



Arne Arnesen is a "fish banker" with Peoples Bank, which is heavily involved in lending for the North Pacific fishing fleet. Jeff Pond photos

## Q&A A maritime banker offers insight on borrowing and how to ensure a positive boatbuilding outcome

Commercial fishing is a capital-intensive endeavor, so banking relationships can be key to success.

One bank that's in the center of the North Pacific fishing action is Peoples Bank, headquartered in Bellingham, Washington. The bank has a strong presence in Seattle's Ballard neighborhood near Fishermen's Terminal, hub of the Alaska and West Coast fishing industry.

The bank was founded in 1921 and has more than \$1.6 billion in assets.

Curtis "Arne" Arnesen is a senior vice president and commercial team leader for Peoples Bank. He and his team manage a large volume of maritime lending.

Arnesen recently agreed to field a few questions from *Pacific Fishing* Editor Wesley Loy regarding the state of the industry, fishing finance, and what fishermen can do to ensure a smooth vessel construction or modification project.

**Q: What's your read on the financial health of the commercial fishing industry today?**

**A:** There are many ways to evaluate the health of the commercial fishing industry. At Peoples Bank, we often look at it in terms of the fishing sectors that are building. Through that lens, the gear

types that are currently building are seiners and smaller pot boats (Dungeness vs. federal crab). And there is a fair number of Bristol Bay boats being built. There's a good amount of optimism in sablefish, but the activity we're seeing there is primarily in fishing rights transacted.

Through fishery rationalization, there is a meaningful degree of stabilization. The limited access provided by rationalization established something of a floor in the value of fishing rights. Things go up and down for sure, but it's like walking uphill with a yo-yo – there will be down years, but the long-term trend is almost always positive.

**Q: I've heard we're due for a modernization of the North Pacific fishing fleet. What's behind this, and could it happen? Or perhaps it's already underway?**

**A:** We've seen reports, including one published last year by the Port of Seattle and the Washington Maritime Federation, that indicate efforts to modernize the North Pacific fishing fleet will bring new jobs and a potential boost of \$1.3 billion in total economic activity over the next 10 years to the Puget Sound region.



That's great for the industry, but we also have to keep in mind that the cost and regulatory burden for an all-new vessel of meaningful size is now much higher than it used to be, which is a major limiting factor to replacing the aging fleet. It also limits young new entrants to the fishery.

Given these regulatory burdens and costs of compliance, we're seeing a lot of activity around complete sponson jobs, along with improvement and retrofitting of vessels to keep older boats working longer at lesser cost than newbuilds.

**Q: Has Peoples Bank financed many new commercial fishing vessels recently?**

**A:** Our commercial maritime lending team has been actively financing new vessels. This includes several new bay boats for the salmon fishery. We've also financed new limit seiners, including one 58-foot vessel where the newbuild cost was over \$5 million.

Although the crab fishery hasn't had too much activity, we recently financed a vessel that will support Washington, Oregon, and California Dungeness fisheries and be homeported in Monterey Bay, California.

**Q: Tell us about your Maritime Loan Center.**

**A:** The Peoples Bank Maritime Loan Center is a full-service relationship banking retail branch location. In addition to commercial lending, we have a very strong pleasure boat line of business, and we also do mortgage loans. The office itself is located just one block north of Market Street in Ballard, which is home to Fishermen's Terminal, the homeport of the North Pacific fishing fleet. Market Street is the main thoroughfare in Ballard, so we're right in the heart of it. We're also located right next door to the Sons of Norway Lodge. The Scandinavian influence, primarily the Norwegians, can't be overstated in this fishing community.

We offer lending services for all aspects of the North Pacific fleet, including for fishing vessels, fishing quota, and fishing permits. We also offer banking services for shipyards and equipment providers. But I can tell you that we're not typical suit-and-tie bankers. We're a team of very experienced commercial maritime lenders who are part of the community on the docks day in and day out.

