STATEMENT
OF

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ON BEHALF OF
NATIONAL MARINE MANUFACTURERS ASSOCIATION

BEFORE THE
U.S. HOUSE OF REPRESENTATIVES COMMITTEE ON SMALL BUSINESS

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ON
"LAYING THE GROUNDWORK FOR ECONOMIC RECOVERY: EXPANDING SMALL BUSINESS ACCESS TO CAPITAL"

Good afternoon Madam Chairwoman Velázquez, Ranking Member Graves and distinguished members of the Committee. Thank you for inviting me to testify before your Committee today on the important topic of expanding small business access to capital.

Background

I am David R. Bofill, the President and Owner of Dave Bofill Marine, and sell Chris Craft and Scout Boats at both of my Long Island, New York sales locations. I have been in the boat service and dealer business for 35 years and my operation at its peak employed over 20 people. I am the 2nd largest Scout dealer nationwide and the 3rd largest nationwide Chris Craft Dealer. I am a small business. In fact, about 80 percent of the boating industry is made up of small business with the vast majority of boats sold in the U.S. having been made in this country. The National Marine Manufactures Association (NMMA) asked me to explain to the Committee the impact of the current credit crisis on the recreational boating industry. The boat brands that I sell, Chris Craft and Scout Boats, are active members of NMMA's Boat Manufacturing Division Board. In addition, I have served on the Board of the New York Marine Trades Association for the past eight years.

Marine Industry is in a Severe Credit Crisis

Unfortunately, my story is being played out in boat dealerships and manufacturing plants across the country. I have had a thriving business for over 35 years, but this credit crisis will force me to close my doors. What frustrates me the most is that those of us in the boating business are used to riding the ups and downs of the economy. It is typical for our boat sales to track with consumer confidence, which is why many boat dealers diversify with marinas and boat service departments. Since 1974, when I started in the boating industry, I have always been able to tighten my belt and rely on good customer service and a solid diversified business plan to weather the storm. This downturn is different.

Today, I am dealing with a reluctant consumer and the sudden loss of wholesale credit at anything close to reasonable rates to finance my inventory. Over the last year, the floor plan lenders for the boating industry, including KeyBank, Textron Financial, Wachovia, National City, and several others have abruptly stopped lending in the boating industry, as well as in other industries. Some of these banks as you know received federal assistance under the TARP program, but severed their ongoing business relationships with marine dealers anyway. GE has become the dominate player with approximately 70 percent of the market. GE has recently informed me that they are radically changing my loan terms, resulting in a doubling of my interest payment per month. They have changed the instrument for calculating interest from Prime rate to LIBOR, and have added a substantial percentage that has driven up my rate from under 4% to just under 8% on new inventory and over 10% on aged inventory. GE has also added a 2.1% surcharge to all new boat invoices as a service fee. Overall, these actions have increased my monthly bill from $10,000 to over $20,000.

My story is playing out across the country. Lenders have scaled back lending, dramatically increased interest rates, cracked down on curtailments, and is not issuing new loans or extending current lines of credit to enable marine dealers to finance any new inventory. The inability of dealers to finance current inventory or purchase new model inventory to display means that manufacturers have shut down production by about 60 percent, and much higher in some cases. Boat manufacturers are also being hit hard. Manufacturers must "buy back" or repurchase inventory of dealers driven out of business by the yanking of their credit. This trickle down effect drains much needed capital from manufacturers, leaving them responsible for buying back inventory, but without marine dealers to sell these boats. It is a vicious circle. Boat dealers and manufacturers have and will continue to face lay-offs, furloughs, plant closures as well as liquidations and bankruptcies.

The credit crisis has forced the closure of many otherwise solid dealers who could have made it through this rough spot and would have been ready to rebuild their businesses in the recovery if they could keep their hands on reasonable credit. These were not failing businesses or companies with flawed business models—they relied in good faith on lenders for typical business credit, and when the financial markets collapsed, my company and others had nowhere to turn. What I need to survive, just like any other American business, is access to credit at reasonable terms.

Boating Industry Needs Help Through this Transition

There has been a fundamental shift in the lending environment. What Congress could do to help the many small businesses in the boating industry is to facilitate the creation of a new credit market. The exit of lenders in the last few months has convinced me that the boating industry needs help to transition from relying on just a few large national financing companies to a network of regional and national banks that complement larger lenders and provide some competition. Boat dealers and manufacturers need help in encouraging regional banks to create or re-establish floor plan lending departments. The industry has overwhelmingly supported and eagerly awaited the Small Business Administration's (SBA) plan to establish a floor plan lending program for boats, motor, and boat trailers. The industry has welcomed this program as a critical lifeline, but problems remain. It will be very difficult to attract a lender to develop a floor plan program when the program is only slated to last a year. A new permanent program will be much more effective in attracting new lenders. The SBA lending program can serve as an important transition. Waiting a year to authorize the program as permanent, will do little to encourage new lenders when we need them so badly now. We will know that this is a success when new regional lenders are established and competition has again returned to boat inventory lending.

The terms of the SBA program are very conservative and will require boat dealers to make significantly more financial assurances than was typically required. This is going to be difficult for some dealers, but we understand the need to be cautious with government guarantees. It is the industry's view that an 80% loan guarantee with adequate inventory management controls will protect the SBA from incurring unreasonable losses.

Temporary Change in Business Size Standards are Welcome and Should be Permanent

In addition to making the SBA floor plan program permanent, we also support the changing of the size standards for all businesses. This is an important change that reflects the marketplace. The traditional standard for marine dealers (receipts of $7 million or less a year) is far too low to include dealers who sell high-cost products, but do so with a small staff. Selling a couple of larger yachts would put many dealers over that limit and yet there is no question they are small businesses. We urge that these temporary size standards be retained.

Loan Limits Should be Increased

Currently, SBA 7(a) loans are capped at $2 million. This level is not enough to provide financing for the majority of small dealers and manufacturers. Typically, in the marine industry one dealer will carry multiple types and lines of boats. It is common for a small boat dealer to have inventory in the $5 million range. In addition, boat manufacturers would need far more than $2 million to build a new manufacturing facility or to purchase specialized equipment. We urge the Committee to track the 7(a) program more closely with the U.S. Department of Agriculture Business and Industry Guaranteed Loan program which caps out at $25 million.

Conclusion

I appreciate the opportunity to testify before you today. The marine industry has been hit extremely hard by the economic downturn and even more so by the meltdown in the credit markets. Already, industry observers have noted that the marine industry stands to lose one third or more of its boat dealers due to the financial crisis. Nearly 20,000 manufacturing jobs have already vanished and roughly 135,000 jobs related to the marine industry are gone. The lack of reasonable credit may very well lead me close my doors soon. I urge the Committee to support in every way possible the rehabilitation of the credit markets, particularly for the small businesses on Main Street that are the real engine of the American economy. We cannot have a healthy credit market, nor can we have healthy companies, if conditions make it so that there is only one option for wholesale or floor plan credit. I urge you to make sure that the Small Business Administration has the resources and authority it needs to continue its efforts to help affected small businesses.