A Fresh Look At Marine Lending

Substantial opportunities are available for consumer financing, dealer financing and an entire marine industry that produces world-class boats.

Photo: Discover Boating
Our mission is simple!
Promote and improve recreational marine lending in the United States

How we execute our mission

- Educate members and prospective lenders about healthy marine financing procedures
- Promote credit to consumer and trade borrowers
- Create and preserve alliances with industry stakeholders
- Sustain networking and communication opportunities for all members
- Maintain a legislative and regulation voice of advocacy
- Measure and inform on the vitality of the recreational marine lending market
- Provide management tools and benefits for improved member profitability

Our five core values
A total suite of resources available to the marine lending and boating community

The Annual Marine Lender’s Conference
We host a two and-a-half day educational conference where the latest marine lending and industry trends are examined in detail

The Marine Lender’s Workshop
Our annual workshop educates current and prospective lenders in marine financing. Concentrated areas of study include credit underwriting, collateral valuation, lien perfection, collections, remarketing and more

The Annual Statistical Report
We deliver exclusive national retail loan and floor plan financing statistics and trends to participants, members and the world. We also publish quarterly marine lending statistics through our Snapshot

Advocacy
Our legislative committee keeps members informed about pending issues and regulations that impact the marine finance industry. We are proactive in protecting the interests of marine lenders

The Website
Our communications tool for all members, marine lenders, the finance industry and marine industry associates. Find data, news, member listings, newsletters, and more at www.marinelenders.org
Overview

Why finance boats?

The easy answer: to achieve high-quality credit, based on secure assets, profitability, relationship development and cross-selling opportunities. Here’s the story…

Considering the cyclical nature of the U.S. economy and the constant crusade for more lending regulation, every lender – indeed every business – continues making decisions on where to focus and how to allocate their resources. Since the turmoil of the past two U.S. recessions (2001 and 2007-2009) several opportunities and needs within the banking, marine and recreational lending industries exist.

For finance firms, recreational boat lending offers portfolio performance superior to most consumer loans. In addition to asset and revenue growth, serving the marine industry opens access to an upscale borrower base and today’s surviving, flourishing marine businesses.

The passion for being on the water by a significant percentage of the American populace clearly endures. An important component of supporting the boating lifestyle is helping people acquire boats they can afford.

Today’s recreational boating business looks like this…

- **Participation in boating activities** are solid with 15.9 million recreational boats in use; 142 million Americans go boating – 17 million for the 1st time
- **Annual new traditional power boats sales** have increased each year since 2010, averaging 172,375 units. 2018 sales were 206,900 units, a 57.8% increase since 2010
- The **pre-owned boat segment** is vast…as nearly 1 million units were sold in 2018 – the highest performance since 2006
- **Retail expenditures** in recreational boating exceeded $41 billion in 2018, an all-time high
- Boating’s **economic impact** is over $170 billion, and accounts for 691,149 American jobs
- The **outdoor recreation economy** represents 2.2% of our GDP (per BEA in 2017)
- Recreational **boats are uniquely American** as 95% of boats sold in the U.S. are manufactured in the U.S.
- **Support businesses** to marine lenders have increased steadily and improved their products and services since 2010. There are now over 35,000 marine related businesses of all sizes in the U.S.

Requirements for boating and related financing growth are straightforward: a healthy economy, solid consumer spending, consumer confidence measurements over 100, U.S. housing growth, job creation and disciplined interest and inflation rates. New boat sales and industry growth have been steady for the past several years. All are worthy criteria for a Fresh Look at marine lending.
The Marine Lending Business

The NMLA began its first year with 40 members, peaked at 128 in the mid ‘80s, and currently serves 96 members. Membership includes commercial banks, credit unions, savings and loan firms, private financing businesses, and finance broker service companies. These lender members extend or originate credit to consumers, retailers, dealers and manufacturers of recreational boats and equipment.

Availability of funds for consumers and businesses is much more important than the number of lenders serving recreational boating. Experiencing U.S. economic growth cycles and recessions over the past 40 years has taught this to marine lenders. The cycles also have created fluctuating numbers of lenders in, and out, of the marine market. However, our research has revealed loan portfolio problems do not emanate from the origination of boat loans. Marine portfolios consistently outperform other consumer installment loans. The history of lending to boat buyers, compared to those borrowing for other purchases, has presented safety, profitability and ways to obtain new business and increase earning assets from good customers.

