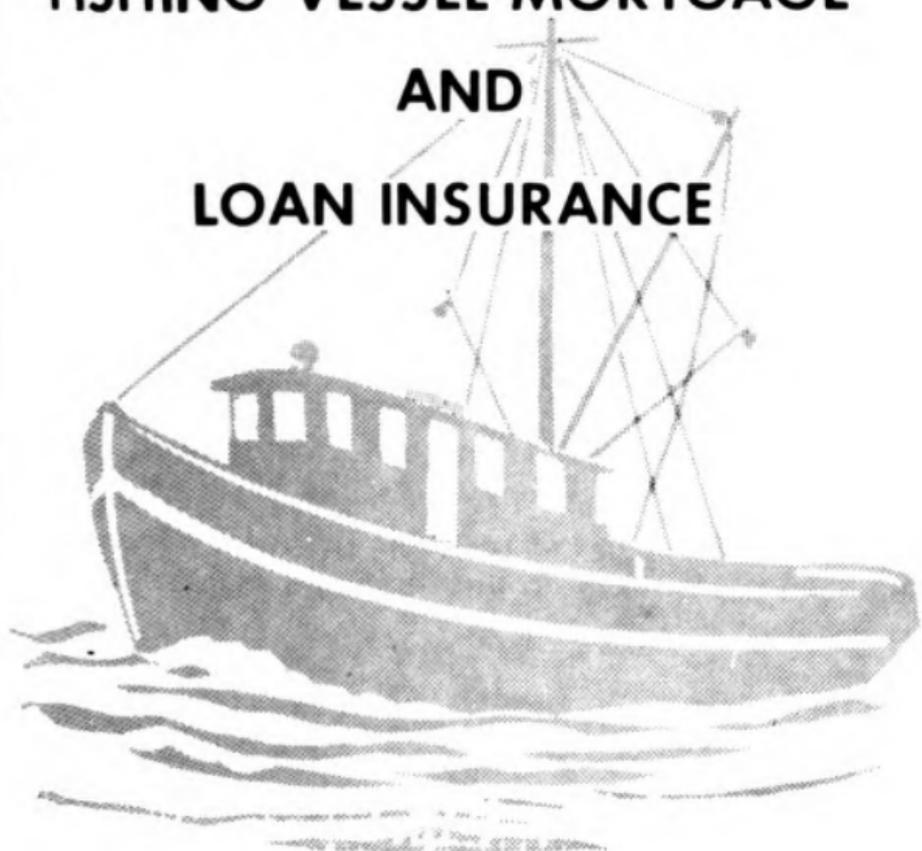


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**FEDERAL  
FISHING VESSEL MORTGAGE  
AND  
LOAN INSURANCE**



UNITED STATES DEPARTMENT OF THE INTERIOR  
FISH AND WILDLIFE SERVICE  
BUREAU OF COMMERCIAL FISHERIES  
BRANCH OF LOANS AND GRANTS  
WASHINGTON 25, D. C.

553

FISHING VESSEL  
MORTGAGE AND LOAN  
INSURANCE

FISHERY LEAFLET 499  
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AUTHORITY FOR PROGRAM

CONTENTS

This leaflet contains information about the Fishing Vessel Mortgage and Loan Insurance Program administered by the Secretary of the Interior. Regulations pertaining to insurance of mortgages and loans for construction, reconstruction, and reconditioning of fishing vessels owned by citizens of the United States were published in the Federal Register on April 28, 1959 (24 F.R. 3268) and will be codified as Part 165, Subchapter J, Chapter I, of Title 50, Code of Federal Regulations. Copies of these regulations may be obtained from the Branch of Loans and Grants, Bureau of Commercial Fisheries, Department of the Interior, Washington 25, D. C., or from the field offices listed at the end of this leaflet.

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## AUTHORITY FOR PROGRAM

Title XI of the Merchant Marine Act of 1936, as amended.

The Director of the Bureau of the Budget on March 22, 1958, found and determined (23 F.R. 2304) that all functions of the Maritime Administration, Department of Commerce, which pertain to Federal Ship Mortgage insurance for fishing vessels under authority of Title XI of the Merchant Marine Act of 1936, as amended (46 U.S.C. 1271-1279), were transferred to the Department of the Interior by Section 6 (a) of the Fish and Wildlife Act of 1956 (16 U.S.C. 742e).

