

Pleasure Boats

NMBA ANNUAL CONFERENCE RETURNS TO WINDY CITY

Major golf resort in Chicago suburb plays host August 25 - 27

NMBA's Annual Marine Lending Conference has become a "must attend" event for anyone involved in the marine finance and related services industries. It's designed to bring a balanced agenda of industry speakers, breakout sessions which address the latest issues affecting the lending market, interactive discussions on current topics, and the opportunity to network with colleagues and friends. One of the Chicago area's Largest Golf Conferencing Resort Complex, Indian Lakes Resort, plays host this year August 25-27.

This twenty-third annual gathering of lenders and colleagues from the marine finance industry will come together just 15 minutes from O'Hare International Airport, and 40 minutes from



The Atrium at Indian Lakes Resort

downtown Chicago. Indian Lakes is set on 260 acres in north-west suburban Chicago, and has two 18-hole, championship-level golf courses, a miniature golf course, outdoor tennis courts, health spa and exercise room, outdoor and indoor heated swimming pools, and two sand volleyball courts. The property recently underwent a \$20 million refurbishment.

Lodging rooms have been secured at a very favorable rate of \$109 per room (single or double, plus tax) per night. Those planning to attend the conference are encouraged to make reservations directly with the hotel by calling 1-800-334-3417 (or 630-529-0200) before July 30th. After this date the rate will be higher and availability is not guaranteed.

Business & networking are keys

At the 2001 conference in La Costa, participants were asked to complete a survey to get a reading on favorite features. Once again it came as no surprise that networking with customers and colleagues is still at the top of attendees' expectations. In light of this, planners intend to keep the format of the conference similar to previous years, which allows for a healthy balance of morning business sessions and afternoon recreation or side trips.

NMBA's Sixth Golf Tournament takes place Tuesday afternoon. This event has grown in popularity each year, with an expectation

of 60 friendly participants to be on the links again this August. Championship golf at Indian Lakes is played on twin East and West courses consisting of 36 holes. With large greens averaging over 6000 sq. feet and tees averaging over 4000 sq. feet, the course exists on a grand scale. 128 sand bunkers on the courses average 3000 sq. feet with some as large as 4500 sq. feet. (For course details, visit www.indianlakesresort.com/golf_courses.html.) Start practicing those swings!

Conference Committee members are in the process of developing the overall program. They are examining all submitted suggestions for business sessions. Members and colleagues with additional ideas are encouraged to advance them. NMBA Conference Committee contacts are: Bill Otto, Committee Chairman (616-538-5777; william_b_otto_III@keybank.com), Jackie Forese, Golf Event Director (516-810-3796; forese@msn.com), and Bernice McArdle (312-946-6280; bmcardle@nmma.org).



*Bill Otto,
Conference Chairman*

Sponsors & exhibitors sought

Sponsors, exhibitors and advertisers (in the program directory that becomes a useful resource for finding lenders, finance



Mike McLamb, Bob Crawley, Jim Kelaita, and Jim Foley share a round of golf at the infamous La Costa golf club, during the 2001 NMBA annual conference.

products and services) are an integral part of the conference. The generosity of this group helps insure delivery of useful, successful and memorable conferences. Sincere gratitude is extended to past supporters. Those interested in learning

more about sponsorship, advertising or exhibiting opportunities should contact Bernice McArdle.

Further details about the conference will be provided in the coming months.

PRESIDENT'S MESSAGE



Thoughts

By all accounts from our fellow marine lenders, 2002 has roared-in for us in terms of business volume. This is a tremendous boost for our industry, given the challenges we faced throughout the past two years. We all should be proud. NMBA financial institutions have led the way by creating innovative programs and new finance opportunities. This hard work and creativity has aided the marine industry's sales pipeline (and ability to prosper) during a period of economic instability.

We need to keep this momentum in forward gear. As I write this message, we may be faced with increasing cost of funds and rates as soon as this summer. The Fed is already talking about "the expansion being well underway" which can mean profitability challenges for NMBA members if rates increase. Here is what's certain — we have a great Association, comprised of the very best marine lenders who are poised to meet all of tomorrow's challenges.

