

# Repo glut is beginning to impact boat prices

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Capt. James Hedrick of National Liquidators base in Fort Lauderdale, which specializes in repossessing boats from owners in default.

Seized craft are going for 10-15 percent below book value, as lenders scramble to move them

Jeff Henderson spent 45 minutes banging on a Detroit door one overcast morning in early September. Henderson, who repossesses boats for a living, saw TV images flickering inside. The dogs were barking and neighbors assured him the occupant was at home. Finally, Henderson called police.

“I [thought] the guy was dead in there,” he says.

It was an unusual morning even for Henderson, but the situations he sees as a boat repossessor are increasingly strange — probably because business at his Harrison Marine in Michigan has spiked 30 percent in the last 12 to 18 months.

Even though he sold 29 of the repossessed units in August, boats are crammed on his Harrison Township lot. It’s an issue faced by liquidators around the country and, as a result, boat values are plummeting.

“Banks are not in a position to wait one or two years to sell a boat,” Henderson says. “The bank’s got to take it in the shorts. They have to lower their expectations for what they get for their boats.”

Repossessed boats are bringing between 10 and 15 percent less than book values, according to Don Parkhurst, senior vice president of SunTrust Bank.

Lenders are in uncharted territory with the numbers of repossessions and their plummeting values, and are trying to figure out how to catch up. With repossessions

reaching unprecedented highs, lenders are scrambling to unload the vessels in an already flooded market and fetch enough money to avoid taking a complete loss.

“The last big recession that affected boat repossession — in ‘89 to ‘91 — even then you could always resell,” Parkhurst says. “In this particular market, it’s really tough. There are an awful lot of repos on the market right now.”

Many of them are mid-sized cruisers. Because there is a glut in that type of boat, banks are becoming more conservative in giving loans for them, Parkhurst says.

“Banks are getting tighter in that part of the market, knowing it’s not as easy as just repossessing and selling it,” Parkhurst says. “You actually are taking a big hit if you have to do that.”

“Unfortunately, it’s right in the heart of the market,” Parkhurst continues. “It’s kind of that middle-class boater.”

The glut of repossessions and the subsequent money tightening has led several marine lenders to pull out of the market in the last year, according to Parkhurst.

Some total losses

Some liquidators are even turning down work because certain boats are so undervalued the bank will not see any return, or because they are out of room on their lots. In some of those cases, lenders are being forced to abandon their collateral and write off the loans entirely.

In other cases, a borrower files for bankruptcy before a bank repossesses, again sticking the bank with the loss.



Repossession and remarketing are such hot topics that a part of the National Marine Bankers Association conference in November will be dedicated to coming up with new standards for the industry, says Peggy Bodenreider, NMBA chair and conference organizer.

“Going into it we won’t have a compilation of data, but going out, if not hard, fast data, we’ll have some pretty strong opinions on remarketing,” says Bodenreider, who is also

vice president of marine sales for GE Consumer Finance. “We want to track trends in value versus sales price; trends in how long it’s taking to remarket.”

Banks are tightening credit requirements across the board to try and curtail the spike in repossessions, Bodenreider says. But in the meantime, they need a new vision of what is normal for resales.

New expectations

Bob Toney, owner of National Liquidators in Florida, guesses prices have been running about 15 percent below book value. That’s because there is so much inventory, the banks have to move quickly.

“I would say the bottom-line result is they’re not bringing as much money as quickly as they did two years ago,” says Toney.

Although it’s hard to quantify the number of repossessions, National Liquidators vice president Matthew Amata guesses they nearly doubled in 2008 from what they were in 2004.

“It’s a supply and demand issue, and every bank knows that,” Amata says. “They want to eliminate assets; they’re not in the business of owning boats, they’re in the cash business. They want to put cash in their coffers and they will keep adjusting the price to where there is a buyer. So absolutely you’re seeing a lower rate of return.”

National Liquidators used to sell boats with a rate of return in the 90th percentile. Now that percentage is in about the mid-80s.

“We’re not having any problems because of our international connections,” Toney says. At least 50 percent of the boats from National Liquidators go to Europe, the Caribbean or Canada, he points out.

The weak dollar and plummeting prices make boat prices more attractive to buyers from overseas, even in light of high shipping costs. That has helped many liquidators offset soft sales in the U.S.

While values are down, the average sale price of a unit has increased about 15 percent during the last two years at National Liquidators. That’s because the average length of boat the company picks up has increased from 29 feet to 33 feet since 2006, Amata says.

“This is an indication of the down economy reaching a slightly higher socioeconomic demographic,” Amata says.

Traditionally, for the last 15 years, banks could unload repossessed boats within 60 to 90 days, Parkhurst says. Now that figure is getting stretched, and not even bankers have a handle on what the new expectation should be.

