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Obtaining Financial Assistance For Commercial Fishing, Charter and Party Boat Operations

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CONNECTICUT COOPERATIVE EXTENSION SERVICE
COLLEGE OF AGRICULTURE AND NATURAL RESOURCES
THE UNIVERSITY OF CONNECTICUT, STORRS

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LOAN COPY ONLY

Obtaining Financial Assistance For Commercial Fishing, Charter and Party Boat Operations

Norman K. Bender¹

Introduction

Commercial fishermen, charter, and party boat operators may choose among public and private financial assistance programs available for use in financing new or used fishing vessels, gear and machinery, on-shore facilities, and current operating expenses.

Finding enough information to evaluate each program's usefulness in a commercial fishing operation can be time consuming and very frustrating. This bulletin will provide background information concerning those programs (public and private) directly applicable to the commercial fishing, charter, and party boat industries. Captains may find it profitable to evaluate several programs when considering building or purchasing a new vessel or adding new gear. It may also be useful to combine use of several programs which may provide needed loan security or additional funds for the fishing business. The purpose in providing financial assistance information in this format is to allow the person(s) needing financial assistance to compare various programs when evaluating their usefulness for the specific fishery operation.

Passage of the American Fisheries Promotion Act, as well as shifts in federal fisheries policies, have created a need to provide additional information concerning financial assistance programs available to

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commercial fishermen. Specialists working with the industry may also find this information helpful when advising fishermen.

The recent period has been characterized by wide fluctuations in both the availability of credit and its cost. Interest rates for commercial and installment loans have exhibited an upward trend that have made the cost of borrowing too expensive for most fishermen. The current trend of deeper credit cycles and more frequent credit crunches together with historically high interest rates may pose a serious financial problem to many commercial fishermen interested in obtaining newer or larger fishing vessels.

The high costs of borrowing money and constructing a fishing vessel together with decreased availability of federal loan-guarantee programs, may cause greater economic injury to the owner-operated fleet than to the corporate-owned fleet. What may be at stake is the future of the Northeast fishing industry as it currently exists, since much of the region's fishing vessels are presently owner-operated.

How to Proceed

When you, a fisherman, begin to search for a source of credit or financial assistance there are several steps that you usually should follow.

1. Determine Capital Financing Required

First, you need to thoroughly evaluate and list total costs associated with purchasing a fishing vessel, major reconstruction of an existing boat, major changes in fishing gear, or construction of shoreside facilities such as docks, cold storage and processing equipment.

Total capital required can then be apportioned among capital available from personal funds and loans. You need to establish how much capital you can generate from fishing and personal funds and how much credit or financial assistance will be required.

2. Determining Ability to Make Annual Loan Payments

Estimating net income (Figure 4, Profit and Loss Forecast, on page 8), will help establish your ability to afford a specific level of loan payment as required by your loan purpose (i.e. boat, equipment, etc.).

3. Additional Information Required for Credit Applications

Whether applying for credit from a private lending institution or a public agency, additional information will be required before the credit officer can evaluate the application. Supplementary information includes the following statements and forms.

- a. Net worth statement. Also called a balance sheet, it lists assets, liabilities and the difference between them which is net worth. A sample form is on page 6.
- b. Profit and loss statement. Federal income tax returns for the past two years will establish your profit and loss record. A summary form is on page 7.
- c. Other information required for a complete credit application are: a statement of fishing experience and education (page 5); a description of the capital assets being financed by the loan (page 9) and insurance information (page 9).

4. Sources of Credit

The next step is to look at alternative sources of credit or financial assistance programs and evaluate each program's value to the fishing project. This booklet reviews public and private programs commonly used by fishermen as well as some programs that could be used in special-needs situations. Alternative credit sources are reviewed starting on page 10.

Experience with credit advising has shown that it pays to shop around and compare the benefits and costs of alternative credit sources (public and private). Credit terms will vary according to the type of program, existing policies and the state of the economy. An informed decision can be made only after the fisherman evaluates both his/her financial situation and the benefits and costs of alternative credit sources.

