

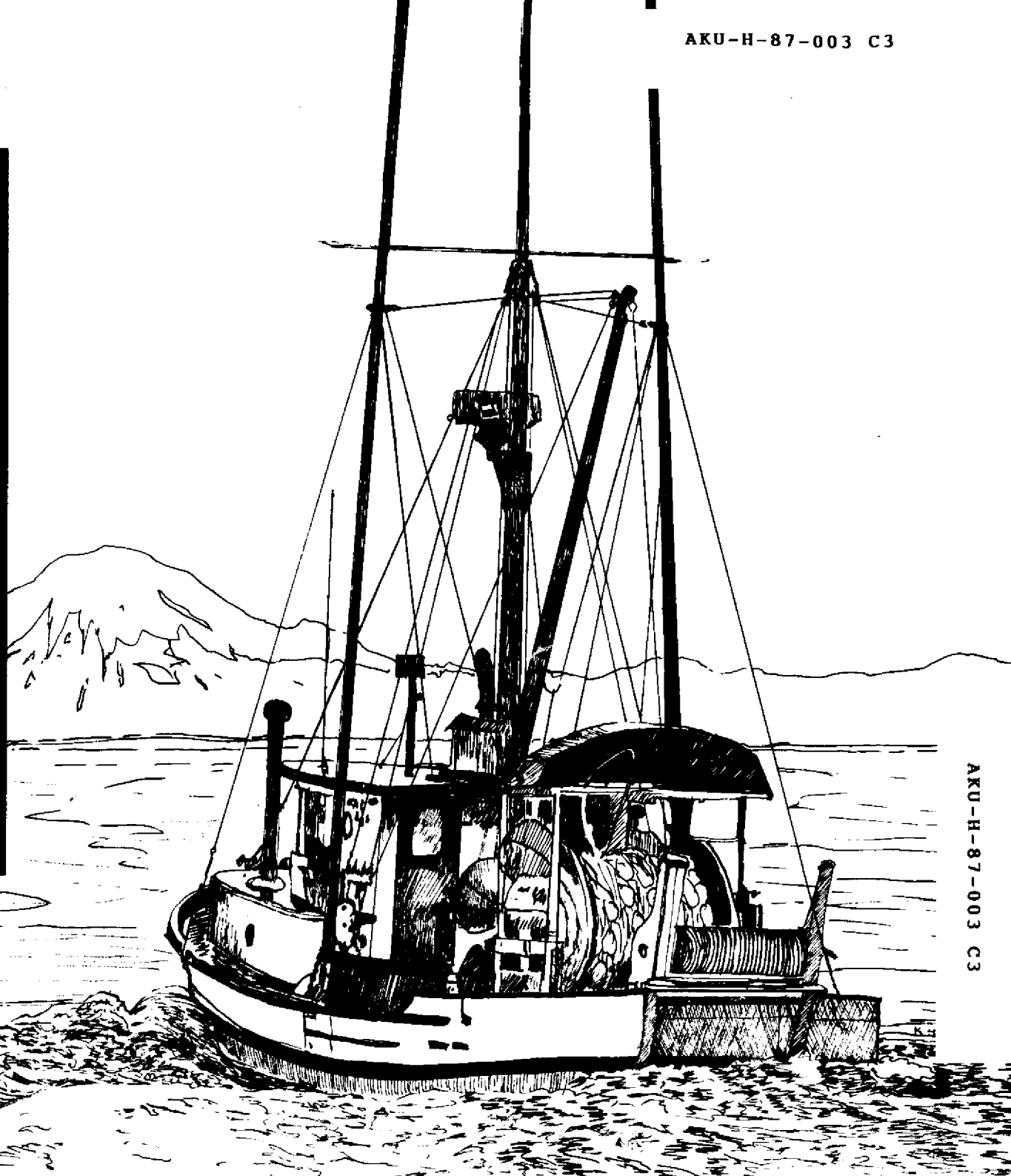
BORROWING: A GUIDE FOR ALASKA COMMERCIAL FISHERMEN

by
Craig Wiese
University of Alaska
Marine Advisory Program



Marine Advisory
Bulletin #30

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ACKNOWLEDGEMENTS

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TABLE OF CONTENTS

INTRODUCTION	iii
SECTION I THE LENDERS	1
State of Alaska Overview	2
Division of Investments	3
Alaska Industrial Development Authority (AIDA)	6
Alaska Commercial Fishing and Agriculture Bank (CFAB)	10
Production Credit Association (PCA)	11
Community Enterprise Development Corporation (CEDC)	14
Federal Land Bank	15
Banks	18
Finance Companies	19
Fisheries Obligation Guarantee Program (FOG)	22
Processors as Lenders	26
Capital Construction Fund (CCF)	27
SECTION II THE APPLICATION	31
Introduction	32
Financial Statement	33
Balance Sheet	34
Contingent Liabilities	41
Profit and Loss Statement	42
Projected Profit and Loss Statement	44
Loan Application	46
Letter of Intent	48
Personal Resume	50
Back-up Information	52
APPENDICES	
Appendix I, Loan Tables	61
Appendix II, Break- even Analysis	69

Borrowing is a necessity for most commercial fishermen, a necessity for acquiring a vessel and 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.

What is fortunate for Alaska's commercial fishermen, is that they have a greater variety of lenders to choose from than do their small business counterparts in nearly any other industry in the state. Section I 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 lending organization, 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 beginning on pages 61 and 62 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 Appendix II. Appendix II offers a step by step, fill-in-the-blanks 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 breakeven 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. Section II addresses this dilemma by explaining much of what isn't obvious or isn't explained on a commercial fishing loan application. Reading this section 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 for you or an acquaintance dragged on and on?

"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."



Photo: Craig Wiese

iv INTRODUCTION

Finally, before moving to the section 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 zero in on the programs that are right for you, a few requirements and features of each are listed here.

Based on the above information you should be able to pare down the list of loan programs you wish to consider. After reading the discussions in the text about these programs, make an appointment with a loan officer at the lenders who seem to be your best prospects. You need to do this to get up-to-date on the latest terms, conditions, and internal lending policies for the type (vessel, permit, gear etc...) and size of loan that you wish. If there is one constant in the financing field it is that terms and policies change regularly for every lender.

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

1. Must be an Alaska resident the two years preceding the date of application.
2. Must have had commercial fishing experience at least three of the past five years.
3. The only agency besides CFAB that will accept a limited entry permit as collateral for a permit loan.

b. Vessel and gear loans

1. Must be an Alaska resident the two years preceding the date of application.
2. Must be unable to get a loan from a commercial lender.
3. Fishing must have been a traditional way of life.

2. Alaska Industrial Development Authority (AIDA)

- a. Not for loans below \$25,000 to \$30,000.
- b. Interest rate is fixed.
- c. Apply for an AIDA loan through a bank.

3. Alaska Commercial Fishing and Agriculture Bank (CFAB)

- a. Must be an Alaska resident one year.
- b. Must have commercial fishing experience
- c. Can accept permits as collateral.

4. Production Credit Association (PCA)

- a. Maximum level of financing is 60 percent.
- b. Must have commercial fishing experience.
- c. Refinancing available.

5. Federal Land 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.

6. Banks

The repayment period for large loans is often shorter than is common for state and federal programs and for cooperative banks.

7. Finance Companies

- a. Minimum loan amount is usually \$100,000 to \$300,000 depending upon the company.
- b. Relatively short repayment period.

8. Fisheries Obligation Guarantee Program (FOG)

- a. Loans for salmon or king crab vessels have restrictions.
- b. Relatively slow application process.
- c. Fixed interest rate is available.
- d. Long terms and good interest rates.

9. Community Enterprise Development Corporation (CEDC)

- a. Must live and fish in Western Alaska.
- b. Maximum loan amount is \$25,000.

10. Processors

Generally no longer providing loans except to most favored fishermen.

11. Capital Construction Fund (CCF)

- a. A tax deferred savings program for vessel owners or leasees.
- b. Some restrictions for salmon and king crab fishermen.



SECTION I: THE LENDERS

Photo: Craig Wiese

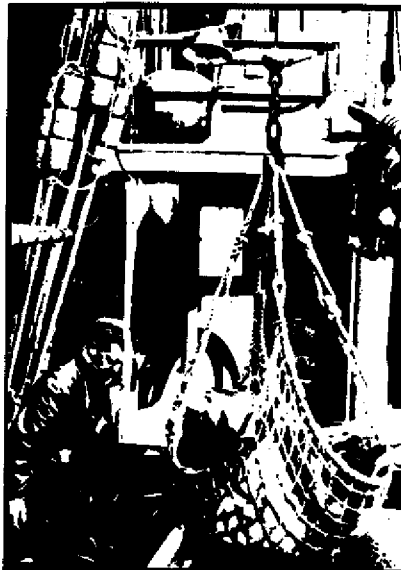
2 THE LENDERS

STATE OF ALASKA Overview

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 life style. 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 loan from a commercial lending agency.

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

commercial fishing



Loan
Application

State of Alaska
Department of
Commerce and
Economic
Development
Division of
Investments



ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY

1577 "C" STREET • SUITE 304 □ ANCHORAGE, ALASKA 9801-6177 □ (907) 274-1851

Date _____

This application is submitted to the Alaska Industrial Development Authority for the purpose of determining PRELIMINARY ELIGIBILITY for financing under a tax-exempt bonding program — FUNDRAISEMENT (FISH 71) THIS PRELIMINARY DETERMINATION WILL NOT QUALIFY FOR PARTICIPATION. Please do not complete in pencil. Attach additional sheets if necessary.

SECTION I

1. Name and address of applicant: (Last Name, First Name, Middle Initial)
Phone No. _____
2. General description of the project. Include both a physical description of the project, and a description of the use of the project. Information should be provided about such items as the size of the facility, whether land purchase is involved, if the project is new construction or if there will be acquisition and renovation of an existing facility, and so forth. Examples of uses of a facility would be as a steel fabrication plant, as warehouse space, or as a welding shop. If a project is to be leased, include a description of the uses of the project by all the principal lessees. Also, please indicate if the project is part of a larger facility, e.g. a condominium office or one building in a shopping mall.

3. Location of project: If real estate give both common address and complete legal description. If non-real estate give legal description and address of location where personal property will be installed and used: (Please be specific)
Common Address: _____
Legal Description: _____
Recording District: _____
City: _____
4. Is there any purchase of real or personal property?
YES () NO ()

If yes, please provide the following information:

- A. Attach a copy of the purchase agreement.
- B. List the names of all of the sellers.

REVISED 1985

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 requirements for these two loan programs are altered every year, sometimes in minor ways, sometimes substantially. Before submitting an application to the Division, be sure that you have read and completed the latest revision. Details of the two programs outlined below are current for FY 1987, which ended June 30, 1987.

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 importantly 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 permit 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 non-refundable 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 loan from a commercial lender, who do not have job opportunities in their local area other than commercial fishing, or are economically dependent on commercial fishing and 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.

