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Boating industry sees deluge of foreclosures

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At the end of a long, low-slung dock stretching out into the bay sits a yacht that would make many boat enthusiasts drool.

The 55-foot Marquis LS, with its exquisitely detailed interior, three staterooms, the latest in electronic gadgetry and twin Volvo diesel engines putting out 775 horsepower, begs to be taken out for a spin. Or across the world.

The engines have barely been broken in, as the boat has spent most of its life in a showroom.

But unlike its counterparts on the retail market, which would carry an asking price approaching \$1.4 million, the Marquis docked at Galati Yacht Sales on Anna Maria will likely sell for half that much.

Its current listing price is \$799,000.

Why?

One reason. It has a particularly motivated seller: the bank.

It is no secret that the Great Recession made 2009 one of the all-time worst years for the housing market in Southwest Florida, as prices plummeted and foreclosures skyrocketed. The sight of a bank-owned home, once relatively rare, became not only commonplace but the driving force behind the market. The question now is whether 2010 will prove to be the year things turn around in housing, or get worse.



STAFF PHOTO / E. SKYLAR LITHERLAND

A 55-foot Marquis yacht, built in 2007, is a bank-owned vessel on the market at Galati Yacht Sales in Anna Maria.

But while home and condominium foreclosures get the lion's share of the attention, a similar deluge of foreclosures took place last year in the boating industry, in which repossessions continue to happen weekly.

Local boat dealers are asking themselves the same question Realtors are: Will 2010 be the year of the turnaround?

Dealers say the pace of boat repossessions has slowed this year from a peak in mid-2009, and they hope the worst may now be behind them.

Meanwhile, some see opportunities in repossessed boats the way some see profits in repossessed real estate.

"We get calls specifically for them," said Gary Hirschberg, the Galati agent out on Anna Maria. "The perception is that bank-owned boats are a good deal. They see them as a better buy."

Whether that is true depends in large part on the condition of the boat, Hirschberg said. Just as with foreclosed homes, some boats may need work to get them back up to snuff. Others can be like new.

Jason Mashke, with Sarasota Yacht & Ship Services, echoed that sentiment.

"I have had buyers who wanted a repossessed boat until they saw some of them, and how much it would cost to fix them up," he said.

"It can be hit or miss. An owner who knows he's losing his boat doesn't have a lot of incentive to do the maintenance."

Several companies try to help sort the good from the bad.

One of them is in Sarasota County. Boat-Chek.com, headquartered in Venice, will do a preliminary inspection of a boat anywhere in the country and report its condition.

The company says its reports should not be used to replace a full-blown marine survey but can help boat buyers decide which boats they want to investigate further and which to scratch off their list.

The market

The condition of a foreclosed boat may have most to do with its origin, brokers say.

That is because the market for bank-owned boats is really divided into two categories: vessels repossessed directly from owners who can no longer make their payments, and boats that are seized from dealers themselves who fall behind or go out of business completely.

The dealer boats can sometimes be the best finds for potential buyers, because they can be like new. They get sent to other brokers like Galati to be sold.

“We saw a lot of dealers go under in 2009, it was a rough year,” Hirschberg said. “They just could not keep up with their floor-plan agreements.”

Boat dealers use so-called “floor-plan” financing to buy their merchandise — similar to what auto dealers and other businesses do.

The dealers need to have boats in their showrooms and on their docks, so they borrow from floor-plan lenders to finance those purchases from the manufacturers. The idea is that as the boats are sold off to customers, the money is paid back — so the loan packages are designed to be shorter-term.

But when the Great Recession reared its head, the market for boats took a nosedive. Inventory sat unsold, and many dealers could not afford to repay the loans.

Not only that, but the financial crisis meant the floor-plan lenders themselves were getting squeezed — prompting them to be less than sympathetic to dealers who fell behind.

Many of the floor-plan lenders had been packaging their loans into asset-backed securities. The credit crisis meant the market for those securities dried up. Some lenders began looking to leave the floor-plan business altogether.

Things got so bad that the boating industry — not just dealers but manufacturers — turned to the U.S. government, pleading for help to free up floor-plan lending.

In the spring of 2009, prompted by strenuous lobbying by the National Marine Manufacturers Association and then joined by other non-marine groups, the Federal Reserve agreed to include floor-plan financing as being eligible for help from the \$1 trillion Term Asset-Backed Securities Lending Facility, known as TALF.

The TALF program was intended to restart asset-backed securities markets by offering

incentives to investors to purchase the securities as well as protection (ultimately from the taxpayer) if the loans behind them defaulted.

That may have helped some boat dealers who needed financing for new purchases, but it did not do much for those who were already facing foreclosure.

For Galati, Hirschberg said the bulk of its foreclosed-on inventory in 2009 came in from the floor-plan lenders it works with, though more boats continue to arrive.

About 25 out of the 500 boats the company has in its inventory along Florida's west coast are bank-owned.

The Marquis has been at the Anna Maria office for about two months. It has had three offers, but the lender rejected them for being too low.

“We never really know what they're going to accept,” Hirschberg said. “But they know it needs to sell before too long.”

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