might make the lender happier if he applies it to the nets.

Collateral is personal or real property that a borrower agrees to relinquish to a lender in the event that the borrower defaults on a loan. The amount of collateral required to back up or "secure" a loan is not established by formula. It depends upon the lender's estimate of the borrower's default risk and upon the rate at which assets lose value over the life of the loan.

Lenders expect the value of collateral to always remain significantly greater than the outstanding balance of a loan so that a borrower who can no longer afford loan payments can pay the loan balance by quickly selling some of the assets offered as collateral. To quickly sell a piece of equipment, it usually must be sold at less than market value.

A sidelight to this is that vessels used in the salmon and herring fisheries in Alaska more often than not sell faster if they are sold in combination with a limited entry permit. Consequently, the two lenders who can take possession of a permit from a permit holder, the Alaska Department of Commerce and Economic Development and the Alaska Commercial Fishing and Agriculture Bank, prefer to have a boat loan secured by both the boat and a permit.

The Letter of Intent in some application packages is the place where information about the source of down payment is requested. This is money that the borrower is expected to supply from personal funds. If the down payment is to come from cash reserves, name the financial institution where the money is located. If it will come from the sale of assets, indicate the type of asset and the market value. Include an appraisal or other verification of the asset's value.

Our sample Letter of Intent does not ask specifically for information about the source of down payment funds, but our fisherman has provided this as additional information in Section II along with an explanation of the use of borrowed funds. He has indicated that the down payment for the requested loan will come from the sale of his current vessel. The sale has been arranged and will proceed if the loan request is approved.

Personal Commercial Fishing Résumé

The **personal résumé** is the place where the borrower outlines his or her fishing experience, technical skills, and any training that may contribute to the operation, maintenance, and management of the fishing business. Spouses are an integral part of many fishing operations, so be sure to identify the experience, skills, and training that your spouse (co-applicant, partner) adds to the business.

The résumé should also include names and addresses of character references, who will attest to the borrower's performance and personal qualities. Catch records for the past three to five years, not shown elsewhere in the application, should be included in the résumé as well. Let's take a look at the elements of a résumé in greater detail.

1. FISHING EXPERIENCE: The outline of your fishing experience should be a brief chronological listing of the fisheries in which you have participated, the names and types of the vessels on which you have worked, and your positions on the vessels. Begin with the current year and work back 10 to 15 years if your experience goes back that far.

   In the example our fisherman described his fishing experience in the "Commercial Fishing Résumé." Besides briefly chronicling his experience, he has added a short narrative explaining other details about his fishing background and reporting some of the training that has helped him and his wife succeed in their fishing business.

2. SKILLS AND TRAINING: When listing relevant skills and training, keep in mind that the task is to convince a loan officer that you can catch fish, keep a fishing vessel and gear operating, and manage the financial end of the business. List each skill, where the skill was learned (on the job or through technical or academic training), and when it was learned. If available, copies of certificates of completion, university transcripts, or other verification of training should be attached. Again don't forget about the skills and training of a spouse or co-applicant. You can mention your skills in a narrative like that of our sample fisherman, or list them as follows:

   Carpentry—on-the-job training, residential construction, 1972–1973

   Welding—U.S. Army assigned to motor pool, 1973–1975

   Navigation—Coast Guard Auxiliary course, Anchorage, 1983 (applicant and spouse)

   Accounting/bookkeeping—Anchorage Community College, 1985 (spouse)

   Diesel engine maintenance—Emerson Diesel Course, Seattle, 1985

   Hydraulic system maintenance—University of Alaska Marine Advisory Program workshop, Dillingham, 1987

3. REFERENCES: Each résumé will request the names of personal references who can verify your fishing experience, your fishing and business ability, and your character. List the names of people in your community with whom and for whom you have fished. Also list managers at processing companies to whom you have delivered fish. Be sure to list only people who will be readily available when a lender writes or calls. If they are away from home or the office for any length of time, or addresses and phone numbers are incorrect, they will be difficult to contact and the loan process will slow down. Incidentally, be sure to ask people before submitting their names whether they are willing to serve as references. It leaves a bad impres-

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Juneau, AK 99811-0802

COMMERCIAL FISHING RESUME

Name Joseph A. Anderson Social Security No. 474-[illegible]-[illegible]

Briefly describe your commercial fishing experience:

Year	Area/Species Gear Type	Name of Vessel & Skipper	Description of Duties
1983-199[illegible]	Bristol Bay Salmon and Herring Gillnet	F/V [illegible]	Owner/Operator
1977-19[illegible]	Bristol Bay Salmon and Herring Gillnet	F/V [illegible] Skipper Alfred Anderson	Crewman--Pick fish, mend nets, cook
1975-1976	Bristol Bay Salmon	F/V [illegible] Skipper Michael Anderson	Crewman--Pick fish, mend nets
1973-1974	Kuskokwim Salmon Gillnet	[illegible] Skipper Alfred Anderson	Crewman--Pick fish

I have been fishing commercially with my father and my uncle since I was twelve years old. In 1983 I purchased my uncle's permit and boat and have been skippering my own vessel since then in both the Bristol Bay salmon and herring fisheries. The last three years I fished for king and red salmon. Last year I also fished for silvers but High Point Processors, the company I have delivered to since 19[illegible], stopped buying silvers early in the season. Next year I will deliver silvers to another processor if High Point Processors does not buy.

My wife has been to university workshops (Marine Advisory Program) in Dillingham on income taxes and business management, and I have been to salmon handling classes. I was trained in diesel mechanics in the Army Guard, and I have learned aluminum welding by helping a local area boat builder during the winter. I have taken classes in navigation, bookkeeping, diesel maintenance, and hydraulic systems since 19[illegible].

REFERENCES

List three persons in your vicinity who know you well and to whom we may refer (excluding relatives or previous employees).

Name	Telephone	Mailing Address
Harvey John, Superintendent High Point Processors	(206) [illegible]	High Point, Inc. P.O. Box 1000, Seattle WA 98199
Joseph [illegible], Mayor Western Village, Alaska	(907) 542-1234	P.O. Box 78 Western Village AK 99999
Joe Smith, Manager Fisherman's Marketing Assn	(907) 842-7890	P.O. Box 2 Dillingham AK 99576

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sion with a lender when a reference is called who hasn't been informed of his or her role and isn't prepared to talk about you.