You can get additional information from your local Sea Grant Marine Advisory Program. Help can be provided in putting together and evaluating financial materials. Marine specialists often are knowledgeable about credit programs' terms and agency contacts.

Applying for Financial Assistance Programs

Fishermen need to develop an understanding of the types of information required by financial assistance officers when considering an application for a loan or fishery assistance program. Presenting financial information and loan requirements (purpose and amount of loan) in an organized manner will assist fishermen to achieve two objectives:

1. A strong financial situation may help fishermen obtain the best loan terms (regarding equity required, repayment schedule and interest rates) for their specific situation.
2. An additional benefit when compiling a complete financial picture is that fishermen can then use this information to evaluate the financial strengths and weaknesses of their fishing operations.

Financial assistance officers are primarily interested in:

1. Purpose of the loan.
2. Commercial fishing experience.
3. The applicant's ability to repay the loan. This applies to most programs administered by public and private agencies.

Remember, commercial fishermen are experts concerning their fishing operations. They have the day-to-day experience that should give them the ability to determine their fishing vessel and gear needs. Regardless of where fishermen seek credit, they should be prepared to provide the following information:

1. A summary of fishing experience and references.
2. A financial statement listing assets (vessel, gear, home property, saving accounts, etc.) and liabilities (mortgage on house, loans, etc.).
3. A profit and loss summary for the past three years (income tax returns, production records, etc.).
4. A profit and loss forecast, a listing of costs and projected income on new boat or gear compared with those for old boat or gear.
5. A detailed description of new boat and gear (including a marine survey report).
6. Insurance information.

The information should be typed or neatly handwritten and put together in a folder or manila envelope. Let's look at the preparation of the above information in more detail.

Fishing Experience

Lending institutions are interested in your experience in the fishing industry as well as related work experience and educational training that contribute to skills as a commercial fisherman. A summary of your fishing-related work experience and educational background might look like Figure 1.

Figure 1. Fishing Experience

Personal Information

N a m e

Address

Telephone Number

Work Experience

| | |
|-----------------|---|
| 1978 - Present. | Own and operate a 35-foot fishing boat used mainly for lobstering with some dragging and eeling. Have a deckhand as needed during the year. |
| 1974-78 | Owned and operated a 28-foot lobster boat. Did some eeling for one year. |
| 1969-74 | Worked on several fishing boats out of Niantic and Westbrook operating on Long Island Sound. |

Educational Background

Welding certificate.

Attended workshops on trawl net construction and financial management.

References

Personal and credit references, including names and addresses.

Present Financial Situation

To prepare your net worth statement (often called a balance sheet), list all your assets (boats, equipment, cash), then subtract your liabilities (what you owe). This will give you your net worth. A sample net worth statement is shown in Figure 2.

Figure 2. Net Worth Statement

Assets

Money you have:

- | | | |
|-----|--|-------|
| 1. | Cash and checking accounts | _____ |
| 2. | Savings accounts | _____ |
| 3. | Money owed to you this year | _____ |
| 4. | Inventory | _____ |
| 5. | Total Current Assets (sum of lines 1-4) | _____ |
| 6. | Land | _____ |
| 7. | Buildings, furniture | _____ |
| 8. | Vessels and gear | _____ |
| 9. | Life insurance | _____ |
| 10. | Auto, trucks | _____ |
| 11. | Mortgages you hold on others | _____ |
| 12. | Other long term assets | _____ |
| 13. | Total long term assets (sum of lines 6-12) | _____ |
| 14. | TOTAL ASSETS (sum of lines 5 and 13) | _____ |

Liabilities

Money you owe this year to:

- | | | |
|-----|---|-------|
| 15. | Suppliers | _____ |
| 16. | Banks | _____ |
| 17. | Others | _____ |
| 18. | Total Current Liabilities (sum of lines 15-17) | _____ |
| 19. | Mortgages | _____ |
| 20. | Other long-term debts | _____ |
| 21. | Total long-term liabilities (sum of lines 19 and 20) | _____ |
| 22. | TOTAL LIABILITIES (sum of lines 18 and 21) | _____ |

Net Worth

- | | | |
|-----|------------------------------------|-------|
| 23. | Net Worth — Total Assets (Line 14) | |
| | MINUS Total Liabilities (Line 22) | _____ |

Profit and Loss Summary

This is a record of your past fishing financial success. It can be developed through the use of production records and income returns. A sample profit and loss summary is shown in Figure 3.

