

BYM Product and Industry News

USA. Lenders adjusting to fluctuating collateral values as boat values see some stability

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Lenders and others who help them track collateral values are beginning to see a firming of prices in retail boat sales, possibly indicating a turn in the market.

“We believe this is another recovery point in the cycle of availability of credit from lenders and interest in borrowing to buy a boat by consumers,” explains Karen Trostle, President of the National Marine Bankers Association. “If we can move these forces in tandem and away from the malaise of banks’ very strict credit guidelines and buyers low desire to finance or refinance a boat purchase, it could signal a return to stronger activity by all involved in the transaction. For consumers especially, this could be the ‘sweet spot’ of best interest rates and boat prices for seasons to come.”

Establishing collateral values for boats, new and particularly pre-owned, has always been a process involving art and science. The process has been complicated in the past several years in similar ways to the real estate market as both have been impacted by overhangs in inventory, borrowers unable to keep up with payments, property and product aging and impact on condition, and values influenced by general economic trends and regional factors.

Putting this short cycle in perspective, Tom Fournier, content manager of Price Digests, which track pricing on a number of used products, reminds, “Two years ago the price of gas was \$4.00 a gallon and the market for just about everything, including boats, tanked as people locked down spending. New and used boat sales were especially hard hit. In 2009, sales reports reflected a severely distressed market so we adjusted values downward in the ABOS Marine Blue Book accordingly.

“Beginning this spring, however, we saw the market for used boat sales start to thaw and have adjusted many boat values upward for the first time in memory. Supply and demand seem to be in better balance. As the repossessions and bank sales dwindle we seem to be heading for a more normal market. Boats appear to be in stronger hands now – both by those who produce and sell them and consumers who own and may be looking to acquire something new,” Fournier explains.

Others who keep tabs on the marine market have also seen a shift to more stability. Greg Davis of Davis & Co. Surveyors & Engineers notes, “Our business has shifted from working for insurance firms to verify foreclosed boats condition and equipment in 2008 – 09 to more traditional survey work for buyers seeking condition and value studies. This suggests the flood of repos that affected the used – and new – markets and dropped prices is mostly gone. Hopefully, it also points to long-term boaters moving back into the historic trade-up or itch to get something different routine.”

Matt Amata of National Liquidators says selling prices of boats that his firm has guided in the remarketing process have returned to, and in some cases exceed, 100% of “low value” in the guidebooks. He underscores that, “We’ve been successful over the past ten years selling boats through our auctions that typically bring an average of 95% to 104% of unadjusted low price guide value,” though a low point of 91% was visited briefly in 2009. Amata feels values are stabilizing and price guides can be relied on as a starting point. He points out to clients that exceptions to price guide ranges always exist based on the

builder, type of boat, and the availability of similar product and these factors are present in new, used or recovered sales.

From the lender's perspective, those serving the marine market are adjusting practices to add some backstops to better assure loan performance. Credit scores in the 700 range have become average; good credit history for 5 years is common while "gaps" are questioned; experience with comparable credit on larger, longer term loans, especially previous boat loans, helps; liquidity and net worth of the borrower, sometimes asking for two-times the loan amount, is often a factor in larger boat transactions.

"The apparent firming of the boating market and actions by lenders and others working with them is bringing some light to a dark period," summarizes NMBA's Trostle. "We will continue providing updates and information to help lenders make rational decisions to serve the industry and consumers."

NMBA has added several new informational items for lenders to its website, www.marinebankers.org, including a current "question and answer" document highlighting the current marine lending market. Consumers will also find useful articles about obtaining loans for boats there.

Membership in the NMBA includes financial institutions such as commercial banks, private financing firms, savings and loan companies, and credit unions. Firms extend or originate credit to consumers, retailers/dealers and manufacturers of recreational boats and equipment. Associate members are those which provide services to the marine lending community.