**Q: What are the most popular types of commercial fishing loans at Peoples Bank? And can you say something about your loan interest rates at the moment?**

**A:** It really ebbs and flows with the optimism of individual fisheries. We're currently doing a lot of good business with seiners, which are active in Alaska with salmon and herring, as well as squid in California. We also like to do a lot of business in the federal crab fisheries, but those fishing rights haven't been trading hands as much this year, so there hasn't been as much activity.

Interest rates have crept up a bit but are still historically low.

Keep in mind that your interest rate is only one piece of the financing. What is often much more meaningful than a quarter point on an interest rate is the payment schedule, which banks will refer to as amortization. If a fisherman can get a 15- to 25-year payment schedule

over a 10-year, that is more powerful in terms of the feasibility of a project because the payments will be much more manageable. Most maritime lenders will do this without a prepayment penalty, so you get the low payment in years when you have shipyard work or the fishery is down and you can pay more without penalty when times are good.

**Q: At last year's Pacific Marine Expo, you were part of a panel discussion on boatbuilding projects. The panel at one point talked about the two phases of financing. Can you describe those?**

**A:** The two phases of financing are prequalification and qualification. It's usually the prequalification phase that many fishermen tend to skip over, but it's such an important part of the process! What can happen is the fisherman goes to a boatbuilder and



*Peoples Bank lending manager Arne Arnesen, right, in conversation aboard a vessel moored at Fishermen's Terminal in Seattle.*

they figure out everything they'd like to do before they know they have financing, and at what amount. It's tough if they find a boat or build a specification of a vessel the bank doesn't support, so prequalification is a great place to start – and it doesn't cost anything. We always recommend you meet with your banker and figure out how much you're qualified for first.

For the prequalification meeting, you'll be asked to provide a meaningful level of financial disclosure. This includes historical earning trends as well as a financial forecast of what the new equipment or the new fishing rights are going to look like. For example, we'll want to know how much the new boat is going to be able to pack, or if it's a second boat. If a fisherman comes to the bank and says, "I'm going to be able to catch more fish or pack more fish," then that's a good start.

Once you're prequalified, you can go to the shipyard and start shopping or making your retrofitting plans with confidence. You'll be ready to move on to the financing phase with your banker, and there shouldn't be any surprises or major setbacks at that point.

**Q: Building a boat obviously involves risk. But I didn't realize one of the biggest risks is an "undercapitalized shipyard." How so?**

**A:** It's really important to go to a reputable shipyard that has prior experience building the boat that you want. If you are the first boat of a certain type a shipyard is going to build, that's going to cost a lot more of your time and management, and you're taking on more risk because of the high likelihood of delays and rework, which can have a big impact on your budget and timeline.

We've financed boats where the shipyard has conveyed all kinds of confidence taking on a newbuild, but in the end they couldn't do



*Loan interest rates "have crept up a bit but are still historically low," says Arne Arnesen, left, of Peoples Bank.*

it in the time originally promised. This can result in the fisherman missing the season or having to lease a boat from a third party – while at the same time paying for the boat that's under construction. It's an expensive added cost, and chances are the leased boat is probably not as qualified for the fishery as the new one being built.

I've actually seen a fisherman have to write a check to make payroll for a shipyard so it could keep their employees working on his boat. Even though they were the low bid, the yard was undercapitalized and couldn't afford to pay their employees at that price point. So, the fisherman wrote a check to payroll, for people who don't work for the fisherman. That happened! You'll always hear me say that the lowest bid isn't always the lowest bid in the end.

**Q: It's natural that fishermen would want to control costs when building a new boat or undertaking a major overhaul. But what are some pitfalls of trying to save?**

**A:** Let me give you a few examples. First, many shipyards will allow fishermen and their crews to work on their vessel alongside the shipyard crew. But if there is any trouble with the boat after the vessel leaves the shipyard, there can be quite a bit of finger-pointing and it's hard to say who's at fault.