NMLA’s Annual Statistical Report data underscores the key attractions to maintaining marine portfolios...

- Marine loans historically generate yields slightly above other installment lending sectors
- Marine loan delinquencies since 2010 are 43% less than other consumer installment sectors
- Marine loan charge-offs since 2010 are 12% less than other consumer installment sectors

All marine lending data source: NMLA 2019 Annual Statistical Report
Marine loans pay off in less than 5 years providing a greater turnover/revenue potential for typical terms of 7-20 years. Marine Loans generate yields close to those of riskier lending sectors.

These statistics, combined with the stronger demographics and credit profiles of marine loan customers, support lenders who serve this market. Many lenders, arguably became generous in extending credit and terms to unworthy borrowers prior to the 2007-09 recession. That was a factor in the reduction of marine lenders during that time. Retail financing remained available due to the corresponding decline of boat sales with the best marine lenders surviving … and thriving. The key for longevity, as in any business, is focusing on the basics. For marine lending those basic practices are credit policy, margins, terms, product delivery and discipline.

One significant challenge for boat lenders is to accurately access and balance the “art-and-science” of valuing the underlying collateral – boats, engines, electronics, trailers and other accessories. As a specialized commodity, there are many variables in evaluating boat loan collateral. They include the economic environment and its effects on boat values (supply/demand impacts similar to the auto industry), careful analysis of pre-owned collateral (age, condition, salt/fresh water usage, equipment, options, etc.), geographic location and selling seasons. All of these areas are deeply examined and clarified in NMLA’s Annual Marine Lender’s Workshop, an educational core value of the association.
To help determine collateral value, marine lenders utilize…

- An original manufacturer’s invoice as a primary tool for new boats
- Third-party price guides as a primary tool for pre-owned boats (such as NADA and BUC)
- Other available methods to supplement their valuation process (such as bill of sale, purchase agreements, surveys, boat owner trading websites and market comps)

The process of underwriting marine loans has many similarities to those in auto financing. Notable differences are larger average loan sizes, subjective analysis of financial statements and documents for some loans, and the collateral valuation process for larger dollar loans. Per-loan profitability has been historically greater than that of other consumer installment loan types. Specific data relating to the credit process and performance of marine loans can be found in the current edition of NMLA’s *Annual Statistical Report*.

Availability of inventory finance funds for boat dealerships is vitally important to the marine industry and can offer outstanding opportunities for portfolio lenders. The floor plan finance field has fewer lenders with program offerings than retail lending. The market is underserved where only one national lender has dominated share in the space for several years. There is an excellent upshot for lenders desiring to build commercial assets, increase revenue, gain notable portfolio performance and acquire profitable financial products through cross-sales.

![Total Charge-Offs](chart.png)
Floor plan lenders who have navigated successfully through various economic climates have shared with NMLA that inventory management is a highly critical aspect in operating a dealership. It’s the hallmark of an exceptional dealer. Floor plan lenders have also reported improved volume and profit performance than that produced on the retail side - particularly during non-recessionary economic periods. The basic keys are exercising appropriate credit practices, maintaining efficient operations and creating very special client and industry relationships.

**Participants & Profiles**

Long-term boat owners who typically buy up to larger craft, during their lifetimes are the core of the market. However, first-time boat buyers are a key group of boating consumers important to the success of recreational marine lenders and the entire marine industry. They are highly passionate and committed to boating. With all-industry partner nurturing, they’ll keep coming back and provide outstanding business vitality.

