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PROFIT

PLANNING RECREATION OPPORTUNITIES FOR INCOME AND TOURISM

Financial Assistance in Private Recreation



Special Report 301

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Foreword:

The continuing high demand for outdoor recreation opportunities by an increasingly urbanized and affluent population, along with the changing pattern of land use and public policy in agriculture, encourages the development of private recreation enterprises by many landowners throughout the state of Oregon.

This publication is designated largely for the landowner, farmer, and non-farmer, who is not trained or experienced in operating a recreation business. The large-scale recreation operator with all the knowledge and skills normally associated with the high investment operation generally has information available as to sources of financing. It has been our objective to explore the sources of financing available for the individual landowner and to report to him our findings. It is the special hope of the authors that this work will encourage potential recreation operators to discuss this aspect of business management with various lending institutions.

This publication is by no means meant to be all inclusive, but is meant to be a sample to assist you. We have approached this problem from the vantage point of a landowner with a good idea who is seeking financial assistance to change the idea to action.

May this publication serve you well.

Robert L. Wilder
State Extension Specialist
Outdoor Recreation

Financial Assistance in Private Recreation

Sources of financial assistance to a qualified applicant are found in many private, commercial and government sources. However, since the idea of landowners engaging in recreational enterprises as a source of income is relatively new, applicants will have to do a thorough job of documenting the economic feasibility of the proposed enterprise. An example of some of the questions that will be asked are as follows:

Do you have an itemization of your costs for acquisition of land and development?

Do you have a budget proposal for operation and maintenance of the facility once it is completed?

What are your sources of capital? Of revenue?

Have you had any experience in this type of business?

Have you considered the following items carefully, if applicable?

- (a) Advertising
- (b) Approval of health and sanitation authorities
- (c) Compliance with zoning regulations
- (d) Liability insurance
- (e) Safety precautions
- (f) Operational rules and regulations

Is your loan request adequate to carry out the proposed development and/or program?

Information should be compiled early and fully documented before you proceed too far. The publication, "Inventory of Potential Recreation Assets" may be of help to you in carefully evaluating important factors affecting your proposed enterprise. Other "PROFIT" publications may also be helpful.

A few people have founded successful recreation businesses on a shoestring, but more have failed. In this field, it is necessary to have made good arrangements for adequate financing. This is so for two reasons:

1. Most types of recreation have to build their market. Customers normally are not waiting at the gate for you to finish your facility.

2. Ordinarily commercial credit institutions are not familiar with the economic facts of recreation; therefore, they are hesitant to commit the money of their depositors or stock holders in an industry they know little about.

These local lenders, either individuals or bankers, often play a large part in financing recreation enterprises. They generally look for three basic characteristics of an applicant;

Good character

A willingness to work hard

Unencumbered assets

However, of equal importance will be the technical skills, potential business ability, and the prospect for an income adequate to permit repayment of the debt after provision for living expenses have been made. There is no gain to the lender or borrower in granting credit or in expanding the capital resources of an individual or farmer who cannot use it to produce a reasonable return. The private sources of credit which may be available in various communities to various individuals or land owners were discussed at length in the following survey. Consideration should be given to exploring:

- Investment clubs
- Savings and loans associations
- Credit unions
- Paternal organizations
- Pension funds
- Labor unions
- Insurance agencies
- Production credit associations (PCA's)
- Local Industrial Development Corporations
- Small business investment corporations
- Small Business Administration (SBA)
- Area Redevelopment Administration (ARA)
- Farmers Home Administration (FHA)
- Agricultural Stabilization and Conservation Service (ASCS)
- Federal land grant associations

The points are simple. First, that loans are available from a number of different sources provided the enterprise is approached in a business-like manner. This requires unencumbered assets, good management, experienced personnel, imagination, good character and a willingness to work hard.

The following report was conducted for the Cooperative Extension Service at Oregon State University by Mr. Ken Durell. This project was a field work experience, through the Department of Agricultural Economics, which contributed not only to Mr. Durell's education, but to those throughout the state of Oregon, desiring information on Financial Assistance in Private Recreation.

FINANCING RECREATION

In the past, banks have been the primary source of operating credit used to finance businesses. Insurance companies, government agencies and savings and loan associations have contributed large sums to businesses too, particularly in the form of long-term mortgages.