## PURPOSE

The purpose of the program is to assist the fishing industry in financing construction, reconstruction, or reconditioning of fishing vessels. Vessel owners will arrange with financial institutions or other qualified lenders for the money to be borrowed. Construction loans, prior to documentation, and preferred ship mortgages given for construction, reconstruction, or reconditioning of fishing vessels may be insured by the Secretary of the Interior under provisions of the Act and the regulations he is authorized to issue for administration of the program. No Government loans will be involved.

## CREDIT REQUIREMENTS

The following credit requirements must be met before a mortgage or loan can be insured:

1. There must be evidence of mortgagor's (borrower's) ability to operate the vessel successfully;
2. There must be evidence, based on the record of past performance and future prospects, of ability to repay the loan out of earnings of the vessel.
3. The loan must be of sound value and so secured as to reasonably assure repayment;
4. There must be evidence that the mortgagee (lender) is responsible and financially able to service the mortgage or loan.

In general, with the exception of the longer period until maturity, credit requirements will be about the same as those of most commercial banks.

## ELIGIBLE MORTGAGES

To be eligible for mortgage insurance a mortgage must meet the following special conditions in addition to the usual standard provisions of a preferred ship mortgage:

1. Have a mortgagor and a mortgagee approved

by the Secretary of the Interior after receipt and investigation of application;

2. Secure a loan made to assist in financing construction, reconstruction, or reconditioning of a fishing vessel by a builder submitting the lowest competitive bid, unless the Secretary has approved acceptance of a higher bid;
3. Involve an obligation not in excess of 75 percent of the cost of the construction, reconstruction, or reconditioning of the vessel as determined by the Secretary;
4. Have a maturity date not to exceed 15 years, or the economic life of the vessel if less than 15 years;
5. Contain amortization provisions requiring orderly periodic payments of principal as well as interest;
6. Secure notes or other obligations bearing interest rates not exceeding 5 percent, except in cases where the Secretary makes a finding that the mortgage market requires a higher rate of not to exceed 6 percent;
7. Provide for operation of the vessel in a fishery and in a manner approved by the Secretary;

8. Require mortgagor to pay to mortgagee 60 days before annual due date the insurance premium to be remitted by the mortgagee to the Secretary;
9. Provide that contract of insurance, or commitment to insure, be approved before the vessel is launched, or before reconstruction or reconditioning is completed.

### ELIGIBLE LOANS

To be eligible for loan insurance a loan must meet the following conditions:

1. Have a borrower and lender approved by the Secretary after receipt and investigation of application;
2. Be made to aid in financing construction, reconstruction, or reconditioning of a fishing vessel by a builder submitting the lowest competitive bid, unless the Secretary has approved acceptance of a higher bid;
3. Be secured by a chattel mortgage payable prior to or simultaneously with execution of the preferred ship mortgage;
4. Does not exceed 75 percent of vessel construction, reconstruction, or reconditioning

- cost, to be determined by the Secretary;
5. Provide for work representing not less than 25 percent of total cost to first be completed, and paid for from funds supplied by borrower from sources other than the insured loan, and thereafter for lender to make all payments direct to shipyard or other contractors unless the Secretary approves reimbursement to the borrower of funds paid for work already performed in excess of 25 percent of cost;
  6. Bear interest not to exceed 5 percent except where the Secretary finds that a higher rate, not to exceed 6 percent, is required by the money market;
  7. Require borrower to pay to the lender the loan insurance premium at least 60 days before due date for transmission to the Secretary;
  8. Provide for insurance and performance bond satisfactory to the Secretary;
  9. Performance of work to be according to the plans and specifications approved by the Secretary.

For more precise eligibility rules, see the regulations,

## PREMIUM RATES

### Mortgage Insurance:

1. Premiums are to be paid in advance on the anticipated average amount of the mortgage during the policy year. Adjustments will be made at the end of the policy year to base the charge on average principal amount of the mortgage outstanding.
2. Premium rates are 1 percent for mortgages covering over 50 percent of vessel cost and 3/4 of one percent for mortgages covering 50 percent or less of cost.
3. The mortgagee will collect the premiums from the mortgagor at least 60 days before due date (except first year premiums will be paid when contract of insurance is executed) and remit them to the Secretary.
4. No refunds will be made if the insurance is terminated.

### Loan Insurance:

Premium rates are 1/2 of one percent per annum on the average amount of the loan out-

standing. Premiums are to be paid in advance on the anticipated average amount of the unpaid balance of the loan during the year.

2. Any necessary adjustment will be made at the end of the policy year to base the charge on the average unpaid principal amount of the loan.

