



National Marine
Manufacturers Association

Marine Floorplan Financing/TALF/Federal Guarantees Frequently Asked Questions

March 5, 2009

Q: What is TALF?

A: The Term Asset-Backed Securities Lending Facility (TALF) is a consumer and business lending program recently launched by the Treasury Department and the New York Federal Reserve Board (sometimes referred to as the NYFRB or the New York Fed). The New York Fed is the largest regional bank in the U.S. Federal Reserve banking system (the Fed), which is the central banking system of the United States. Historically, the New York Fed is where monetary policy like TALF is implemented, with guidance from the Fed in Washington, DC.

Under TALF, the New York Fed will lend up to \$200 billion in non-recourse funding to any eligible borrower owning eligible collateral.

TALF is different from the Troubled Asset Relief Fund (TARP) because it focuses on consumer asset-backed securities like auto loans, credit-card debt, and student loans while TARP is focused primarily on the banking industry. However, TALF loans will be funded in part by monies allocated to TARP.

Q: What is an asset-backed security (ABS)?

A: An ABS is a financial security collateralized, or “backed,” by a number of different assets, usually non-mortgage assets like auto loans, credit cards, home equity loans, student loans, etc. Asset-backed securities are attractive to investors because they ensure future revenue over a set period of time, similar to a bond. Selling asset-backed securities to investors is appealing to lenders because it frees up cash in order to provide others with loans.

Asset-backed securities are distinct from mortgage-backed securities because they are backed by a group of diversified assets, not mortgages. A mortgage-backed security is simply a more specific type of ABS.

Q: What is marine floorplan financing?

A: Floorplan financing, or inventory financing, is a system that allows a boat dealer to borrow money to buy boats to fill his showroom until the merchandise is sold and the loan is paid back. Auto floorplan financing works in the same way, except it applies for automobiles.

Q: Why is the lack of marine floorplan financing a problem?

A: Floorplan financing is the core instrument that allows boat dealers to operate and sell boats. Without it, there is a chicken-and-egg problem whereby a boat dealer would not have any boats to fill its showroom unless it could buy it outright from the manufacturer, which would be nearly impossible without money from boat sales coming in the door.

There has been a massive market exodus of marine lenders leaving the market. In the past year, Keybank, Textron Financial, Wachovia and National City have left the marine lending market altogether. GE, who is estimated to provide as much as 70- 80% of total marine floorplan financing, has significantly scaled back lending and is not issuing new loans. **This tightening means that dealers have limited or no access to credit to keep their businesses open.**

This also affects boat manufacturers, who in many cases are required to “buy back” or repurchase inventory from dealers that go out of business. This trickle down effect drains much-needed money from manufacturers and not only leaves them responsible for buying back boats, but without an outlet for new boats. **This type of disruption in the distribution chain has already led to excess inventory and decreases in production. As a result, boat dealers and manufacturers have and will continue to face lay-offs, furloughs, plant closures as well as liquidations and bankruptcies.**

Q: What can the government do to help?

A: There are three things that the government can do:

- 1) The TALF lending program should include marine/boat floorplan loans as an eligible asset class. Currently, auto floorplans are eligible, but not marine floorplans.
- 2) The TALF lending program should include boats in its consumer lending. Currently, cars, motorcycles and motor homes are eligible, but not boats.
- 3) Congress should pursue the creation of a federal loan guarantee program for floorplans. This would increase liquidity for marine and other dealers, attract new lenders to marine floorplan lending and increase existing lender participation.

Q: Why would a federal guarantee help?

A: A federal guarantee makes a security less risky and thus more attractive to investors. The guarantee does this by agreeing to provide a certain percentage of the investor’s loss in case the borrower defaults and the collateral does not cover the loan balance. The more investors who purchase securities, the more money is made available for additional lending.

Q: What I can do to help?

A: As a concerned employee of the marine industry, your voice is needed. The future of the marine industry, one of the last remaining uniquely American manufacturing industries, is at stake.

Visit www.nmma.org/economy to call or write an email to your Members of Congress.

Please let Mat Dunn, NMMA Legislative Director, know about your contacts so he can follow-up with Congressional Offices: (202) 737-9760; mdunn@nmma.org.