National Marine
Manufacturers Association

NMMA Talking Points for Marine Floorplan Financing

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Background & Key Messages

Normal, functioning capital markets began to seize-up in early 2008, causing commercial paper markets to fail to operate effectively, as investors pulled away from lending to all but the most credit-worthy organizations. Almost over night, lenders slowed or in some cases ceased originating new business. Lenders traditionally active in consumer and dealer financing began to pull back or exit the recreational marine floorplan lending segment.

- The credit crisis is having a severe impact on my business and my dealers as a result of a near-total lack of credit available for floorplan financing. This type of financing is conventional business credit used by dealers across a range of industries to purchase new inventory from manufacturers to fill their showroom floors. It is highly collateralized, low-risk and generally very profitable for the lender.

- However, over the last year, there has been a massive exodus among key floorplan lenders for the marine segment, including KeyBank, Textron Financial, Wachovia, National City, and several others. Some of these banks received federal assistance under the TARP program, but severed their ongoing business relationships with marine dealers anyway, putting them at risk of bankruptcy or causing them to close their doors.

- It is time for Congress to step-in and protect the middle-class jobs which are the basis of the U.S. economy. The marine industry has already lost over 100,000 middle class jobs.

- The TALF lending program should include marine/boat floorplan loans as an eligible asset class in its second-phase of expansion. Currently, only auto floorplan loans are eligible.

- Additionally, TALF should expand its consumer lending assistance to boat buyers. Currently, TALF applies to cars, motorcycles, and a limited number of recreational vehicles. There is no economically substantive reason for boats to be excluded, and doing so threatens a major U.S. manufacturing sector that generates tens of thousands of U.S. jobs.

- Congress and the Treasury Department should consider specific relief for floorplan lending for all durable goods manufacturers, including marine – Either through TALF, TARP or a new government program, Congress should pursue the creation of a federal loan guarantee program for floorplans.

    - A federal guarantee for a portion of a loss (i.e. 10% of principal value for first year, 5% for second year, etc.) on a commercial loan to a marine dealer would encourage new lenders to enter the market, and reduce the risk of current lenders leaving the market.

- Such a guarantee would provide a “first-loss” federal guarantee to commercial floor-plan lenders lending to marine (and other) dealers, thereby increasing liquidity for marine (and other) dealers, attracting new lenders to marine floorplan lending, and increase existing lender participation in lending to marine (and other) dealers.

- This would preserve tens of thousands of jobs across a range of industries.

<u>Further Messages & Rationales</u>

- As capital has become scarce in these segments, pressure mounts on dealers and manufacturers alike, creating rates and fees increases, tighter lending standards and reduced lender flexibility—resulting in manufacturer and dealer bankruptcy and liquidation.

- Pullback of any additional national or regional lender in this segment will have severe and potentially catastrophic results for the industry.

- As traditional floorplan lenders leave the marketplace, the lack of readily-available alternative credit sources as a result of overall credit illiquidity poses major risks to marine manufacturers and their dealer networks. As a result of the credit crisis, the marine industry’s distribution chain is now in serious jeopardy, threatening tens of thousands of jobs.

- Additionally, due to contract requirements, manufacturers in many cases are required to “buy back” or repurchase inventory from a dealer that goes out of business, creating severe negative feedback loop which drains key capital from already struggling manufacturers, which will deepen and lengthen the downturn in the marine industry.

- Excess inventory on the market as a result of liquidation, credit inaccessibility and low demand means less production—fewer jobs, plant furloughs, and plant closures.

- Already, new manufacturing production in the recreational marine sector is down 40-60%. As of March 2009, boat sales were down 28% in units and 25% in dollars year over year, with total marine sales likely to drop below $30 billion for the first time since 2001. As a result of credit illiquidity, low demand, and negative economic conditions, roughly 30% of all marine industry jobs have been lost and many more are working less than full time.