Participants in various boating activities fluctuate over time, but the nature of a growing populace supports on-water activities now and for the future. An estimated 142 million Americans (adults and children under the age of 18) went boating in 2016 – 36% of U.S. households – according to the National Marine Manufacturers Association and Recreational Boating and Fishing Foundation’s 2016 Recreational Boating Participation Study. For Americans who spend time on the water, those engaged in fishing and water sports were more likely to consider purchasing their own boat. Active boaters are economically diverse. A 62% majority have household incomes under $100,000 per year.
There is a strong connection between fishing and boating…

- 83% of active anglers are also active boaters
- There were 49.4 million people who participated in fishing during 2018, an 11-year upward trend
- Youth, Hispanic and female participation trends continue to grow
- 80% of consumers in the U.S. intend to boat in the upcoming year
- 89% of consumers intend to fish in the upcoming year

*Data source: RBFF & Outdoor Foundation’s 2019 Special Report on Fishing

When examining American participation in outdoor activities for comparison purposes, boating and fishing rank high. The most popular outdoor activities by participation rate are…

- Running, jogging and trail running…19% of Americans / 55.9 million participants
- Freshwater, saltwater and fly fishing…17% of Americans / 49.4 million participants
- Road biking, mountain biking and BMX…16% of Americans / 47.5 million participants
- Hiking…15% of Americans / 44.9 million participants
- Car, backyard, backpacking and RV camping…14% of Americans / 41.8 million participants

*Data source: 2018 Outdoor Participation Report by The Outdoor Foundation

An activity considered a benchmark for boating is vacation camping that includes Recreational Vehicle camping. The RV experience, similar to boating and fishing, has gained participation and dollar value and is often served by the same lenders who finance boats. In past research, golf had been pointed to as a pastime to rival boating growth, yet numbers of golfers have been declining in both participation and dollar value.

For recreational boat lending, boating borrowers are of high value. Key consumer demographics contained in NMLA’s Annual Statistical Report for 2019 (2018 data) reveal…

- Average boat borrower age…45-64, 78%
- Household income…$100K-$199k, 54%
- Home ownership…88%
- Average loan size…$60,100

Grow Boating, Inc., (www.growboating.org), has created an industry-wide initiative to promote the boating lifestyle, improve the boating experience and increase participation in boating. The marine lending community takes advantage of this resource and is an active supporter of the effort.
One of the latest reports issued by Grow Boating is the First Time Boat Buyer Research Study. It profiles key views of the six types of first-time boat buyers (above).

Grow Boating research suggests that motivating even a small percentage of first-timer prospects to purchase can significantly boost boat sales. Investing in first-time boat buyers is a perpetual key to the vitality of recreational boating industry.

Further analysis of this data indicates outstanding opportunities exist for positive interaction with the Gen Y, upper Gen Z and lower Gen X age groups. Serving this younger audience is important noting 78% of today’s marine lenders are focusing their boat loan origination efforts with consumers aged 45 years and greater. Another stabilizing finance characteristic over the past decade is that boat loan customers are primarily home owners.

The demographics translate to high-performing marine loan portfolios with an average delinquency of 0.54%. 100% of marine lenders report they offer credit score loan programs at 700 and above; 64% offer programs as low as 650. Only specialized non-prime lenders offer loans to consumers under 650 - with no lenders offering financing for credit scores below 550. Current credit, volume and margin trends are regularly available via NMLA’s quarterly survey, Snapshot.

The Boating Lifestyle

Boating means many things to different people. It reflects varying participant motivations, geography and analytics. The underlying reasons people are drawn to the water almost always includes the appeal of outdoor relaxation, family time, social activities and stress relief. Competitive spirit also plays a role in activities such as sailing, water sports and fishing. Exploration and new adventures can beckon while boating - or the opposite goal of simply communing with what’s beneath the hull. Being afloat satisfies many getaway desires of all age, social groups and gender demographics. Simply put, the boating lifestyle is about time well-spent.
There’s a boat for every conceivable on-water activity and choices for consumers with humble to regal means. Much of the market serves niches - bass boats sell where there’s great freshwater fishing, pontoons play best on lakes and canals, sailing catamarans often set out for offshore island treks. Regardless of activity, buyers often start with a simple craft and work their way up from PWCs through motor yachts. The fleet is mobile: consider that 95% of the nation’s boats measure less than 26 feet and can be trailered anywhere. Nearly all boats, new or late model pre-owned with values exceeding $5,000, have been candidates for marine loans since the late 1960s.

To get an idea of the uses and diversity of recreational boats visit the Discover Boating’s boat finder at www.discoverboating.com/buying/boat-finder.

Geography matters, but wherever there is a large enough body of water, a boating community and infrastructure is there to serve it. From the registration standpoint, the top states typically include Florida, Minnesota, Michigan, California and Wisconsin. Dollar volume of recreational marine business expenditures can equate to population density or simply reflect an abundance of boating resources.