Your Association

I'm pleased to announce that your NMBA special committees have been very hard at work this past fall and winter. Here's a sampling of what has been accomplished:

- The 23rd NMBA Annual Conference at Indian Lakes Resort, near

Chicago "set to go" in August. (See our lead story in this issue).

- Our Education Committee completed one of our most successful Marine Lending Workshops in our history (keep December, 2002 in mind for the next Workshop).
- Our new website, www.marinebankers.org successfully debuted in 2001. We have some really exciting updates and changes in store for your website this spring!
- The only reliable data on the marine lending market, NMBA's Annual Report for 2000, now in an improved format, is nearing completion and will be out shortly. When the 2001 Annual Survey forms are completed (by all NMBA members and delivered to the researcher on time), we will be able to publish the 2001 Annual Report this summer. The collective results in the Annual Report are extremely important to your companies and business lines!
- Through your referrals and the work of the Membership Committee, we have increased the number of members in our Association over the past year. Great job!

As always, thanks for your support that makes the NMBA a truly great association. Questions, comments and ideas may be made through any NMBA Director, your website or by contacting me at directly at 586/825-0876 or jim.coburn@nationalcity.com.
Jim Coburn

ECONOMIST DAVID ORR "HANGS IT UP"

Longtime forecaster, friend of NMBA calls it quits in February

Wachovia Bank (formerly First Union Bank) chief economist David Orr announced his retirement in mid-February ending a distinguished career. He possessed a remarkable ability to not only forecast correctly, but be able to explain details so listeners could take actions at their companies or with their investments to gain a competitive edge. As such, he was asked to continually appear and offer insights at NMBA annual conferences (and did so for 13 straight years) and was a highly-followed commentator by many key players in the marine lending community.

As he told readers of his last monthly report, "Until 1987, First Union, as a small one state bank, had no need for an economist. At the time I was an investment manager, and was lucky enough to be appointed as the first economist. I certainly never planned to be the Chief Economist of the fourth largest bank in the country.



It's been a great ride, but the whirlwind pace and the years have caught up with me. Although some tell me that 57 is too young to retire, I need to decompress.

"If there is one concept I've tried to have our reports and forecasts embody, it was stated by John Maynard Keynes, 'I'd rather be vaguely right than precisely wrong.' I've also tried to provide a user friendly style of analysis within a concise format. Hopefully, I've had some success — your call." Most NMBA members and conference-goers would answer his rhetorical question in a ringing yes!

Orr says he has "no plans to do anything specific other than to manage my own investments and exercise more. Could be it will end up as more of a sabbatical than a permanent retirement. I do hope to set up a website (already own the domain name, www.orrelse.com) where I can post my ramblings on various topics from time to time. I'll let you know if it works out."

RUSSELL TO CHAIR MLA'S BOAT COMMITTEE

Tom Russell, a long-time friend and supporter of the NMBA, will assume the responsibilities of chairman of the Recreational Boating Committee of The Maritime Law Association of the United States effective May 5. He will be the first West Coast chairman of the group, and suggests, "It's an indication the west-

ern U.S. is gaining recognition in the area of recreational boating." Russell recently formed a new firm, Russell & Associates, Long Beach, CA, where he will continue the practice of maritime law. Contact him at: 562/495-6000 or mail@ra-law.com.

USING MARINE SURVEYS FOR SUCCESSFUL LOANS IN A TIGHT ECONOMY

Establishing boat basics, real value can be provided by marine surveyors

By Greg Davis, President, Davis & Company, Ltd.

In good times anyone can make a successful loan, but in tight economic times lenders may be looking at “marginal” loans and their success can be aided with a marine survey. According to NMMA statistics, new boat sales are down, but used boat sales are not. At Davis, business in surveying used boats was up last year. Many marinas are reporting repair and used boat sales are up, too. What’s driving this? The new boat buyer or up grader is holding off due to economic uncertainties.