If the lender's application does not include a CATCH RECORD category (the sample application does not), you can add catch information to the résumé. Rest assured that the lender will ask for it at some point before the loan is approved. Include catch statistics for the past three to five years that you have skippered a vessel. Start with the most recent fishery and work back chronologically. For each year indicate:

A. Species (e.g., pink salmon, tanner crab, spot shrimp),
B. Fishery (e.g., PWS seine, Kodiak crab, Southeast pot shrimp),
C. Number of days fished (gear in the water),
D. Average ex-vessel price for each species,
E. Pounds or tons caught of each species,
F. Gross income from each species, and
G. Processor or buyer who bought most of your catch.

Back-up Information

The application review that each lender completes involves not only analysis of the financial and experience information, but also verification of its accuracy. A lender may ask you to provide the following documents to back up the information in your application:

Photographs of vessels, equipment, real estate (buildings) offered to secure a loan.

Surveys and appraisals of vessels and other personal or real property offered as collateral. Surveys or appraisals are also expected for individual assets that have a value equal to 10% or more of the value of all assets shown on the financial statement. Keep in mind that each survey or appraisal should be no more than 90 days old at the time the application is given to a lender.

Credit authorizations allow lenders to check your payment record with canneries and businesses from whom you have bought fishing equipment, services, and supplies on credit. If you do not have a business credit record, list the credit card companies, retail stores, and other consumer creditors from whom you make purchases. Lenders normally include credit authorization forms in their application package.

Commercial Fishing Catch Record
Year 1990

Species	Fishery	Days fished	Price	Lb/ton caught	Total value
King salmon	PWS drift gil.	20	$1.80	1,500	2,700
Red Salmon	PWS drift gil.	20	$1.80	13,000	23,400
Pink salmon	PWS seine	40	$0.35	450,000	157,500
Chum salmon	PWS seine	40	$0.90	9,000	8,100
Tanner crab	Kodiak crab	20	$2.10	15,000	31,500
Herring	PWS seine	1	$700	50	35,000

Processors Buying Catch:
Salmon and herring—Orca Pacific Ocean Products
Tanner crab—Shelikof Packers, Inc.

Example of a catch record (not related to the sample application). Keep in mind that this block of information needs to be repeated for each of the last three to five years that you have been a skipper.

Your signature on the credit authorization allows the creditor to provide the lender with information about your account balance, payment amount, and general credit rating. Include creditors whom you have paid regularly and on schedule, regardless of the current account balance. Indicate on the authorization the name and address of the creditor and your account number. **One creditor per authorization is the rule, so be prepared to complete several authorizations.** Again, credit authorizations are used to verify your payment record with stores and canneries, but not with banks or other commercial lenders. Your credit with lenders is investigated using the next means of verification, the "Authorization to Verify Financial Information."

Our Bristol Bay fisherman has completed credit authorization forms for the store where he charges fishing groceries and supplies, and for the cannery from which he purchases some of his fuel, food, and fishing gear.

Authorizations to verify financial information are sent to financial institutions (including brokerage houses) where you have an existing loan or have money in an account. Your money may be in checking, savings or money market accounts, or in certificates of deposit. Your money may also be in stocks, bonds, mortgages, insurance policies, or other investments.

Most lenders are interested in learning only about your business loans. If, however, your business borrowing is very limited, have verifications sent to lenders of real estate and consumer loans that you have received. Separate verifications should go to each of the organizations where you have major deposits, investments, and loans. Authorization forms are part of your lender's application package. Our fisherman deals with only one financial institution for his checking, saving, and borrowing needs and consequently has completed just one authorization form.

Income tax returns. Complete federal and, if applicable, state income tax returns for the past three years are a routine requirement for a commercial loan. They are used to verify income, operating expenses, and cash flow. Recent income tax returns also suggest (but don't prove) that you are not delinquent in paying income taxes. This is important to a lender, because if you have failed to pay back taxes, the Internal Revenue Service has first claim to your assets, including your boat. The upshot of this is: **no tax returns, no loan.**

Schedule C, "Profit or (Loss) from Business or Profession," is the principal income tax form that a loan officer will review. Net profit from your fishing business is shown here. If you consistently show little or no profit, there is an apparent risk that you may be unable to afford additional loan payments. It is not uncommon, however, for a sole propri-

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Juneau, AK 99811-0802

URGENT
Please Reply
Within 48 Hours
LOAN PENDING

CREDIT AUTHORIZATION

I, Joseph Alfred Anderson, of Western Village, Alaska
(Print full name) (City and State)
authorize the following named creditor to divulge to the Department of Commerce and Economic Development, State of Alaska, any and all information concerning the nature of my credit transactions with them, including but not limited to, the amount of credit extended, the terms and conditions of the transactions, the current balance, if any is outstanding, and the repayment record.

I understand that the information is of a confidential nature and will be used for the sole purpose of evaluating an application which I have submitted to the State.

NAME OF CREDITOR Bay General Store

ACCOUNT NUMBER [illegible]

ADDRESS P.O. Box 402

CITY Dillingham STATE Alaska

ZIP CODE 99576

APPLICANT'S SIGNATURE Joseph A. Anderson DATE [illegible]

This form should be returned with the application package. The division will forward all authorizations to the creditors.

Creditor Verification
(For creditor use only)

The above named applicant has applied for benefits from the State. To assist us in evaluating this application, we would appreciate any information you can give us regarding our applicant's credit rating. Information received will be considered confidential.

Date Account Opened	Maximum Credit Extended	Present Balance	Payments	Rating

Remarks

Signature of Creditor Title Date

Please return to:

Division of Investments
P.O. Box D
Juneau, AK 99811-0802
Telephone: 465-2510

Division of Investments
3601 "C" St., Suite 778
Anchorage, AK 99503
Telephone: 562-3779

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DIVISION OF INVESTMENTS
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Juneau, AK 99811-0802

URGENT
Please Reply
Within 48 Hours
LOAN PENDING

AUTHORIZATION TO VERIFY FINANCIAL INFORMATION

I, Joeseph Alfred Andersun (Print Full Name), of Western Village, Alaska (City and State), authorize the following named financial institution to divulge to the Department of Commerce and Economic Development, State of Alaska, any and all information concerning the nature of my account balances and loan balances with them, including, but not limited to, the amount of credit extended, the terms and conditions of the transactions and the account balance, if any is outstanding.