Recreation, although not a particularly new industry, has been experiencing tremendous growth in recent years. Oregon has many potential resources that could successfully be developed into profitable recreation facilities. Money to finance the development and operation of these facilities is often difficult to borrow; lenders have been reluctant to loan for recreation businesses and often the term of the loans have been too short to be of any real benefit. Community groups as well as individuals have been demanding more loans, and sometimes large loans, to finance community recreation facilities.

Not all lenders have been reluctant to loan; some have been eager to increase the number of loans they have to recreation businesses. Of course, all lenders take reasonable precautions to make good loans. But of the many firms and agencies making loans, many people do not know where they can borrow money for recreation. Many times needed technical assistance cannot be found.

This survey is concerned with loan policies, for recreation facilities, of a number of lenders throughout Oregon, to aid people interested in borrowing money for recreation businesses.

This survey is not necessarily an accurate sample of lenders. Considerably more research may be necessary, but some conclusions may be drawn.

The method used to obtain the sample involved taking addresses of lenders from the "yellow pages" of telephone directories. An attempt was made to sample lending agencies in each general area of the state. Towns in each area for which addresses were obtained included: Willamette Valley; Portland, Milwaukie, Gresham, Lake Oswego, Oregon City, Canby, Woodburn, Dallas, Salem, Albany, Corvallis and Eugene; Coastal area; Tillamook, Newport, Florence; Southern Oregon; Roseburg, Medford, Grants Pass and Rogue River; South Central Oregon; Klamath Falls; Central Oregon; Bend and Redmond; Eastern Oregon; Joseph, Elgin, Hermiston, Heppner, Milton-Freewater, John Day and Baker.

In each instance, all of the banks and savings and loan associations listed in the yellow pages were used. Care was taken not to duplicate any of the addresses. Of the insurance companies, only life insurance companies were included. Generally, only life companies make loans to individuals and most of the loans made by insurance companies have been long-term to buy or improve real estate. Because there are a vast number of life insurance companies represented in Oregon, only those having a head office or regional office in Oregon were included. Nearly all of these were located in the Portland area. A number of the questionnaires were referred to the head offices of the companies. Several of the other firms and agencies had head offices located in the Portland area, but which serve the entire state; hence, more lenders in Portland were included in the sample, proportionately, than in other areas of the state.

Nearly all information in the survey was obtained by means of questionnaire. Personal contact was made with three government agencies. The programs of these three agencies are rather unique and are not easily reflected in a questionnaire. Various literature and correspondence from the lenders included in the sample supplemented the information obtained on the questionnaires. The questions were worded to develop the general loan policies regarding recreation, and what lenders feel are strong and weak aspects of recreation loans. The following tables indicate the general response to the survey:

Analysis of Replies

	Sent	Number of Questionnaires Returned	% Returned
Life Insurance Co.	22	9	40.8%
Savings and Loan Assn.	18	6	33.3%
Commercial Banks	34	10	29.4%
Government Agencies	4	4	100.0%
Other ¹	<u>3</u>	<u>2</u>	<u>66.6%</u>
TOTAL	81	31	38.3%

Analysis of Credit Availability

	Loans Available	Number Having No Loans Available	%Having Loans Available
Life Insurance Co.	2	7	22.4%
Savings & Loan Assn.	1	5	16.6%
Commercial Banks	9	1	90.9%
Government Agencies	3	1	75.0%
Other	<u>2</u>	<u>0</u>	<u>100.0%</u>
TOTAL	17	14	55.0%

¹. This category included one Mortgage Bank and two agricultural cooperative banks, Production Credit Association and Federal Land Bank.

Because the sample is small, the percentages have limited significance.

Of the lenders having loans available, three of the commercial banks and three government agencies have technical assistance available.

Long-term loans are primarily for the purchase or improvement of real estate, and are normally defined as being over ten years. Intermediate term loans, usually one to ten years, are used to purchase equipment or other working assets. These assets have a useful life directly related to the length of the loan. Short-term loans, one year or less are used to finance the normal day to day operations, or working capital of a business. In all instances, the length of a loan is related to the useful life of what is being financed. Some lenders make loans of only one characteristic length; others may make loans of any of the three maturities. Many recreation businesses may need a combination of the three lengths of loans. The following table indicates the length of loans each lender makes:

Term to Maturity of Loans

	Long-term	Intermediate-term	Short-term
Life Insurance Co.	X		
Savings and Loan Assn.	X		
Commercial Banks	X	X	X
Farmers' Home Administration	X	X	X
Small Business Administration	X ¹	X	X
Production Credit Association		X	X

¹ Long-term loans are made only when new construction is involved.

