Marine Industry Discussion Document

Solutions To Return The Flow Of Credit To The Industry

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Credit Crisis

Background

Disruptions in world capital markets caused by the sub–prime mortgage crisis impacted marine and other industries beginning in mid 2007. Increases in financial institutions' cost of borrowing flowed to marine and other 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. "Normal" borrowing costs for financial institutions for two year term debt went from Treasuries plus 40-60 bps Treasuries plus 500 to 600 bps. Almost over night, lenders slowed or in some cases ceased originating new business.

Buyers of mortgage paper and other asset classes fled the capital markets and invested in commodities, most notably petroleum. Oil prices were "bid" up to over $145 per barrel, up from the $70 level where there were in early 2008. So dramatic was the increase that auto makers began to see a shift in buyer preferences toward fuel efficient small cars, and away from profitable SUVs. Airlines posted higher losses due to high fuel costs. Worst of all, the increases in energy prices effectively killed consumer demand for all but the most critical purchases. The recession had arrived.

Lenders traditionally active in consumer and dealer financing began to pull back or exit the marine and other space. 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 been ineffective in encouraging increased lending across many lending segments, including in the marine and other industries.

The marine industry is at a cross road given the recession and lack of funding for dealer and consumer customers. 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 liquidation. Pullback of any additional national or regional lender in this segment may have catastrophic results for the industry.

A Comprehensive Approach Is Needed To Increase The Supply Of Capital And Lenders To The Marine Industry, For Dealers And Consumers.

Credit Crisis

▪ **Dealer Credit Has Been Significantly Reduced . . .**

- **Commercial Financing To Dealers**
  - Inventory Financing ("Floor-plan Lending") Is <u>The Critical, Core Product</u> Dealers Need To Operate And Sell Boats
- **Lender Issues With Capital Markets Impacting Supply of Credit In This Segment**
  - Reduction In The Number Of Lenders
    - Massive Market Exodus Among Wholesale Lenders
    - Keybank, Textron, Wachovia, National City
    - GE Pull-back
  - Tightening Of Commercial Credit Standards
    - Reduction, Elimination Of Credit Lines
  - Increased Cost Of Borrowing
    - Rate Increases
    - Flooring Fees, Audit Fees Curtailment Fees Increased

. . .With More Dealer Liquidations Likely in the Next Twelve Months

Solving The Credit Crisis In The Marine Industry

Concept

Increase the Supply of Capital – More Lenders

1. Government Guarantees
Obtain Government Commitment To Guarantee A Portion Of A Loss On A Commercial Loan To A Dealer

<u>Discussion</u>

- Government Guarantee For Portion Of Loss Would Encourage New Lenders To Enter.

Guarantee + Servicing Capability = More Lenders + More Lending

Solving The Credit Crisis In The Marine Industry

Increase the Supply of Capital – More Lenders

Government Guarantees

Obtain Government Commitment To Guarantee A Portion Of A Loss On Commercial Loan To A Dealer

- 2007 Marine Retail Sales: \$17 Billion
- Inventory Value: < \$15 Billion
- 1.5 Turns Per Year
- Total Industry Floor Plan Market: \$10 Billion

Government Guarantee To Floor Plan Lenders for Up to 10% Loss

Solving The Credit Crisis In The Marine Industry

1. Advocate Establishing A Limited Government Loss Guarantee Program :

Program: Marine Limited Guarantee Program ("MLGP")

Provides a "first-loss" federal guarantee to commercial floor-plan lenders lending to marine Dealers

Purposes:

- Minimize The Impact Of The Economic Downturn On Employment In The Marine Industry
- Help Preserve Local Community Tax Base By Blunting Decline In The Marine Dealer Base And Marine Sales
- Increase Liquidity For Marine Dealers
- Attract New Lenders to Marine Floor-plan Lending
- Increase Existing Lender Participation In Lending To Marine Dealers

Eligible Participants: Guarantee Program Is Available to:

1. ***New Lenders*** – licensed financial institutions currently (as of 1/31/09) not lending on a commercial basis, either directly or indirectly, to any marine dealers.

2. ***Existing Lenders*** – <u>for new lending relationships only</u>, licensed financial institutions that currently (as of 1/31/09) are lending on a commercial basis, either directly or indirectly, to marine dealers.

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Guarantee Terms:	Loss Guarantee Percentage would be fixed Annually, and would decline overtime

For New Lenders

First Year: 10% of Principal Value
Second Year 5% of Principal Value
Third Year 2% of Principal Value

For Existing Lenders Establishing New Dealer Lending Relationships

First Year: 7% of Principal Value
Second Year 3% of Principal Value
Third Year 1% of Principal Value

Collateral: New and Used Marine Inventory

Guarantee Mechanics: If a participating lender's loan to a dealer becomes non-performing during first three years of the lending relationship, the lender qualifies for a loss guarantee covering the loss up to the applicable percentage of the amount of the lender's principal value outstanding at the time the loan is determined to be non-performing.

The loss guarantee will cover any losses incurred as a result of liquidating the loan, up to the guarantee amount. Losses are defined as:
Principal Outstanding* plus auction, collateral monitoring and liquidation fees less liquidation proceeds,

*principal at the time of non-performing classification

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Guarantee Example 1:

A new lender to the industry makes a $2,000,000 “floor-plan” loan to a dealer on March 31, 2009. On 12/1/09, the loan becomes “non-performing.”

The lender liquidates, on a commercially reasonable basis, the dealer's collateral. After liquidating the collateral, the lender’s $2,000,000 loan balance has been reduced to $150,000, which will be written -off:

Loan Balance:	$2,000,000	
Collateral Liquidated:	$1,850,000	
Lenders' Pre-Guarantee Loss:	$ 150,000	
Maximum Government Loss Guarantee:	$ 200,000	10% of $2,000,000

Lender recovers $150,000 in loss from guarantee, and experiences no loss in this example

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Guarantee Example 2:

An existing lender in the industry makes a $1,000,000 "floor-plan" loan to a new dealer relationship on March 31, 2009. On 12/1/09, the loan becomes "non-performing."

The lender liquidates, on a commercially reasonable basis, the dealer's collateral. After liquidating the collateral, the lender's $1,000,000 loan balance has been reduced to $300,000, which will be written -off:

Loan Balance:	$1,000,000	
Collateral Liquidated:	<u>$ 700,000</u>	
Lenders' Pre-Guarantee Loss:	$ 300,000	
Maximum Government Loss Guarantee:	$ 70,000	7% of $1,000,000

Lender recovers $70,000 from guarantee, and reduces loss from $300,000 to $230,000.