Figure 3. Profit and Loss Summary

| | 19__ | 19__ | 19__ |
|--|------|------|------|
| 1 Fishing Income | | | |
| 2 Other Income | | | |
| 3 TOTAL INCOME (Line 1 Plus Line 2) | | | |
| 4 Fishing Expenses | | | |
| 5 Other Expenses | | | |
| 6 TOTAL EXPENSES (Line 4 Plus Line 5) | | | |
| 7 NET CASH INCOME (Line 3 Minus Line 6) | | | |
| 8 Depreciation Expenses | | | |
| 9 NET INCOME (Line 7 Minus Line 8) | | | |
| 10 Living Expenses | | | |
| 11 Income Available for Loan Repay- ment (Line 9 Minus Line 10) | | | |

Profit and Loss Forecast

A profit and loss forecast is an estimate of future income and expenses when you will use the new boat or engine you plan to purchase with the loan. It is hard to predict how much income you will make, however. A rough estimate will assist the loan officer in evaluating your loan request.

Your projected income should justify the expense of the new boat or gear to be purchased. Figure 4 illustrates a profit and loss forecast.

Figure 4. Profit and Loss Forecast

| | 19__ | 19__ | 19__ |
|---|------|------|------|
| 1. Estimated Fishing Income | | | |
| 2. Estimated Other Income | | | |
| 3. ESTIMATED TOTAL INCOME (Line 1 Plus Line 2) | | | |
| 4. Estimated Fishing Expenses | | | |
| 5. Estimated Other Expenses | | | |
| 6. ESTIMATED TOTAL EXPENSES (Line 4 Plus Line 5) | | | |
| 7. ESTIMATED NET CASH INCOME (Line 3 Minus Line 6) | | | |
| 8. Estimated Depreciation Expense | | | |
| 9. ESTIMATED NET INCOME (Line 7 Minus Line 8) | | | |
| 10. Estimated Living Expenses | | | |
| 11. Estimated Income Available for Loan Repayments (Line 9 Minus Line 10) | | | |

Description of New Boat, Gear and Equipment

Prepare a detailed description of the new boat and gear you are planning to purchase. List the initial cost as well as anticipated operating costs. Include a physical description of the item and a marine survey report, if available.

A workboat and related equipment used for lobstering might be described as follows:

Description — 36 Foot boat; \$34,000 market value; 36 feet by 12 feet; wood hull; 100 h.p. diesel engine; C.B. radio; hydraulic pot hauler; and 250 lobster pots — \$5,000 market value.

Explain how the new boat or gear will assist your fishing operations. Will the new boat reduce your operating costs? Perhaps a new type of fishing gear will reduce the time spent doing a particular task, thereby freeing you to work on other aspects of your fishing operations resulting in a larger catch and increased income.

You should be able to discuss in detail those benefits resulting from the purchase of another boat and new or additional gear. Benefits may include increased landings, reduced expenses or added safety features.

Insurance Information

Any lending institution will require at least enough hull and vessel insurance to cover the amount of the loan. In addition, a lender will require protection and indemnity (P & I) insurance that will cover you against liability claims resulting from any personal injury occurring on your boat. With the reduction (and possible total elimination) of U.S. Public Health Service health and medical programs available to commercial fishing crewmembers, additional health and medical insurance coverage may be needed through individual or group health plans.

All the insurance policies relating to a new vessel should be listed. Include the type of policy, insurance company, and dollar amounts of coverage. In other words, a borrower will be required to submit all relevant insurance information on a new boat to the lending institution.

Credit Application Summary

Loan information should be typed and put together in a folder or manila envelope. Be sure to keep a copy of each form for your business files. You may need to refer to this information at a later date.

