



THE FISHERMAN AS BORROWER

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Banks lend money. Fishermen often find it necessary to borrow money. Yet there seems to be a frequent failure of coordination and communication between the two groups. This article will attempt to bridge this "communication gap" by providing fishermen with knowledge, from a survey of some lending institutions, of what it is that a loan officer looks for in evaluating a fisherman's loan proposal. Of course, this is not to say that even armed with this knowledge a fisherman will be able to transform an economically unsound proposal into a sound one. It is clear, however, that if he prepares adequately before his initial contact with a lending institution, then the fisherman has greatly improved his chances of obtaining a loan. Getting a loan is somewhat of a sales problem and the product to be sold is the fisherman's ability to repay the money at reasonable terms. Therefore, this bulletin may be thought of as a "sales tool" for the would-be borrower. It offers tips on preparing a proposal to increase the chances of acceptance. It points out some pitfalls a fisherman might try to avoid in negotiating a loan. It attempts to solve one of the fishing industry's toughest problems—financing.

SOURCES OF FINANCING

There are of course various sources of financing. The primary ones are commercial banks, the federal government, suppliers, canneries, and private individuals. Which one of these sources a person chooses will be a matter of individual decision and his own unique circumstances. A prospective borrower should take special precautions in dealing with the non-bank, non-government lending sources because of their unregulated nature. Legal advice should be obtained before signing any of the notes and papers these (or any) sources offer because the terms may require explanation of their legal effect—for example, the effect of default in repayment should be made clear. Another factor to consider in choosing a lending source is the value of services to be obtained along with the loan itself. Banks and the government both offer valuable management advice, and establishing a good working relationship with a bank can mean a great deal to the successful fisherman-business.

THE LOAN INTERVIEW



The following hypothetical loan interview is designed to illustrate basic questions a loan officer may ask. From it, the fisherman can anticipate what information he should have available for inspection by the

lender and what areas of his business he should review before his interview. The information following each question has been obtained mostly from interviews and surveys of banking officers, but will be applicable to alternate credit sources in most cases. The interview has been structured around a loan for a new boat, but most of the information will be necessary for other types of loans, such as for new gear, or for modernization. This set of questions should not be regarded as comprehensive, covering every detail that might arise because, as stated earlier, there are unique aspects in every loan. They should, however, at least alert the prospective borrower to the basic points his lender will cover.

Q: "How long have you been in the fishing business?"

This question reflects the lender's two foremost concerns: the fisherman's character, and the fisherman's experience. Character is a somewhat difficult thing to determine, but will usually be indicated by the borrower's experience in dealings with suppliers, canneries, and fellow fishermen. Therefore, a short list of **references** should be compiled so that the loan officer can investigate the applicant's background and satisfy himself as to his character. Experience is not as difficult to prove as character, and a simple resumé, or **business experience summary**, should suffice to show actual fishing experience. The recommended list of references can be incorporated into this resumé for a neat package of information to be used by the loan officer for reference after the initial interview.

Q: "Has your past experience been profitable?"

Once character and general experience have been satisfactorily indicated the loan applicant will probably be asked for more detailed financial information, about both himself and his business. This is an area where prior preparation is very important. A simple financial **statement** (also called a net worth statement) should first be prepared, including all assets, whether "paid for" or not, and all liabilities, regardless of whether they are long-term debts or short term. Very small accounts can be lumped together, but it is important to be as accurate as possible since there are severe penalties for obtaining credit by false statements. The assets listed do not necessarily have to be listed at their cost if that is unrealistically low, though their cost and fair market value might both be listed in the interest of accuracy. This financial statement should be carefully prepared and neatly typed so that it will convey a professional impression. For an illustration of a simple financial statement see page 4.

As a supplement to the financial statement one should also prepare a fairly detailed **profit and loss summary**—that is, the borrower's past record of business success (or failure). This can be done through the use of production records and income tax returns and should indicate the amount of cash generated by the borrower during each of the previous several years.

Once these statements have been prepared it should take only a short while longer to prepare a **profit and loss forecast** showing estimated costs and revenues for the next few years. Of course no fisherman can say how much fish he'll catch next season, or any season for that matter, but some rough estimates can be made based on the averages of the past and by taking into account the increased efficiency of the new vessel and more modern equipment. The figures arrived at on the projected-income statement can then be compared with the profit and loss summary and should be able to justify the amount asked for in the loan proposal.