STATE OF ALASKA Division of Investments Loans under Section "A" and Section "B"

commercial fishing



Loan
Application

State of Alaska
Department of
Commerce and
Economic
Development
Division of
Investments

	Loans For:	Loan Limits:	Interest Rate:	Percent Financing:	Loan Term:
Section A Permit Loans for Individuals	<ul style="list-style-type: none"> ★ Limited entry permit. ★ Reimbursement of an applicant for a permit that was obtained six months or less before receipt of the application by the Division of Investments. 	<p>\$300,000 maximum, less the total of any outstanding loan balances from previous fishing loans made under the Commercial Fishing Revolving Loan Fund.</p>	<p>Fixed - 10.5%</p>	<p>Up to 90% of the cost of a permit or the Commercial Fisheries Entry Commission value for a similar permit, whichever is less.</p>	<p>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.</p>
Section B Vessel and Gear Loans	<ul style="list-style-type: none"> ★ New or used vessels. ★ Gear and equipment. ★ Limited entry permits. ★ Repair or upgrading of vessels and gear. 	<p>\$100,000 maximum, less the total of any outstanding loan balances from previous fishing loans made under the Commercial Fishing Revolving Loan Fund.</p> <p>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.</p>	<p>Fixed - 10.5%</p>	<p>Up to 90% of the appraised value or cost (whichever is lower) of the vessel, equipment, permit, or other asset offered to secure a loan.</p> <p>100% financing is available for a limited entry permit. Borrower must have at least three years of experience as a commercial fisherman in the fishery to which the permit applies; must not have owned a limited entry permit in the year just preceding the application for the loan; and must meet the other requirements listed under "Eligibility".</p>	<p>Up to 15 years; depends upon the loan amount and the financial record of the borrower.</p>

Eligibility	Special fees
<p>State residency for the two years immediately preceding the date of application</p> <p>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. *</p> <p>For each year claimed above, either 30 percent 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 percent or more of the days that a particular fishery was open.</p> <p>A loan received under Section A makes an individual ineligible to borrow under Section B.</p>	<p>Application fee - \$25.00</p> <p>Credit report fee - \$25.00</p> <p>Prequalification application fee - \$200.00</p> <p>Origination fee - 1/2% of the loan amount (if application is approved)</p> <p>Assumption fee - 1/2% of the assumable amount (if application is approved)</p>
<p>State residency for the two years immediately preceding the date of application.</p> <p>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.</p> <p>Loans under Section B are intended for individuals who do not have alternative sources of financing available to them.</p> <p>An individual who has received a permit loan under Section A is ineligible to borrow under Section B.</p>	<p>Application fee - \$25.00</p> <p>Credit report fee - \$25.00</p> <p>Origination fee - 1/2% of the loan amount (if application is approved)</p> <p>Assumption fee - 1/2% of the assumable amount (if application is approved)</p>

**STATE OF ALASKA
Division of Investment
Loans Under
Section "A" and Section "B"**

Applications and Information:

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

Division of Investments
675 7th Avenue, Station A
Fairbanks, Alaska 99701
(907) 452-8182

Division of Investments
3601 "C" Street, Suite 740
Anchorage, Alaska 99503
(907) 562-3779

Division of Investments
P.O. Box 370
Dillingham, Alaska 99576
(907) 842-1087

6 THE LENDERS

ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY (AIDA)



Umbrella Bond Financing Program

Alaska Industrial Development Authority (AIDA) has a bond financing program that may be used by commercial fishermen. However, AIDA does not loan directly to a borrower. The Authority is a loan underwriter which means that it backs 80 to 90 percent of a loan that a commercial lender has made to a borrower. As commitments by AIDA to purchase loans from a commercial lender are approved, they are consolidated until the total package reaches approximately \$10 million to \$25 million. AIDA then sells bonds to finance the package of consolidated loans, hence the term "umbrella financing."

The loan process for AIDA financing begins by going to a commercial lender, usually a bank or the Commercial Fishing and Agriculture Bank (CFAB), and asking for an "AIDA participation loan." Bond funding carries with it restrictions on the type of project and borrower that can be funded. So the first step for a borrower and lender is to complete a preliminary "eligibility application" and send it to the Authority, along with a \$100 non-refundable fee. If the project and borrower are eligible, the AIDA Board will complete an "eligibility resolution" for the project. Take note that any funds spent for a capital project before the resolution is prepared are not eligible for bond financing. Projects which may be funded include the purchase of a new or used vessel, reconstruction or rehabilitation of an existing vessel, major equipment purchases, and the purchase of land or buildings for a shed, a dock, or a processing facility.

After the eligibility resolution is approved, the application process proceeds in standard fashion. The borrower provides the lender with credit information, a resume of work history, income tax records, financial statements, business projections, and other information normally required for a business loan. If the lender approves the loan, the package is sent to AIDA for review. If AIDA approves, a "commitment letter" is issued to the lender specifying than interim interest rate. The permanent rate of interest on the AIDA portion of the loan cannot be set until the bonds are sold. AIDA will fund up to 90 percent of the loan amount, and the commercial lender funds the remaining 10 percent or more. Once the commitment is accepted by the borrower, it is returned to the Authority, along with a "commitment fee" of one percent of the loan amount. The lender then closes the loan and sends it to AIDA for funding. At the time of funding, AIDA holds back three percent of its portion of the loan to cover estimated bond sale costs.

AIDA financed loans are usually large loans of \$100,000 or more.

**ALASKA INDUSTRIAL
DEVELOPMENT
AUTHORITY (AIDA)**

	Loans For:	Loan Limits:	Interest Rate:	Percent Financing:	Loan Term:
<div data-bbox="170 399 447 695" style="border: 1px solid black; padding: 5px; width: fit-content;"> Umbrella Bond Financing Program </div> <ul style="list-style-type: none"> ★ New or used vessels ★ Capital improvements ★ Capital equipment ★ Real estate 	<p>\$10,000,000 maximum</p> <p>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 10 percent portion (the usual cut) is not enough on smaller loans to make the paperwork worthwhile.</p>	<p>Fixed - 10.0% to 11.0% during April 1987</p> <p>The interest rate that is charged to borrowers depends upon the interest rate that AIDA 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.*</p>	<p>Up to 75% of the purchase price or survey value, whichever is lower.</p> <p>Commercial lenders decide the percentage of purchase price or survey value that will be loaned. AIDA funds 80 to 90% of the amount the lender decides to lend.</p>	<p>Up to 15 years, depending upon the commercial lender.</p>	
			<p>*AIDA purchases 80 to 90% of a loan from a commercial lender. The commercial lender holds the remaining 10 to 20% of the loan. AIDA's interest rate is fixed. The interest rate on the bank's or other lender's portion floats. It moves with the prime rate and stays at 1 to 2% above 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 never more than 1/2%.</p>		

Eligibility	Special Fees
<p>The loan project must meet tax-exempt bonding criteria. The criteria that are applicable to commercial fishermen are:</p> <ol style="list-style-type: none">1. The hailing and home ports must both be in Alaska.2. The loan cannot be used to refinance an existing loan.3. Loan funds can only be used for capital expenditures, not for operating expenses.	<p>★\$100 preliminary eligibility Application fee</p> <p>★3% bond sale fee</p>

**ALASKA INDUSTRIAL
DEVELOPMENT
AUTHORITY (AIDA)**

**For more information about AIDA
financing write or call:**

Alaska Industrial Development Authority
1577 C Street, Suite 304
Anchorage, AK 99501-5177
(907) 274-1651

10 THE LENDERS

ALASKA COMMERCIAL FISHING AND AGRICULTURE BANK (CFAB)



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 besides 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), 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 applicants 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 loan 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. Maximum 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 five percent 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 follows discussion of the Interstate Production Credit Association Program. The table shows terms and conditions that apply only to fishermen.

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 borrower's 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 eight percent 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 108 percent 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 percent of the purchase price, and for used vessels it is 50 percent of cost or survey value. That leaves a borrower with a relatively large down payment requirement; a minimum of 40 or 50 percent respectively for a new or used vessel. In addition, a borrower must have adequate working capital reserves available to cover seasonal start-up cost.

Those who can afford the high equity 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 industries during the past ten years.

Production Credit Association loans are managed out of Farm Credit Services offices in every state. Several offices serve northwest and Alaska fishermen, and a prospective borrower may begin the application process by visiting any office that is conveniently available. The two Farm Credit Services offices closest to most Alaskans are located in Palmer, Alaska and Mt. Vernon, Wa. The Interstate PCA in Salem, Oregon has processed more Alaska fishing loans than any other and continues to serve resident and non-resident Alaska fishermen.

**PRODUCTION CREDIT
ASSOCIATION
(PCA)**



Farm Credit Services

12 THE LENDERS

	Loans For:	Loan Limits:	Interest Rate:	Percent Financing:	Loan Term:
<p>Alaska Commercial Fishing and Agriculture Bank(CFAB)</p>	<ul style="list-style-type: none"> ★ Purchase of new or used vessels, equipment and gear ★ Construction of new vessels ★ Repair or reconstruction of existing vessels ★ Working capital ★ Limited entry permits 	<p>None</p>	<p>Floating -- differential interest rate range: 12% - 14% during April 1987</p>	<p>variable-- depends largely on catch history, financial strength and collateral</p> <p>eg: Vessels--usually in the 50-75% range</p>	<ul style="list-style-type: none"> ★ Vessels--up to 12 years ★ Permits--up to 12 years ★ Gear--up to 3 years ★ Equipment--up to 7 years ★ Construction--up to 18 months ★ Working capital--end of season
<p>PRODUCTION CREDIT ASSOCIATION (PCA)</p>	<ul style="list-style-type: none"> ★ 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 	<p>None</p>	<p>Floating -- differential rate: 9.5%-12% range during April 1987</p>	<ul style="list-style-type: none"> ★ New vessels--up to 60% ★ Used vessels--up to 50% 	<ul style="list-style-type: none"> ★ New vessels--up to 15 years ★ Used vessels--up to 12 years

Eligibility	Special Fees
<p>1. Alaska resident--1 year</p> <p>2. Fishing experience</p> <p>3. CFAB is a cooperative lending association and borrowers must become members of the cooperative by purchasing stock in the organization.</p>	<p>variable-- depends on loan circumstances</p>
<p>Corporations and partnerships must meet one of the following requirements:</p> <ol style="list-style-type: none"> 1. More than 50 percent of the stock in a corporation that is applying for a loan, or, in the case of a partnership, more than 50 percent of the the equity, must be owned by fishermen. 2. More than 50 percent of the corporation's or partnership's assets must be related to fishing. 3. More than 50 percent of the gross income must come from fishing. <p>PCAs are cooperative lending associations and borrowers must become members of the cooperative by purchasing stock.</p>	<p>Appraisal Fee-- \$500 (only in areas that are not connected by road to a Farm Credit Services office)</p>

ALASKA COMMERCIAL FISHING AND AGRICULTURE BANK (CFAB)

For applications and additional 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 (PCA)

Additional information may be obtained from:

Farm Credit Services
 248 E. Dahlia St.
 Palmer, AK 99645 (907) 745-3390

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

Interstate Production Credit Association
 475 Cottage St., N. E.
 Salem, Oregon 97308 (503) 364-2530

14 THE LENDERS

COMMUNITY ENTERPRISE DEVELOPMENT CORPORATION (CEDC)



CEDC

If you live and fish in Western Alaska in the region bounded by Cape Seppings on the north and Port Heiden on the south, this program may be for you. It is intended for the fishermen of this region who cannot get financing from a conventional lender, and whose borrowing needs do not exceed \$25,000. Community Enterprise Development Corporation (CEDC) manages a revolving loan fund of approximately \$800,000. 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 percent 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 percent down-payment. The loan approval criteria are different than 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 which 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.

Why is the Federal Land Bank in the fishing financing act you may be wondering.

The answer is the Farm Credit System. The Federal Land Bank 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 FLB began making loans to fishermen and processors in 1982.

The important distinctions between the Federal Land Bank (FLB) program and that of virtually all other lenders to the fishing industry are: 1) the FLB 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.

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 FLB construction standards, it may not be suitable collateral, which means it may not have any loan value, no matter what its appraised value is. 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 percent 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 spring of 1987 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 loan 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 earnings history in the fisheries. Like other Farm Credit System programs, the Federal Land Bank requires a borrower to become a stockholder in the bank in order to receive a loan. Stock ownership is set at five percent of the amount originally borrowed and remains at that amount until the loan is completely repaid. The Federal Land 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.

FEDERAL LAND BANK (FLB)



Farm Credit Services

16 THE LENDERS

Loans For:	Loan Limits:	Interest Rate:	Percent Financing:	Loan Term:
<div data-bbox="159 391 457 683" style="border: 1px solid black; padding: 5px;"> FEDERAL LAND BANK </div> <ul style="list-style-type: none"> ★ 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 	None	Floating -- differential interest rate range: 9.75%-12.25% in April 1987	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.	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.
<div data-bbox="159 894 478 1235" style="border: 1px solid black; padding: 5px;"> COMMUNITY ENTERPRISE DEVELOPMENT CORPORATION (CEDC) </div> <ul style="list-style-type: none"> ★ New or used vessels ★ Equipment and gear ★ Limited entry permit ★ Conversion or reconstruction 	Up to \$25,000	Fixed -- 12% in April 1987	Up to 90%-- vessels, gear, equipment, and permits	<ul style="list-style-type: none"> ★ New vessels-- up to 7 years ★ Permits-- 5 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.