In part because of the international market, “turns” are still relatively quick at National

Liquidators. The average turn time (the time it takes to sell the boat from the day it becomes available) has gone from about 45 days to 60 days in the last two years, Amata says.

#### Tightening credit

When it comes to giving loans, banks are more bearish across the board as a result of the home lending crisis, although some types of boats are riskier than others because there are so many units for sale with slashed price tags.

“You can’t even liquidate them at all,” says Parkhurst. “You’ve just got to lower the price to where you can move it, and you’ve just got to take the hit.”

Some of these brands were overvalued in the market to begin with, and because there are so many, they are even more difficult to unload.

Ironically, because banks are forced to pay so much attention to the resale market, they are more aware when loan applications reflect inflated boat values. That helps curtail situations that can eventually lead to repossession in the first place, Parkhurst says.

Most lenders are taking a more conservative approach when reviewing loan applications.

“We’ve seen some of the lenders cut back on what we call the no-documentation or limited-doc programs,” says Toney. “Those have all gone away; they’re wanting to look at every deal, and the minimum requirements are becoming more stringent.”



They’re also giving shorter terms. Boats from the 1980s are not often worth repossession after accounting for depreciation, recovery costs and resale tabs, says Henderson. Instead of repossessing these vessels, sometimes banks will simply surrender them and take a total loss.

For example, if a 1988 20-foot cruiser is worth \$10,000, and the customer owes \$4,000, plus the \$2,000 it takes to have a liquidator recover it, it’s not worth the bank’s time.

“The problem is, they give a loan to someone for 15 to 20 years, and guess what? That’s

a long damn time,” says Henderson.

Tightening credit requirements will cause business to tail off at National Liquidators in three to five years, Amata says, because the average boat loan is 40 months.

“No doubt about it, our high is high and our low is going to be low,” he says. “But probably then, the economy will be robust, and banks will probably loosen lending practices and the cycle starts again.”

“One thing about repos that I’ve found; certainly there are peaks and valleys in our business, but there’s a floor to that,” Amata adds. “The delinquency rate never completely goes away, and that’s just simply because of our culture. People are always overextending [themselves], regardless of the stock market and the Dow. It’s the American way.”

When to repossess

Another question that will be posed to bankers at the NMBA conference is how long they wait to repossess from the time a customer defaults.

This varies from bank to bank, according to Amata.

“It’s just different trains of thought and how the banks set up their collection shops,” Amata says. Some banks repossess after 30 days, and some wait as long as 120 days, when federal law mandates they must take the write-off.

“The quicker you get to the boat, the better,” says Amata. That’s because the longer somebody skips payments, the less likely they are to maintain the boat, he adds.

Sometimes boats will have been stripped when the repo men get to them, Amata says. Sometimes the culprit is the former owner, trying to get every dime out of the boat, and other times it’s people in the marina who know a boat is deserted.

“Once you realize you can’t keep this asset long-term, you don’t treat it as your own,” Amata explains. “It’s best when it’s quick. The person is still surprised, still using it, it’s all fueled up and ready to go for the weekend and we go in and just take it. That’s when you get the best resale money.

“Banks will try and work things out with debtors and get hosed,” Amata says, though he thinks that’s also because they want to minimize their write-offs.

The amount of time banks take to repossess a boat when a loan is in default is at least partially dictated by the Federal Deposit Insurance Corp., Parkhurst says. Usually, a bank has to declare the loan a loss after 120 days.

“If you repossess, it buys you more time,” Parkhurst maintains. “It’s important to understand that since the government sets that limit for us, we really don’t have a lot of

options.”

At SunTrust, repossession usually occurs when borrowers are 70 to 75 days late.

“The reason we repossess then is because we don’t want to get near that 120-day point where we would have to take a hit,” Parkhurst says. “If we get the collateral, then we have that asset, and when we eventually sell the boat and get enough money to partially pay off the boat, we never have a writeoff, or if we do, it’s not the same as if we didn’t get anything for it.”

Sometimes SunTrust will work with borrowers and let them try to sell the boat. Other times the borrowers will be allowed to make interest-only payments.

But that latter approach can backfire, Parkhurst says.

“We had one guy who took the boat and moved it to Mexico trying to hide it from us,” Parkhurst says. “It caused me to have to spend a lot more money to go to Mexico and get it. Most people wouldn’t do something like that, but some boaters will. The bank takes a big chance if they go beyond [the 120-day] time frame.”

Some borrowers are in denial about their financial situations, Parkhurst says.

“We do try to work with people, but in a lot of cases, there’s no light at the end of the tunnel.”

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