I understand that the information is of a confidential nature and will be used for the sole purpose of evaluating an application which I have submitted to the State.

Name of Financial Institution First National Bank

Checking Account Number 36-150002 Savings Account Number 30-000-001

Loan Number C37878 (Home) Loan Number C453883 (Auto)

Address P.O. Box 1000

City Dillingham State Alaska Zip 99576

Applicant's Signature Joseph A. Andersun Date 11-7-90

This form should be returned with the application package. The division will forward all authorizations to the creditors.

BANK VERIFICATION OF FINANCIAL INFORMATION
(For Bank Use Only)

Checking Account:		Savings Account:		Other Account:	
Current Balance		Current Balance		Current Balance	
6 Month Average		6 Month Average		6 Month Average	
Date Account was opened		Date Account was opened		Date Account was opened	

Loans	Date	Original Balance	Payments	Current Balance	Rating
Secured					
Unsecured					

The information provided above is essentially correct as of this date and accurately reflects the individual's financial dealings with this instidution.

Remarks

Signature of Bank Official Title Date

Please return to:

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P.O. Box D
Juneau, AK 99811-0802
Telephone 465-2510

☐ Division of Investments
3601 "C" St., Suite 778
Anchorage, AK 99503
Telephone 562-3379

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etor (most fishermen are sole proprietors) to have a comfortable cash flow even though taxable profits are small. This can happen when earnings are legitimately sheltered from income taxes through large depreciation deductions and perhaps capital construction fund deposits. If this is your situation, you need to attach a note to your tax returns explaining why your cash flow is adequate even though your profit is low. Take the initiative in helping the loan officer and loan committee understand your financial position.

Commercial Fishing Consent to Release Information forms authorize state and federal fisheries agencies to release information about your catch record and the status of your fishing permit. These forms, which are provided by the lender, may be titled differently by different lenders, but the intent is the same. Notice that both husband and wife (co-applicant) have signed the "Consent to Release Information" form in the sample application.

Residency records. If the lender has a residency requirement, as the State of Alaska Commercial Fishing Loan Program has, you will be asked to prove that you are a resident by providing a variety of records. These may include a driver's license, voter's registration card, bank accounts, rent or mortgage payment receipts, and utility bills.

Construction or purchase agreement.

1. Construction Agreement

Protection for both buyer and lender from construction mishaps is on the mind of the loan officer reviewing a construction contract. The lender wants clauses in the agreement providing protection in case the vessel is destroyed during construction (by a fire for instance) or in case the builder goes out of business. The lender and especially the buyer also want protection against lost fishing time (income) resulting from faulty workmanship. Other clauses involving cost overruns, warranty of workmanship and materials, liens against the builder by suppliers to the builder, arbitration of disputes between the builder and buyer, conditions for progress payments, and other potential problems may also be desirable.

The experienced lender will ensure that maximum protection is written into a construction loan contract because a construction loan normally remains unsecured until the vessel is finished and documented. The vessel is not acceptable as collateral for a loan until the "document," which is prepared by the Coast Guard, lists the lender as a mortgagee. Because of this, some lenders, including the State of Alaska, do not make interim construction loans.

2. Purchase Agreement

A lien that is listed on a vessel document is termed a PREFERRED MARINE

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P.O. Box D
Juneau, AK 99811-0802

COMMERCIAL FISHING
CONSENT TO RELEASE INFORMATION

I authorize the Division of Investments to obtain copies of:

1. State income tax returns
2. U.S. income tax returns
3. U.S. Civil Service personnel records
4. U.S. Social Security records
5. U.S. military service records
6. U.S. Department of Labor employment records
7. State and U.S. fisheries records
8. State and Federal enrollment and financial aids records
9. Telephone, utility and water records
10. U.S. Postal Service information
11. Commercial Fisheries Entry Commission (Limited Entry) records
12. State Permanent Fund Dividend Program records
13. Alaska Department of Public Safety records
14. Alaska Department of Fish and Game records
15. Any other records which would relate to my stated claim of Alaska domicile/residency

I also authorize the release of any information contained in this application and attachments to the Commercial Fisheries Entry Commission, the Internal Revenue Service, and the Alaska Permanent Fund Corporation. In addition I authorize the division to verify the validity of information submitted in support of this loan application. In verifying that the applicant is not elegible for an alternative source of financing (3 AAC 80.055(b)). I understand that information contained in the application may be released to other lending institutions. Further, I authorize the division to obtain credit information on me from credit reporting agencies.

Joseph A. Anderson
Applicant's Signature

Mary G. Anderson
Signature of spouse if joint filings/records maintained

Joesepn A. Anderson
Applicant's Name - Please Print

Mary Anderson
Spouse's Name - Please Print

474-00-1111
Applicant's Social Security No.

474-00-1234
Spouse's Social Security No.

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MORTGAGE. Only mortgages are listed on a ship's document. Other types of liens against an operating vessel may be registered with the Coast Guard, but are not listed on the vessel document. Liens may be filed with the Coast Guard by suppliers of goods or services who have not been paid by a vessel owner. Although they are not recorded on the document as are mortgages, they are made a matter of public record. The significance of this lies in the fact that outstanding claims of lien are transferred from owner to owner. A new owner of an existing vessel may be held liable for the previous owner's debts. Consequently, a potential buyer should ensure that no liens exist at the time of sale. It is common practice to include in the purchase agreement a clause stating that no liens or encumbrances remain against the vessel. "Preferred ship's mortgages," in contrast to liens, cannot be transferred from owner to owner. Each mortgage must be paid in full before title to a vessel can be transferred to a new buyer.

Purchase agreements for existing vessels are usually of secondary concern to a lender and are often not reviewed so long as the documentation is in order and there are no liens against the vessel. Clauses commonly found in a purchase agreement spell out:

A. Conditions of the sale, such as the sale price, the amount of the down payment, and the amount and timing of subsequent payments;

B. Loan terms if the seller is carrying part or all of the loan including the interest rate, number of payments, and the amount borrowed, as well as the amount of each payment;

C. The location of the vessel and gear, and a list of the gear and equipment included in the sale;

D. The condition of the vessel and equipment; and

E. A list of things that the current owner agrees to do or improvements that will be made as a condition of the sale, and the time period in which they are to be accomplished.

