10-1-1976

Marine Financing

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Marine Resource Advisory

A Sea Grant Advisory Service

Advisory No. 12 October 1976

EDITOR'S NOTE: The material in this Advisory was presented at the Virginia Marine Trades Seminar, April 14, 1976, at Gwynn's Island. The seminar was cosponsored by VIMS' Sea Grant Program and the Virginia Federation of Marine Trades.

Further information on these topics and a list of trade-oriented publications displayed at the seminar can be obtained from:

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MARINE FINANCING

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Presentation to Bankers

The marine industry is a diversified and flexible market, offering ideal investment opportunities for lending institutions. It has withstood the past decade's adverse economic trends--declines in corporate profits and the value of the dollar accompanied by increases in business costs and failures--and has established a better return-on-investment record than the automobile industry.

It is estimated that the recreational segment of the marine industry in Virginia is comprised of over 600 business establishments. Slightly over half of these are marine dealerships; the remainder are marinas, boatyards or other service facilities. National boating industry associations estimate that during 1975, 167,000 Virginia households owned at least one boat. For the same period, according to industry associations, the marine retail volume of three Virginia metropolitan areas stood at the following levels: Norfolk-Portsmouth--\$5.7 million; Richmond--\$3.2 million; and Newport News-Hampton--\$2.1 million.

The record maintained by the marine industry during the past decade is attributed largely to the nature of the industry and its product, as well as a growing demand for the product. The industry is fragmented, characterized by small firms handling diverse and specialized products. Overall, the marine product has a time-tested reputation for dependability and durability. Diversity of product and product lines gives the industry tremendous flexibility. At no time is the marine industry gambling everything on one type of product or one market--for instance, if the boat market is slow, accessory sales or service work can be promoted successfully. Priorities can be shifted readily without any major industry segment getting into financial difficulty.

Total marine sales in the U.S. climbed to nearly \$5 billion in 1975. Using 1967 as a base year, the growth rate of marine sales has outpaced growth of disposable personal income since 1971 and that of automobile sales since 1973. On the average, investors in the marine industry have done as well as investors in the banking industry during the last decade.

Opportunities for diversifying investment programs exist within the marine industry. Lenders should seek out industry members in their area to gain a better understanding of the industry and its investment potential. In particular, the recreational segment of the industry can expand lenders' involvement in new business development, service to retail customers (those buying boats) and service to wholesale customers (those selling boats). Such involvement will help lenders keep money working at marketable rates.

Presentation to Marine Businessmen

When dealing with a lender, the marine businessman stands a better chance of establishing a productive working relationship if he looks, acts and thinks as a professional. The businessman shows respect for the lender's professionalism by carefully planning his financial presentation, then making an appointment to discuss plans and needs.

How should the marine businessman go about seeking a business loan? First, he should know what the lender will be concerned about before he approves a loan. Non-financial considerations such as compatibility between owners, distribution of duties among partners and possible hidden ownership are important. Further, the lender will want to know about personal worth, outside interests, plans for operating the business if the principal should become disabled, and personal habits. He will also be interested in whether the owner has provided for liability situations and other problems characteristic of the business's organizational structure, whether it is formed as a proprietorship, partnership or corporation. All this information helps the lender evaluate the borrower's situation and the continuity of the business in which he is being asked to invest.

The lender will weigh the business's reputation in terms of community image, experience, fire record and credit history. He also considers operational details such as the business's role within the industry, marketing, product lines, lag factors, seasonality and fixed investment.

The marine businessman should go beyond the traditional statement of financial position when preparing his financial presentation for the lender. He can show the lender that he is resourceful and organized enough to generate funds internally, as well as externally to the business by developing a restructured statement of changes in financial position. This illustrates the businessman's ability to take funds from various sources and make them work for his business.

During discussions about how proposed investment funds will be used, the businessman should explain terminology which may be unfamiliar to the lender, such as riprap, groins, etc. Explaining the benefits of doing a project one way rather than another, including durability of different structures and materials, will help the lender understand the problems involved. Such discussions will also strengthen the lender's impression that he is dealing with a competent professional.

Boats represent at least 50 to 60% of the recreational vehicle market in terms of dollar volume and are proving to be a sound investment. According to the American Bankers Association Installment Credit Survey, banks in 1974 had a lower percentage of average installment credit dollar losses from recreational vehicle dealerships than from automobile dealerships. In addition, financing floor plans for recreational dealerships stimulated more indirect retail financing for lenders than automobile dealership floor planning.