Eligibility	Special Fees
<p>★Loans are made only to individuals, partnerships, or corporations who are, or will be involved in the commercial fishing industry</p> <p>★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.</p> <p>★Borrowers must become stockholders in the cooperative</p>	<p>Appraisal Fee: \$500 (charged only to borrowers whose loan is approved and who cannot be reached by road from a Farm Credit Services office)</p>
<p>1. Alaska resident, permanently residing in the Western Alaska region bounded on the north by Cape Seppings, and on the south by Port Heiden.</p> <p>2. Not eligible for financing at a bank or lending cooperative.</p>	<p>None</p>

FEDERAL LAND BANK

For applications and information:

Farm Credit Services
248 E. Dahlia St.
Palmer, Ak. 99645 (907) 745-3390

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

COMMUNITY ENTERPRISE DEVELOPMENT CORPORATION (CEDC)

For applications and information:

Community Enterprise Development Corporation
1101 E. Tudor Rd., Suite 210
Anchorage, Alaska 99503
(907) 562-2322

18 THE LENDERS

BANKS

Banks in Alaska have been making relatively few vessel loans in recent years. 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.

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 all risk of default out of the bank's hands and leaves it with the U.S. government. With no risk of default, a banker can stretch repayment terms over more years and offer a slightly better interest rate than would otherwise be possible.

How does an SBA guaranteed long term loan fit into a bank's short to intermediate term lending strategy? The bank sells the loan to a government or private institution that buys and sells federally guaranteed loans. Guaranteed loans are a financial commodity like bonds, certificates of deposit, and stocks.

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 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.

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.

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 your accounts to the new lending agency, or establishing additional accounts.

In recent years, finance companies have re-examined and changed their policies on financing fishing vessels. Where they once relied more on the value of collateral to secure a loan than on the economics of a project, they now tend to rely on the economics. Where they once offered 75 percent to 80 percent financing on vessel purchase price or survey value, that same 75 to 80 percent financing now is calculated on auction value or on the price that must be offered to sell a vessel within six months' time. Additional financing can be obtained if additional collateral, besides the vessel, is offered to secure it. Finance terms also have been shortened in many cases. A vessel loan may still carry an eight year to ten year amortization schedule as in the past, but now a balloon payment may be added that comes due in three to seven years.

Finance companies deal mainly with loans of a quarter of a million dollars or more. When you match the large loan, collateral-oriented nature of finance companies with the uncertain state of many large boat fisheries in Alaska, you can understand why finance companies for the most part are not active in the vessel financing arena. There are exceptions of course, and some fishing ventures may have the economic potential to make any finance company or any lender willing to participate. So don't cross finance companies off of your list of possibilities, just be aware of their particular niche in the financing field.

FINANCE COMPANIES

	Loans For:	Loan Limits:	Interest Rate:	Percent Financing:	Loan Term:
BANKS	<ul style="list-style-type: none"> ★ New or used vessels ★ Construction ★ Remodeling ★ Refinancing ★ Gear and equipment ★ Operating funds 	<p>\$500,000 maximum for an SBA guaranteed loan, otherwise no loan limits</p>	<p>Floating-- Prime rate plus 1% to 2%</p> <p>Fixed rates are available when the loan is earmarked for sale to a mortgage-buying institution, such as AIDA</p>	<ul style="list-style-type: none"> ★ 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 150 to 200 % of the value of the equipment being purchased. 	<ul style="list-style-type: none"> ★ New vessel-- up to 10 years ★ Used vessel-- 3 to 7 years ★ Repayment terms vary significantly from bank to bank. ★ See note below*
FINANCE COMPANIES	<ul style="list-style-type: none"> ★ Purchase of new and used vessels ★ Major reconstruction 	<p>Minimum range is from \$50,000 to \$500,000, depending on the lender-- \$100,000 minimum is common</p>	<p>Fixed-- Prime plus 2% to 4%</p>	<p>70% to 80% of quick sale value (value for which a vessel can be sold within six months)</p>	<ul style="list-style-type: none"> ★ Typical terms -- 7 to 10 year amortization with balloon payment in 5 years. ★ Varies greatly with the financial strength of the borrower.

*It is not uncommon for banks that offer relatively short repayment terms (for example, six years on a \$200,000 loan) to set up payments as if the loan were stretched over a longer period of time, often 12 to 15 years. The advantage of this 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 bank at that time may allow the loan to be refinanced. If the loan is guaranteed by the SBA, the bank is obligated by the SBA to provide refinancing if the borrower so wishes.

Eligibility	Special Fees
The lending bank may require a savings account, checking account, or some other customer relationship.	None.
None Fishing experience required	None

BANKS

FINANCE COMPANIES

22 THE LENDERS

FISHERIES OBLIGATION GUARANTEE PROGRAM (FOG)



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 payment on \$200,000 borrowed at 16 percent interest over 10 years is \$41,380. If the repayment period is stretched to 15 years and the interest rate drops to 12 percent, the annual payment drops to \$29,365.

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 seven fisheries in the United States that NMFS feels should not experience additional fishing pressure. In Alaska, the conditional fisheries are salmon and king crab. 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.

**FISHERIES OBLIGATION
GUARANTEE PROGRAM
(FOG)**

Conditional Fisheries Guidelines:

1. The vessel whose financing is to be guaranteed must be fully capable of operating in an underutilized fishery, pollock trawling, for example. 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 salmon fishery became conditional on September 23, 1974; and the king crab fishery on September 22, 1975. Consequently, a vessel that is being replaced must have been contracted to be built on or before these dates.
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 salmon vessel if it was contracted to be built before September 23, 1974. The same is true of boats used for the king crab fishery that were 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.

24 THE LENDERS

Loans For:	Loan Limits:	Interest Rate:	Percent Financing:	Loan Term:
<div data-bbox="163 383 457 776" style="border: 1px solid black; padding: 5px;"> <p>FISHERIES OBLIGATION GUARANTEE PROGRAM (FOG)</p> </div> <p>★ New vessels or shoreside facilities</p> <p>★ Reconstruction or reconditioning of existing vessels or facilities</p> <p>★ Used vessels or facilities under limited conditions</p> <p>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</p>	<p>None</p>	<p>Fixed or variable rates are available</p> <p>Fixed rate -- generally prime to prime plus 1%, occasionally less than prime</p>	<p>Up to 80% for new or used vessels or shoreside facilities.</p> <p>Approximately 30% to 40% equity is needed at the time of closing to satisfy the following program equity requirements:</p> <ol style="list-style-type: none"> 1. 20% down payment. 2. First year guarantee fee (1% of the loan balance). 3. First year's 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 inventory financing needs during at least the first year of operation. 	<p>★ Vessels under \$500,000--up to 15 years</p> <p>★ Vessels over \$500,000--up to 20 years</p> <p>★ Shoreside facilities and vessels over several million dollars--up to 25 years</p>

Eligibility	Special Fees
<p>1. All vessels must be documented and must have been constructed in the U.S. The one exception is that used, foreign fisheries 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.</p> <p>2. All general partners in a partnership must be U.S. citizens. Up to 25 percent of a partnership may be owned by limited partners who are not U.S. citizens.</p> <p>3. At least 75 percent of a corporation must be owned by U.S. citizens.</p> <p>4. Applicants must have an adequate history of ability, experience, and success in the industry.</p> <p>5. Equity contributors who do not have the requisite experience and proven success in the industry may not collectively own more than 49 percent of the business seeking guaranteed financing.</p>	<p>★ 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.</p> <p>★ Guarantee Fee -- 1% of the outstanding loan balance. This fee is charged annually.</p>

**FISHERIES
OBLIGATION
GUARANTEE
PROGRAM
(FOG)**

For further information about the Fisheries Obligation Guarantee Program, contact:

Financial Services Branch
National Marine Fisheries Service
7600 Sand Point Way N.E., Bin C15700
Seattle, WA 98115
(206) 526-6124

26 THE LENDERS

THE PROCESSOR AS LENDER

Very few processors provide financing for fishing or tender vessels. High interest rates on money they must borrow to relend to fishermen, coupled with the cash flow problems that most processors have experienced over the past few years, have contributed to the demise of this once important source of financing.

Seasonal operating expense assistance, however, is another story. Many (not all) processors continue to extend credit--for which they charge interest--to their regular fishermen for major pre-season and in-season expenses. These expenses may include gear purchases, expensive repair parts, and insurance. They are normally deducted on the cannery settlement sheet from income earned from the sale of fish.

This kind of assistance is a great asset to fishermen who are getting low on cash when it is time to gear up for the coming fishing season. It entails, of course, an obligation on the fisherman's part to deliver fish to the processor. But most lenders require some kind of customer or member relationship, so an agreement to deliver fish to a processor who provides financial assistance is no different in principle than any other lender-customer relationship.

Since processors, for all practical purposes, are out of the long term financing picture, we will forego the review of loan terms.

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 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 percent tax brackets, for example, can build up an account nearly 50 percent 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, interest-bearing securities such as treasury bills and certificates of deposit.

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, the 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 the 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.

**CAPITAL CONSTRUCTION
FUND
(CCF)**



THE CAPITAL CONSTRUCTION FUND (CCF)

For additional information about the CCF program and to obtain an application form, write or call:

Financial Services Branch
7600 Sand Point Way N.E.,
Bin C15700
Seattle, WA 98115
(206) 526-6124

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 salmon or king crab fisheries. 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 for that fishery must only have operated in that fishery during 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--pollock trawling, for example. 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.
4. 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 which 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.

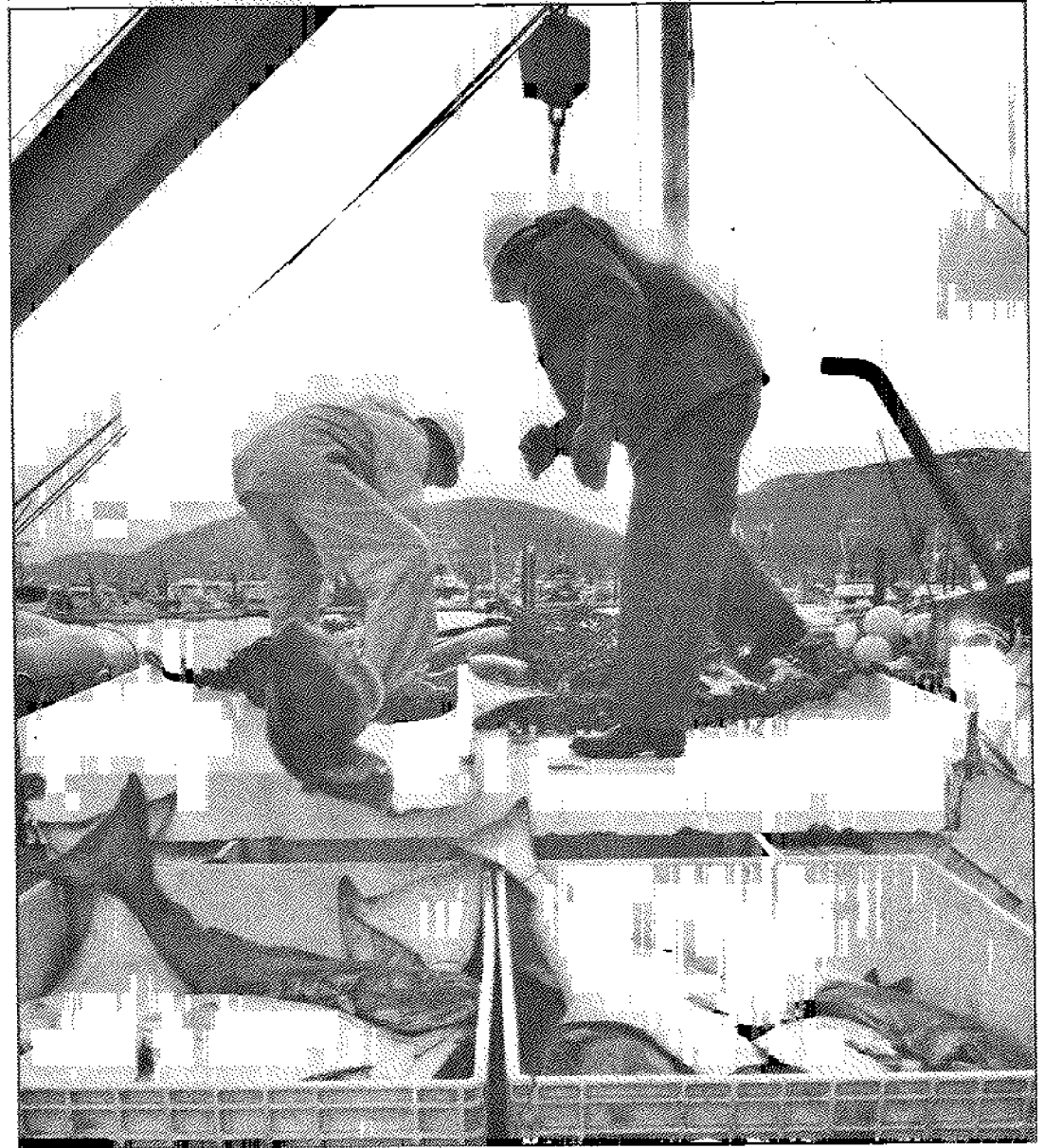


Photo by: Deborah Mercy



SECTION II: THE APPLICATION

Photo: Craig Wiese

32 THE APPLICATION

THE APPLICATION: INTRODUCTION

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 resumé of fishing experience, authorizations to verify financial information and to verify 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 financial statement and of the loan application are easier to understand and will be explained in less detail.