Insurance. Most lenders require that both **hull and machinery** and **liability** insurance be purchased before the loan funds are disbursed. Typically, hull and machinery insurance must equal or exceed 110% of the remaining balance of a loan. For example, if a new vessel is purchased for $100,000, and a lender lends 75% of the purchase price ($75,000), the minimum hull and machinery coverage must equal 110% of $75,000, or $82,500. Vessel owners usually carry insurance equivalent to the purchase price or fair market value, as long as the value is greater than the loan balance. The lender is named "loss payee" (beneficiary) on a hull and machinery policy and receives insurance disbursements up to the remaining balance of the vessel loan, before the owner receives any money.

"Breach of warranty" insurance is required by most lenders as an adjunct to the hull and machinery policy. The purpose of a breach of warranty rider is to repay a loan in case the vessel is lost and a claim is denied under the hull policy. If, for instance, a vessel which is insured only for the Kodiak region is lost while fishing in Prince William Sound, the hull policy may be void, but the lender will be able to recover the balance of the ship's mortgage through a "breach of warranty" policy.

The minimums for liability, or more correctly, "protection and indemnity" insurance (P&I) vary from lender to lender. Plan on needing liability coverage of $100,000 for each crew member, including the skipper, and a minimum of $100,000 for each accident involving property damage or injury to individuals other than crew members. The major purpose of P&I coverage is to provide medical expenses and income compensation for the injury or death of a crew member.

Protection and indemnity insurance, however, also covers damages caused by the vessel to "any fixed or movable object or property of whatever nature." Damage to docks, piers, and in some cases to moored vessels, from collision or excessive wake, falls into this category.

Loan Payments and Break-even Analysis

At this point, our review of the loan application comes to an end. Loan Payments and Break-even Analysis chapters follow. The first step in deciding whether your purchase plans are affordable is to find out what the resulting loan payments will be. The next chapter provides a loan payment table showing the annual payments associated with different interest rates, and repayment periods for each $1,000 borrowed.

The next step in making a decision is doing a break-even calculation following the procedure shown in the last chapter. The break-even calculation is used to determine how many pounds of fish must be caught to pay fishing expenses, living expenses, and your anticipated loan payment. After you compare the break-even catch with your catch record, you are in a good position to decide whether to proceed to a lender or to re-examine your needs.

Loan Payments

An annual loan payment table shows the "level term" (every payment is the same amount), once-a-year payments due on each $1,000 borrowed at different interest rates and loan terms. To find the payment for a loan of several thousand dollars, simply multiply the payment in the table by the number of thousands. For example, Table 1 shows that if you borrow $1,000 at 10% interest and repay the loan over a five year period, the payment each year will be $263.80. If you wish to borrow $10,000, at the same interest and repayment schedule, your annual payment will be 10 times as much, or $2,638. If you borrow $50,000 the annual payment will be 50 times more ($13,190) and so on.

To figure income taxes and net worth for a balance sheet, it is important to know that the principal and interest portions of a level term loan payment are different for every payment even though the total payment amount stays the same. The interest portion gradually decreases from the first payment to the last. The first payment is nearly all interest and the last is nearly all principal. This is because interest is figured on the unpaid balance of a loan. Part of each payment (the principal) goes toward reduction of the loan amount; consequently, as the loan is repaid, the interest charge on the remainder decreases. But since each payment is for the same amount, the principal portion must increase as the interest portion decreases.

How does this tie in with taxes and balance sheets? Interest is a deductible expense for income tax purposes. As the interest portion of your loan payment decreases each year, all things being equal, your deductions (on Schedule C) are less and you pay more taxes. On the other hand, your balance sheet net worth will improve annually as you decrease the amount owed on your loans. This in turn improves your borrowing power because your net worth to debt ratio improves.

The big advantage of level term payments is that they help financial planning. You know how much the payment will be every year so you can plan business and personal expenses around it. If interest rates shoot up, there is no unexpected increase in payments as there is with a floating rate loan. However, the disadvantage is that payments do not decrease when interest rates fall. If the rate drops three or four percentage points, however, you can refinance at a lower rate.

Loan payment tables like Table 1 and similar loan amortization payment tables (which can be found in book stores in the real estate section) are applicable only to fixed interest rate loans. Loans from the State of Alaska, the Community Enterprise Development Corporation (CEDC), and loans with Small Business Association (SBA) or Fisheries Obligation Guarantee Program (FOG) guarantees have fixed rates. Loans from commercial lenders and from Farm Credit System lenders carry floating (variable) interest rates except when the loans are guaranteed. The calculation of floating rate payments is explained in Table 2.

TABLE 1
ANNUAL LOAN PAYMENT PER $1,000 BORROWED

Interest Rate	9½%	10%	10½%	11%	11½%	12%	12½%	13%
1 Year	$1,095.00	$1,100.00	$1,105.00	$1,110.00	$1,115.00	$1,120.00	$1,125.00	$1,130.00
2 Year	572.33	579.19	580.06	583.93	587.81	591.70	595.59	599.48
3 Year	398.58	402.11	405.66	409.21	412.78	416.35	419.93	423.52
4 Year	312.06	315.47	318.89	322.33	325.77	329.23	332.71	336.19
5 Year	260.44	263.80	267.18	270.57	273.98	277.41	280.85	284.31
6 Year	226.25	229.61	232.98	236.38	239.79	243.23	246.68	250.15
7 Year	202.04	205.41	208.80	212.22	215.66	219.12	222.60	226.11
8 Year	184.05	187.44	190.87	194.32	197.80	201.30	204.83	208.39
9 Year	170.20	173.64	177.11	180.60	184.13	187.68	191.26	194.87
10 Year	159.27	162.75	166.26	169.80	173.38	176.98	180.62	184.29
12 Year	143.12	146.74	150.38	154.03	157.71	161.44	165.19	168.99
15 Year	127.74	131.47	135.25	139.07	142.92	146.82	150.76	154.74
20 Year	113.48	117.46	121.49	125.58	129.70	133.88	138.10	142.35