Putting loan-related information together as suggested will not guarantee your application will be approved. However, it will help to project a positive image of your ability to manage your fishing operations.

Sources of Credit and Finance Assistance

Programs discussed on the following pages are sources of credit and financial assistance available to commercial fishermen. Current credit terms are available by contacting financial assistance/credit specialists listed on page 22.

Commercial Lending Institutions

Commercial lenders have been a major source of credit for the fishing industry. Most banks willing to finance vessels, offer loans through either their installment loan or commercial loan departments. Banks vary in their lending policies, so it is advisable to explore the loan terms available at several lending institutions before making any decisions.

Recently Connecticut banking regulations were changed to allow thrift institutions (savings banks and savings and loan associations) to make commercial loans. In addition to vessel loans, banks may provide financing for operating expenses, repairs and vessel reconstruction, new trawl nets and traps or numerous other items needed in a fishing operation.

Borrowers can expect a seven- to ten-year repayment period for new vessel loans and a five to seven year repayment period for loans on used boats. Banks will require full insurance coverage for the appraised value of the boat and protection and indemnity coverage for other contingencies.

Interest rates charged on commercial loans or installment loans may vary among banks. Borrowers may save money through careful

evaluation of loan programs with particular attention to calculation of the effective interest rate, repayment schedule, and special conditions relating to variable interest rates.

A recent trend toward variable-rate loans has occurred with some Connecticut banks offering a choice of fixed or variable-interest rates. For example, one savings bank offers only variable rates with two options: 1. A commercial variable rate calculated at the prime interest rate plus two percent. (The rate varies monthly according to a formula used by the savings bank.) 2. A variable rate that is adjusted every one to three years.

When considering a variable rate loan, you should ask about the parameters (limits or guidelines) that determine the rate of change in the interest rate. Some variable rate loans have limits (e.g. two percentage points per yearly rate adjustment) on the increase or reduction of the interest rate. You should be cautious about signing for a loan with no limits on the change in interest rate per adjustment period.

Situations may exist where a lending institution will finance only a boat loan that is tied to a federal loan guarantee program. Any fishing captain having difficulty obtaining a direct bank loan might have the bank loan officer review loan guarantees available for used boat loans (Small Business Administration) and new boat loans (National Marine Fisheries Service).

Fishermen might look into using a leasing contract to obtain a new fishing vessel. Leasing with an option to buy could allow a commercial fishermen to obtain a vessel at a lower initial cost (possibly no down payment) than with a direct loan. However, the total cost of a leased vessel is often higher than one purchased with a loan.

Farm Credit Service

The Farm Credit Service makes loans for commercial fishing and related purposes, including shoreside facilities and fishermen's homes. Aquatic loans are available to commercial fishermen who are owner/operators of commercial fishing businesses. Fishermen can borrow directly for current operating expenses or capital expenses like vessels, engines or gear. Most operating loans mature in a year, while loans for capital expenses like fishing vessels can be scheduled over a maximum of a 15-year repayment period. Repayment periods will vary

depending on the vessel's age and useful life. Farm Credit may allow a longer repayment schedule for an offshore vessel that was purchased for \$250,000 than for a smaller inshore vessel purchased for \$50,000. The repayment period may be longer for a new vessel than for an older one.

A Farm Credit Aquatic Loan can be obtained for amounts up to 75% of the cost of a new fishing vessel or of the appraised value of a used vessel. In some situations, real estate collateral may be required which can increase the amount borrowed up to 100% of the vessel value. Aquatic loans can be obtained for the purchase of older fishing vessels. However, those vessels older than ten years with an anticipated useful life of less than ten years, will have restrictions put on potential loans.

The interest rate on Farm Credit Aquatic Loans is variable. As it is a cooperative, when fishermen borrow through the Farm Credit system, they become members of a local production credit association and are required to receive ten percent of the loan in the form of P.C.A. stock. The borrower receives only 90% of the loan as cash thus increasing the effective interest rate. Stock will be automatically retired to pay off part of the loan as the borrower reduces the principal through installment payments.

Production Credit Association will also assess certain fees which cover loan and marine survey costs as well as legal costs associated with obtaining real estate and vessel mortgages.