Delinquency rates for boat loans generally are lower than for automobiles. One of the best records for boat loans is held by a midwest bank. At the end of 1975, the bank ran a delinquency study on its 18-month-old boat financing program. With $2 million in "boat paper" outstanding, not one payment was past due.

Such facts, while impressive, are not going to cause the lender to rush to the marine businessman's door. The businessman must demonstrate interest in the lender and the financial leadership he represents. Marine industry associations, looking to improve members' business management skills, should call upon lenders to assist them by means of workshops, small group seminars, etc. The businessman should invite his lender to the business site to help him understand the unique problems of being "marine". Such an exchange of information will promote and strengthen a strong working relationship from which both parties can benefit.

COASTAL RESOURCES MANAGEMENT PROGRAM

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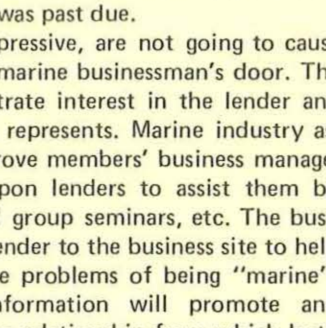

Virginia's Coastal Resources Management (CRM) Planning Program has been initiated to develop improved methods for increasing the number of sound decisions concerning the use of the Commonwealth's valuable coastal and marine resources. Resolving use conflicts, and providing the best possible balance between environmental quality and economic growth are two primary goals of the program. Virginia's marine trade industry may be profoundly affected by this program, and should therefore make every effort to become involved in the planning effort.

Coordinated by the Commonwealth's Office of the Secretary for Commerce and Resources, the program is utilizing the expertise of the Virginia Institute of Marine Science and Marine Resources Commission to assess coastal resource problems, as well as ongoing management programs affecting those resources. CRM Regional Advisory Committees have been established in each of nine coastal planning regions to ensure that these assessments and resultant recommendations reflect local perspectives, needs and desires.

Marine tradesmen must become involved in the work of these committees, so that their interests are given adequate consideration. Other coastal resource users will certainly be working to protect their interests. Consequently, rather than waiting to be asked for their opinions, marine trade businesses should take the initiative to contact the appropriate people. Information concerning Advisory Committee contacts in your area can be obtained by calling Mr. Ron Schmied, (804) 642-2111, extension 190.

MARINE INSURANCE

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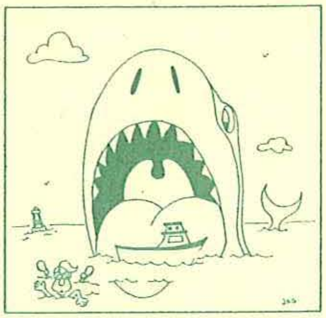

How can the marine businessman be sure that his insurance coverage is adequate? First, he should assess his insurance requirements in terms of his marine exposures (insurance needs peculiar to the marine trade) and non-marine exposures (general business insurance requirements). Non-marine exposures include buildings and their contents (other than boats and motors), dry storage, public premises liability, and worker's compensation insurance. The businessman should look at the following points when evaluating his marine exposure coverage:

- It may be less expensive for the marine businessman to provide transit coverage on boats and motors held for sale himself, rather than paying for it through the manufacturer. Savings depend on where he takes custody of the equipment.
- Does the policy provide theft coverage for boats and motors on display, or does it only insure against burglary? There may be a big difference--to collect on burglary coverage, there must be evidence of "forcible entry". If a boat and trailer simply disappear from a sales lot, the loss may not be covered. The policy should include the broadest coverage, or "all risk", especially on new stock.
- Marina and repair yard operators should watch out for exclusions in their policies. Under a general liability policy, they generally will not be covered for damage to customers' boats while in the operator's control or care--for instance, the policy may not cover damage while moving a customer's boat from one point in the yard to another.
- Marina operators can be held liable for providing an "unsafe berth". This term can cover conditions such as faulty construction, poor wiring and improper fuel handling. If damage or loss results from an unsafe berth, caused by the operator's negligence, even a "hold harmless" clause will not shield him from liability--his negligence cannot legally be assigned to a third party.
- A vessel repairer is potentially liable for damage or personal injury on craft he has repaired, if the loss is caused by his proven negligence. This liability persists for a variable period after the vessel leaves the repair facility, depending upon circumstances preceding the loss.
- Extending a "general liability" policy to insure watercraft may not provide adequate coverage, because a liability suit will be settled under maritime law in an admiralty court. Greater safety is provided by "Protection and Indemnity" coverage for watercraft. P & I coverage indemnifies for loss of life or personal injury to passengers, loss or damage to cargo, and damage to docks, buoys, bridges, etc.
- A boatyard operator who demonstrates vessels for prospective customers should be licensed by the U.S. Coast Guard to carry passengers for hire. Demonstration for expected remuneration (trying to sell the boat) and actual charter are legally hard to distinguish.
- Marina operators who are also licensed agents selling yacht insurance should make sure the policy includes non-depreciating coverage (new for old) on hull and machinery, as well as theft coverage. They should explain to the customer whether the engine is depreciated after a certain period of time and whether racing is a permissible activity under the coverage. The policy limitation on underwater machinery should be sufficient to cover rising costs.