The top fifteen boating states chart expands on this…

<table>
<thead>
<tr>
<th>Top 15 Boating States</th>
<th>New Boat, Motor, Trailer &amp; Accessory</th>
<th>Number of Registered Boats</th>
</tr>
</thead>
<tbody>
<tr>
<td>Florida</td>
<td>$3,209,293,133</td>
<td>925,141</td>
</tr>
<tr>
<td>Texas</td>
<td>$1,830,755,842</td>
<td>562,424</td>
</tr>
<tr>
<td>Michigan</td>
<td>$1,085,469,739</td>
<td>795,374</td>
</tr>
<tr>
<td>North Carolina</td>
<td>$913,564,978</td>
<td>359,361</td>
</tr>
<tr>
<td>Minnesota</td>
<td>$861,352,480</td>
<td>819,317</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>$781,329,216</td>
<td>614,750</td>
</tr>
<tr>
<td>New York</td>
<td>$774,714,510</td>
<td>444,103</td>
</tr>
<tr>
<td>California</td>
<td>$765,369,895</td>
<td>670,102</td>
</tr>
<tr>
<td>Georgia</td>
<td>$680,011,312</td>
<td>330,853</td>
</tr>
<tr>
<td>South Carolina</td>
<td>$661,389,563</td>
<td>551,477</td>
</tr>
<tr>
<td>Alabama</td>
<td>$632,292,530</td>
<td>244,619</td>
</tr>
<tr>
<td>Louisiana</td>
<td>$613,959,748</td>
<td>303,966</td>
</tr>
<tr>
<td>Washington</td>
<td>$570,540,317</td>
<td>244,618</td>
</tr>
<tr>
<td>Tennessee</td>
<td>$521,850,557</td>
<td>239,313</td>
</tr>
<tr>
<td>Illinois</td>
<td>$498,719,917</td>
<td>245,621</td>
</tr>
<tr>
<td>Top 15</td>
<td>$14,400,613,737</td>
<td>7,351,039</td>
</tr>
<tr>
<td>All States</td>
<td>$21,898,020,398</td>
<td>11,852,969</td>
</tr>
</tbody>
</table>

Pre-owned boats are of great importance in the overall market. Marine lenders say that more than 55% of their annual loan volume is generated from pre-owned boat sales. The bulk of pre-owned activity dollars are referred from the yacht brokers and finance broker service company firms. When the 2007-09 recession delivered lower unit sales of new boats, the industry placed new emphasis on the pre-owned sector. It recognized that, similarly to the auto business, it can be a valuable profit center and offer consumer affordability. The value of the pre-owned boat market is very often an entry-point for prospects that were previously priced out of the market.

There are additional routes for people to get on the water without owning their own boat. While market studies tell us the passionate participants still prefer to obtain their own craft - boating clubs, charters, timesharing and other similar enterprises are growing. They make good sense for those who don’t have the time or resources for single ownership. For marine lenders, some of these options can translate to consumer or commercial loan opportunities.

### Market Performance, Industry Snapshot

<table>
<thead>
<tr>
<th>Annual Retail Expenditures on Boating ($ billions)</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>New boats</td>
<td>$4.9</td>
<td>$5.4</td>
<td>$6.1</td>
<td>$7.2</td>
<td>$8.4</td>
<td>$9.6</td>
<td>$10.6</td>
<td>$11.8</td>
</tr>
<tr>
<td>Pre-owned boats</td>
<td>$8.6</td>
<td>$8.6</td>
<td>$8.6</td>
<td>$8.7</td>
<td>$9.0</td>
<td>$9.2</td>
<td>$9.3</td>
<td>$9.8</td>
</tr>
<tr>
<td>New outboard engines</td>
<td>$1.3</td>
<td>$1.5</td>
<td>$1.7</td>
<td>$1.8</td>
<td>$2.1</td>
<td>$2.3</td>
<td>$2.5</td>
<td>$2.7</td>
</tr>
<tr>
<td>New boat trailers</td>
<td>$0.2</td>
<td>$0.3</td>
<td>$0.3</td>
<td>$0.3</td>
<td>$0.3</td>
<td>$0.4</td>
<td>$0.5</td>
<td>$0.6</td>
</tr>
<tr>
<td>Accessory aftermarket sales</td>
<td>$4.0</td>
<td>$5.6</td>
<td>$4.9</td>
<td>$5.6</td>
<td>$6.0</td>
<td>$6.4</td>
<td>$6.9</td>
<td>$7.2</td>
</tr>
<tr>
<td>Other sales*</td>
<td>$9.8</td>
<td>$9.3</td>
<td>$9.8</td>
<td>$9.8</td>
<td>$9.2</td>
<td>$8.7</td>
<td>$9.1</td>
<td>$9.7</td>
</tr>
<tr>
<td>Total expenditures</td>
<td>$28.8</td>
<td>$30.7</td>
<td>$31.4</td>
<td>$33.4</td>
<td>$35.0</td>
<td>$36.6</td>
<td>$38.9</td>
<td>$41.8</td>
</tr>
</tbody>
</table>