Repayment schedules on Farm Credit Aquatic Loans are flexible enough to allow for seasonal income fluctuations commonly found in the fishing industry. This means that loan payments can be planned during those months that a fisherman is actively harvesting seafood (for example, 10 monthly payments from March to December with no payments during January and February could be arranged).

New regulations now allow Farm Credit to make loans for shoreside fishing facilities and fishermen's homes. To qualify for a shoreside facility loan, a fisherman must own a fishing vessel and meet specific requirements concerning percentage of his catch being landed at the facility being financed by Farm Credit. Home loans are also available to full-time fishermen who would meet requirements for boat loans. Loans for a home can be scheduled over a 30 year repayment period with a variable interest rate.

The flexible repayment schedule together with relatively low interest rates on vessel loans, make Farm Credit loans a competitive financial assistance source for the fishing industry.

National Marine Fisheries Service Programs

Commercial fishermen, party and charter boat captains can make use of two federal financial assistance programs when purchasing new or reconstructed vessels. A qualifying party and charter vessel is one that is documented by the Coast Guard to operate in both the fisheries trade and coastwise trade. Charter boats carrying six or fewer passengers will be required to show evidence of full time chartering activities.

The federal government is continually reviewing commercial fishery development and financial assistance programs which could reorganize federal fishery assistance programs.

Capital Construction Fund

Substantial tax savings may be realized through use of the Capital Construction Fund when purchasing a new vessel or reconstructing a used one. The Capital Construction Fund is a special investment program that enables owners of commercial fishing and charter boats to use tax-deferred income for the purchase of a new vessel or to reconstruct one presently owned. If eligible, a portion of fishing-income or charter-produced income (not to exceed 100 percent of fishing or chartering income for a given year) can be invested in an interest-bearing trust fund (that is, a savings account, stocks or bonds). Taxable income for that year is reduced by the deposited amount for federal income tax purposes.

The Capital Construction Fund program can be used to 1.) construct a new fishing vessel, 2.) reconstruct an existing vessel, or 3.) to pay the principal part of existing debt in a qualifying vessel.

Money deposited may be removed at any time with the consent of the National Marine Fisheries Service, if it is being used for the purpose of the Capital Construction Fund agreement. Money can be removed from the fund for purposes other than the Capital Construction Fund agreement, but it is required that back taxes and interest be paid on the amount withdrawn. Basically, the captain is free to determine the investment plan, length of time, amount to be saved, etc. The plan must be approved by representatives of the Secretary of Commerce.

Reconstruction is defined as major work that is at least 20 percent of the vessel's replacement value or \$100,000, whichever is the lesser

amount. There is no limit required for reconstruction work that improves a vessel's fuel efficiency such as installing a Kort nozzle, Ioran C, or other equipment that reduces running time and fuel costs.

Two sections of the 1976 Tax Reform Act provide even larger tax savings than were previously allowed when utilizing a Capital Construction Fund agreement. Previously, investment credit could not be applied to capital gain and ordinary income account sections of the Capital Construction Fund agreement. The Tax Reform act of 1976 allows the investment credit to be applied toward fifty percent of withdrawals from the Capital Construction Fund's capital gain and ordinary income accounts. This allows increased tax savings when accumulating capital for a qualifying fishing vessel under a Capital Construction Fund agreement. There is a difference of interpretation concerning the percentage of investment tax credit allowed on tax deferred funds withdrawn from a Capital Construction Fund. The National Marine Fisheries Service suggests taking 100% of the regular investment tax credit on tax-deferred funds withdrawn from a Capital Construction Fund account. The Internal Revenue Service, in the 1981 edition of the "Tax Guide for Commercial Fishermen," allows commercial fishermen to claim 50% of the regular credit on funds withdrawn from a Capital Construction Fund account and used for the purposes of the Capital Construction Fund agreement. It is suggested that fishermen contact both the regional N.M.F.S. and I.R.S. offices requesting clarification of this question when filing a tax return utilizing both a Capital Construction Fund agreement and the investment tax credit.