Interest Rate	13½%	14%	14½%	15%	15½%	16%	16½%	17%
1 Year	$1,135.00	$1,140.00	$1,145.00	$1,150.00	$1,155.00	$1,160.00	$1,165.00	$1,170.00
2 Year	603.38	607.29	611.20	615.12	619.04	622.96	626.89	630.83
3 Year	427.12	430.73	434.35	437.98	441.61	445.26	448.91	452.57
4 Year	339.69	343.20	346.73	350.27	353.81	357.38	360.95	364.53
5 Year	287.79	291.28	294.79	298.32	301.85	305.41	308.98	312.56
6 Year	253.65	257.16	260.69	264.24	267.80	271.39	274.99	278.61
7 Year	229.64	233.19	236.77	240.36	243.98	247.61	251.27	254.95
8 Year	211.97	215.57	219.20	222.85	226.53	230.22	233.95	237.69
9 Year	198.51	202.17	205.86	209.57	213.32	217.08	220.87	224.69
10 Year	187.99	191.71	195.47	199.25	203.06	206.90	210.77	214.66
12 Year	172.81	176.67	180.56	184.48	188.43	192.41	196.43	200.47
15 Year	158.76	162.81	166.90	171.02	175.17	179.36	183.57	187.82
20 Year	146.65	150.99	155.36	159.76	164.20	168.67	173.16	177.69

(cont. on page 60)

TABLE 1
ANNUAL LOAN PAYMENT PER $1,000 BORROWED

Interest Rate	17½%	18%	18½%	19%	19½%	20%	20½%	21%
1 Year	$1,175.00	$1,180.00	$1,185.00	$1,190.no	$1,195.00	$1,200.00	$1,205.00	$1,210.00
2 Year	634.77	638.72	642.67	646.62	650.58	654.55	658.51	662.49
3 Year	456.24	459.92	463.61	467.31	471.01	474.73	478.45	482.18
4 Year	368.13	371.74	375.36	378.99	382.63	386.29	389.96	393.63
5 Year	316.16	319.78	323.41	327.05	330.71	334.38	338.07	341.77
6 Year	282.25	285.91	289.58	293.27	296.98	300.71	304.45	308.20
7 Year	258.64	262.36	266.10	269.85	273.63	277.42	281.24	285.07
8 Year	241.46	245.24	249.05	252.89	256.74	260.61	264.50	268.41
9 Year	228.53	232.39	236.28	240.19	244.12	248.08	252.06	256.05
10 Year	218.57	222.51	226.48	230.47	234.49	238.52	242.58	246.67
12 Year	204.53	208.63	212.75	216.90	221.07	225.26	229.49	233.73
15 Year	192.10	196.40	200.73	205.09	209.47	213.88	218.31	222.77
20 Year	182.24	186.82	191.42	196.05	200.69	205.36	210.04	214.74

Interest Rate	21½%	22%	22½%	23%	23½%	24%	24½%	25%
1 Year	$1,215.00	$1,220.00	$1,225.00	$1,230.00	$1,235.00	$1,240.00	$1,245.00	$1,250.00
2 Year	666.47	670.45	674.44	678.43	682.43	686.43	690.43	694.44
3 Year	485.91	489.66	493.41	497.17	500.94	504.72	508.50	512.30
4 Year	397.32	401.02	404.73	408.45	412.18	415.93	419.68	423.44
5 Year	345.48	349.21	352.95	356.70	360.47	364.25	368.04	371.85
6 Year	311.98	315.76	319.57	323.39	327.22	331.07	334.94	338.82
7 Year	288.92	292.78	296.67	300.57	304.49	308.42	312.37	316.34
8 Year	272.35	276.30	280.27	284.26	288.27	292.29	296.34	300.40
9 Year	260.07	264.11	268.17	272.25	276.35	280.47	284.60	288.76
10 Year	250.77	254.89	259.04	263.21	267.40	271.60	275.83	280.07
12 Year	238.00	242.28	246.59	250.93	255.28	259.65	264.04	268.45
15 Year	227.24	231.74	236.25	240.79	245.35	249.92	254.51	259.12
20 Year	219.47	224.20	228.95	233.72	238.50	243.29	248.10	252.92

Floating Rate Loans

Table 2 shows how to estimate payments on a loan with a floating interest rate. The three-part calculation is straightforward. Determining the interest rate to use is not straightforward. This is where estimation comes into play. You can use your own guess about future interest rates, you can use the guess offered by your loan officer, or you can choose an economist to trust. Any of these routes will make it obvious that it is not easy to plan for the future when you have to deal with floating rates.

The calculation is made up of principal, interest, and total payment. The principal portion of each payment is normally calculated by dividing the original amount borrowed by the total number of payments. There are other methods of calculating the principal, but this is the simplest.

Interest is calculated by multiplying the remaining balance by the current interest rate, then dividing that product by the number of payments per year. Keep in mind that the remaining balance is reduced after each payment by an amount equal to the principal portion of the payment. The total payment is the sum of its principal and interest portions.

If this sounds confusing, Table 2 should help straighten it out. Examples are shown for figuring annual and monthly payments.

TABLE 2. FLOATING INTEREST RATE

Amount borrowed ÷ Total number of payments = **Principal**

(Remaining balance x Interest rate) ÷ Payments per year = **Interest**

Principal + Interest = **Payment**

Example 1. Annual Payments

(One payment each year for the first three years of a 10-year loan)

Borrowed: \$100,000 Loan period: 10 years Interest rate: Variable

Year 1: Interest rate 17% (of remaining balance)
\$100,000 ÷ 10 = \$10,000 (principal)
\$100,000 x 0.17 = \$17,000 (interest)
\$10,000 + \$17,000 = \$27,000 (payment)

Year 2: Interest rate 15% (of remaining balance)
\$100,000 ÷ 10 = \$10,000 (principal)
\$90,000 x 0.15 = \$13,500 (interest)
\$10,000 + \$13,500 = \$23,500 (payment)

Year 3: Interest rate 18% (of remaining balance)
\$100,000 ÷ 10 = \$10,000 (principal)
\$80,000 x 0.18 = \$14,400 (interest)
\$10,000 + \$14,400 = \$24,400 (payment)

(cont. on page 62)

TABLE 2. FLOATING INTEREST RATE

Amount borrowed ÷ Total number of payments = **Principal**

(Remaining balance x Interest rate) ÷ Payments per year = **Interest**

Principal + Interest = **Payment**

Example 2. Monthly Payments

(Monthly payments for the first two months of the first year)