Source: 2018 NMMA Recreational Boating Statistical Abstract

For most of the new millennium’s first decade, total annual spending on retail boats and related products and services amounted to more than $30 billion. New boat unit sales declined significantly during the 2007-09 recession, but recovered steadily since 2010. From that period on, retail marine expenditures have rebounded to over $41 billion and expanded at a faster pace than new boat sales units. It points to a significant, recognized challenge for the boating industry: affordability – reducing consumer costs of acquiring and maintaining boats. That said, the interest by passionate participants to acquire the latest model boat, or adding new technologies, remains strong. Service business at dealerships and marina yards flourish during recessions, which underscores the interest of owners to maintain their boats. These environments create significant support business for the industry when boat sales revenues decline.

Historically, the cycling-down of boating during the 2007-09 recession was not a unique experience. Boat sales track to general U.S. economic trends and often anticipate downturns. Down-cycles were seen in earlier contractions but the severity of the most recent recession was the deepest since “modern boating” began with the advent of fiberglass production in the late 1950s. That contraction was driven by the sub-prime mortgage crisis and the unregulated use of derivatives in addition to some of the more traditional pre-recession triggers.
There are boating companies in every state – hundreds in coastal and Great Lakes states where there is significant marine activity. And many of them are small businesses. Boating-related retailers make up the largest number of companies in the industry, estimated in the 10,000-range in addition to the thousands of marinas and storage facilities that provide a home for our nation’s fleet. U.S. boat builders are spread across the country and number in the hundreds.

Today’s industry manufacturers, lenders, dealerships and others providing support services have generally positioned themselves to leverage their cost-cutting, revenue attainment, inventory control and margin management programs. These businesses are not survivors of a recession. They are “thrivers” of an industry that is providing world-class products, services and opportunities for new business that includes banking, financial and lending fields.

While a majority of outdoor enthusiasts view recreational pleasure boats as a means to on-water adventures, most are surprised at the size of the industry that serves them. The boating industry is more than boats. It is about jobs, salaries, waterfront development, waterfront improvement, taxes collected and thousands of marine-related businesses and services. As a national industry, boating helps fuel the economy. U.S. made boats are also sought world-wide for their leading technology and craftsmanship, contributing to export growth.

The boating industry requires materials such as fiberglass, aluminum, steel and wood - much supplied from major industrial concerns. Automobile makers manufacture many of the engine blocks used on inboard and stern drive boats. Other materials required by the industry include polyvinyls, carpeting, instrumentation/electronics, tires and wiring – just to name a few. There are also hundreds of consumer and trade boating publications, digital information products and on-line entities that serve anyone seeking boating information.
Marine Lending Partners

NMLA lending members are supported by a number of service providers that operate in tandem to undertake the details of completing boat loans. Many of these supporters are associate members that are easily found in NMLA’s active member directory. Others are trade and professional associations within the entire recreational marine industry ecosystem.