There are also several ways marine businessmen can help lower their insurance costs. For one thing, each individual should determine the "first dollar loss"--deductible limit--he can absorb. By raising deductible limits, the businessman can lower premiums significantly or increase coverage without raising premiums.

The Connecticut Marine Trades Association and INA's marine loss control department have an anti-crime program detailing operating procedures to reduce losses around marinas. A program initiated by INA and the National Auto Theft Bureau locates stolen boats in crowded marinas. INA will assist Virginia marine businessmen in developing similar programs.

VIMS SHORELINE PERMIT ADVISORY SERVICE

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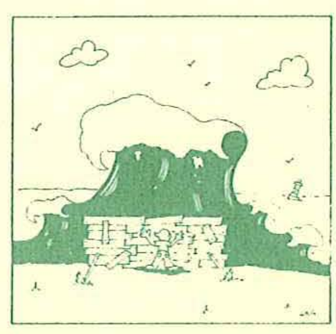

VIMS' Wetlands Research Section offers an advisory service for shoreline project permit applicants. If advice is sought, the service can save time and money by uncovering potential problems before the application is submitted.

The traditional use of vertical bulkheads to protect shorelines from erosion or to protect perimeters of boat basins can create problems.

This solid structure can cause unusual currents and erosion of other points along the shore. Similarly, solid groins or jetties can result in erosion down-current of the sand flow in the area.

VIMS personnel are experienced in the use of techniques which avoid or reduce the severity of these problems. Rock or riprap bulkheads, which absorb rather than reflect wave energy, and gabions (wire baskets filled with rock or shells) can protect less exposed shorelines. It is also possible to build up exposed beaches and reduce highland erosion behind the beach by placing a sill parallel to the shoreline. The sill, composed of large nylon bags filled with sand, is usually placed no more than 50 yards out from shore. Sand builds up on the landward side of the sill, raising and widening the beach without impairing sand flow along the beach.

These techniques often cost less per linear foot than more traditional methods. However, the structures must be constructed properly to work successfully. As part of its advisory service, VIMS will explain and in some cases help supervise the initial installation stages of these structures. Except for document duplication costs, the advisory service is generally free.

VIMS' pre-application recommendations are not binding on the property owner. However, in its official role as advisor on the environmental impact of shoreline projects, VIMS' views will also be solicited by permit-granting agencies. By seeking VIMS' advice before making the permit application, the property owner can anticipate and solve problems before they become full-blown issues in permit hearings.

FINANCING THE CONSTRUCTION OR RECONDITIONING OF MARINE VESSELS

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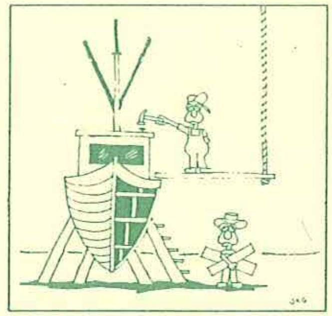

The federal government is helping finance the construction or reconditioning of commercial fishing boats through the Fishing Vessel Obligation Guarantee Program and the Capital Construction Fund Program. Both programs apply only to commercial vessels over five net tons.

Through the Obligation Guarantee Program, the government encourages lenders to finance up to 75 per cent of the cost of building or reconditioning a fishing vessel by guaranteeing the full value of the loan. NMFS handles the credit investigation, places the collateral in its name only, and services the collateral. The lender also benefits from the program, since he is relieved of much paperwork and becomes eligible for many benefits available to holders of government securities.

The Capital Construction Fund Program allows a commercial fisherman to defer payment of federal taxes on funds set aside for construction or reconditioning of a vessel. The fisherman, in effect, receives an interest-free loan in the amount set aside.

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