

Federal Relief Needed for Nationwide Floorplan Financing Crisis ***NMMA Urges Access to Federal Lending Facilities and Loan Guarantees***

Background

Disruptions in world capital markets caused by the sub-prime mortgage crisis impacted recreational marine and other industries beginning in mid 2007. Increases in financial institutions' cost of borrowing flowed to marine dealers and consumers in 2008, as lenders grappled with thinner lending margins. 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. Tight spreads, higher loss rates and concerns about borrowing in the capital markets all were a factor in lenders' exit or pullback decisions. Efforts made by the federal government, including TARP, and other liquidity facilities have so far been ineffective in encouraging increased lending across many lending segments, including in marine. Floorplan lending continues to recede.

Implications & Economic Impact

As capital has become scarce in these segments, pressure mounts on dealers and manufacturers alike. Increases in rates and fees, reduced sales levels, tighter lending standards and reduced lender flexibility by lenders will continue to result in dealer and manufacturer bankruptcy and liquidation. Pullback of any additional national or regional lender in this segment may have catastrophic results for the industry. Over the last year, there has been a **massive exodus among key floorplan lenders, including Keybank, Textron Financial, Wachovia, National City, and others**. GE, a major lender for marine floorplans, has substantially pulled back and ceased new business. Further pressure on marine dealers and manufacturers has resulted from an overall tightening of commercial credit standards, the significant reduction or elimination of lines of credit, increased borrowing costs, rate increases, and increases in flooring, audit, and curtailment fees.

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 network. Manufacturers rely on their dealers to access the consumer and distribute their products. That distribution chain is now in serious jeopardy. 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. Excess inventory on the market 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 national total marine industry 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 135,000 jobs—or 40%--of all recreational marine industry jobs have been lost**, many as a direct result of credit illiquidity and the floorplan lending crisis.

Solution

Congress and the Treasury Department could provide important relief to help stabilize the floorplan lending market and ease the flow of credit to a number of durable goods industries that are faltering as a result of illiquid credit.

- **Access to TALF for Marine.** The Treasury Department's Term Asset-Backed Securities Lending Facility (TALF) is designed to unfreeze credit for consumers and auto floorplan loans. The program's Feb. 6, 2009 Terms and Conditions are vague but apparently allow access to TALF for cars, motorcycles and RVs, but not boats. Treasury should clarify that TALF will treat all ABS consumer and wholesale loans equitably and include access for marine floorplan financing.
- **Federal Guarantee for Floorplan Loans.** 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 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.