The State of Alaska Division of Investments commercial fishing loan application is used as an 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 the 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 of the process is gathering together 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, resumé, 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 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 **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."
3. 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.

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 loan payments now and in the future, and
2. whether 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.

THE FINANCIAL STATEMENT OVERVIEW

34 THE APPLICATION

BALANCE SHEET ASSETS

The purpose of the balance sheet, once again, is to show what you currently own (assets) and what you owe (liabilities). 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 looking for.

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 total 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 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.

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS
COMMERCIAL FISHING LOAN
FINANCIAL STATEMENT (Individual)

BALANCE SHEET

Name	Joseph A. Anderson	Social Security Number	474-60-1111	Date	11-7-86
Mailing Address	P.O. Box 100	City	Western Village	State	AK
				Zip	99999
The undersigned makes the following statement of financial condition as of <u>31st</u> day of <u>October</u> , 19 <u>86</u> .					
ASSETS			LIABILITIES		
Cash on hand	\$ 500	Vessel Mortgages (Schedule 4)	\$		
Cash in Banks (Schedule 1)	2,300	Real Estate Mortgages (Schedule 5)	52,000		
Notes, Contracts & Accounts Receivable (Schedule 2)		Notes payable to banks (Schedule 6)	1,500		
Due from Canneries	2,000	Notes Payable to Others (Schedule 7)	15,311		
Securities (Schedule 3)		Other			
Vessels Owned (Schedule 8)	30,000	Other			
Real Estate Owned (Schedule 9)	75,000	Other			
Automobiles	2,200	Other			
Personal Property	10,000	Other			
Fishing Equipment		Other			
Boats	5,000	Other			
Boat		Other			
Long Lines		Other			
Other		Other			
Limited Entry Permits (by Vessel) 22, 24, 26, 28, 30, 32, 34, 36, 38, 40, 42, 44, 46, 48, 50, 52, 54, 56, 58, 60, 62, 64, 66, 68, 70, 72, 74, 76, 78, 80, 82, 84, 86, 88, 90, 92, 94, 96, 98, 100	120,000	Other			
Other		TOTAL LIABILITIES	\$	68,811	
TOTAL ASSETS	\$ 247,200	NET WORTH (Total Assets minus Total Liabilities equal Net Worth)	\$	178,389	

CONTINGENT LIABILITIES

Yes
 No Are you a co-maker, endorser, or guarantor on any loan or contract? Amount \$ _____

Yes
 No Are there any unsatisfied judgments 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 11-7-86
Signature Mary J. Anderson Date 11-7-86

SCHEDULE NO. 1: CASH IN BANKS **BALANCE SHEET SCHEDULES**

Bank/Branch	Checking Acct. No.	Current Balance	Savings Acct. No.	Current Balance
1st National Bank Dillingham	1-000 000	1,245	01-000 001	1,235
Savings and Loan/Branch	Location		Savings Acct. No.	Current Balance
Credit Union	Location		Savings Acct. No.	Current Balance
Other	Location		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 Issued	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			
1967 33' Gillnet Boat	1960	12,000	10,000	10,000	0			

SCHEDULE NO. 5: REAL ESTATE OWNED

Description and Location	City and State	Date Acquired	Cost	Current Appraised Value	Current Market Value	Mortgages		
						Original Balance	Present Balance	Payment Amount
Lot 4, Blk 6	Healy, AK							
Alaska Sub	Yelland	1978	57,000	74,000	74,000	57,000	22,000	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	1983	3,000	1,500	10th	125	1,500

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	Sitkaon Permit	9/80	30,000	15,311	Yearly		4,778

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 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 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.

3. NOTES, MORTGAGES, CONTRACTS, AND ACCOUNTS RECEIVABLE: "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. Notes receivable is the total of all such loans you have made to individuals or businesses and for which you fully expect to be repaid.

"Accounts Receivable" 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 3). 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. "Mortgages and Contracts" is the total still owed you

36 THE APPLICATION

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 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 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-Others."

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 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 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 that you have sold but on which you are carrying the financing (and may still have title to) is listed in the "Notes, Contracts, Mortgages and Accounts Receivable" 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 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. 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 here. 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 balance sheet. Notice that this asset category is not listed on the state's fishing loan balance sheet, but it is seen on other applications so it is included in our discussion.

10. 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: 1) 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.

11. 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 long line 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.

12. 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 7, "Notes Payable to Others."

13. OTHER ASSETS: These 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.

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 \$247,200), let's look at the other side of the balance sheet and list what you owe on some of these assets.

"The difference between the value of your assets and the value of your liabilities is your net worth."

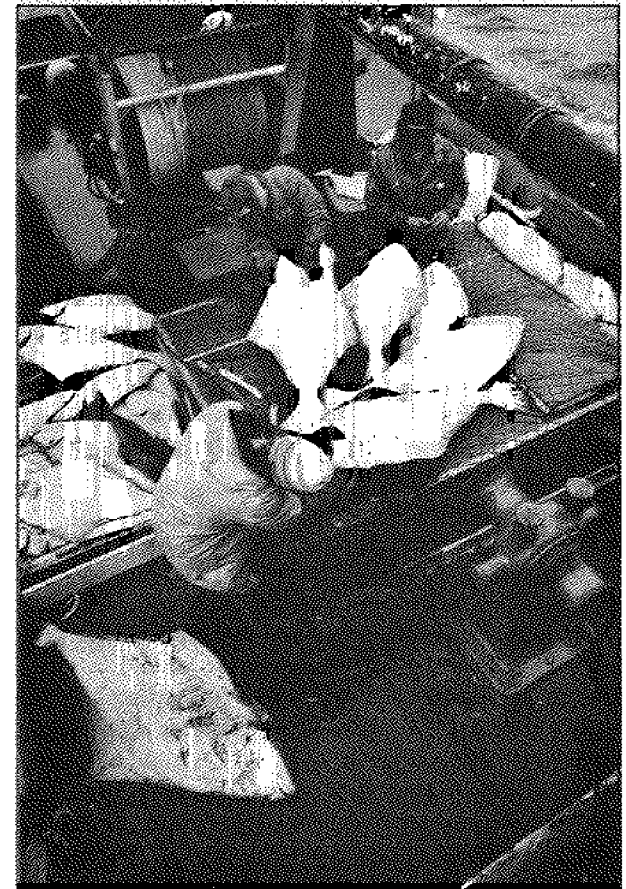


Photo: Deborah Mercy

BALANCE SHEET LIABILITIES

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 assumes that the asset side has already been completed.

1. 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.

2. 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 \$52,000 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.

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

COMMERCIAL FISHING LOAN
FINANCIAL STATEMENT (Individual)

BALANCE SHEET

Name	Joseph A. Anderson	Social Security Number	474-00-1111	Date	11-7-86
Mailing Address	P.O. Box 100	City	Western Village	State	AK
				Zip	99999
The undersigned makes the following statement of financial condition as of <u>31st</u> day of <u>October</u> 19 <u>86</u>					
ASSETS					
Cash on hand	\$ 500	Vessel Mortgages (Schedule 4)			
Cash in Banks (Schedule 1)	2,500	Real Estate Mortgages (Schedule 5)		\$2,000	
Notes, Contracts & Accounts Receivables (Schedule 2)		Notes payable to Banks (Schedule 6)		1,500	
Due from Canneries	2,000	Notes Payable to Others (Schedule 7)		15,311	
Securities (Schedule 3)		Owing to Canneries - Open Account			
Vessels Owned (Schedule 4)	30,000	Owing to Canneries - Other			
Real Estate Owned (Schedule 5)	74,000	Other Payables Not Listed Above			
Automobiles	2,200				
Personal Property	10,000				
Fishing Equipment					
Boats	6,000				
Pots					
Long Lines					
Other					
Limited Entry Permits (by fishery)	120,000				
BB Salmon Trawl					
Other					
		TOTAL LIABILITIES		\$ 48,811	
TOTAL ASSETS	\$ 247,200	NET WORTH (Total Assets minus Total Liabilities equal Net Worth)		\$ 178,389	

CONTINGENT LIABILITIES

<input type="checkbox"/> Yes	Are you a co-maker, endorser, or guarantor on any loan or contract?	Amount \$ _____
<input checked="" type="checkbox"/> No	If "yes" to whom?	
<input type="checkbox"/> Yes	Are there any unsatisfied judgments against you?	Amount \$ _____
<input checked="" type="checkbox"/> No		
<input type="checkbox"/> Yes	Have you filed for bankruptcy in the last 14 years?	Year _____
<input checked="" type="checkbox"/> No		
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 11-7-86

Signature Mary J. Anderson

Date 11-7-86

SCHEDULE NO. 1: CASH IN BANKS
BALANCE SHEET SCHEDULES

Bank/Branch	Checking Acct. No.	Current Balance	Savings Acct. No.	Current Balance
1st National Bank Dillingham	1-000 800	1,245	0-000 001	1,255
Savings and Loan/Branch	Location		Savings Acct. No.	Current Balance
Credit Union	Location		Savings Acct. No.	Current Balance
Other	Location		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		When Due
				Original	Present	
1967 35' Gillnet Boat	1968	12,000	30,000	30,000	0	

SCHEDULE NO. 5: REAL ESTATE OWNED

Description and Location	City and State	Date Acquired	Cost	Current Assessed Value	Current Market Value	Mortgages		
						Original Balance	Present Balance	Payment Amount
Lot 4 914 S	Healy AK							
Alaska Sub	Veljege	1978	52,000	75,000	75,000	52,000	52,000	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	1983	5,000	1,500	1983	125	3,500

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	Entry Permit	9/85	10,000	15,311	Yearly		4,733

3. 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 \$1500. 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."

4. 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 \$15,311 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.

5. 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," since most cannery loans are for fishing boats.

6. 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.

40 THE APPLICATION

7. LOANS ON LIFE INSURANCE: 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." It is not included on the State's balance sheet.

8. 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 three more liability categories that you may run into on other applications.

1. CHATTEL MORTGAGES: "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. 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. Mortgages on trucks and cars are the most common types of chattel mortgages.

2. ACCOUNTS PAYABLE: This 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."

3. MARINE MORTGAGES: In the narrowest sense this term refers only to mortgages on documented vessels. In the broader sense it encompasses all boat mortgages, regardless of 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 \$247,200 and liabilities of \$68,811, for a net worth of \$178,389 ($\$247,200 - \$68,811 = \$178,389$). 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 percent to 75 percent 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, processors are cutting back or eliminating this type 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.

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.

“The asset side of a balance sheet must balance (equal) the liability side.”

TOTAL LIABILITIES	\$68,811
+ NET WORTH	\$178,389
<hr/>	
TOTAL LIABILITIES + NET WORTH	\$247,200
---balance (equal)---	
TOTAL ASSETS	\$247,200

So much for the balance sheet. Now let's look at the remainder of the financial statement.

CONTINGENT LIABILITIES

Financial obligations which may arise, but at an unknown cost and an unknown probability of happening, are called contingent liabilities. An example is the expense you may some day 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 expected 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		
<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Are you a co-maker, endorser, or guarantor on any loan or contract? If "yes" to whom?	Amount \$ _____
<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Are there any unsatisfied judgments against you?	Amount \$ _____
<input type="checkbox"/> Yes <input checked="" type="checkbox"/> 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
Signature Mary J. Anderson

Date 11-7-86
Date 11-7-86

42 THE APPLICATION

ACTUAL PROFIT AND LOSS STATEMENT (P&L)

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 that 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. The category "Other Income" should encompass all other income earned by you and your spouse or co-applicant. This includes full-time and part-time wages, military reserve pay, interest or dividend income, contract work, child support, and crewshare 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 31st.

