A Report on Federal Programs of Financial Aid to Commercial Fisheries

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THREE PROGRAMS OF FINANCIAL ASSISTANCE aimed at upgrading the fishing fleets are now administered by the Bureau of Commercial Fisheries. These are:

1. The Fisheries Loan Fund authorized by the Fish and Wildlife Act of 1956 (This fund will cease to exist on June 30, 1965);
2. The Fishing Vessel Mortgage Insurance Program authorized by Title XI of the Merchant Marine Act of 1936, as amended, which function was transferred to the Department of the Interior pursuant to provisions of the Fish and Wildlife Act of 1956 (No time limit on program);
3. The Fishing Vessel Construction Subsidy Program authorized by Public Law 86-516, enacted June 12, 1960 (3-year program).

Singly, or combined, these aid programs are not a cure-all for the troubles of our fisheries. Each program is limited in its objective. But they are a step in the direction of improvement of our fishing fleets.

The aim of the mortgage insurance and subsidy programs is to encourage the construction of modern new vessels.

The Fisheries Loan Fund Program provides for new vessel construction only to replace vessels lost to the fleet through sinking, destruction, or obsolescence. But loans from this fund may also be made for other purposes. Its broad objective is to provide financial assistance, otherwise unavailable on reasonable terms, which will aid the commercial fishing industry to bring about a general upgrading of the condition of both fishing vessels and fishing gear, thereby contributing to more efficient and profitable fishing operations.

These efforts of Congress toward alleviating the depressed condition of our fisheries grew from a recognition of the rising danger to the nation from the threatened loss of our production potential and the possibility that the fisheries would be unable to provide vessels for defense purposes in the event of war or a national emergency. For several years beginning about 1950, vessel owners, dealers, and processors had made pleas to the Tariff Commission, to the President, and to Congress for protection or aid because a rising flood of imports was depressing prices and taking over a larger and larger share of their market as the United States became the largest importer of fisheries products in the world. Other economic factors were also incurring costs and decreasing returns to the fishermen. The American fisheries had seriously deteriorated during the past several years while foreign fisheries, benefitted in many cases by generous Government subsidies and loans, were flourishing and expanding. Much of the foreign fleet expansion was aimed at supplying American markets. Lower costs of building and operating foreign vessels, in addition to the direct financial aid from their Governments, gave foreign fisheries a decided competitive advantage in our markets. Foreign products moved in to fill the supply gap needed to keep pace with the demands of our growing population. Their lower costs permitted profitable sales at price levels that reduced the operations of American vessels to subsistence levels. Not only could our vessel owners no longer liquidate their obligations in an orderly manner, but their debts rose as operating losses mounted. Maintenance was neglected, mortgage payments could not be met, and vessels were tied up for lack of funds or credit to provide for trip expenses. Foreclosures became commonplace. Some of our key fisheries had reached a state of stagnation by 1956.

At this stage in the history of our fisheries the Fisheries Loan Fund Program came to the rescue. The full benefit of the Fisheries Loan Fund is a story that will never be known. We do know, however, that several hundred vessel owners who had been in dire distress put their vessels in good condition, refinanced their mortgages and other debts on terms they could meet, and returned to a profitable base of operations. Hundreds of other vessel owners had already lost their vessels or reached a state where it was too late to take advantage of this assistance.

The Secretary of the Interior is authorized to make loans for financing and refinancing of operations, maintenance, replacement, repair and equipment of fishing gear and vessels, and for research into the basic problems of fisheries. A basic requirement of the Act is that no loan can be made if the assistance applied for is available on reasonable terms from other sources. Shore plants and auxiliary vessels, such as packers or fish freighters, are not eligible. This is a soft loan program in the sense that longer maturities and lower interest rates are offered as compared to commercial loans. But the Act clearly shows the intent of Congress that the loans be collectible as to principal and interest. Accordingly, each loan must be adequately secured.

The proposed collateral for a loan must be of such a nature that, when considered with the integrity and ability of the management, and the applicant's past and prospective earnings, repayment of the loan will be reasonably assured. These qualifications are substantiated by field investigations. Bureau field representatives cover the vessel and fishery aspects in all cases and the financial investigation where the application is for no more than $10,000. If the application is for more than $10,000, the Small Business Administration conducts the financial investigation and reports thereon to the Bureau.

Generally, a preferred ship mortgage on the vessel is the only collateral required to secure the note signed by the applicant and wife. If the applicant is a partnership, all members of the partnership and their spouses sign the note. If the applicant is a corporation, the officers, managers, and principal shareholders must guarantee the note. The reason for this is that the fishing vessel is usually the only asset of a small corporation which exists only to avoid personal liability of the owner or owners.