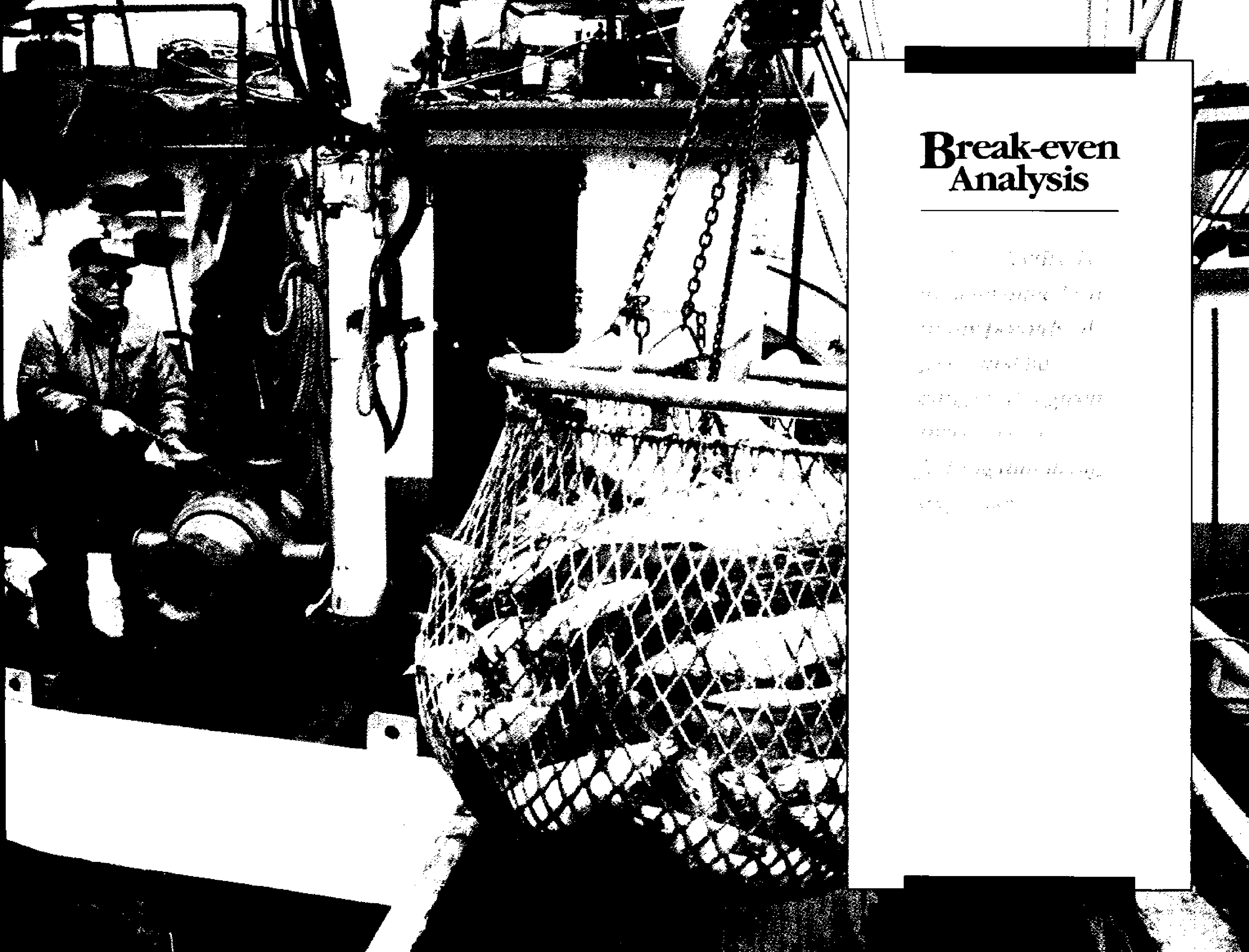
Borrowed: $100,000 Loan period: 10 years Interest rate: 17% in first year

Month 1

$100,000 ÷ 10 = $10,000 ÷ 12 = $833.33 (principal)
$100,000 x 0.17 = $17,000 ÷ 12 = $1,416.67 (interest)
$833.33 + $1,416.67 = $2,250.00 (payment)

Month 2

$100,000 ÷ 10 = $10,000 ÷ 12 = $833.33 (principal)
$99,166.67 x 0.17 = $16,858 ÷ 12 = $1,404.86 (interest)
$833.33 + $1,404.86 = $2,238.19 (payment)



Break-even Analysis

Break-even analysis is used to help answer the question, "Can I afford it?" The objective is to determine how many pounds of fish must be caught at a given price to meet fishing and living expenses. In a more dynamic sense, repetitive break-even calculations can show how catch must change when prices or expenses change. Doing these "what if" projections utilizes break-even analysis to the fullest as a planning and budgeting tool.

Assume that a fisherman wants to borrow $100,000 to purchase a new boat for his Bristol Bay gillnet fishery. The loan terms are 10 years and 14% interest. If we assume level term payments, Table 1 on page 57 shows that the resulting payment per $1,000 is $191.70. The annual payment for $100,000 is therefore $19,170.

The important question is, how many pounds of red and chum salmon must be caught to make this boat payment, while covering all other fishing and living expenses? To arrive at an answer we must first list the fisherman's projected fishing expenses, then the estimated ex-vessel prices for reds and chums, and finally, the percentage of reds in his catch and the percentage chums (this is termed the species mix). To get a better idea of the information needed, take a look at the fill-in-the-blanks break-even guide on pages 66–70.

Let's consider some of the cost and information items in greater detail before filling in the blanks.

1. LOAN PAYMENTS. The projected boat payment is $19,171. Assume also that this fisherman purchased a limited entry permit at the time his original boat was purchased and is already making annual permit loan payments of $15,000.
2. CREW SHARE ARRANGEMENT. Assume that there are two crewmen in addition to the skipper/owner. Each crewman receives 10% of gross income. The total crew share consequently is 20%.
3. FISH TAX OR AQUACULTURE ASSESSMENT. Assume that a borough tax of 3% of gross income is levied. There is no aquaculture assessment.
4. LIVING EXPENSES. Our fisherman would like to take home at least $40,000 at the end of the season after all fishing expenses, including loan payments, are made.
5. MONTHS THIS FISHERY. Assume that the fisherman spends two months preparing his boat for the fishery, actually fishing, and preparing the boat for storage.
6. MONTHS ALL FISHERIES. In this Bristol Bay example, drift gillnetting will be the only fishery in which our fisherman participates, so two months is the total time the fishing vessel is used annually.