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

COMMERCIAL FISHING
ACTUAL PROFIT AND LOSS STATEMENT

Applicant's Name Joseph A. Anderson Social Security Number 474-00-1111

For the period beginning January 1, 1986 and ending October 31, 1986

INCOME		EXPENSES	
Gross Sales: Salmon (Troll)		Crew Shares	\$ 4,000
Salmon (Seine)		Fuel	2,500
Salmon (Gillnet) Bristol Bay	42,101	Groceries	1,200
Salmon (Beach)		Bait and Ice	
Halibut		Vessel Repair	5,000
Crab		Gear Repair	500
Shrimp		Insurance	1,500
Black Cod		Vessel Lease or Rent Permit Payment	4,778
Herring Togiak	4,000	Gear & Equipment Purchases	3,000
Other		Other Miscellaneous	2,000
Other Income Spouse's Wages	10,000		
TOTAL INCOME	\$ 56,101	TOTAL FISHING EXPENSES	\$ 24,478
Comments:		Personal Living Expense	8,350
Living expenses are for 10 months.		Food Allowance	3,300
		Utilities	1,250
		Insurance	850
		Medical Expenses	417
		Child Support	-0-
		Other	3,000
		TOTAL LIVING EXPENSES	\$ 17,167
		TOTAL EXPENSES	\$ 41,645

2. Crew share 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. 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.

4. Repair expenses are those that 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.

5. Gear and equipment purchases is the category in which 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 expense 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.

6. 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 than the IRS now wants done. Be prepared to provide these lenders with the original cost of your depreciable assets; it is a necessary part of the depreciation equation.

7. 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.

"Don't leave out important expenses in order to fool your lender. The other side of understated expenses is loan payments that you can't afford."

8. After fishing expenses are totaled, the P & L statement will ask for living expenses. If it does, 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 \$17,167 for the first 10 months of the year.

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 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.

44 THE APPLICATION

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 be. 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 had to become more expert because of a steady increase in vessel loan defaults during the past few years. Some are now compiling databases 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/her operation. If finances are not understood and managed well, the risk of loan default increases.

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

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

Applicant's Name Joseph Andersun Social Security Number 474-00-1111

For the period beginning January 1, 1987 and ending December 31, 1987

INCOME		EXPENSES	
Gross Sales:		Crew Shares	13,400
Salmon (Troll)		Fuel	2,500
Salmon (Seine)		Groceries	1,200
Salmon (Gillnet)	62,000	Bait and Ice	
Bristol Bay		Vessel Repair	1,000
Salmon (Beach)		Gear Repair	1,500
Halibut		Insurance	2,500
Crab		Loan or Lease Payment	
Shrimp		State Loan for Permit	4,778
Black Cod		Gear & Equipment	
Herring 20 Tons at		Purchases	2,000
\$250/Ton	5,000	Other	
Other		Miscellaneous	2,000
Other Income			
Spouse Wages	12,000	TOTAL FISHING EXPENSES	\$ 30,878
TOTAL INCOME	\$ 79,000	Personal Living Expense	10,000
Comments: Income is expected to increase by approximately 50 percent for the following reasons:		Food Allowance	5,000
1) Vessel capacity will almost be doubled. This will greatly reduce time lost for deliveries during the peak of the run.		Utilities	1,500
2) Time lost for repairs should be eliminated. Time has been lost during peak fishing periods the past few years due to repairs.		Insurance	1,000
3) I will fish for silvers in addition to reds and kings.		Medical Expenses	500
EXPECTED CATCH:		Child Support	-0-
King: 10,600 lbs @ 1.25 = \$13,250		Other	3,600
Red: 65,000 lbs @ 0.65 = 42,250		TOTAL LIVING EXPENSES	\$ 21,600
Silver: 8,000 lbs @ 0.81 = 6,500		TOTAL EXPENSES	\$ 52,478
TOTAL \$62,000			

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. Fishing income should be explained in the "Comments" section (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 10,600 lbs. of king salmon at \$1.25 per lb., 65,000 lbs. of red salmon at 65¢ per lb. and 8,000 lbs of silvers at 81¢ per lb.. These combine for a total income of \$62,000. 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 catching nearly 50 percent more fish 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

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. 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.

3. Living expenses and other 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 transferring that figure to the Projected P & L. Recall that "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.



Photo: Craig Wiese

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. A co-applicant may be a spouse, co-habitant, relative or partner.

2. Partners in a partnership should be prepared to provide separate application forms, financial statements, tax returns, personal histories, and credit references. Co-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** 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.

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

APPLICATION FOR COMMERCIAL FISHING LOAN

Applicant Name: (Last, First, M.I.) Andersun Joseph A.		Current Date 11-7-86
Mailing Address (Street/P.O. Box, City, State, Zip Code) P.O. Box 100 Western Village, Alaska 99999		Social Security Number 474-1111
		Applicant's Telephone Number (907) 111-0000
		How Long at Mailing Address (Yrs./Mos) 26 Years
<input checked="" type="checkbox"/> I apply for a loan of \$ <u>70,000</u> to be repaid in <u>10</u> years. <input type="checkbox"/> I apply for assumption of an existing loan. <input type="checkbox"/> I apply for prequalification for a limited entry permit loan.		Date of Birth 01-01-60
		Place of Birth (City and State) Western Village, Alaska
		<input checked="" type="checkbox"/> Married (including separated) <input type="checkbox"/> Not married (including single, divorced, widowed)
		Number of Dependents (excluding Applicant) 1

Applicant: Business Name P/V SUNUP	<input checked="" type="checkbox"/> Individual <input type="checkbox"/> Business <input type="checkbox"/> Partnership <input type="checkbox"/> Corporation	Current Date 11-07-86
Mailing Address (Street/P.O. Box, City, State, Zip Code) P.O. Box 100 Western Village, Alaska 99999		Taxpayer Identification Number 12-3456789
		Business Telephone Number (907) 111-0000

Spouse/Co-Applicant: Name (Last, First, M.I.) Andersun Mary I.		Social Security Number 474-00-1234
Mailing Address (Street/P.O. Box, City, State, Zip Code) P.O. Box 100 Western Village AK 99999		Date of Birth 02-03-61
		Place of Birth (City and State) Anchorage, Alaska
		Gross Monthly Salary (before deductions) \$1,800
Spouse/Co-Applicant's Employer Western School District	Occupation/Position Teacher Aide	How Long? Yrs. 4 Mos. 3
		Employer's Telephone Number (907) 111-1234

Nearest Relative not living with you/Contact Person: Name (Last, First, M.I.) Andersun, Alfred S.	Telephone Number (907) 111-5555
Mailing Address (Street/P.O. Box, City, State, Zip Code) P.O. Box 25 Western Village AK 99999	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.

ADDITIONAL INCOME (Applicant or Co-Applicant)	Source	Amount	
		Monthly	Yearly
Spouse	Western Village School District	1,333	12,000

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 1980	30,000	15,311

I have been a resident of Alaska since 1959 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.

FROM	DATES	TO	STREET ADDRESS	NAME OF LANDLORD IF RENTING	PHONE CONTACT
Jan	1980	Present	Western Village	N/A	542-2222

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

Employer	Job Description	Salary	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, 1986
Date

Joseph A. Anderson
Signature

November 7, 1986
Date

Mary J. Anderson
Signature

STATE OF ALASKA }
JUDICIAL DISTRICT }

The foregoing instrument was acknowledged before me this _____ day of _____ 19 _____

by _____
(Name of person who acknowledged)

Notary Public
My commission expires: _____

4. Some lenders will ask on the application 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 Appendix II 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.

The Bristol Bay fisherman has asked on his application form for \$70,000, to be repaid over 10 years. At 10.5 percent 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 50 percent 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.

48 THE APPLICATION

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 percent of the purchase price or survey value of a vessel and 50 percent 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 \$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

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

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

Applicant's Name Joseph A. Andersun

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)

<input type="checkbox"/> Purchase Permit (attach purchase agreement)	\$ _____
<input type="checkbox"/> New Vessel Construction (attach bid or contract)	\$ _____
<input checked="" type="checkbox"/> Existing Vessel Purchase (attach purchase agreement and marine survey)	\$ <u>70,000</u>
<input type="checkbox"/> Upgrade Existing Vessel (attach bid or contract)	\$ _____
<input type="checkbox"/> Gear Purchase (attach bid)	\$ _____
<input type="checkbox"/> 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' Shore aluminum gillnet vessel with diesel engine, power roller and power reel
- 2) Bristol Bay limited entry permit #5037-00000A
- 3) The entire \$70,000 will be used to purchase the F/V Bigset from Mr. Joe Smith of Dillingham. The purchase price is \$80,000. The Difference of \$30,000 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. Andersun Date 11-7-86

the boat. That would leave him requesting \$40,000 for the purchase of the boat, which is above the lender's 75 percent maximum. The borrower must distribute his down payment so that he pays for at least 25 percent of the cost of the boat, \$12,500, and 50 percent 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.

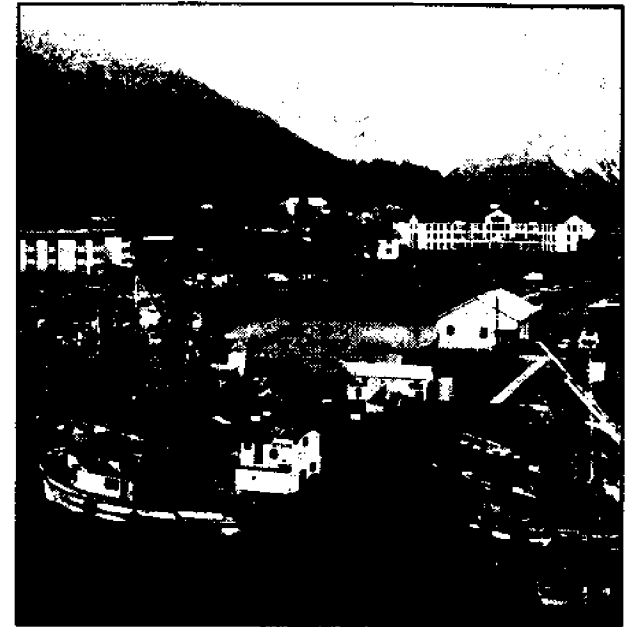


Photo: Craig Wiese

50 THE APPLICATION

PERSONAL COMMERCIAL FISHING RESUME

The personal resumé 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 resume 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 resumé as well. Let's take a look at the elements of a resume 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 Resumé". 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.

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

COMMERCIAL FISHING RESUME

Name Joseph A. Andersun Social Security No. 474-00-1111

Briefly describe your commercial fishing experience:

Year	Fishery	Name of Vessel & Skipper	Description of Duties
1980-1986	Bristol Bay Salmon and Herring Gillnet	F/V Sunup	Owner/Operator
1977-1979	Bristol Bay Salmon and Herring Gillnet	F/V Upwind Skipper Alfred Andersun	Crewman--Pick fish, mend nets, cook
1975-1976	Bristol Bay Salmon	F/V Hitide Skipper Michael Andersun	Crewman-- Pick fish, mend nets
1972-1974	Kuskokwim Salmon Gillnet	AK262831F Skipper Alfred Andersun	Crewman--Pick fish

I have been fishing commercially with my father and my uncle since I was twelve years old. In 1980 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 1980 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.

REFERENCES:

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

Name	Telephone	Mailing Address
Harvey John, Superintendent High Point Processors	(206) 526-0001	High Point, Inc. P.O. Box 1000, Seattle WA 98199
Joseph Nicholson, 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

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 list your skills like this or mention them in a narrative like that of our sample fisherman.

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

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

Navigation--Coast Guard Auxiliary course, Sitka, AK, 1978 (applicant and spouse)

Accounting/bookkeeping--Island Community College, 1980-1981 (spouse)

Diesel engine maintenance--Emerson Diesel Course, Seattle, 1982

Hydraulic system maintenance--University of Alaska Marine Advisory Program workshop, Sitka 1983

3. PERSONAL REFERENCES: Each resumé 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 impression 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.