The surveyor will tell the buyer — and as important, the lender — the condition of the boat and will render an opinion of current market value based on that condition. The value will be determined using current market listings for similar boats, which is adjusted to reflect the condition of the vessel and the local market. Think of it as a real estate appraisal and inspection report combined.

Here are a few examples of how using a marine survey could make that loan successful:

- The survey report is going to verify that the boat truly exists, the hull identification number and/or the USCG documentation number. It will determine if the boat has the correct equipment to be operated where intended. A survey suggests what problems exist and what needs to be done to correct them. This may sound simple and unnecessary, but if you need to foreclose the loan, the survey report will provide the independent documentation of what your collateral is.
- It is rare to get a request for a survey from a prospective buyer who is genuinely interested in its content. The buyer’s motivation is to get a loan. The report may indicate the boat and motor are in such poor condition that based upon the contract price it is not a good deal for the lender.
- There are times when buyers complain that the report didn’t help gain loan approval, so what good is it? Here the buyer may be looking for a spike in the value in order to make that 20%

downpayment margin. The survey can help ensure that the loan is properly collateralized and not upside down.

- A Lender may not require a marine survey under certain criteria. For example, the boat (or the buyer) has met non-survey loan requirements. Three days after the sale goes through the mast crashes through the deck due to the rotten bulkhead underneath it. The buyer walks away, but the lender now has liquidation costs on this defaulted loan. A survey would have saved default costs by illuminating the true condition of the boat before the sale went through.

Also of critical importance is the qualification of the surveyor and the quality of their reporting system. The surveyor and the report issued should be an independent professional opinion of the condition and the value of the boat. Unfortunately this is not always the case. A surveyor was recently convicted of valuation fraud after he worked with a boat broker to inflate values on donated boats. It is important that lending institutions have an approved list of surveyors to supply to customers. They can then choose one from the list and all are assured of the timeliness of the inspection and reporting and the integrity of the opinion.

Making used boat loans in an uncertain economy does not have to be a swamp filled with alligators. A professional marine survey can help lenders make money with a quality portfolio of “marginal” loans.

President and Founder of Davis & Company, Greg Davis has been a professional marine surveyor and investigator for more than 27 years, is a board member of a number of leading marine organizations and is a contributor of numerous articles on technical issues. Celebrating 25 years in 2002, the firm provides marine surveying, engineering and consulting from 60 offices with 85 surveyors serving the United States and Canada. Its website is www.daviscoltd.com; email info@daviscoltd.com; phone 800-223-8816.



Tom Smith and Jeff Johnson at the 2001 NMBA annual conference, La Costa



(left to right) Jim Velez, Ruth DiPinto, Tony DiPinto, Jeff Johnson, and Fred Roman

HOW'S THE MARINE LENDING BUSINESS?

Boat show activity has been strong, "problem loans" working through

Consensus points to a much better boat sales and related marine lending year in 2002 versus 2001, but a return to normalcy for the boating industry is still on the horizon. How long until recovery, and which sectors will bounce back best, appear to be guesses at this point. To provide snapshots of what's happening in their markets, several NMBA members have provided the following reviews based on business through mid-March.

East Coast Marine Activity

Jim Meere of debis Financial Services in Tampa, FL reports ... "Miami Show was rated overall as very good. International visitors were down, but local attendance was up. New small boat market was down; New 35 foot and up-market was extremely strong. Service companies and lenders felt it was just OK. Brokers at the Brokerage Show felt attendance was off, but quality of buyer was better.

"Refinance business has dropped significantly in the last sixty days. Brokers in Florida report almost unanimously that the large used boat market is the strongest they have ever seen in years. Many brokers attribute increase directly to 9/11. Many consumers are going to be staying home and have decided to buy the boat that they have been thinking about for years to spend time with the family. It appears 9/11 has been an awakening for America in more ways than one.