The two categories "months this fishery" and "months all fisheries" are used in combination to allocate fixed fishing expenses to the different fisheries in which you participate. Vessel insurance, accounting fees, hull and engine maintenance, and other fixed costs are not fishery specific, and a portion of these expenses should be borne by each fishery. One way to allocate to various fisheries is to charge fixed expenses in the same ratio as the time you spend preparing for and fishing in each fishery.

For example, take the case of a southeastern Alaska fisherman who uses his boat nine months of the year for herring, salmon, and crab. If his boat is rigged for salmon three months of those nine, then one-third, or 33%, of fixed costs should be "prorated" to salmon fishing. His total expenses include all of the salmon fishing variable expenses, and one-third of the fixed expenses, including the boat payment. If he borrowed money to purchase a limited entry permit for salmon, the permit payment would be charged entirely to the salmon fishery because it cannot be used for any other fishery.

Now we're finished with the preliminaries, so let's get on with the business of listing expenses and calculating the break-even catch.

7. PROJECTED FISH PRICES.

Red salmon	$1.25 per lb
Chum salmon	0.40 per lb

8. SPECIES MIX.

Red salmon	85% by weight
Chum salmon	15% by weight

9. PROJECTED FISHING EXPENSES.

Direct expenses (specific to a fishery)

Fuel/oil	$3,000
Groceries	1,600
Gear and equipment maintenance	5,000
Supplies	500
Crew insurance	1,000
Permit loan payment	15,000
Travel	350
TOTAL	$26,450

Fixed expenses (annual)

Vessel insurance	$3,000
Hull and engine maintenance	3,500
Moorage	1,000
Storage (incl. warehouse expense)	600
Vehicle	—
Business administration	200
Legal and accounting	500
Travel and entertainment	1,000
Dues and licenses	250
Boat payments	19,170
TOTAL	$29,220

10. BLENDED PRICE PER POUND. The blended price takes into account the mixture of different species and the different prices for those species. Multiply the species mix percentage for a species by its ex-vessel price and repeat this calculation for each species. This yields a "weighted" price per pound for each species. When the weighted prices are added together, the sum is a "blended, weighted average" price per pound.

11. PRORATED FIXED EXPENSES.

    Prorated fixed expenses =

    (Months this fishery ÷ Months all fisheries) x (Total fixed exp.)

    Our Bristol Bay fisherman uses his boat in only one fishery, so prorated fixed expenses are the same as total fixed expenses.

    Prorated fixed expenses =
    (2÷2) x ($29,220) = $29,220

12. CREW SHARE PLUS TAX PERCENTAGES. This is simply the sum of the crew share and tax percentages (or aquaculture assessment if applicable in your region). Write the sum in decimal format so that it can be subtracted from the value "1", which represents one dollar. For example, 23% in decimal format is 0.23.

At this point we are ready to fill in the blanks in the break-even guide and complete the break-even calculations.

13. TOTAL EXPENSES. To arrive at total expenses, add living expenses (no. 4), total direct expenses (no. 9), and prorated fixed expenses (no.11).

14. BREAK-EVEN INCOME. After crew share, tax, and/or aquaculture percentages of each dollar are subtracted, the remaining fraction of a dollar is available to cover fishing, living, and loan expenses. When this remaining fraction is divided into the total dollar value of these expenses, the resulting figure is the break-even gross income. To restate the problem another way, this calculation answers the question, "How much do I have to gross so that when crew, tax, and aquaculture shares are deducted, the remainder will pay for fishing, living, and loan expenses?"

15. BREAK-EVEN CATCH. Divide the break-even income (no. 14) by the blended price per pound (no. 10) to arrive at the break-even catch for all species.

BREAK-EVEN GUIDE

FISHERY: ____________________

Calculation Factors

1. Annual boat loan payment	19,170
Permit loan payment	15,000
2. Crew share (total %)	20%
3. Fish tax/assessment (%)	3%
4. Living expenses	40,000
5. Months this fishery	2
6. Months all fisheries	2

7. Price/lb (by species)		**8. Species mix (%)**	
Species A: Red			
A.	$1.25 /lb	A.	85 %
Species B: Chum			
B.	$0.40 /lb	B.	15 %
Species C:			
C.	/lb	C.	%
Species D:			
D.	/lb	D.	%

9. Projected fishing expenses

DIRECT EXPENSES		FIXED EXPENSES	
Fuel/oil	3,000	Vessel insurance	3,000
Groceries	1,600	Hull & engine maintenance	3,500
Gear & equipment maintenance	5,000	Moorage	1,000
Supplies	500	Storage	600
Crew insurance	1,000	Vehicle	–
Permit loan payment	15,000	Business administration	200
Travel	350	Legal & accounting	500
		Travel & entertainment	1,000
		Dues & licenses	250
		Boat payments	19,170
Total direct expenses	$26,450	**Total fixed expenses**	$29,220

BREAK-EVEN GUIDE

Calculations

10. Blended price/lb

%A 85 x price A 1.25 = 1.06

%B 15 x price B .40 = .06

%C x price C =

%D x price D =

Total blended price/lb 1.12

11. Prorated fixed expenses

Months this fishery 2 ÷

Months all fisheries 2

= 1 x

Total fixed expenses 29,220

Prorated fixed expenses $29,220

12. Crew share % + tax %

Crew share % 20 + tax % 3

.23

(decimal format)

13. Total expenses

Living expenses 40,000

+ Direct expenses 26,450

+ Prorated fixed expenses 29,220

Total expenses $95,670

14. Break-even income

Total expenses ÷ (1 - [crew share % + tax %]) = Break-even income

95,670

÷ (1 - .23)