The second section relating to the Capital Construction Fund reduces the size of an eligible vessel owned by an individual. To have qualified as a participant in the Capital Construction Fund under the old law, an owner's vessel had to be documented (i.e. 5 net tons or larger). The 1976 Tax Reform Act does not affect the documentation size; however, it does lessen the eligibility limit for a vessel owner to qualify for a Capital Construction Fund from five to two net tons. As a result of this change in the net tonnage requirement, many commercial fishermen, party and charter boat captains now qualify to reduce their federal income tax while setting aside money for a new, or reconstructed fishing vessel through the Capital Construction Fund.

Fishing Obligation Guarantee Program

The Fishing Obligation Guarantee Program, also administered by the National Marine Fisheries Service, can be used for financing construction of new vessels, reconstruction of existing vessels, or for certain onshore fishing facilities. Reconstruction is defined as work costing at least 20% of the replacement value of the vessel or a minimum of \$40,000. Under this program, the National Marine Fisheries Service will typically guarantee a loan from a commercial bank for 70-75% of the cost of constructing the new vessel, or reconstructing a used one. This means that the borrower has to put 25-30% of the vessel cost down to obtain the guaranteed loan. Although regulations allow for guarantees on loans of up to 87½ percent of total vessel cost, this is not economically feasible today, so that most loan guarantees require greater than 12½ percent owner's equity in the vessel. This program is available for loans for charter and party boats, commercial fishing boats, and related onshore facilities.

The repayment period will vary for each loan according to the borrower's ability to repay and the vessel's useful economic life. The repayment period is up to ten years for reconstruction or fifteen years for building most new vessels. A twenty year repayment period is available in some situations where the loan amount is for a larger vessel. In this situation, a marine survey is required at the end of the tenth year and any necessary improvements on the vessel are required during the one year period following the survey. There is one major difference between the Capital Construction Fund and Fishing Obligation Guarantee programs: vessels must be documented and of five net tons or more to qualify for the guarantee program, while some vessels of two net tons may qualify for a Capital Construction Fund agreement. One benefit of this program is that the federal guarantee of a commercial bank loan may provide private financing that would not exist without the guarantee.

Starting in November, 1982 the Fishing Obligation Guarantee program can be used to obtain financing for onshore fisheries facilities like processing equipment, holding facilities and other shoreside facilities directly related to commercial fishing operations. One exemption is that it cannot be used for rolling stock (trucks or other vehicles). Fishermen can finance up to 87½ % of the cost of constructing or reconstructing shoreside fishing facilities for periods of up to 25 years.

Small Business Administration

The United States Small Business Administration (SBA) operates several loan programs which may prove useful to commercial fishing, charter and party boat businesses. These programs include: a direct loan program which is dependent upon federal funding, a SBA loan guarantee program, and a disaster loan program for economic injury and physical damage cases.

The direct loan program is wholly dependent on funds allocated by the Congress for small business loans. Loan applications are considered as funds become available under this program. Fishermen and charter boat operators compete with all other small business applicants for direct SBA loans. There are certain priority categories that target direct loans for the handicapped, minorities, veterans, and women. Recently many SBA direct loans have been used together with a SBA loan guarantee. If a fisherman needs to borrow \$100,000 for a used fishing vessel the SBA may offer a direct loan for \$50,000 and guarantee a bank loan for the remaining \$50,000.

The Small Business Administration also operates a program that will guarantee up to 90% of a loan, with a maximum amount of \$500,000 (i.e. SBA will guarantee the lesser of 90%, or \$500,000). The maximum interest rate a bank may currently charge on a guaranteed loan varies with the repayment period. The maximum interest rate on a SBA guaranteed loan of less than seven years is the prime rate plus 2¼%, while a loan of seven years or more, would be charged at a maximum of prime plus 2¼%. A guarantee fee of 1% of the guaranteed loan amount is charged. The SBA loan guarantee, like the National Marine Fisheries Service fishing vessel loan obligation guarantee programs, may open up private lending sources that would not exist on a direct loan basis.

