

Yacht Financing

Taking Control

In today's market, finance is not easily available. At the same time in certain segments of the market prices are at an historic low; a good moment, one would say, to step in. Ciris Capital responded with the introduction of YachtNote seller finance services. Remco Immink, one of the company's directors, explains their solution.

Yacht financing has been Ciris Capital's specialism for over two decades. In the current banking environment it has become increasingly difficult to finance a yacht, even for a loan applicant with a very good creditworthiness. When declining a loan application, the responses are not always clear and easy to understand for a client. Remco Immink notes that with banks disappointing in this area, the yachting industry is now a multi billion euro industry which does not have an international dedicated financial services provider. Ciris Capital has been trying to set up such a yacht financing company but the lack of interest from investors has prevented them from doing so until now, and they do not have a billion euro's at



hand themselves at the moment. Fortunately, as legendary Dutch footballer Johan Cruyff states: “Every disadvantage has its benefit”, and the benefit of the current banking situation is that it forces everyone to think about alternatives to finance a yacht.

Seller Finance

The idea was born from a practical problem that Ciris Capital came across in the industry. Remco Immink clarifies: “A couple of months ago we were having a lunch with a yacht broker on a sunny terrace. We were talking about how many yacht sale deals were not happening due to the lack of financing options. But he also told us something which we found very interesting: It was a story of a yacht owner who tried to set up a ‘seller finance’, but without having the right expertise to set up and structure the loan, he failed to make the transaction happen.” Remco continues to explain the process: “ Seller finance is when the seller of a yacht allows the buyer to pay part of the purchase price over time. Seller finance is not a new form of financing. In fact, it’s the oldest form of lending, from one individual to another. In cases where the buyer cannot find a bank to finance his purchase, the seller can decide to play the role of the bank himself and grant a loan to the buyer. Basically he takes control over the financing process.”

YachtNote

By granting a loan to the buyer the seller facilitates the sale of the yacht. But, unlike a ‘bargain and sale’ transaction, taking on a loan comes with a long-term relationship. The seller is taking on the credit risk on the buyer with all imaginable risks. Remco Immink explains that embarking on such an agreement must not be taken lightly: “It is extremely important that any seller finance agreement is professionally set up. And that is where YachtNote comes in. YachtNote is all about taking initiative, and being on top of the process: “If we have the ball,

they can’t score”. Our years of experience help us quickly identify the key issues in setting up a solid seller finance deal.”

The Situation

Remco gives an example: “The owner of a beautiful motor yacht decided to offer his yacht to the market two years ago. During this time, in which he did not use the yacht, he was still paying interest and capital repayments on his existing yacht loan, as well as the running costs. Although there was sufficient interest in the yacht from the market, it proved to be difficult for potential buyers to obtain a loan to finance part of the purchase price. Lowering the purchase price did not really fix this problem, since it did not address the issue of buyers having a problem with tying up too much cash in the yacht. When the owner approached YachtNote, he had a potential buyer who was ready to make a deal subject to financing 50%

“Taking on a loan comes with a long-term relationship”

of the purchase price. Having seen a number of transactions fall through because of bank financing not being available, the owner decided he would look into seller finance.” YachtNote obtained financial disclosure from the buyer, analysed his financial position and obtained valuable creditworthiness references: “We wrote a credit application including an advice on how to structure the deal, for the seller to decide upon. When the seller agreed to our proposition, we took care of writing the loan and security documents, we arranged the registration of the yacht and the mortgage, we arranged adequate insurance cover and coordinated the whole





process of closing the transaction. After the necessary documents were properly signed and registered, and securities were in place, the delivery of the yacht took place. YachtNote administers the loan, tracks the payments, calculates remaining principal and interest, and keeps the buyer informed about the status of his loan/investment. Should the buyer/borrower stop paying, YachtNote will take the lead and protect the seller's interests."

Result

"The seller repaid his existing yacht-mortgage and received a substantial amount in cash from the buyer" Remco continues "Today, instead of having to pay capital and interest each

**"Relying on professionals
to protect your interests"**

month as well as the running costs for his yacht, he is now receiving from the buyer a steady flow of income, for the next five years. The result for the buyer is that he has found a financing resource to assist him with the purchase of his dream yacht. The result for the yacht broker was that he closed a deal which would not have been realised without the dedicated yacht seller finance services of YachtNote."

Risk Management

The risk of non-payment remains with the seller but Remco Immink notes that Johan Cruyff also states: "You have to shoot, or you can't score". But using the professional services

of YachtNote, the seller can make these risks transparent and limit them: "Using seller finance as a sales tool means that, using professional risk management services, you are expediting the sale of your yacht, while relying on professionals to protect your interests."

He continues to set out a number of main benefits that YachtNote thus brings to a selling party: "The advantages of seller finance and YachtNote are obvious:

- The seller facilitates the sales transaction.
- There is less pressure on the price negotiations.
- A substantial part of the purchase price will be in cash.
- The seller changes a negative cash stream into a positive cash flow.
- There will be short turnaround times and a quick realisation of the sale transaction.
- The seller is flexible, in demand, not depending on credit policies of the bank and their availability of capital.

Overall, you could say that the seller is simply working with experienced people taking care of his/her interests. A seller is not a bank, it has no apparatus (and no appetite) to monitor the performance of the buyer. The reason it will agree to seller's finance will be that this facilitates the sale of the yacht, not to become a 'bank'. An agent who takes care of these things may bring relief. The tasks of such agent should include the monitoring and management of the periodical payments of interest and principal, the monitoring of the movements of the yacht and management of the securities provided by the buyer. In addition it is important that such an agent takes action in case of non (timely) payment of the buyer."

Loan Characteristics

The services also address the exact characteristics of the loan: "A commercial interest should be charged, which could be a



fixed rate or a rate based on for instance EURIBOR (for Euro loans) or LIBOR (for US Dollar loans). There should be an amortisation scheme according to which the loan shall be repaid. The part of the price which may so be financed can be anything between 0 and 100%, although something between 50 and 70% seems realistic. The part shall never exceed the amount that might realistically be recoverable in case the buyer would appear not to be able to repay the loan. What that amount is, will depend on a number of things, such as: what is the expectation that the market will do during the currency of the loan, is the yacht a 'commodity' in the sense that there will always be a market for such yacht, and where is the yacht expected to be sailing?"

Good Moment

In today's market, finance is not easily available. Remco notes that the biggest ship finance bank, HSH Nordbank, even announced early September that given the market outlook, it will not finance any new acquisitions of ships.

In the yachting market the situation is not much different. Banks are very reluctant to lend money. At the same time in certain segments of the market prices are at an historic low; a good moment, one would say, to step in. But when money is not available, this becomes difficult. Seller's finance may

**“Make risks transparent
and limit them”**

be a solution. Remco Immink notes that so far, client-response has been positive: “While explaining seller finance and the services of YachtNote, the following reaction has reached us many times: ‘It took me a while to get used to the idea, but seller finance might actually be the solution.’ We can only be happy about such a conclusion and we will therefore conclude with the most immortal one of Johan Cruyff's one-liners – you won't see it until you've got it.”

i. www.yachtnote.com



*Remco Immink, Ciris Capital:
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