Hull insurance is required to safeguard the collateral vessel, and usually property and indemnity insurance is required to assure ability of the applicant to continue in operation in the event of a serious liability claim. The latter insurance may be waived by the Secretary at his discretion.

Loans cannot legally be made for longer than 10 years. The remaining useful life of the vessel, the engine, and the equipment must be given due consideration in evaluating a loan application. At the same time, ability of the applicant to repay the loan within such period must also be carefully evaluated. While the age and health of an applicant are given consideration, no age limit is imposed.

Repayments are usually based upon the customs that have prevailed in the particular fishery. In some cases, payments are made after the completion of each fishing trip and calculated as a percentage of the vessel's share with the minimum requirement that a definite percentage of the loan must be repaid each year. Fixed periodical installments of principal plus interest are usually provided where payments are spaced more than one month apart. If monthly payments are stipulated in the note, they may be computed so that a uniform installment, including interest and principal, will amortize the loan.

Collections of principal and interest are deposited in the Fund and are available for additional loans. Expenses to the Government are paid out of the Fund under limitations set by the Bureau of the Budget. It is contemplated that the program will during its life be self supporting and that the Treasury will recapture the entire amount of the capital advanced for its operation, after administrative costs and losses have been provided for. Of course, it will not be possible to collect every loan. Some foreclosures are inevitable. Some losses have been sustained and there will undoubtedly be others. But the loss rate so far compares favorably with that of banks which have made fisheries loans. Nearly one-half of the applications received have not met the minimum requirements and therefore could not be approved.

The loan program has now been in operation for about four years. Loans have been made in all fishing areas of the United States, including Alaska and Hawaii. It has provided 46 new replacement vessels, replaced 90 worn-out engines with new ones, enabled owners to rebuild 121 vessels and re-equip 119. Fifteen tuna clippers have been converted to purse seiners. One hundred and sixty-seven mortgages on vessels have been refinanced, and 162 loans were used in part to refinance debts constituting maritime liens. From inception of the program in 1956 through September 30, 1960, 435 loans have been approved for a total of $10.5 million. The geographical distribution is as follows: New England and Middle Atlantic area 130 loans for $3.8 million, California 71 loans for $3.3 million, South Atlantic and Gulf 64 loans for $1.6 million, Pacific Northwest 89 loans for $1.2 million, other areas 81 loans for $0.6 million.

Although the Fishing Vessel Mortgage Insurance Program was authorized by the Merchant Marine Act of 1936, as amended, the authority to insure mortgages for the construction, reconstruction, or reconditioning of fishing vessels was exercised in only a few instances by the Maritime Administration in all the years since enactment of the law. Prospective applicants found it impractical if not impossible to meet the requirements imposed by its regulations. The Maritime Administration policies centered on the Merchant Marine and no attempt was made to provide service for fisheries. When this function was transferred to the Department of the Interior on March 22, 1958, no provision was made on paying claims in the event they should exceed the amount in the revolving fund generated by fees and insurance premiums. Consequently, the Department was unable to put the program into effect until enabling legislation was enacted.

Public Law 86-577, signed July 5, 1960, gives the Secretary authority to borrow funds from the Treasury; if necessary, to pay claims if the revolving fund should at any time not have a sufficient balance. To some extent the program is similar to FHA. Mortgage money is supplied by commercial lenders. The applicant must invest not less than 25 per cent of the cost of the vessel. The mortgage for not more than 75 per cent of the cost, not including any Governmen subsidy payment, may be insured by the Department. Maturity must not be longer than 15 years, or the useful life of the vessel whichever is less. Premium rates are one (1%) per cent of the face of the mortgage if the mortgage covers more than 50 per cent of the cost, or three-fourths (¾%) of one per cent if the mortgage covers 50 per cent or less of the cost. Mortgages already in existence cannot be insured. Applications must be filed at least 90 days before construction is to begin in order to give the Secretary enough time to make a full investigation and do the other things required.

All necessary preparations were completed recently and field representatives have been instructed in the mechanics of the program. While it is too early to assess the benefits to the fishing industry, the widespread interest already expressed in the mortgage insurance program leads us to believe this assistance will prove to be an effective aid in restoring the fishing fleets.