The disaster loan program is probably the most publicized SBA financial assistance program. When a natural disaster (hurricanes, blizzards, floods, etc.) strikes an area, the state and federal governments may declare the area a "disaster area." This allows federal disaster aid to become available to residents of the affected region. Disaster loans at low interest rates and relatively long repayment periods became available to owners of homes and businesses hurt by the 1982 flood along the New England coast. Disaster loans can be obtained for income lost due to the disaster (economic injury) and physical damage to tangible property including buildings, cars and trucks, machinery and land.

The Small Business Administration's loan programs have generally gone toward financing of onshore fisheries-related facilities like packing and processing plants rather than construction of new fishing boats. However, SBA has provided some direct loans for small new and used fishing boats and loan guarantees for used fishing boats, so it may be worthwhile for prospective borrowers to inquire at the district SBA office regarding the availability of loan funds. The Small Business Administration cannot duplicate the efforts of the National Marine Fisheries Service which administers a Loan Guarantee Program (see page 15) for new construction or reconstruction of fishing vessels.

Farmers Home Administration

The United States Farmers Home Administration (FmHA) offers financial assistance in rural areas through its Business and Industry Loan Program. It is designed to complement other federal programs offered through the National Marine Fisheries Service and Small Business Administration. This program guarantees 90% of a loan starting at \$500,000 or more. FmHA's guarantee program can be used for larger projects than can be serviced under the SBA loan guarantee. However, under certain conditions (if SBA rejects a loan guarantee application) FmHA may guarantee a loan amount under \$500,000.

Interest charged is calculated at the prime interest rate plus two percent. Business and Industry Loan Program Guarantees have been used to obtain financing for shoreside fishing facilities and may be used for fishing vessels and onboard processing equipment.

FmHA also offers loans and grants to municipalities for fisheries-related programs. The town of Stonington, Connecticut has utilized FmHA programs to finance part of a dock rehabilitation project which included enlarging the ice facility.

Connecticut Department of Economic Development

The State of Connecticut, through the Department of Economic Development, offers a variety of financial programs that could be used for shoreside fisheries facilities, on-board processing machinery, as well as fishing vessels. While no grant programs are currently available, the State of Connecticut has in the past provided grants for the development of new products including seafood products. It may

be possible to use a tax-exempt loan program to finance shoreside facilities like docks, cold storage and freezing operations, ice production and crushing machinery and on-board equipment for filleting and processing operations.

Connecticut financial programs are also available for the creation of new jobs and to reduce local property taxes on new manufacturing facilities. Job and tax incentive programs are available for industries moving to or expanding their operations in cities and towns determined to be either "economically distressed areas" or "areas of high unemployment."

Fishing vessels and processing facilities can be financed through industrial revenue bonds. These self-sustaining bonds are administered by the Connecticut Development Authority, a Division of the Economic Development Department. The bond program provides tax exempt financing that can reduce the interest rates charged on loans. The state-sponsored tax exempt bonds have recently been used to finance fisheries projects such as new and expanded facilities for a marine supplier and a seafood processing firm.

The Economic Development Department also recognizes that commercial fishing operations often draw tourists to Connecticut's shoreline towns. This can result in added demand for tourism-related businesses, creating increased jobs and income within the state. The Department encourages shoreline projects that combines dockside facilities for commercial fishing boats with tourist-related facilities designed to increase the demand for restaurants, lodging and other services.

Programs offered through the Department will vary over time in accordance with changing state and federal policies regarding economic development.

National Consumer Cooperative Bank

Financial and technical assistance is available to fisheries cooperatives through the National Consumer Cooperative Bank (NCCB). The NCCB is a private lending institution designed to provide credit to cooperatively owned and controlled businesses. Fishing cooperatives can receive financial and technical assistance by meeting qualifications required of all co-ops served by the bank.

Commercial loans available to fishing cooperatives can be used to finance a wide variety of co-op needs including: working capital,

equipment and other long-term, fixed-asset financing, real estate construction and permanent financing and venture capital for expansions. NCCB credit programs can be used for shoreside fishing facilities that are currently being considered along the Connecticut and other New England coasts.