Lender support services are in the areas of marine insurance, admiralty law, surveying, documentation, title work, specialized collections, remarketing and professional consulting. Skills, products and matters addressed by these providers significantly impact lending by delivering improved customer service and loan processing cost reduction. All supporters are relevant to the health of marine finance community…

- Insurance underwriters and agents help assure lenders their collateral is protected and advocate for the availability and fair coverage for owners
- Admiralty attorneys work to assure boat loan agreements are correct and enforceable. They can represent more complicated marine loan transactions and work behind the scenes for laws and regulations that protect boat lending and its processes
- Marine surveyors are utilized to verify that a boat being financed is sound and seaworthy. Surveys confirm hull identification numbers, engine serial numbers, verify the reported onboard equipment and aids the representation a good risk to the lender. Surveyors can also provide case assistance with insurance and errors claims
- Marine documentation companies work directly with the U.S. Coast Guard to transfer ownership, record ship mortgages for lenders, provide an abstract presenting ownership and lien history, check records, expedite and verify the process. Many of these companies also perform title verifications, perform title searches and assist with state titling
- Remarketers do much more than simply liquidate a boat lender’s repossessed collateral due to nonpayment, abandonment or other issues. They help locate boats, advise on current conditions, provide professional maintenance assessments to properly remarket a lender’s collateral

Here are some links to group websites that provide assistance or additional industry intelligence…

- Documentation services; AVDA [www.americanvessel.com](http://www.americanvessel.com)
- Recreational boating consumer intelligence; Discover Boating [www.discoverboating.com](http://www.discoverboating.com)
- Industry and product information; Grow Boating [www.growboating.org](http://www.growboating.org)
- Maritime law services; Maritime Law Association (MLA) [www.mlaus.org](http://www.mlaus.org)
- Industry and dealer intelligence; Marine Retailers Association of the Americas (MRAA) [www.mraa.com](http://www.mraa.com)
• State title law details, National Association of State Boating Law Administrators (NASBLA) www.nasbla.org
• Industry and manufacturer intelligence; National Marine Manufacturers Association (NMMA) www.nmma.org
• Fishing industry information; Recreational Boating & Fishing Foundation (RBFF) www.takemefishing.org
• Marine surveys; Society of Accredited Marine Surveyors (SAMS) www.marinesurvey.org
• Boat broker and industry information; Yacht Brokers Association of America (YBAA) www.ybaa.yachts

Connections for NMLA support partners and reciprocal industry trade associations can be accessed at www.marinelenders.org and clicking the “about us” tab on the homepage.

NMLA Resources

Education, communication and the promotion of marine lending opportunities are core missions representing value available to you through NMLA. Beyond our lending partners, there are other ways to engage with the boating and marine lending community.

Sponsorship opportunities are offered for our conferences and events, The Business of Pleasure Boating – our quarterly newsletter covering marine finance – is the place to spread your news. Other points of contact include website articles, blogs, links and NMLA social media networks. Personal resources are available daily simply by contacting our members, our Marine Lender’s Workshop instructors and NMLA’s officers, directors, legal counsel and association manager. All can be found at www.marinelenders.org.

Time for Another Look at Marine Lending

Consider taking time for a Fresh Look at recreational marine lending! As the “Discover Boating” marketing tagline suggests, “Life is better with a boat!” And life is better with new customers, new clients, new quality earning assets, fresh revenue growth and solid loan performance metrics. There is great opportunity and availability for portfolio lenders in the recreational marine retail and floor plan finance space.
Learn the Marine Lending Basics

NMLA’s exclusive two-day Annual Marine Lender’s Workshop is specifically geared towards those entering or specializing in consumer marine lending – or anyone who’s skillset may require training or knowledge of recreational marine finance. Certificates of achievement may be earned by all students and professionals completing the Workshop.

Instructors are expert marine lenders, asset managers, insurance specialists, collection managers, attorneys, marine finance consultants, business owners and others offering decades of significant experience.

The sessions include...

- Marine Finance and Marine Industry Overview
- Marine Finance Regulation
- Marine Credit 101: The basics of boat financing
- Credit Analysis
- Marine Insurance: Protecting the collateral investment
- Collateral Valuation: Art and science tool for reliable values
- Registration and Lien Perfection – State and Federal applications
- Marine Survey Analysis
- Collection, Repossession and Remarketing

Additional details and specific dates can be found by visiting: www.marinelenders.org.
A Fresh Look
At Marine Lending

The National Marine Lenders Association invites you to learn more about marine financing, the latest industry trends and best practices

We are at your service!

Photo: Discover Boating

1 Melvin Avenue
Annapolis, MD 21401
410-980-1401

www.marinelenders.org

Published: October, 2019