"In the back office, delinquencies and repossessions were up significantly and have just now slowed down slightly. Lenders report that although repos were up they are selling fast and bringing excellent prices. Most notable in the last 12 months is that certain product that was rarely repossessed, i.e. mega yachts, quality high-end production yachts and sailboats, are coming back. The small self-employed business owner is the most common owner affected.

"On the southeastern Florida front, Bob Toney of National Liquidators states that the second half of 2001 generated an all-time high in repossession units, but that in February 2002 the sale of repossessed units exceeded the amount of repossessed units brought in ... prices obtained for the repossessed units were exceptionally high. He states he is getting over 2 million hits a month on his website and that large commercial ships coming back is at an all-time high. He states that his new California operation is being kept very busy.

"On the northeast front, Bryan Braley, owner of Lab Marine, states that his business increased substantially ... necessitating him purchasing a new larger location in Baltimore. His biggest problem is that the repos are being sold faster than he can bring them in and prices are very strong."

"Brad Ferguson, owner of Northeast Marine in Connecticut, feels that repo sales this winter of over 60 units translates into an excellent year. He has seen a new slice of product that is rarely seen: sailboats. He recalls power boaters coming to boat shows saying they had purchased the boat and now wanted financing,

but sail boaters would come back for three or four years before buying and arranging financing in advance ... it does make you wonder when you start picking up sailboats."

West Coast Marine Activity

Peggy Bodenreider of Deutsche Financial Services in Costa Mesa, CA reports,

"After riding the refinance wave throughout most of 2001, it appears the tide is slowing beginning to turn for direct marine lending. The number of finance transactions involving purchases versus refinances is still strongly off kilter, but lenders and yacht brokers/dealers are hopeful sales will return to the level they were in 2000. Though most are brokerage (used boat) transactions, new boat sales have reportedly increased over last year in the early shows (San Diego, Seattle).

"Low rates, prompting refinance activity, carried direct lenders through the economic slump of 2001, paralleling David Orr's viewpoint at our conference last year: this was not a consumer recession, but a manufacturing recession. Consumers provided the stimulus by refinancing in spite of slumping sales.

"On the indirect marine lending side, winter shows are producing much greater results than 2001. Sales of the mid-level 20' runabout model are coming back strong, with dealers reporting activity they hadn't seen in over a year. The concern now is if dealers will be able to get new product in time for spring deliveries, as orders were postponed until they felt comfortable they could move the product.

"Inventory is really begin to turn on the wholesale lending side and dealers are finally moving 2001 boats. With aging of inventory approaching 18 months, the carrying costs were creating problems for many dealers. Now they are selling these units and anxious to get new product in before June. Manufacturers are just now getting geared up for 2002 shipments and the supply is likely to be somewhat limited due to their late start."



Jim Meere (NMBA Director) and Dave Herpers at the 2001 NMBA annual conference, La Costa

ECONOMY COOLS BOAT SALES IN 2001

Latest long term boating statistics now available online at nmma.org

Fewer people bought pleasure boats in 2001, yet revenue from sales were up according to recent data announced by National Marine Manufacturers Association (NMMA). In its annual report on the pleasure boat industry, NMMA statistics showed that unit boat sales declined six percent to 541,300. Meanwhile, total expenditures on boat purchases increased 2.3 percent to \$25.6 billion.

"Taking into account all the external factors affecting boating this year, the industry is encouraged by sales figures for 2001," says NMMA president Thom Dammrich. "The industry has had to deal with the impact of a flagging economy and the effects of the tragedies of September 11. The fact that there was only a six percent decline in unit sales and a gain in revenue is quite phenomenal."