4. CATCH RECORD: If the lender's application does not include a catch form (the sample application does not), you can add catch information to the resume. 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
- G. Processor or buyer who bought most of your catch

EXAMPLE: (not related to the sample application)

YEAR 1985					
SPECIES	FISHERY	DAYS FISHED	PRICE	LBS/TONS CAUGHT	TOTAL VALUE
King salmon	PWS drift gil.		\$ 1.40	5,600	\$ 7,840
Red salmon	PWS drift gil.	30	\$ 1.00	14,000	\$14,000
Pink salmon	PWS seine		\$ 0.23	280,000	\$64,000
Chum salmon	PWS seine	60	\$ 0.38	27,000	\$10,260
Tanner crab	Kodiak crab	30	\$ 1.35	40,000	\$54,000
Herring	PWS seine	10	\$400.00	50	\$20,000

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

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.

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:

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

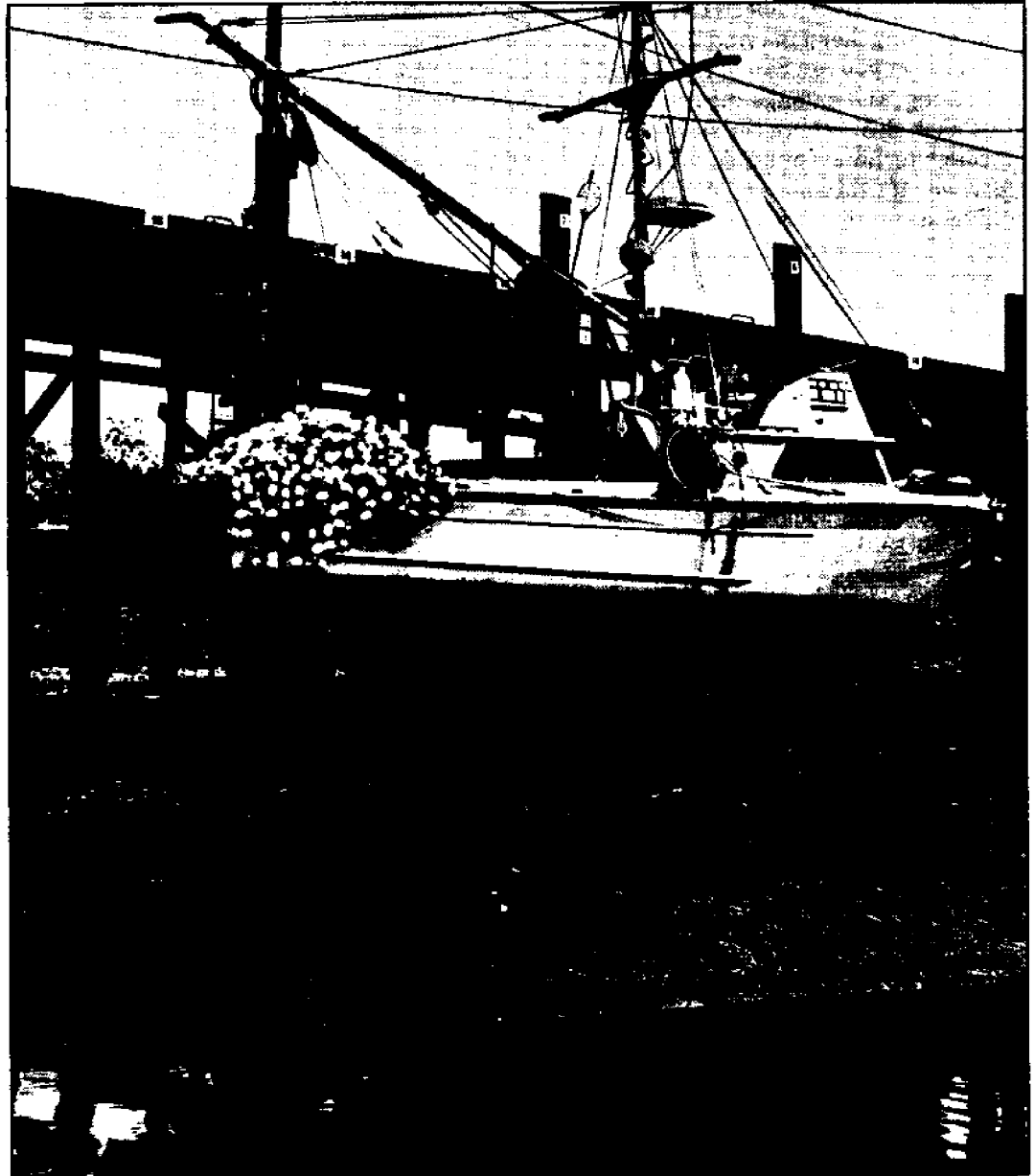


photo: Craig Wiese

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

URGENT
Please Reply
Within 48 Hours
LOAN PENDING

CREDIT AUTHORIZATION

I, Joseph Alfred Andersun, 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 A3603

ADDRESS P.O. Box 400

CITY Dillingham STATE Alaska

ZIP CODE 99576

APPLICANT'S SIGNATURE Joseph A. Andersun DATE 11-7-86

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
Pouch D
Juneau, Alaska 99811
Telephone: 465-2510

Division of Investments
3801 "C" St., Suite 748
Anchorage, Alaska 99503
Telephone: 562-3779

Division of Investments
675 7th Ave., Station A
Fairbanks, Alaska 99701
Telephone: 452-8182

Division of Investments
P.O. Box 370
Dillingham, Alaska 99576
Telephone: 842-1087

3. 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.

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.

54 THE APPLICATION

4. **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.

5. **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.

**"The upshot of this is:
no tax returns no loan."**

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

AUTHORIZATION TO VERIFY FINANCIAL INFORMATION

URGENT
Please Reply
Within 48 Hours
LOAN PENDING

I, Joseph Alfred Anderson of Western Village, Alaska
(Print Full Name) (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 current 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. Anderson Date 11-7-86

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: Current Balance _____ 6 Month Average _____ Date Account was opened _____	Savings Account: Current Balance _____ 6 Month Average _____ Date Account was opened _____	Other Account: Current Balance _____ 6 Month Average _____ 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 institution.

Remarks _____

Signature of Bank Official _____ Title _____ Date _____

Please return to:

<input type="checkbox"/> Division of Investments Pouch D Juneau, Alaska 99811 Telephone: 465-2514	<input type="checkbox"/> Division of Investments 3801 "C" St., Suite 740 Anchorage, Alaska 99503 Telephone: 582-3779	<input type="checkbox"/> Division of Investments 875 7th Ave., Station A Fairbanks, Alaska 99701 Telephone: 452-8182	<input type="checkbox"/> Division of Investments P.O. Box 370 Dillingham, Alaska 99576 Telephone: 942-1087
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06-909 (Rev. 3/86) (17)

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

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. 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.

Joseph A. Anderson
Applicant's Signature

Joseph Anderson
Applicant's Name - Please Print

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

Mary J. Anderson
Signature of spouse if joint
filings-records maintained

Mary Anderson
Spouse's Name - Please Print

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

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 proprietor (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.

6. Consent to Release Information forms, which 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.

7. 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.

"Take the initiative in helping the loan officer and loan committee understand your financial position."

8. Construction or Purchase Agreement.

A. 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 and income lost on account of 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.

B. Purchase Agreement

A lien that is listed on a vessel document is termed a "Preferred Ship's 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

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.

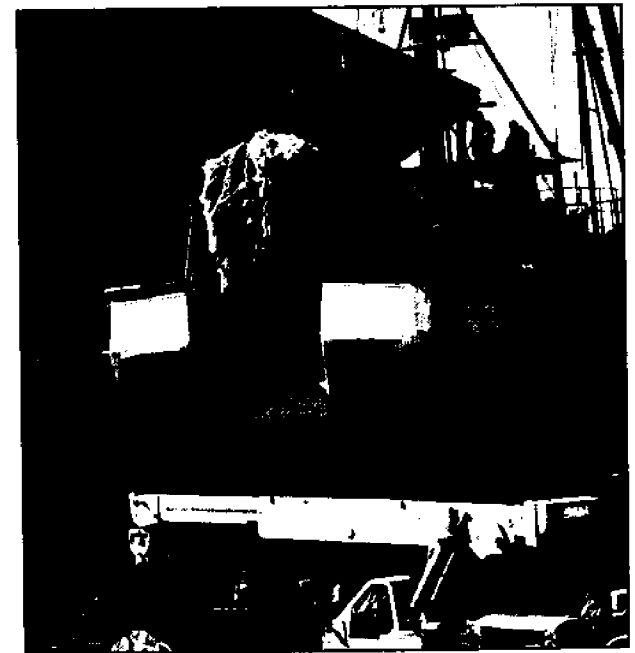


photo: Craig Wiese

9. 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 percent of the remaining balance of a loan. For example, if a new vessel is purchased for \$100,000, and a lender lends 75 percent of the purchase price (\$75,000), the minimum hull and machinery coverage must equal 110 percent 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.

APPENDICES

At this point our review of the loan application comes to an end. Appendices I and II follow. The first step in deciding whether your purchase plans are affordable is to find out what the resulting loan payments will be. Appendix I 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 Appendix II. 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.