Commercial Lenders

Private lenders primarily include life insurance companies, savings and loan associations and commercial banks both banking corporations and cooperatives.

Life insurance companies and savings and loan associations contribute significant amounts of money for the purchase and improvement of real estate. However, from the results of this survey, they do not play a large role in financing recreational enterprises. They do have large sums of money available to loan and some companies are interested in recreation loans. Both insurance companies and savings and loan associations, by the nature of their business, want to invest in low risk ventures. One insurance company and one savings and loan association indicated they were prohibited by law to make loans to recreation enterprises.

Life Insurance Companies

The two insurance companies that indicated they will finance recreation will loan only a real estate mortgage. Chattels may also be taken as additional security. Loans are made only on a first mortgage. These security requirements are comparable with other types of loans they make. They prefer larger loans to small ones, \$50,000 to \$250,000, but they may be larger or smaller. The loans may be for a period of 10 to 20 years. The interest rate varies accordingly with the market rate, but currently is 8% to 10%.

Any enterprise will be considered and may be financed if it appears economically sound. Borrowers of course, must be financially strong and responsible. Loan applications are made through correspondent agents of the insurance company. Names and addresses of correspondents may be obtained by writing to the insurance company's head office.

Savings and Loan Associations

Savings and loan associations follow similar loan policies as insurance companies. They make primarily long term loans, over 10 years to maturity, secured by real estate mortgages. The maximum length of these loans is usually not over 25 years. Interest rates vary with the money market and the prime rate in Oregon; 7 3/4% is the current rate.

To qualify for a loan, an enterprise must be well planned, feasible, and have a proven market. Personal qualifications are the same as for other loans made by savings and loan associations. Application for a loan is normally made at a savings and loan office.

Banking Corporations

Commercial banks have been the principle source of credit for many businesses for many, many years. Most banks have also indicated an interest in financing recreation enterprises.

Several of them are particularly enthusiastic about recreation. Most banks have no restriction on loan funds available for recreation facilities.

Banks normally loan on a short or intermediate term basis. Loans secured by chattels normally mature in ten years. Loans secured by real estate, seldom exceed fifteen years. Interest rates vary from time to time, but are always correlated with the money market. Currently, the interest rate range is from 7 1/2% to 9%.

Few banks provide or offer technical assistance, although some do offer assistance in the general area of financial planning. Loan funds, in most cases can be used to pay for technical assistance like engineering, etc.

Few, if any restrictions are placed on the types of enterprises that will be financed. The qualification of an enterprise for a loan follows the same general policies of risk, income projection, repayment ability, etc. as are used for any other business loan.

Personal qualifications are based on credit, character, capacity, etc. There normally are no special qualifications, either in the enterprise financed or personal qualifications, other than those ordinarily used in making any other type of business loan.

Applications can be made by a personal visit to any one of the head offices or branch offices of the banks. Few, if any, banks require setting up an appointment but it is a good practice to assure talking to the right man. The first visit will be most productive if a financial statement and some sound plans of the proposed recreation enterprise are available.

The mortgage bank participating in the survey will make intermediate term loans, three to ten years, although loans to recreation enterprises are a minor part of their business. Loans for recreation enterprises are usually no larger than \$20,000. These are secured by real estate mortgages. The interest rate is currently 9 1/2% although it may vary from time to time. Also, a charge is made for the costs of making a real estate loan. A proven enterprise and market is preferred. Loan applications are made at the mortgage bank offices.

Production Credit Associations

Production Credit Associations (PCA's) are borrower owned cooperative lending banks. They loan, basically for agricultural production. Some types of recreational facilities can be financed as they become a part of the overall agricultural operation. There is no limitation on funds available. No loans are made smaller than \$100 and there is no upper limit.

In practice, PCA loans are made for terms of one to five years although by statute the term may be up to seven years. Interest rates vary with the money market, but are currently 6 3/4%. Loans are normally secured by chattels, but depending on the circumstances, a second real estate mortgage may be required. Security required for a recreation facility loan is the same as for any other PCA loan. No technical assistance is directly provided.

Enterprises qualifying for PCA loans must be something that can be combined with a farming or ranching operation. The enterprise, of course, must project enough income to repay the debt and carry the operation. The individual must be a farmer or rancher with sufficient repayment ability. No loans are available for community groups.

