

Financing of Fishing Vessels By Financial Institutions

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The C.I.T. Corporation has for years financed many kinds of income-producing vessels. These have included fishing vessels and work boats, tugs and barges, tankers and lighters. We have also financed the installation of machinery and equipment in vessels — such things as engines, radios, navigational aids and underwater fish-finding instruments. We have enjoyed the opportunity to play a supporting role in the impressive growth of the fishing industry.

The fishing business is constantly changing. Most people are familiar with the advances being made in our knowledge of the sea and its fish; many are equally familiar with the remarkable progress being made in fishing equipment, such as the adaptations of wartime sonar devices to aid in finding the fish which support the industry. Many fishermen are working much farther from port than they ever have before and fishing equipment operations are becoming increasingly costly.

In order to meet the climbing costs of boats and equipment the fishing industry often needs outside capital. This is where the industrial financing institution comes into play.

My observations on the financing of vessels and equipment are based on the policies and practices of my own company. Other institutions of a like character have, to a greater or lesser degree, comparable policies and follow similar practices, and I believe that our experiences can be taken as representative of one type of financial agency.

We have two major methods of financing the fishing industry. The first is to work with the engine dealers or yards, the other is to handle the financing directly with the fishermen. The largest volume of our fishing vessel financing is done through dealers or yards. These decide whether the credit of the fisherman is acceptable: they know him personally, they know his skill as a fisherman, the port from which he operates, the grounds he probably will work and how he will dispose of his catch. They also decide what the down payment will be and what terms of repayment will be set.

Usually the terms call for a down payment of at least 25 per cent of the purchase price, with the balance to be paid in three years in equal monthly installments. Naturally, this is not an invariable rule, and contracts on some of the larger boats have been written with terms of four and five years.

However, the dealers and yards ordinarily are not so capitalized as to be able to carry large quantities of notes with their own funds, so the industrial financing company discounts the completed transactions for them in order to replenish the dealers' or yards' supply of cash. Thereafter the financing firm collects the notes directly from the fisherman. We reserve the right to check the credit of the fisherman and to decide whether the individual risk is to be accepted, but we cannot hope to know each fisherman as well as he is known by the engine dealer or yard, and since the transactions are purchased with recourse, we generally rely on the sellers' credit decision and buy the transactions when they are submitted.

It is through this arrangement with sellers that we have handled the financing of a large number of fishing vessels. However, as mentioned earlier, we sometimes finance fishing vessels directly for the fisherman. Naturally we cannot handle financing that requires progress payments during construction of a vessel. The industrial finance agency needs a complete documented vessel as security at the time its funds are disbursed. Also, we cannot finance a captain who can supply a down payment but has no other boats or property, no previous history as an owner, and no partners or endorsers. Boat and equipment financing is available, however, to the established captain with a proper financial background. For example, we have handled the financing of complete fishing vessels for owners or captains who already had one or more vessels and were enlarging their fleets. Credit judgment in such cases is based on statements showing a profitable operation of the owners' existing equipment, and an investigation of his character and fishing experience.

We also work with an owner who is buying a vessel jointly with other partners or investors. In this case credit approval follows a satisfactory investigation of the partners' financial statements plus an appraisal of the captain's experience and ability. For instance, we recently financed a trawler for a captain who had two well-known physicians for partners. For the doctors, of course, it was simply an investment with a fisherman whose skill and honesty they respected. It has, incidently, been a successful partnership.

In some cases we have worked with an owner or captain who has a contract with a processing plant to take his catch. In such instances the processing plant, which has acceptable credit, endorses the notes for the captain.

Terms in these individual cases are fairly flexible and often are tailored to suit special needs. But the general rule, as in our contracts with dealers, is a down payment of at least 25 per cent of the purchase price. The balance is usually paid in not more than thirty-six monthly installments, although some transactions have been written with longer terms.

So far my remarks have been confined largely to transactions for complete boats. However, modernization and replacement of equipment and machinery plays a major part in the fisherman's life. Another form of financing for fishermen is available to meet these problems. Terms are arranged for financing new engines or for replacing or adding the various types of mechanical and electronic gear necessary to modern fishing. Engines and other equipment are frequently financed through the machinery dealer in the fashion previously discussed. The financing can also be arranged directly with the fisherman. This is done by the fisherman giving the financing firm a mortgage on the vessel he owns. Usually the vessel, with the new equipment added, has sufficient value to make a down payment on the equipment unnecessary, although it is preferable to have one. If the value is in doubt the financial institution arranges for an independent appraisal to determine the dollar value of financing suitable for the vessel. These are the financing patterns already set up and tried in practice to cover many financial problems that the fisherman may have.

Now let us come ashore and mention briefly that financing for the fishing industry is not limited to boats and their equipment. Bringing a catch into port is only the first step toward putting fish and fish products in the hands

of consumers. Among the things that have enlarged the horizons of the industry and broadened the opportunities for the fishermen are improved methods of handling, processing, preserving, packing and transporting the catch.

All of these operations require machinery and equipment — cooking and freezing equipment, canning and can-closing machinery, refrigeration equipment and many others. Much of this machinery must be financed. Our company alone handles millions of dollars worth of it every year.

Financial institutions recognize that opportunities lie in growing industries. The fishing industry is growing in importance throughout the world and nowhere is its growth more apparent than in the waters of the Caribbean and Gulf — particularly in the shrimping industry. Since we have confidence in the future of the fishing industry, our objective is to aid in its growth through helping to finance the boats and equipment that are needed.

The Financing of the Netherlands Fishing Fleet

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The financing of the Netherlands fishing fleet has shown some change since the end of the war, to the extent that the investments required to keep the industry going are considerably larger than before the war, and that it is very difficult to obtain long-term capital for this industry.

In the past so-called family partnerships were predominant, mostly in the form of a corporation, sometimes in the form of a limited partnership. It was customary in former years for a shipping mortgage bank or an ordinary bank to provide a family corporation with money in the form of a mortgage, in which case the managing directors of the respective ship-owners' companies were held personally responsible for the fulfilment of the companies' obligations. Thus, the legal form of the corporation was only some sort of protection against the great risks of liability which the dangers of the sea entail.

The Netherlands fishing fleet may be divided into three groups, viz.:

1. The trawlers which are engaged in the so-called "major-fishery" on the North Sea. This group comprises about 45 ships, one third of which are motor vessels and two thirds of which are steam vessels.
2. Motor and steam luggers which are engaged mainly in herring fishery; about 225 ships comprise this fleet.
3. The small inshore fishery, for which motor cutters are used, comprises about 450 ships.

In addition there are a large number of small vessels engaged in oyster, shrimp and mussel fishing on the inland waterways. I shall not go into details about the financing of this group of small vessels.

The ships of the first two groups mentioned are owned by 85 concerns, 43 per cent of which own only one ship. Of the 13 concerns which operate