Break-even income $124,247

15. Break-even catch

Break-even income ÷ blended price/lb = Break-even catch

124,247 ÷ 1.12

Break-even catch 110,935

16. Break-even catch by species

Break-even catch x species mix % = Break-even catch for each species

Species A: Red

110,935 x 85 % = 94,294 lb

Species B: Chum

110,935 x 15 % = 16,640 lb

Species C:

x % = lb

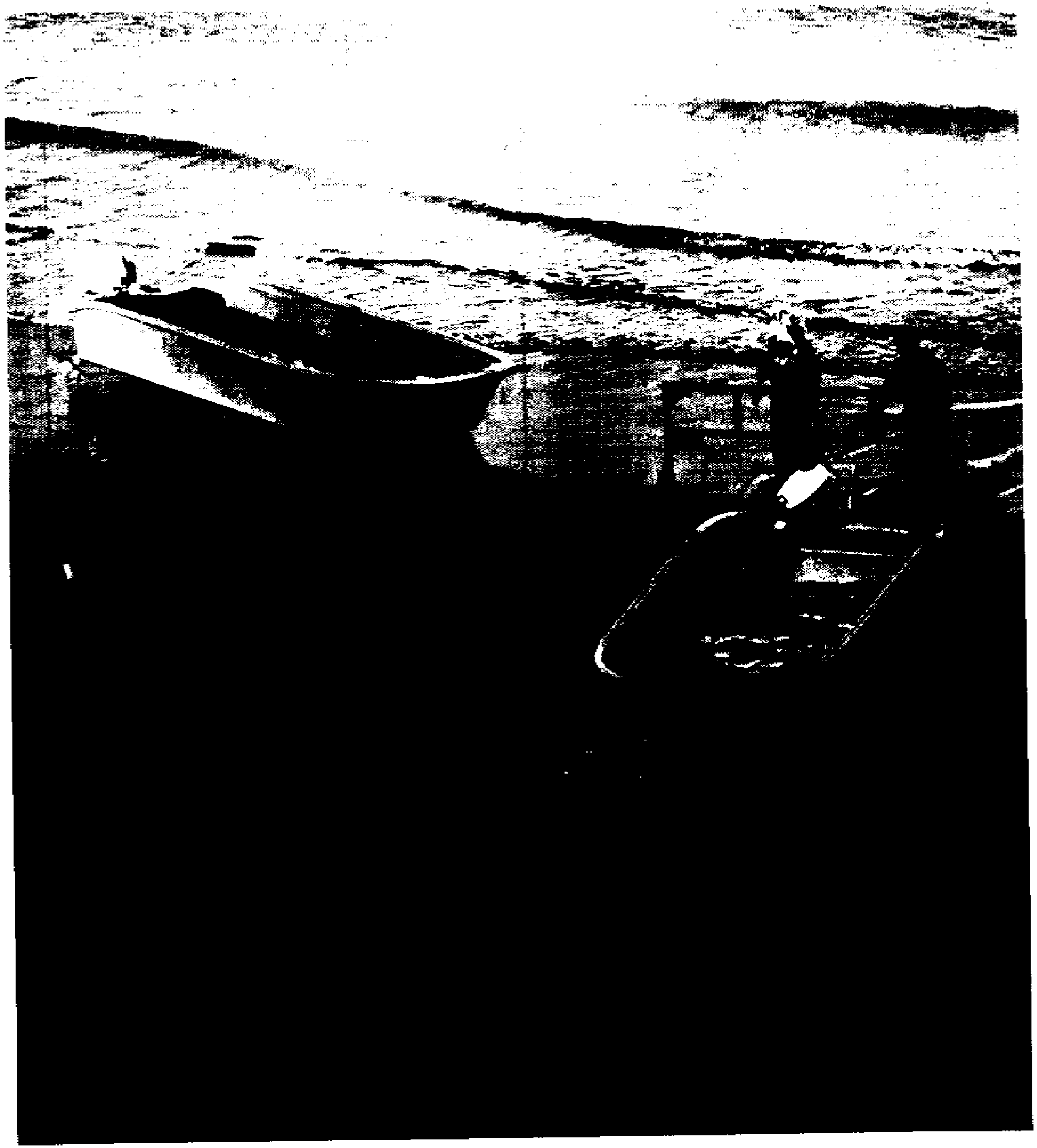
Species D:

x % = lb

16. BREAK-EVEN CATCH BY SPECIES. Notice that the final calculation shows break-even catch broken out by species. This is achieved by multiplying the total break-even catch by the "percentage mix" for each species, that is, the percentage that each species contributes to the total catch in pounds.

The usefulness of break-even analysis as a planning tool cannot be overemphasized. Its greatest benefit will be realized when you observe what happens to break-even catch as prices, expenses, and loan payments are changed. These "what if" exercises will help you prepare both mentally and strategically for the range of biological, economic, and market conditions which may lie ahead.

Use copies of the fill-in-the-blanks break-even guide on the final pages of this manual to do your own "what if" planning.



BREAK-EVEN GUIDE

FISHERY: ______________________________

Calculation Factors

1. Annual boat loan payment [ ]

Permit loan payment [ ]

2. Crew share (total %) [ ]

3. Fish tax/assessment (%) [ ]

4. Living expenses [ ]

5. Months this fishery [ ]

6. Months all fisheries [ ]

7. Price/lb (by species)	**8. Species mix (%)**
Species A:__________	
A. [ ] /lb	A. [ ] %
Species B:__________	
B. [ ] /lb	B. [ ] %
Species C:__________	
C. [ ] /lb	C. [ ] %
Species D:__________	
D. [ ] /lb	D. [ ] %

9. Projected fishing expenses

DIRECT EXPENSES	FIXED EXPENSES
Fuel/oil	Vessel insurance
Groceries	Hull & engine maintenance
Gear & equipment maintenance	Moorage
Supplies	Storage
Crew insurance	Vehicle
Permit loan payment	Business administration
Travel	Legal & accounting
	Travel & entertainment
	Dues & licenses
	Boat payments
Total direct expenses [ ]	**Total fixed expenses** [ ]

BREAK-EVEN GUIDE

Calculations

10. Blended price/lb

%A x price A =

%B x price B =

%C x price C =

%D x price D =

Total blended price/lb ☐

11. Prorated fixed expenses

Months this fishery ÷

Months all fisheries

= x

Total fixed expenses

Prorated fixed expenses ☐

12. Crew share % + tax %

Crew share % + tax %

☐ (decimal format)

13. Total expenses

Living expenses

+ Direct expenses

+ Prorated fixed expenses

Total expenses ☐

14. Break-even income

Total expenses ÷ (1 - [crew share % + tax %]) = Break-even income

÷ (1 -)

Break-even income ☐

15. Break-even catch

Break-even income ÷ blended price/lb = Break-even catch

÷

Break-even catch ☐

16. Break-even catch by species

Break-even catch x species mix % = Break-even catch for each species

Species A:____________

x % = ☐ lb

Species B:____________

x % = ☐ lb

Species C:____________

x % = ☐ lb

Species D:____________

x % = ☐ lb