

Boat Financing Tips for Consumers

1. Know what you can afford.

Do your financial homework and run a budget --- before you buy a new boat. Be sure to allow for general maintenance, storage, insurance and other important add-on products you may require such as extended warranties.

2. Your credit score is more important than ever.

Today's boat loan interest rates are generally based on perceived risk or your past history in paying loans to financial institutions. This is measured by your credit score. The higher your credit score, the more favorable your interest rate may be with a particular financial institution. If you are doing your financing business with a dealer or a service company, be sure your credit history and lender options are discussed before your loan application is submitted to a bank. There is excellent availability for prime boat loans in the US, particularly for credit scores of 720 and higher.

3. Ask about fees.

Some boat loans come with application fees, contract execution fees or early payoff fees. Ask about the fees as there are some lenders that do not charge these fees. Ask about the source of the fee (who is actually charging it) – weather it is from a dealer, service company or a bank. You should always avoid paying "points" on any boat loan. When fees are charged, they should be reasonable, flat fees and not based on a percentage of your finance amount or loan balance.

4. Loan terms, your monthly payment and your cost of a boat loan are related.

Typical boat loans can be financed for up to 240 months (20 years), if the loan amount of \$100,000 or greater. In comparison, typical car loans finance for 60-72 months, depending on the amount borrowed. Remember, it is always wiser to finance your boat at the lowest term possible. (*Lower terms = higher payment = lower interest charges to you*).

This can save you money in terms of interest you pay the lender, and it reduces your loan balance faster.

Other general terms for a boat loan are 15 years for a finance amount minimum of \$25,000, and 12 years for a \$15,000 finance amount. As you can see, boat loan terms are much more generous than those of car loans and helps make boating more affordable.

5. Fixed rate vs. variable rate loans.

Look for fixed-rate, simple interest loans. Fixed rates allow you to "lock-in" for the full term of the boat loan. It makes it easier to budget your monthly payment and eliminates the possibility of "surprises", particularly in a rising rate environment. Variable rates are often offered at a low "introductory" rate, but have payment-adjust features that could raise your payment and interest expense significantly.

Fixed rate boat loans, at this writing, are very reasonably priced and there is not enough difference between a fixed-rate and a variable-rate loan to make it worth the gamble --- so be sure to take a very close look if you are considering a variable-rate loan.

Other types of loans to steer clear of in today's economic environment are balloon-payment loans, interest-only loans and convertible-rate loans.

6. Be prepared to make a down-payment.

Expect to be asked for a good faith payment or down-payment when applying for a boat loan.

Down-payments vary slightly between some lenders and loan size, but 15-25 percent is usually a good “rule of thumb.”

For example, a \$25,000 boat could require a 15-percent down payment. Fifteen percent would equal \$3,750, leaving a finance amount of \$21,250. With many lenders, \$21,250 would be eligible for a 12-year (144-month) term. The monthly payment would be \$226.95 based on an annual percentage rate (APR) of 7.75% and \$229.93 based on an APR of 8.00%*.

There may be some programs available with “zero” or “no down-payment” options. Qualifying for a no down-payment loan could be based on such variables as your credit score, a special dealer or manufacturer incentive program or a special lender program. When encountering a no down-payment offer, always investigate what the ultimate costs could be (higher monthly payments, higher finance charges/costs, higher pricing of the boat, etc.).

**Rates and APRs used are for example purposes and may vary from what a particular lender may actually offer.*

7. Know the commitment time.

Commitment time is how long your loan approval is valid and how long the financial institution is committed to your quoted interest rate. Financial institution commitment times do vary from lender-to-lender. They can typically be 30 days from your application approval date for your interest rate (or rate lock) and 60 days for the credit application approval. This is especially important when you may be purchasing an ordered boat. Some lenders may be willing to make an exception for interest rate commitments depending on the weather the economy is in a rising or falling rate environment.

8. Sources for your boat loan.

Many dealers have the ability to offer financing through qualified marine lenders. Obtaining marine financing through your dealers' finance department can be a very convenient way to purchase your boat. It is, in effect, "one-stop-shopping."

Another quality source of financing is through a service company specializing in boat loans. Service companies often finance larger loans, and have great experience with direct, person-to-person transactions and yacht brokers.

Banks can also be contacted directly and provide very good programs, but it may entail a little more "legwork" on your part to transact the deal.

Dealers and marine service company specialists tend to offer excellent rates. Bottom line is - always do your homework and make comparisons.

Another tip is to be sure your lender is a National Marine Bankers Association member. NMBA members are specialists in marine lending, who understand your needs and can deliver the best financing products.

9. There are on-line resources.

Visit www.marinebankers.org.

It provides great consumer boat loan advice and lists all of the National Marine Bankers Association (NMBA) member banks and service companies that specialize in boat loans. You are much more likely to get favorable interest rates and terms from these sources than a local bank that does not specialize in marine lending. Most NMBA member banks have direct boat loan programs and programs with boat dealers and service companies.

10. Consider buying a new boat at a boat show.

Not only is it exciting to buy a new boat at a boat show (my family did!), it is almost always the best time to buy. Lenders sometimes offer their dealers and service company sources special financing rates and programs tied to a particular show and dealers will often have special pricing on the boats themselves.

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