Application can be made at PCA offices which are located in most areas of the state. Personnel at offices will assist in working out applications and budgets.

Government Agencies

Government agencies making loans for recreation include Farmers Home Administration and Small Business Administration. Other financial and technical assistance include the Agriculture Stabilization and Conservation Service and Technical Action Panels. The Veteran's Administration has loans available for the purchase of a home or farm, to qualified people. But they have no loan funds available for recreation facilities.

Farmers Home Administration

Farmers Home Administration (FHA) has loans and technical assistance available for a wide variety of enterprises. They have developed a rather extensive program in this area, and it has recently been expanded. Now, a loan can be made to reorganize a farm, completely changing from agriculture to recreation. Previously, loans could only

be made when a recreation enterprise supplemented a farming enterprise.

The term to maturity of FHA loans varies with the purpose of the loan funds, but the maximum term is 40 years. Loans can be made for nearly any purpose, i.e., to purchase or improve real estate, to purchase equipment, etc., or for working capital. Loan repayment schedules may be made flexible, adapting to the development of an enterprise. Loans to cooperatives or community groups are not larger than \$4 million. The maximum loan to an individual is \$60,000. The amount of loan funds available is regulated by Congress, but there has been no shortage of funds to date. The interest rate on these loans does not exceed 5%. All loans must be adequately secured. The security required varies with the purpose and the length of the loans. Loans over seven years usually will have a real estate mortgage for security.

Enterprises that can be financed must be outdoor oriented. The only indoor recreation that will qualify is a covered swimming pool. Nearly any outdoor recreation will qualify. In order to qualify, an applicant must be unable to get the credit he needs at rates and terms he can reasonably be expected to meet from other sources. It is desirable that the borrower have experience in the recreation business. Applicants must be responsible and of good character to qualify. Borrowers must be a rural resident, i.e., live in a town or community of less than 5500 population, or in open country. The FHA county committee certifies eligibility.

Community groups must be unable to get credit from other sources at rates and terms they can meet. The group must be under local

control and must primarily serve farmers or rural residents, either by direct use or by economic benefit. Rural residents include people living in towns of 550 population or less. This limits loans to communities of 5500 people or less. A special county committee must certify eligibility. Technical assistance is available to all borrowers and applicants. This includes assistance in planning, budgeting and cost estimating. If a loan is made, FHA personnel will make periodic inspections to see that construction meets approved standards and that funds are used as agreed upon. Borrowers and applicants will also be referred to other USDA agencies offering technical assistance, if it is needed, e.g., the Soil Conservation Service provides soil survey data and engineering assistance. Applications can be made through the county offices. Some offices serve two or more counties. There are 18 local offices in Oregon. The application forms are provided at the county offices.

Small Business Administration

The Small Business Administration (SBA) has authority available to make loans to recreation businesses. Loan funds come from three sources; SBA can insure a bank loan, the agency may participate with the bank, i.e., the bank loans a portion of the money and SBA loans a portion, or SBA can make direct loans. The amount of loan authority of SBA is regulated by Congress. The maximum size loan available is \$350,000.

Maturity of SBA loans vary. Working capital loans are usually limited to six years; other loans are limited to ten years, except when new construction is involved, the maturity is limited to 15 years. Repayment is flexible; first payments may be small and latter payments larger as the income increases, or payments may vary as income varies.

throughout the year. The interest rate charged is the same or nearly the same as the bank rate. Security taken must be adequate to fully secure the loan, the same as for other SBA loans.

Loans to finance recreational or amusement facilities must contribute to the health or general well-being of the public. Any enterprise qualifying for an SBA loan must be open to the public and be of a profit making nature. Loans cannot, therefore, be made to community groups unless the group forms a stock type corporation and the business is on a profit basis. Loans to cooperatives also do not qualify. One of the basic purposes of SBA loans is to create new employment. Loan applicants should have management capabilities, and experience in the same or similar type of business is preferred. Inexperienced management, as well as limited equity capital and poor location were listed as major problems encountered in making recreation loans.

All types of management consultants are available upon request. This primarily through the Service Corps of Retired Executives (SCORE). Also, some specific types of assistance are available from SBA employees.