Q: "How much money would you need to buy the new boat?"

The amount of money a bank will lend as a percentage of the total cost of the boat depends on many variables, and no set figure can be stated as being the correct one. A recent survey shows that bank boat-loan terms ranged from 50 to 100 percent (the higher figure being authorized only during the construction period, then falling to 80 percent). The type of boat, the size of the loan itself (the higher the boat cost, the smaller the percentage of equity usually required), the amount of a borrower's other assets, all enter into this decision. One thing for the borrower to remember in this area is not to commit such an excessive amount of cash to a down payment that no working capital is available for supplies, maintenance, and other current needs. All this indicates that the loan applicant should prepare and submit, in addition to the economic data already mentioned, a detailed boat description. The description should emphasize not only the boat's physical characteristics, but its economic potential as well.

Q: "How long do you need to repay the loan?"

This question can best be answered by reference to the projected income statement which should give an indication of how much cash flow will be available in a normal year to amortize the loan principal and make interest payments. Keep in mind that the last thing a bank or other lending institution wants to do in connection with a fishing vessel loan is foreclose on the vessel, so a lender will be quite careful when determining whether the estimated income from a vessel will be sufficient to provide both normal operating costs and repayments plus interest.

There are no standard terms of repayment; these vary greatly from bank to bank and from industry to industry. Generally the larger boats, such as tuna seiners, have longer terms than the much smaller boats in other fisheries. Whatever the fishery, the terms should be long enough to keep the annual payments manageable. A reserve for slack seasons may be suggested by some banks, and the payments usually will be required at the peak of the season so as to coincide with the time of highest cash position. Some banks will approve a repayment formula based in part on a stated percentage of the borrower's net profits.

Interest rates also appear to vary from bank to bank, but apparently run at least two or more points ahead of the prime rate. If the fisherman has a fairly strong bargaining position (where, for example, his down payment is large) and the general money market is not too tight, negotiation can be quite profitable for the borrower. He may be able to get as much as ½ to 1 percent reduction if his proposal is really sound.

Q: "Will you be willing to provide other collateral besides the boat?"

Banks usually require the personal guarantee of the borrower in addition to a First Preferred Marine Mortgage on the vessel itself. If the fisherman has an unusually large equity so that the risk to the bank is not high in relation to the value of the vessel there may be exceptions made to this general rule. Also, if the fisherman, in negotiating with the bank, wants to specifically exempt some assets he can bargain for this right; however, he should do this with the help of his attorney to



be sure the loan terms do indeed represent the fisherman's understanding with the bank. It is suggested that the final agreement, even if no assets are specifically exempted, be reviewed by the borrower's attorney and the ramifications explained by him. The cost of having this done should not be high and might point up expensive misunderstandings before it's too late to do anything about them.

Q: "How much insurance will you be carrying on the vessel? What about protection and indemnity insurance to cover personal injury and property damage?"

Insurance protection is an essential term of any loan agreement. All banks will require at least enough hull and machinery coverage to protect their loan balance. In addition to this a bank will require personal injury and property damage insurance to prevent an injured party's lien from jeopardizing the bank's equity in the vessel. The amount of "P&I" required will vary, but seems to be on the increase. One large bank for example indicated it will in the future require not less than \$250,000 per person, \$500,000 per accident, and \$250,000

property damage to be carried on each of its borrowers' vessels, because of the increase in damage awards recently. In light of these requirements, insurance premiums should be considered as part of the cost of any loan. The insurance premiums must also be considered in making out the projected cash flow forecast (income statements). Therefore, the applicant should submit to the bank any insurance information on the boat.

SUMMARY

In summary, a checklist is offered so a loan applicant may get his facts and projections in order before going to the bank. As emphasized earlier, these should be neatly typed and put together in some sort of folder. The whole proposal will then be an impressive business-like "package" rather than an incomplete, confusing jumble of papers.