Technical assistance can be an important part of a major reconstruction or expansion project. The bank provides technical assistance covering marketing, processing, financial planning and cooperative management. Provided on a fee basis, technical assistance is often part of an overall loan package or sometimes required before a loan commitment can be made by the NCCB.

The National Consumer Cooperative Banks' experience with new cooperatives and the combination of financial and technical assistance make the NCCB an important credit source to be considered by fishing cooperatives.

Bank for Cooperatives — Farm Credit Service

New England fisheries cooperatives can borrow short and long term capital and obtain financial counseling from the Springfield Bank for Cooperatives, a part of Farm Credit Service. Loans can be used to provide new or to improve existing processing, marketing, supply or other services utilized by co-op members. Funds can also be used for operating capital or physical structures.

In addition to its credit programs, the bank for cooperatives also provides financial counseling and educational programs for co-op officers and employers.

Credit Unions

A credit union is a mutually-owned, cooperative credit association that allows members to pool their savings that often results in lower interest rates on loans than can usually be obtained elsewhere. Many fishermen and charter and party boat captains may already belong to credit unions organized through trade unions, community associations, or they work in a factory or organization that has an employee credit union. If they are members of an existing credit union, it is relatively easy to find out whether their loan programs can be used to finance fishing related vessels or gear.

Fishermen's credit unions, although less common than other forms of credit unions, have been organized in Maine and British Columbia. The Maine Association of Cooperatives (M.A.C.) Credit Union, started in 1973, has made hundreds of loans to Maine fishermen for purchasing traps, boats, engines, pick-up trucks, cars and other related items. The Credit Union was formed and is owned and administered by fishermen to serve their financial needs. M.A.C. Credit Union members can take advantage of low-cost disability insurance to cover any loan received from the Credit Union. This guarantees monthly payments will be made by the insurance company if the borrower becomes physically disabled. All M.A.C. Credit Union loans have free life insurance which automatically pays off the loan if the borrower should die.

Fishery Cooperatives

Another possible source of financing for commercial fishermen is a local cooperative. Some fishery cooperatives provide financing for expendable supplies purchased through the cooperatives' ships store, in addition to capital financing for boats, engines and gear. Lending policies vary among cooperatives according to their purposes for organizing, philosophy and the financial stability of the cooperative. Sometimes the cooperative may not provide direct loans to members; however, financing may be obtained through the cooperation of local lending institutions and the fishery cooperative.

Summary

The availability of capital and the conditions for obtaining credit and financial assistance have changed dramatically during the past few years. Current trends point toward a continuation of historically high interest rates, variable rate loans and increased equity requirements for credit obtained from the private sector (including commercial banks, savings and loan associations, and savings banks).

Public programs available through federal and state government agencies are being affected by reductions in funding. The elimination of some programs and even entire agencies is occurring which will af-

fect future development programs involving shoreside facilities and fishing vessels

It is ironic that economic development programs are being sharply curtailed at the very time when the national economy is severely depressed and the region's fishing industry is moving toward greater utilization of renewable fishery resources.

It is important that federal and state fisheries assistance programs develop in a comprehensive manner to meet specific industry needs.

1. Assistance programs should meet the needs of small-scale commercial fishermen, as well as the larger fishing firms. Many fishermen feel that current programs are designed to help fishermen with large off-shore vessels or those who are part of large corporations.

2. Interest rates should be reasonable. Low interest, long-term government loans will assist fishermen who have considerable experience in the industry, but who are unable to obtain private financing.

3. Repayment schedules should be flexible to allow for seasonal income fluctuations and poor years. Agricultural lenders, including the Farm Credit Banks, allow farmers to schedule payments according to seasonal harvest; this should be written into new fishery financing programs. Partial loan cancellation clauses could be written into loan agreements to encourage harvesting of underutilized species.

Regardless which combination of programs are used to meet the financial assistance needs of the United States fishing industry, there should be a continuous effort to evaluate the effectiveness of the program. Only direct industry participation in the development, administration and evaluation of fishery assistance and development programs can assure that intended benefits to commercial fishermen will be realized.

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