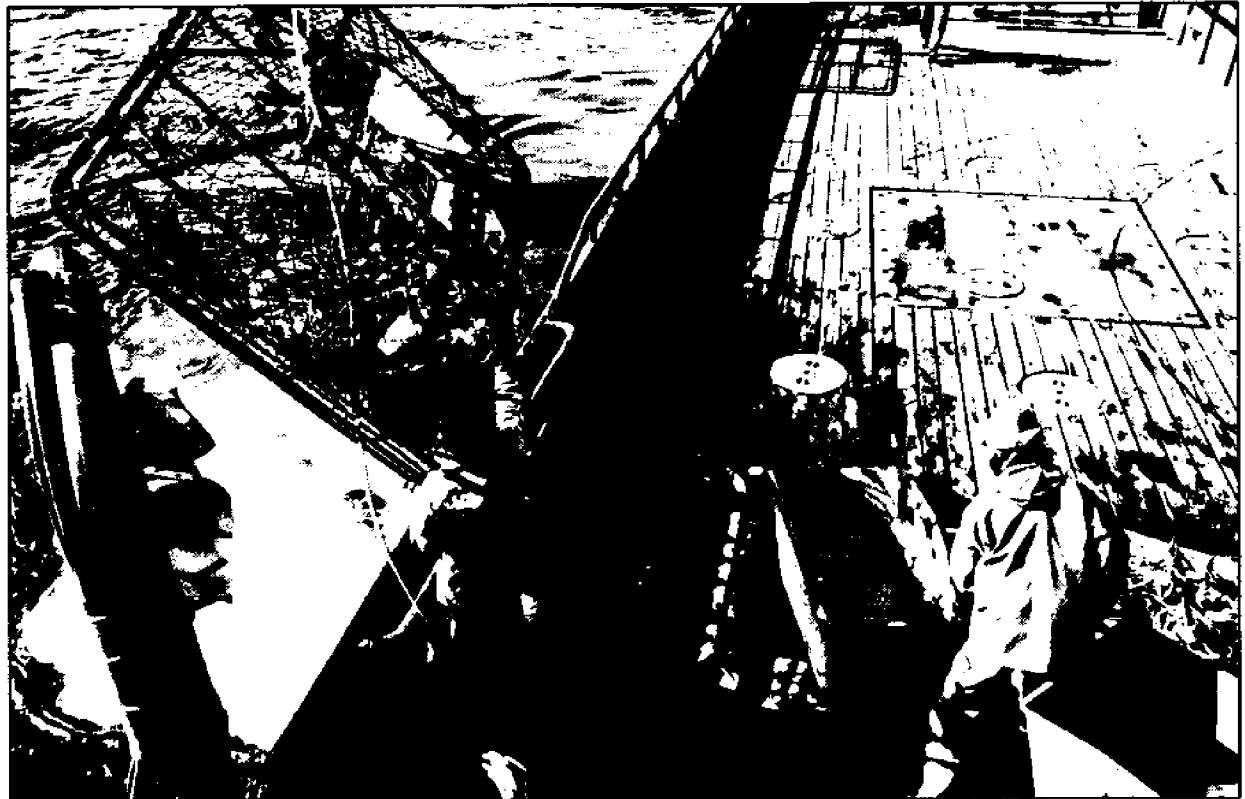


photo: Craig Wiese

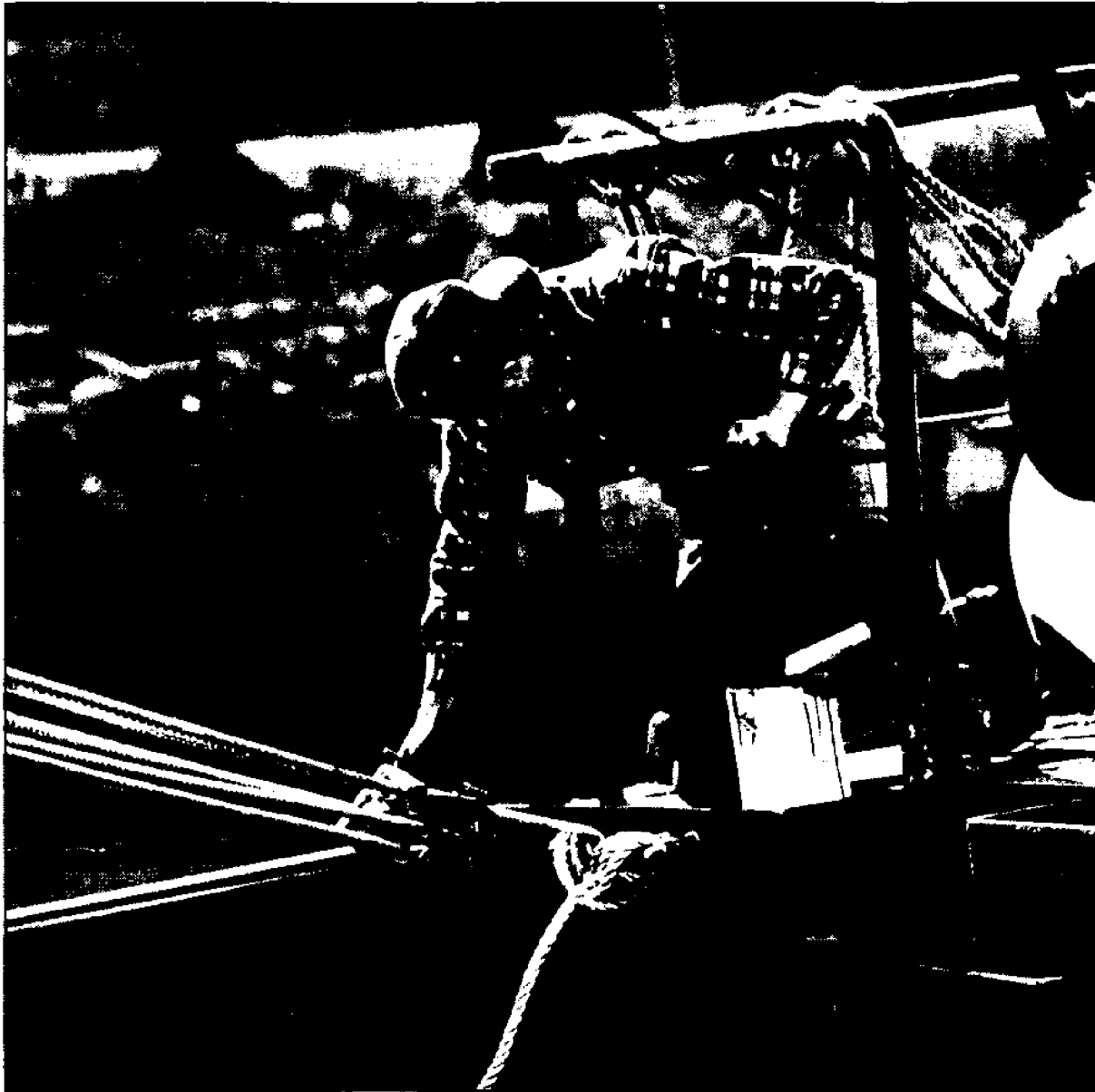


Photo: Craig Wiese

APPENDIX I

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 by the number of thousands. For example, Table 1 shows that if you borrow \$1,000 at 10 percent 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, on \$2638. If you borrow \$50,000 the annual payment will be 50 times more (\$13,190) and so on.

To figure income taxes and equity on 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 are less and you pay more taxes. On the other hand, your net worth will improve annually as you decrease the loan liability on your balance sheet, and increase your assets by paying off your loan.

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 the loan 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 SBA or Fisheries Obligation Guarantee Program (FOG) guarantees have fixed rates. Loans from commercial lenders and from Farm Credit System lenders carry floating or variable interest rates (except when the loans are guaranteed). The calculation of floating rate payments is explained next.

LOAN PAYMENTS

ANNUAL LOAN PAYMENT TABLE

TABLE 1

ANNUAL LOAN PAYMENT PER \$1,000 BORROWED

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

Interest Rate	13%	13 1/2%	14%	14 1/2%	15%	15 1/2%	16%	16 1/2%
1 Year	\$1,130.00	\$1,135.00	\$1,140.00	\$1,145.00	\$1,150.00	\$1,155.00	\$1,160.00	\$1,165.00
2 Year	599.48	603.38	607.29	611.20	615.12	619.04	622.96	626.89
3 Year	423.52	427.12	430.73	434.35	437.98	441.61	445.26	448.91
4 Year	336.19	339.69	343.20	346.73	350.27	353.81	357.38	360.95
5 Year	284.31	287.79	291.28	294.79	298.32	301.85	305.41	308.98
6 Year	250.15	253.65	257.16	260.69	264.24	267.80	271.39	274.99
7 Year	226.11	229.64	233.19	236.77	240.36	243.98	247.61	251.27
8 Year	208.39	211.97	215.57	219.20	222.85	226.53	230.22	233.95
9 Year	194.87	198.51	202.17	205.86	209.57	213.32	217.08	220.87
10 Year	184.29	187.99	191.71	195.47	199.25	203.06	206.90	210.77
12 Year	168.99	172.81	176.67	180.56	184.48	188.43	192.41	196.43
15 Year	154.74	158.76	162.81	166.90	171.02	175.17	179.36	183.57
20 Year	142.35	146.65	150.99	155.36	159.76	164.20	168.67	173.16

TABLE 1 (Continued)
ANNUAL LOAN PAYMENT PER \$1,000 BORROWED

Interest Rate	17%	17 1/2%	18%	18 1/2%	19%	19 1/2%	20%	20 1/2%
1 Year	\$1,170.00	\$1,175.00	\$1,180.00	\$1,185.00	\$1,190.00	\$1,195.00	\$1,200.00	\$1,205.00
2 Year	630.83	634.77	638.72	642.67	646.62	650.58	654.55	658.51
3 Year	452.57	456.24	459.92	463.61	467.31	471.01	474.73	478.45
4 Year	364.53	368.13	371.74	375.36	378.99	382.63	386.29	389.96
5 Year	312.56	316.16	319.78	323.41	327.05	330.71	334.38	338.07
6 Year	278.61	282.25	285.91	289.58	293.27	296.98	300.71	304.45
7 Year	254.95	258.64	262.36	266.10	269.85	273.63	277.42	281.24
8 Year	237.69	241.46	245.24	249.05	252.89	256.74	260.61	264.50
9 Year	224.69	228.53	232.39	236.28	240.19	244.12	248.08	252.06
10 Year	214.66	218.57	222.51	226.48	230.47	234.49	238.52	242.58
12 Year	200.47	204.53	208.63	212.75	216.90	221.07	225.26	229.49
15 Year	187.82	192.10	196.40	200.73	205.09	209.47	213.88	218.31
20 Year	177.69	182.24	186.82	191.42	196.05	200.69	205.36	210.04

Interest Rate	21%	21 1/2%	22%	22 1/2%	23%	23 1/2%	24%	24 1/2%	25%
1 Year	\$1,210.00	\$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	662.49	666.47	670.45	674.44	678.43	682.43	686.43	690.43	694.44
3 Year	482.18	485.91	489.66	493.41	497.17	500.94	504.72	508.50	512.30
4 Year	393.63	397.32	401.02	404.73	408.45	412.18	415.93	419.68	423.44
5 Year	341.77	345.48	349.21	352.95	356.70	360.47	364.25	368.04	371.85
6 Year	308.20	311.98	315.76	319.57	323.39	327.22	331.07	334.94	338.82
7 Year	285.07	288.92	292.78	296.67	300.57	304.49	308.42	312.37	316.34
8 Year	268.41	272.35	276.30	280.27	284.26	288.27	292.29	296.34	300.40
9 Year	256.05	260.07	264.11	268.17	272.25	276.35	280.47	284.60	288.76
10 Year	246.67	250.77	254.89	259.04	263.21	267.40	271.60	275.83	280.07
12 Year	233.73	238.00	242.28	246.59	250.93	255.28	259.65	264.04	268.45
15 Year	222.77	227.24	231.74	236.25	240.79	245.35	249.92	254.51	259.12
20 Year	214.74	219.47	224.20	228.95	233.72	238.50	243.29	248.10	252.92

**LOAN PAYMENT CALCULATION
FLOATING INTEREST RATE
Table 2**

FLOATING INTEREST RATE

$\frac{\text{Amount Borrowed}}{\div \text{Total Number of Payments}}$	$\frac{\text{Remaining Balance} \times \text{Interest Rate}}{\div \text{Payments/Year}}$	$\text{Principal} + \text{Interest}$
<hr/> = PRINCIPAL	<hr/> = INTEREST	<hr/> = PAYMENT

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 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 sections. 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.

**LOAN PAYMENT CALCULATION
FLOATING INTEREST RATE
Table 2**

Example 1. Annual Payments

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

Borrowed \$100,000; Loan period 10 yrs; Interest rate - variable

Year 1 - Interest Rate 17% (of remaining balance)

\$100,000	\$100,000	\$10,000
+ 10	× .17	+ \$17,000
= \$10,000	= \$17,000	= \$27,000

Year 2 - Interest Rate 15% (of remaining balance)

\$100,000	\$90,000	\$10,000
+ 10	× .15	+ \$13,500
= \$10,000	= \$13,500	= \$23,500

Year 3 - Interest Rate 18% (of remaining balance)

\$100,000	\$80,000	\$10,000
+ 10	× .18	+ \$14,400
= \$10,000	= \$14,400	= \$24,400

Example 2. Monthly payments

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

Borrowed \$100,000; Loan period 10 yrs;
Interest rate - 17% in first year

Month 1

\$100,000	\$100,000	\$833.33
+ 10	× .17	+ \$1,416.67
= \$10,000	= \$17,000	= \$2,250.00
+ 12	+ 12	

= \$833.33	= \$1416.67	
------------	-------------	--

Month 2

\$100,000	99,166.67	\$833.33
+ 10	× .17	+ \$1,404.86
= \$10,000	= \$17,000	= \$2,238.19
+ 12	+ 12	

= \$833.33	= \$1404.86	
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APPENDIX II

BREAK-EVEN ANALYSIS

Photo: Craig Wiese

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.

Example:

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 percent interest. If we assume level term payments, Table 1 on page 62 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 page 74.

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) Crewshare Arrangement: Assume that there are two crewmen in addition to the skipper/owner. Each crewman receives 10 percent of gross income. The total crewshare consequently is 20 percent.

3) 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.

4) Projected Fish Prices and Species Mix:

Fish Prices:	Red salmon	\$.70/lb
	Chum salmon	.30/lb
Species Mix:	Red salmon	85% by weight
	Chum salmon	15% by weight

5) Fish Tax or Aquaculture Assessment: Assume that a borough tax of 3 percent of gross income is levied. There is no aquaculture assessment.

6) Months This Fishery: Assume that the fisherman spends two months preparing his boat for the fishery, actually fishing, and preparing the boat for storage.

7) 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.

BREAK-EVEN ANALYSIS
An Example

BREAK-EVEN ANALYSIS

An Example

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 southeast 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 percent 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 since 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.