- () **Resumé containing references, business-experience summary.**
- () **Financial statement—present assets and liabilities.**
- () **Profit and loss summary—income tax returns, production records, etc.**
- () **Profit and loss forecast—comparison of costs on new boat compared with old boat.**
- () **Detailed boat description—initial cost, operating costs, etc.**
- () **Insurance information on new boat—premiums on new boat.**

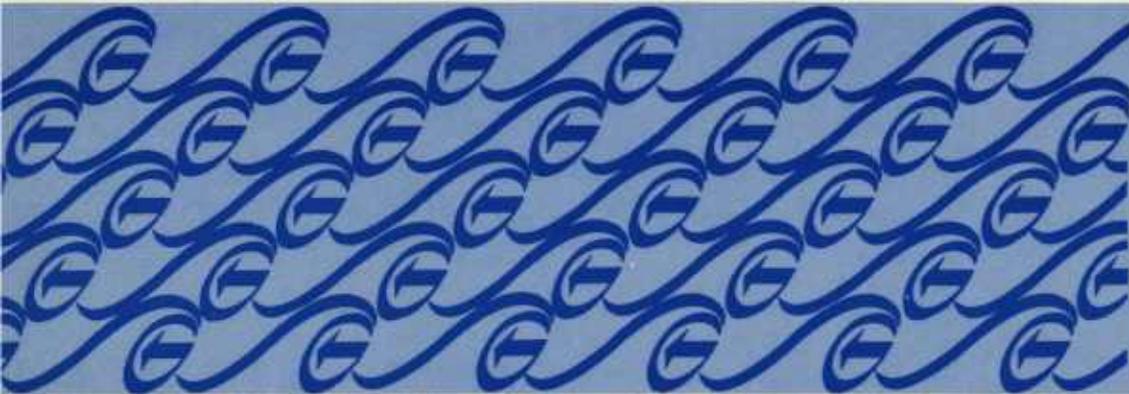
OSU MARINE ADVISORY PROGRAM

OSU Sea Grant Extension Marine Advisory Program activities are carried on throughout the state and region as a means of conveying knowledge that will help people use the ocean's resources. Marine advisory staff members also help identify problems of resource users and relate them to research people who may help solve the problems.

The Marine Advisory Program—conducted as part of OSU's Cooperative Extension Service—is one of the most experienced in the nation. Its staff of specialists and marine extension agents are experts in their special areas of Sea Grant extension work.

Specialists and agents have conducted such programs for fisherman as the "Professional Fishermen's Series" on marine economics, town hall meetings, and a commercial fisheries business exposition. In addition, workshops are held on such subjects as marine electronics, welding, and hydraulics.

Publications are available to aid fishermen. They may be obtained from the Bulletin Mailing Office, Industrial Bldg., Oregon State University, Corvallis, Ore. 97331. Contact your nearest marine extension agent for assistance. He may be reached through your county extension office.



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FINANCIAL STATEMENT

ASSETS

Cash and Checking Accounts	_____
Savings Account	_____
Notes Receivable	_____
Accounts Receivable	_____
Inventories	_____
Total Current Assets	_____
Land	_____
Buildings, Furniture	_____
Vessels and Gear	_____
Life Insurance	_____
Autos, Trucks	_____
Other	_____
Total Non-Current Assets	_____
Total Assets	_____
Less Total Liabilities	_____
NET WORTH	_____

LIABILITIES

Notes Payable-Suppliers	_____
Notes Payable-Banks	_____
Notes Payable-Others	_____
Income Taxes Owed	_____
Total Current Liabilities	_____
Mortgages	_____
Other Debts	_____
TOTAL LIABILITIES	_____

PROFIT AND LOSS SUMMARY

	1968	1969	1970	1971	1972
Total Sales					
Trip Expense					
Crew Shares					
Repairs					
Gear and Supplies					
Insurance					
Interest					
Depreciation					
Other Expenses					
Profit Before Tax					
Other Net Income (other than vessel)					
Income Taxes					
After-tax Net Income..					

PROFIT AND LOSS FORECAST

	1973	1974	1975	1976
Estimated Catch (based on averages of past 4 years) ..				
Trip Expenses				
Crew Shares				
Repairs				
Gear & Supplies				
Insurance				
Interest				
Depreciation				
Other Expenses				
Profit Before Tax				
Estimated Tax				
Amount Available for loan repayment from vessel operation				
Estimated non-fishing in- come				