Another thing to watch out for is "overspec'ing." If the naval architect is drawing specifications and then in the process – due to availability or because the fisherman just wants a more capable

boat – puts more equipment or bigger materials on the vessel, what can then happen is the vessel isn't as fuel-efficient and not as fast as you need it to be. If you're missing a couple of knots, that can be an extra day to the fishing grounds. We worked with a fisherman who had to fill one of his fish holds partially full of foam just because he overspec'd the vessel and he didn't have the buoyancy he needed.

Finally, make sure you have a warranty you understand, and be conscious of the potential for a voided warranty if you try to save money by using your own labor.

**Q: In general, what does it take in terms of collateral and down payment to build a new fishing vessel?**

**A:** All lenders typically require some meaningful equity. This equity can either be achieved by cash down payment or additional collateral. At Peoples Bank, we will consider financing an entire project or a new purchase if the customer has another boat, additional fishing rights, or real estate that can be used as collateral. Having some skin in the game is necessary, but it doesn't need to be cash.

**Q: Can you talk about the role of insurance in fishing vessel construction and modification projects?**

**A:** For completed vessels, Peoples Bank requires Hull and Machinery, Protection and Indemnity (P&I), and Breach of Warranty coverage. It's rare that we need much more than the owner already has in place. Insurance coverage for a vessel under construction varies. It depends on the kind of coverage the shipyard is already carrying.

**Q: What are the advantages and disadvantages of working with a bank such as Peoples as opposed to seeking a loan from the Alaska Division of Economic Development's commercial fishing loan program?**

**A:** Peoples Bank is a nearly 100-year-old, locally owned community bank. Our original roots are in agriculture lending, which shares a lot of similarities with the maritime industry. Over the years, we have developed a deep understanding of our customers – many of whom, like Peoples Bank, are family businesses. Having a strong local presence gives us the ability to provide much more personalized service to our customers.

For example, we have the ability, in many cases, to provide expedited service. We've talked a lot about financing boats, but fishing rights are a big part of the business too. If a customer wants to buy a quota, he's got to be aggressive if he's going to be the winning bid. If he already has approved financing, Peoples Bank can move very fast on a quota loan with an abbreviated loan package.

Government lenders may have lower rates, but it's a much more bureaucratic process than working with a community lender. The National Marine Fisheries Service, for example, approves all their loans in advance but they don't know the level of appropriations they will receive. There can be a lot of uncertainty and red tape associated with these kinds of programs.

At Peoples Bank, we're predictable, we're faster, our loan process is totally transparent, and all our loans receive custom underwriting. I don't think there should be any mystery in banking. Because we're local, our borrowers have complete access to the decision-makers on their loans.



*"If I wasn't a 'fish banker,' I'd still be down on these same docks," says Arne Arnesen. "It's where I love to be!"*

**Q: All things considered, what's your basic advice today for any fisherman thinking of taking a loan for whatever reason?**

**A:** Seek out advice from the professionals involved in the process. This includes your banker, your attorney, your insurance agent, your accountant, and your broker selling the boat or fishing rights. Go out and get the free advice or maybe even pay for a little

bit of hourly advice from your attorney, but run it by all the people you're going to need if you're unfamiliar with how the process works. Every boat needs insurance, regardless of whether you need a loan. Don't buy a boat making assumptions on what insurance you can get and what the cost will be. Get the insurance quote first.

**Q: Finally, what do you like most about your job? Are you ever able to get out of the office and onto docks and decks?**

**A:** My grandparents were Ballard-Norwegian residents who had a gillnetter at Fishermen's Terminal, and my dad grew up in Ballard, which makes me a third-generation Ballard-Norwegian. Commercial fishing is part of my family heritage - it's in my blood. Sitting in front of a computer is not a natural fit for me. You're much more likely to find me walking on the docks or climbing on a boat. I'd rather discuss business in the galley of one of the vessels or at a local watering hole!

But mostly I love being a part of creating something. Whether that's building a new boat or acquiring fishing rights so our guys can catch more fish, it's rewarding to know that what we do is going to help someone's family. It's meaningful to me to be a part of this community and help it thrive. If I wasn't a "fish banker," I'd still be down on these same docks. It's where I love to be! ↓

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