

# A Practical Approach to Stormy Times

To understand the current state of the sailboat market, do as a skipper would when heading to sea: Read the economic warnings and discussions, then create your own forecast. **BY ELAINE LEMBO**

**A** SERIES OF INTERVIEWS that *Cruising World* conducted this spring with marine lenders, brokers, and builders reveals economic conditions in the industry ranging from a full-blown tempest ravaging the powerboat segment to lumpy seas for sailboat builders to smooth sailing for potential buyers whose seabags are stocked with a good credit rating and cash for a down payment.

Most lenders say that despite what you may read or see on television,

It's a great time to buy—there are lots of new and used boats for sale. Loans are available. I want to hit them in the face with this.

— Charm Addington

there are ample resources to lend to the right customers, and they note that sailboat buyers have historically been good risks because they've done their homework and they've made sure they're financially fit to launch a deal. In the overall industry, though, that hasn't always been the case.

"A parallel to the subprime mortgage industry existed in the marine industry," says Charm Addington, vice president of the BoatU.S. lending division. "Lenders wrote loans on stated incomes under relaxed guidelines. People got used to not making down payments and getting 100-percent financing, which is bad for the industry. The lenders who got burned got out of the industry.

"People are calling and e-mailing to



MARIANNE G. LEE

ask, 'Are you making loans? Are you still doing boat loans? We hear it's hard to get one.' You have people out there who think there's no money. A good applicant can get a boat loan if he or she has a good credit score and makes a down payment.

"It's a great time to buy—there are lots of new and used boats for sale," Addington says, repeating for emphasis: "Loans are available. I want to hit them in the face with this."

Cathy Comstock, whose role in the marine-finance service sector places her between the borrower and lender in arranging the deal most suitable to each party, sounds a similar call. "We have a number of loans in process now for used and new sailboats," she says.

Comstock is president of Customer One Financial, which handles, among packages, applicant referrals for members of US Sailing, the governing body of

the sport. Customer One is a division of Gowrie, Barden & Brett Inc., a leading insurance agency in the Northeast United States. "A qualified buyer wouldn't find it any more difficult today than six months ago to buy a boat," Comstock says.

### Tightening Belts

Her assessment seems fair enough, yet the cumulative effects are hard to deny: According to Dave Patnaude, a vice president with Essex Credit Corp., in 2007, there were a dozen national major marine lenders. "Now there are about five," he says. Among the larger survivors are Bank of the West, SunTrust Banks, Bank of America, U.S. Bank, and Colonial Bank. The departed include National City Bank, Wachovia, GE Money USA, KeyBank, Citizens Bank of Rhode Island, and Regions Bank.

The exodus was precipitated by a series of events that are now considered common knowledge.

"For the last five years, all lending was loose in terms of underwriting guidelines. Applicants could get a loan for \$500,000 with just a Social Security card, a basic credit application, and a personal financial statement listing assets," Patnaude says.

"If the client had good credit history, we'd have lent him half a million dollars," he adds. "Now you look back and say, that's pretty crazy."

Lenders who got stuck with bad loans—otherwise known as no-dock, or liar, loans—found the losses difficult to absorb while trying to maintain profitable portfolios. In addition to conventional loans now in default because borrowers lost their jobs in the recession, the sum total creates a significant drag on lending overall.

"The documentation and information supplied by some applicants had holes and wasn't entirely true," Patnaude says. "Now people are defaulting, claiming hardship, and seeking to modify the loans or undergo voluntary repossessions."

The result is that the pendulum has swung from far left to far right when someone applies for a loan. To borrow from \$50,000 to \$500,000, you now need to supply a full financial package. "Two years ago, 50 percent of all applications received were approved," Patnaude says. "Now it's 25 percent." Among items required from the applicant are a credit statement, a list of assets, a W-2 form, and two years' worth of federal income tax

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returns. Key indicators for loan approval include a favorable credit score of at least 690 to 700; proof of income; a debt-to-income ratio with a threshold of 38 percent to 42 percent, instead of nearly 50 percent, gross; and no more than \$8,000 to \$10,000 of credit-card debt.

As well, Patnaude says, lenders are examining liquid assets such as 401(k)s and IRAs to determine if they can be turned into cash should a client ultimately become unemployed.

"This has all helped to slow the boat-buying process down substantially," he says. "In years past, if a segment of the economy was down, another area was pulling it up. This is the first time in probably 100 years where everything is affected across the board. New and used, across the board, the financed-boat business is down 50 percent."

Don Parkhurst of SunTrust Bank, one of the largest banks in the United States, believes that the crisis rests with individual buying behavior. "Consumer debt is at levels that haven't been met since the Great Depression," he says. "That's what's driving everything."

Parkhurst, who's the head of SunTrust's marine/recreational-vehicle finance group as well as a senior vice president, also views the marine angle through his roles as former president and current board member of the National Marine Bankers Association. The group, which often cooperates with the National Marine Manufacturers Association on industry issues, promotes good marine lending practices through a network of banks and service companies.

"The problem in the marine world isn't that there isn't money," he says. "There's enough money. The problem is that there aren't enough qualified buyers who are confident enough to buy now. Confidence is at its lowest levels since records have been kept, in the 1960s. The consumer is tapped out—had too much debt and couldn't keep adding it at that rate. What's also important: We can't spend our way out of the problem."

### One Industry, Divided

While headlines portend a summer more aground than afloat, it's important to remember what place the sailboat market occupies in the overall U.S. recreational boat-buying market. According to Parkhurst, sail represents about 10 percent of the boating market. In terms of repossession, "out of my total inven-

tory, I have one sailboat," he says. "Our sailboat loans perform much better than powerboat loans.

"That sailor who's denigrated for being 'thrifty' tends to be a much better credit risk for us. This thing about sailboat loans not going bad isn't unique to the current recession—I've been in this career 30 years," Parkhurst says.

Jim Coburn is Parkhurst's successor as president of the National Marine Bank-

ers Association as well as first vice president of Flagstar Bank. "There are fewer losses with the sailboat population," he says. "Marine lenders like financing sailboats because they feel it's less of a risk, particularly with your typical recreational sailboat: Catalinas, Beneteaus, and Hunters. Banks are all over them. They love them. Sailing is its own sport. People who haven't sailed don't know what they're missing."

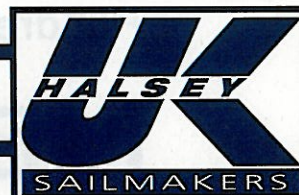
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Chris van der Wal

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