### APPLICATIONS

1. Applications may be for mortgage insurance, loan insurance, or both. Application forms, with instructions explaining how they should be completed, may be obtained from field offices listed at the end of this leaflet or from the Branch of Loans and Grants, Bureau of Commercial Fisheries, U. S. Department of the Interior, Washington 25, D. C. Each set contains five copies. One copy of the completed application should be retained by the borrower, one copy by the lender, and the original and two copies sent to the Director, Bureau of Commercial Fisheries, U. S. Department of the Interior, Washington 25, D. C.
2. Applications are made jointly by borrower and lender.

3. Applications with all necessary supporting documents must be filed in sufficient time to permit the Secretary to make a full and complete investigation and take all other required action, and in any event not later than 90 days prior to the anticipated date of the closing of the transaction.

#### PROCESSING APPLICATIONS

1. Upon preliminary review, applications that appear to be complete and in conformity with the act and regulations will be scheduled for field investigation. In the case of the lender (mortgagee), the examination will be to determine if the financial resources, experience, ability, and general qualifications are adequate to service the mortgage or loan in a manner satisfactory to the Secretary. In the case of the borrower (mortgagor) the examination will be to determine his ability, experience, financial resources, and other qualifications necessary to the adequate operation and maintenance of the mortgaged vessel in a manner satisfactory to the Secretary and to evaluate his ability to service the loan.
2. A representative of the Bureau of Commercial

Fisheries will conduct the investigations and will prepare reports for the information of the Secretary.

3. The Branch of Loans and Grants will analyze the information contained in the application, the fishery investigation report, and the financial report, and then prepare the necessary documents.
4. The entire case file will then be considered by officials of the Department and a decision will be rendered.

#### INVESTIGATION FEES

1. Each application must be accompanied by remittance of \$50 or 1/2 of one percent of the original principal amount of the mortgage or loan to be insured, whichever is less, which payment will be retained by the Secretary irrespective of final disposition of the application.
2. After preliminary examination of the application, the applicant shall pay to the Secretary upon request such additional amount as the Secretary may deem reasonable for investigation, appraisals, issuance of commitments,

and inspection of vessel during construction reconstruction, or reconditioning. The total fee, including the amount sent with the application, will not exceed 1/2 of one percent of the original principal amount of the mortgage or loan to be insured. All the additional amount will be retained by the Secretary if the application is approved. One-half of the additional amount will be retained by the Secretary and one-half returned to the applicant if the application is not approved.

### COMMITMENT

The commitment to insure a mortgage or loan will be issued by the Secretary, if necessary, prior to completion of the mortgage or note. It will contain the covenants to be accepted by borrower and lender. The commitment or contract of insurance must be approved by the Secretary prior to the launching of the vessel.

### CLOSING PROCEDURE

The contract of insurance will become effective when the first year premium is paid and the contract is signed by the Secretary, the borrower, and the lender.

### DEFAULTS

Rights of mortgagee or lender are covered in de-

tail in Section 1105, Title XI, Merchant Marine Act of 1936, as amended. They include:

1. The right to demand payment by the Secretary of unpaid principal and interest during the second 30 days of a default in payments of principal and interest;
2. The right to demand at any time during continuance of any other default, payment by the Secretary of unpaid principal and interest;
3. The right to demand at any time during the 60-day period following receipt of notice from the Secretary of intent to cancel the insurance contract because of default by the mortgagor, whether or not the default is removed, payment by the Secretary of unpaid principal and interest. The Secretary will, within 30 days, accept the assignment and pay to the mortgagee the unpaid principal and interest;
4. Assignment of the mortgage and of the obligations secured by the mortgage must be tendered to the Secretary at the time demand for payment is made.
5. Any amount required to be paid by the Secretary shall be paid in cash.

Field Offices  
Of the

Branch of Loans and Grants  
Division of Resource Development  
Bureau of Commercial Fisheries

	Telephone Number
U. S. Bureau of Commercial Fisheries 408 Atlantic Avenue Boston 10, Massachusetts	CApitol 3-7744
U. S. Bureau of Commercial Fisheries P. O. Box 6245 St. Petersburg Beach, Florida	23-5311
U. S. Bureau of Commercial Fisheries 101 Seaside Avenue Terminal Island, California	TErминаl 3-445
U. S. Bureau of Commercial Fisheries 6116 Arcade Building Seattle 1, Washington	MUtual 2-3300 Ext. 1144
U. S. Bureau of Commercial Fisheries P. O. Box 2481 Juneau, Alaska	6-3515
U. S. Bureau of Commercial Fisheries 2570 Dole Street Honolulu, Hawaii	9-1181