The Fishing Vessel Construction Subsidy Program, authorized by the Act of June 12, 1960, is the newest of the federal financial assistance programs. It is designed for the sole purpose of encouraging construction of new vessels to maintain fleets in fisheries that are injured or face threat of injury by reason of increased imports of like or competing fishery products. A fishery is automatically eligible where the Tariff Commission has recommended relief under the escape clause provision of the Trade Agreements Extension Act of 1951, as amended (65 Stat. 74), but relief has been denied under Section 7 (c) of such Act. In all other cases eligibility depends upon a finding by the Secretary of the Interior that a fishery is injured or threatened with injury by reason of increased imports of directly competitive fish or shellfish products. A positive or negative finding will be made by the Secretary upon request of an applicant supported by reasonable evidence. Such a finding will not be made however until interested parties are given 30 days, following publication of notice in the Federal Register, to submit written statements in support of or in opposition to the allegations of the applicant. The finding will then be published in the Federal Register.

Additional eligibility requirements apply to the applicant and to the proposed vessel. These include evidence or assurance that the vessel (a) will be suitable for defense purposes, (b) will be of modern design which will tend to upgrade the fleet, (c) will not operate in a fishery which the Secretary deems to have sufficient vessels to economically harvest either the maximum sustained yield or maximum amount which can be marketed in an orderly manner, (d) will deliver its catch to United States ports, (e) will employ in its operation only citizens of the United States or aliens legally domiciled in the United States, and (f) will be documented in the United States. Moreover, the Secretary must determine that the applicant possesses the ability, experience, resources, and other qualifications necessary to enable him to operate and maintain the proposed new fishing vessel. At present, the only fishery automatically eligible is the New England groundfish fishery which has been denied relief after favorable recommendations by the Tariff Commission.

A vessel to be deemed as operating in a particular fishery must take not less than 51 per cent of its annual catch from that fishery. If a vessel that has received a subsidy is diverted to another fishery or other use, a part of the subsidy must be returned to the Government as provided in the subsidy contract.

A subsidy under this Act may not exceed one-third the cost of construction in a U. S. shipyard, or the difference between such cost and the cost of constructing a similar vessel in a foreign shipyard, whichever is less. The Act authorized an appropriation of $2.5 million a year and provided that no application could be accepted more than 3 years after the effective date of the Act. However, Congress actually appropriated only $750,000 for the current fiscal year ending June 30, 1961.

All necessary preparations have been completed and field offices have been supplied with forms, printed material, and instructions. Quite a bit of interest has been evidenced by inquiries received to date.

Foreign fisheries exert a tremendous influence in the markets of the United States. In 1959 our imports reached a total of $366 million. These enormous imports came from countries whose Governments have been actively aiding their fisheries for many years with loans and grants.

With them, as with us, investment capital through ordinary commercial channels is restrained at levels below that required for maintenance, replacements, modernization, or expansion of the fishing fleets. All major fish producing nations have set up programs involving the use of public funds to provide capital under conditions of special advantage to their fishing industries.

Canada, our largest supplier, has a number of financial aid programs involving loans, grants, or loan insurance. One plan provides grants of $165 per gross ton for building trawlers or longliners. Others provide for loans to acquire new vessels, grants to pay part of the interest on commercial loans or on life insurance premiums required on private loans for the construction of vessels, purchase of engines, equipment, and gear.

Japan, a major supplier, provides loans up to 80 per cent of the cost of construction or purchase of vessels and gear. Maturities may be 10 years with no repayment during the first two years.

Belgium grants loans up to 70 per cent of the cost of a vessel or its improvement.

Denmark provides loans up to two-thirds of the cost of acquiring new vessels, and one-half the cost of used vessels.

France provides loans up to 75 per cent of the cost for purchasing or construction of new vessels or acquisition of engines or electronic equipment. Maturities are up to 10 years.

West Germany loans up to 75 per cent for construction of new vessels, and acquisition of engines, or for repairs and modernization. Maturity is up to 15 years and interest is three per cent.

The United Kingdom provides grants up to 30 per cent of the cost of new vessels or engines and loans up to 60 per cent with maturities of 15 years.

Descriptive leaflets have been prepared for each of these programs.

Fishery Leaflet 477—Fisheries Loans
Fishery Leaflet 499—Mortgage Insurance
Fishery Leaflet 503—Subsidies

Field Offices of the Branch of Loans and Grants, Bureau of Commercial Fisheries, are equipped to give information and assistance to interested parties.

The addresses are:

408 Atlantic Avenue, Boston 10, Massachusetts

P. O. Box 6245, St. Petersburg Beach, Florida

101 Seaside Avenue, Terminal Island, California

6116 Arcade Building, Seattle 1, Washington

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2570 Dole Street, Honolulu, Hawaii