Application can be made by contacting the Regional SBA office in Portland. Representatives have office days in various towns throughout the state on a one-day-a-month basis. Location and dates of these office days can be acquired by calling or writing the state office. A personal financial statement and a projection of loan funds use should be brought on the first visit. Again, advanced planning is most helpful to all concerned.

Agricultural Stabilization and Conservation Service

The Agricultural Stabilization and Conservation Service (ASCS) has assistance available through the Agriculture Conservation Programs (ACP) it administers. This assistance is indirectly related to

recreation. Opposed to the previously discussed loans, this assistance is in the form of a cost-sharing grant. ACP cost-sharing is for conservation practices on farms. Either a farm owner or operator may qualify, but he must be unable to do the conservation practices without ASCS assistance. The land must be kept in commercial agriculture after the conservation practice is completed. Practices that qualify for cost-sharing are established by state and county ASCS committees. Cost-sharing is usually on a 50-50 basis. The maximum payment to an individual is usually \$1500 per year. On larger projects that affect several farms, the farmers may combine and through a pooling agreement, complete the project cooperative. Under such an agreement, the federal cost-sharing will not exceed \$10,000. Obviously these types of projects are only indirectly related to recreation. For example, a pond or irrigation reservoir may be constructed which could be used for recreation purposes even though it was not constructed for recreation. Some conservation practices available, in some cases, are for the improvement of wild life habitat, which may be more directly related to recreation. Seeding permanent pastures also qualifies in many counties for federal cost-sharing. Horses used in a riding stable are considered as agricultural animals and hence could be grazed on lands seeded to pasture under ACP programs.

Information on programs available locally is available from the county ASCS office. Application for any ACP practice must be made through the county office before any work is started. It will then be presented to the county committee for approval.

Three other programs have been of minor importance in the past.

Two of these, the Cropland Adjustment Program and the Crop Conversion Program are currently not operative. They provided for land retirement from agriculture which included recreation or hunting as an alternate use. These were either five or ten year retirement contracts. The Wheat and Feed Grains Program which is in operation again this year (1969) provides for diverting a part of the farm land for one year. A mandatory conversion for only one year would not entice much development of recreation. Hence, these last three programs really are not of any benefit to developing recreation at present.

Technical Action Panels (USDA Councils)

Technical Action Panels (TAP's or USDA Councils) are a relatively new source of assistance available to all people and communities in rural areas. They are not a direct source of financial or technical assistance, though. They are panels of USDA agencies in each county. FHA, SCS, ASCS, the Extension Service and the Forest Service are all represented. TAP's (USDA Councils) are the outreach function of government programs. Anyone desiring information or assistance on any government program can, by contacting one of these agencies, get the desired help. Disseminating information of all the programs available to rural America is a very difficult task. This is only one of the functions of TAP's (USDA Councils). They also work closely with county planning commissions, etc. and are primarily involved in the progress, development and general betterment of the county. This is particularly significant in helping local residents. This should not be over-looked as a source of assistance by anyone considering a recreational facility. All TAP (USDA Councils) assistance is free to everyone.

Summary

When applying for a loan, most lenders can do little about

evaluating the possibilities of making a loan without a financial statement of the applicant. Also an estimated budget, and perhaps some plans of the proposed business are essential. These do not have to be elaborately prepared, but must reflect the circumstances accurately. These things should be presented at the first visit. Without them, little can be accomplished.

Most respondents indicated they have had fair to good experience with loans made for recreation facilities. Many indicated they have had no delinquencies in recreation loans. This, however, may be attributed to a careful screening of applicants. Very few indicated they have had any problems with loan repayment once the applicant had qualified.

Most lenders feel that the lack of equity capital of the borrower is the most frequent problem encountered in recreational loans. This is most often coupled with over-optimistic income projections. Loans must be repaid; when a facility is first established, business is often less than expected. A loan does not always solve the problems but may just add to them.

Inexperienced management also ranked high as a problem often encountered. Some people are more suited to operate recreation facilities than others. Experience in recreation and working with people is often invaluable to the success of a facility.

It can be concluded that loans are available from a number of different sources, whether long, intermediate or short-term. Nearly every phase of a recreation facility can be financed from the initial purchase of assets to the operations of the facility. Fewer sources of credit are available to community groups. Technical assistance, primarily financial planning and budgeting is available from some lenders.

Applications for loans to recreation businesses may be screened more closely by some lenders in an effort to finance the right people in the right business, and reduce the risk of default in a loan.

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