8) Projected Fishing Expenses:

a) Direct expenses (specific to a fishery)

Fuel/oil	2,000
Groceries	1,300
Gear/equipment maintenance	1,400
Supplies	500
Crew insurance	600
Permit loan payment	15,000
Travel	350
*Crewshare	--
*Tax/assessment	--
TOTAL	\$21,150

*These are a percentage of gross income and are factored into the break-even calculation later.

b) Fixed expenses (annual)

Vessel insurance	\$2,000
Hull and engine maintenance	1,400
Moorage	1,000
Storage (incl. warehouse expense)	600
Vehicle	-0-
Business administration	200
Legal and accounting	500
Travel and entertainment	500
Dues and licenses	250
Boat payments	19,170
TOTAL	\$25,6209

9. Preliminary Calculations:

a) **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" or "weighted average" price per pound.

b) **Prorated fixed expenses:**

Prorated fixed expenses =

$$\frac{\text{(Total Fixed Exp.)} \times}{\text{(Months this fishery} + \text{Months all Fisheries)}}$$

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 = $\{\$25,620\} \times (2 \div 2)$
 = \$25,620

c) **Crewshare plus tax percentages:** This is simply the sum of the crewshare 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 percent in decimal format is .23.

After crewshare, 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?

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

BREAK-EVEN ANALYSIS

An Example

BREAK-EVEN GUIDE

Fishery: Bristol Bay Drift Gillnet

Break-even calculation factors:

1. ANNUAL BOAT LOAN PAYMENT	<u>19,170.</u>
PERMIT LOAN PAYMENT	<u>15,000.</u>
2. CREW SHARE (TOTAL %)	<u>20%</u>
3. FISH TAX/ASSESSMENT (%)	<u>3%</u>
4. TAKE HOME INCOME	<u>40,000.</u>
5. MONTHS THIS FISHERY	<u>2</u>
6. MONTHS ALL FISHERIES	<u>2</u>

7. PRICE/LB/SPECIES	8. SPECIES MIX (%)
SPECIES A <u>Red</u> \$ <u>.70</u> /lb	<u>85</u> %
SPECIES B <u>Chum</u> \$ <u>.30</u> /lb	<u>15</u> %
SPECIES C _____ /lb	_____ %
SPECIES D _____ /lb	_____ %
SPECIES E _____ /lb	_____ %

9. PROJECTED FISHING EXPENSES

DIRECT EXPENSES

FUEL/OIL	<u>2,000.</u>
GROCERIES	<u>1,300.</u>
GEAR/EQUIPMENT	<u>1,400.</u>
SUPPLIES	<u>500.</u>
CREW INSURANCE	<u>600.</u>
PERMIT LOAN PAYMENT	<u>15,000.</u>
TRAVEL	<u>350.</u>
CREWSHARE	<u>-</u>
TAX/ASSESSMENT	<u>-</u>
TOTAL	<u>\$21,150.</u>

FIXED EXPENSES

VESSEL INSURANCE	<u>2,000.</u>
HULL & ENGINE MAINT.	<u>1,400.</u>
MOORAGE	<u>1,000.</u>
STORAGE	<u>600.</u>
VEHICLE	<u>-</u>
BUSINESS ADMIN	<u>200.</u>
LEGAL/ACCOUNTING	<u>500.</u>
TRAVEL/ENTERTAINMENT	<u>500.</u>
DUES/LICENSES	<u>250.</u>
BOAT PAYMENTS	<u>19,170.</u>
TOTAL	<u>25,620.</u>

10. PRELIMINARY CALCULATIONS

A. BLENDED PRICE/POUND

$$\begin{aligned}
 &85\%A \times \text{PRICE A} \cdot 70 \quad \underline{.595} \\
 &15\%B \times \text{PRICE B} \cdot 30 \quad + \underline{.045} \\
 &\%C \times \text{PRICE C} \quad + \underline{\hspace{1cm}} \\
 &\%D \times \text{PRICE D} \quad + \underline{\hspace{1cm}} \\
 &\%E \times \text{PRICE E} \quad + \underline{\hspace{1cm}} \\
 &= \\
 &\underline{\text{BLENDED PRICE/POUND}} \quad \underline{.64}
 \end{aligned}$$

C. CREW% + TAX%

$$\begin{aligned}
 \text{CREW\%} + \text{TAX\%} &= \underline{20\%} + \underline{3\%} \\
 &= \underline{.23} \\
 &\text{(decimal format)}
 \end{aligned}$$

B. PRORATED FIXED EXPENSES

$$\begin{aligned}
 &\text{MONTHS THIS FISHERY} \quad \underline{2} \\
 &\div \text{MONTHS ALL FISHERIES} \quad \underline{2} \\
 &= \underline{1} \\
 &\times \text{TOTAL FIXED EXP.} \quad \underline{25,620} \\
 &= \\
 &\underline{\text{PRORATED FIXED EXP.}} \quad \underline{25,620}
 \end{aligned}$$

D. TOTAL EXPENSES

$$\begin{aligned}
 &\text{DIRECT EXPENSES} \quad \underline{21,150.} \\
 &+ \text{FIXED EXPENSES} \quad \underline{25,620.} \\
 &+ \text{LIVING EXPENSES} \quad \underline{40,000.} \\
 &= \\
 &\underline{\text{TOTAL EXPENSES}} \quad \underline{86,770}
 \end{aligned}$$

11. BREAK-EVEN CALCULATIONS

A. BREAK-EVEN INCOME

$$\begin{aligned}
 \text{BE income} &= \frac{\text{total income}}{1 - (\text{crew\%} + \text{tax\%})} \\
 &= \frac{\$ \underline{86,770}}{1 - (\underline{20\%} + \underline{3\%})} \\
 &= \frac{\$ \underline{86,770}}{\underline{.77}} \\
 \text{BE income} &= \underline{\$ 112,688}
 \end{aligned}$$

B. BREAK-EVEN CATCH

$$\begin{aligned}
 \text{BE catch} &= \\
 &\frac{\text{Break-even income}}{\text{Blended Price /lb}} = \frac{\$ \underline{112,688}}{\underline{.64} \text{ /lb}} \\
 \text{BE catch} &= \underline{176,075 \text{ lbs.}}
 \end{aligned}$$

C. BREAK-EVEN (BE) CATCH BY SPECIES

$$\begin{aligned}
 &\text{Red} \\
 &\text{SPECIES A: } \underline{176,075} \times \underline{85\%} = \underline{149,664} \text{ LBS} \\
 &\text{Chom} \\
 &\text{SPECIES B: } \underline{176,075} \times \underline{15\%} = \underline{26,411} \text{ LBS} \\
 &\text{SPECIES C: } \underline{\hspace{1cm}} \times \underline{\hspace{1cm}} \% = \underline{\hspace{1cm}} \text{ LBS} \\
 &\text{SPECIES D: } \underline{\hspace{1cm}} \times \underline{\hspace{1cm}} \% = \underline{\hspace{1cm}} \text{ LBS} \\
 &\text{SPECIES E: } \underline{\hspace{1cm}} \times \underline{\hspace{1cm}} \% = \underline{\hspace{1cm}} \text{ LBS}
 \end{aligned}$$

Use the Break-Even Guide to do your own "What if" planning.

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: _____ **Break-even calculation factors:**

<p>1. ANNUAL BOAT LOAN PAYMENT _____</p> <p style="padding-left: 20px;">PERMIT LOAN PAYMENT _____</p> <p>2. CREW SHARE (TOTAL %) _____</p> <p>3. FISH TAX/ASSESSMENT (%) _____</p> <p>4. TAKE HOME INCOME _____</p> <p>5. MONTHS THIS FISHERY _____</p> <p>6. MONTHS ALL FISHERIES _____</p>	<p style="text-align: center;">9. PROJECTED FISHING EXPENSES</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; vertical-align: top; padding: 5px;"> <p>DIRECT EXPENSES</p> <p>FUEL/OIL _____</p> <p>GROCERIES _____</p> <p>GEAR/EQUIPMENT _____</p> <p>SUPPLIES _____</p> <p>CREW INSURANCE _____</p> <p>PERMIT LOAN PAYMENT _____</p> <p>TRAVEL _____</p> <p>CREW SHARE _____</p> <p>TAX/ASSESSMENT _____</p> <p style="text-align: right;">TOTAL _____</p> </td> <td style="width: 50%; vertical-align: top; padding: 5px;"> <p>FIXED EXPENSES</p> <p>VESSEL INSURANCE _____</p> <p>HULL & ENGINE MAINT. _____</p> <p>MOORAGE _____</p> <p>STORAGE _____</p> <p>VEHICLE _____</p> <p>BUSINESS ADMIN _____</p> <p>LEGAL/ACCOUNTING _____</p> <p>TRAVEL/ENTERTAINMENT _____</p> <p>DUES/LICENSES _____</p> <p>BOAT PAYMENTS _____</p> <p style="text-align: right;">TOTAL _____</p> </td> </tr> </table>	<p>DIRECT EXPENSES</p> <p>FUEL/OIL _____</p> <p>GROCERIES _____</p> <p>GEAR/EQUIPMENT _____</p> <p>SUPPLIES _____</p> <p>CREW INSURANCE _____</p> <p>PERMIT LOAN PAYMENT _____</p> <p>TRAVEL _____</p> <p>CREW SHARE _____</p> <p>TAX/ASSESSMENT _____</p> <p style="text-align: right;">TOTAL _____</p>	<p>FIXED EXPENSES</p> <p>VESSEL INSURANCE _____</p> <p>HULL & ENGINE MAINT. _____</p> <p>MOORAGE _____</p> <p>STORAGE _____</p> <p>VEHICLE _____</p> <p>BUSINESS ADMIN _____</p> <p>LEGAL/ACCOUNTING _____</p> <p>TRAVEL/ENTERTAINMENT _____</p> <p>DUES/LICENSES _____</p> <p>BOAT PAYMENTS _____</p> <p style="text-align: right;">TOTAL _____</p>
<p>DIRECT EXPENSES</p> <p>FUEL/OIL _____</p> <p>GROCERIES _____</p> <p>GEAR/EQUIPMENT _____</p> <p>SUPPLIES _____</p> <p>CREW INSURANCE _____</p> <p>PERMIT LOAN PAYMENT _____</p> <p>TRAVEL _____</p> <p>CREW SHARE _____</p> <p>TAX/ASSESSMENT _____</p> <p style="text-align: right;">TOTAL _____</p>	<p>FIXED EXPENSES</p> <p>VESSEL INSURANCE _____</p> <p>HULL & ENGINE MAINT. _____</p> <p>MOORAGE _____</p> <p>STORAGE _____</p> <p>VEHICLE _____</p> <p>BUSINESS ADMIN _____</p> <p>LEGAL/ACCOUNTING _____</p> <p>TRAVEL/ENTERTAINMENT _____</p> <p>DUES/LICENSES _____</p> <p>BOAT PAYMENTS _____</p> <p style="text-align: right;">TOTAL _____</p>		
<p>7. PRICE/LB/SPECIES 8. SPECIES MIX (%)</p> <p>SPECIES A _____</p> <p>SPECIES B _____</p> <p>SPECIES C _____</p> <p>SPECIES D _____</p> <p>SPECIES E _____</p>			

10. PRELIMINARY CALCULATIONS

A. BLENDED PRICE/POUND

%A × PRICE A _____
 + %B × PRICE B _____
 + %C × PRICE C _____
 + %D × PRICE D _____
 + %E × PRICE E _____

BLENDED PRICE/POUND _____

B. PRORATED FIXED EXPENSES

TOTAL FIXED EXP. _____
 × MONTHS THIS FISHERY _____
 ÷ MONTHS ALL FISHERIES _____

PRORATED FIXED EXP. _____

C. CREW% + TAX

CREW% + TAX% _____
 (decimal format)

D. TOTAL EXPENSES

DIRECT EXPENSES _____
 + FIXED EXPENSES _____
 + LIVING EXPENSES _____

TOTAL EXPENSES _____

11. BREAK-EVEN CALCULATIONS

A. BREAK-EVEN INCOME

Break-even income = $\frac{\text{fixed costs}}{1 - (\text{crew}\% + \text{tax}\%)}$
 = $\frac{\text{_____}}{1 - (\text{_____})}$

B. BREAK-EVEN CATCH

Break-even catch = $\frac{\text{Break-even income}}{\text{Value per fish}}$
 = _____

C. BREAK-EVEN (BE) CATCH BY SPECIES

SPECIES A: BE CATCH *%A = _____ LBS
 SPECIES A: BE CATCH *%B = _____ LBS
 SPECIES A: BE CATCH *%C = _____ LBS
 SPECIES A: BE CATCH *%D = _____ LBS
 SPECIES A: BE CATCH *%E = _____ LBS