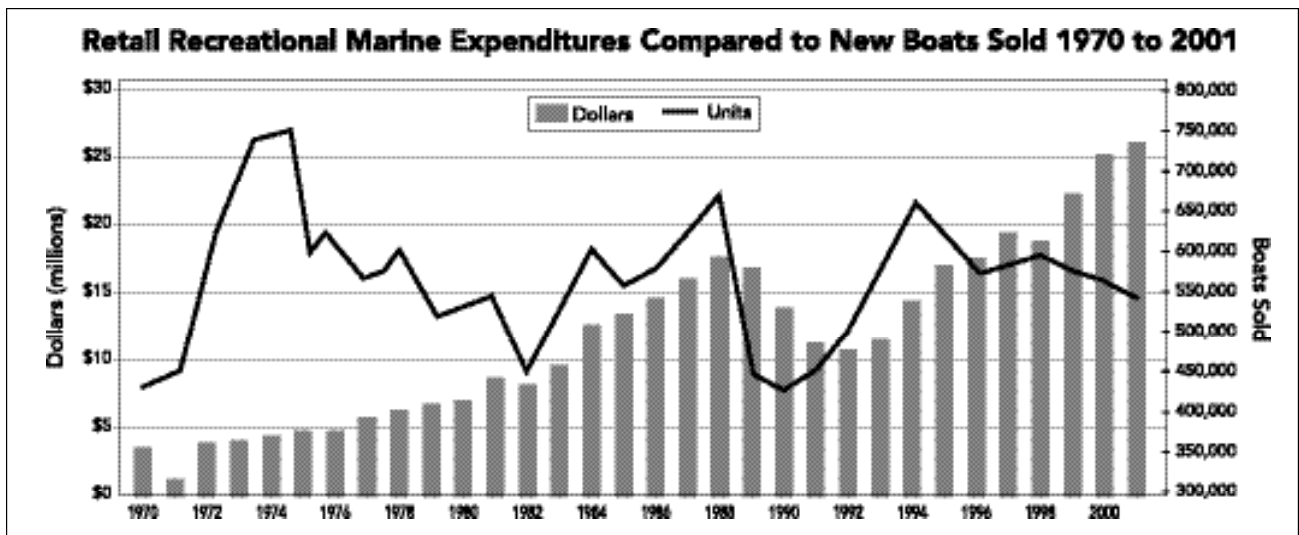
While six percent fewer new boats were purchased, total dollar sales rose six percent to \$8.6 billion. Aftermarket accessories also made a significant impact, with a sales increase of 12 percent for the year to \$2.3 billion. Another factor that allowed the industry to stave off negative growth for the year was the 13 percent increase in the average price for a new boat, which reflects the continued consumer movement toward better-equipped boats. The average price for a new boat, motor and trailer package also increased nine percent from \$23,606 in 2000 to \$25,663 in 2001.

Participation in boating was down for the year, by nearly four percent, with 69,486,000 boaters counted in 2001 compared to

72,269,000 in 2000. At the same time, the total number of boats owned was virtually stagnant at 16,999,400. "Registered boats reported annually by the states to the US Coast Guard showed a 46 thousand unit increase in 2000," says Jim Petru, NMMA Statistics manager "However, approximately 400 thousand new power boats were sold that year. The difference suggests that approximately 350 thousand boats were retired from the fleet last year. Thus the stagnant numbers between '00 and '01 on total boats owned."

Latest figures, more detail now on line

The "Boating 2001" Facts and Figures at a Glance brochure has been added to the NMMA website. To access it, go to the Facts and Figures page at www.nmma.org/facts/boatingstats/2001. The brochure covers boating participation estimates, in-use numbers of boats, motors and related products, state boating registrations for '99 and '00 (latest available), export/import dollars of pleasure boats in '00, and annual retail unit sales by boat type from 1980 through '01. There is information on 2000 retail purchases by state; total retail spending on boats from 1955 to 2001; estimated boats owned from 1913 to 2001; and estimates of outboard boat sales by length and type from '97 to '01. There are also tables and charts covering recreational marine expenditures; and the average outboard engine horsepower and retail cost from '85 to '01. This information will be of high value to marketing and forecasting personnel at all marine finance operations.



THE BUSINESS OF Pleasure Boats

A service of the



**national marine
bankers association**

News items which are germane to the marine financing field will be considered for inclusion in the newsletter. Send information to the address below.

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Jim Coburn, NMBA's President, and Ken Landon, KeyBank at the 2001 NMBA annual conference, La Costa