

Understanding Boat Financing



- Options for boat financing
- What's required to get a boat loan
- Tips to improve your financing options
- Determine how much boat you can afford

The Basics ...

The boating lifestyle is one that many people not only dream of, but enjoy, because it is affordable. Many new and pre-owned boats can be purchased for much less, but with the price of a new traditional powerboat averaging more than \$37,000, most consumers turn to financing for their purchase. Marine lenders understand boats and typically offer loan terms of 10 to 15 years and longer. This helps reduce monthly payments.

Boat buyers may go to a local bank, credit union, or finance company that makes loans directly to the consumer for the purchase. A marine service company is another direct lending source that has the ability to place loans with a variety of lenders to obtain financing. The loan proceeds from the direct lender will be paid to the dealership on your behalf for the purchase of the boat.

Another option for the boat buyer is dealership financing where the buyer and the dealership enter into a contract to purchase and finance the boat. A Retail Installment Contract is used for these transactions where the dealership acts as the lender then will immediately "sell" it to an assignee. Assignees are banks, credit unions or finance companies that have approved the loan and will service it and collect the monthly payments. Dealership financing offers the following benefits:

- Convenient one-stop shopping – dealers can sell a boat and finance the purchase all at one location
- Multiple financing relationships – dealerships have relationships with a variety of banks, credit unions and finance companies, often offering boat buyers a range of financing options
- Special programs – dealers can offer special boat pricing and finance rates or terms during boat shows or through manufacturer-sponsored programs that may not be available through other lenders

This brochure explains boat financing and can serve as a guide for you to evaluate your own financial situation before purchasing a new or pre-owned boat. Financing a boat is both

an affordable and sensible option and choosing the right lender is an important first step. The National Marine Bankers Association (NMBA) is a national organization of marine lending specialists that understand the boat business.

NMBA members are national, regional and local banks, credit unions, finance companies and service companies who offer competitive financing simply because boat loans are an important part of their business. Since marine lending is their business, many boat dealers and brokers work with NMBA lenders daily to help put boaters on the water. Be sure to ask if your lender is an NMBA member.

The Loan Process

The application process may seem tedious, but it is important you provide complete information. Think of it as making a good first impression to present yourself as best you can. You will be asked to complete a credit application, which includes your name, address, rent or mortgage payment, social security number, date of birth, employment details, income, and other personal information.

It is likely you will also complete a personal financial statement, which is an accounting of your assets and liabilities including bank and investment accounts, retirement accounts, real estate holdings, vehicles and boats, all secured loans, unsecured loans and credit cards.

By completing and signing the application, you are giving the lender permission to request a copy of your credit report.

You will also be asked to provide proof of income generally in the form of current pay vouchers and tax returns.

The collateral must be acceptable to the lender, the price must be credible, and the down payment (whether cash or trade) must be acceptable to and verifiable by the lender in order to arrive at an approved loan amount.

Lenders generally do not allow co-signers to enhance a credit profile, as each owner must qualify on their own.

Before You Shop for a Boat

Do your financial homework and run a budget, check your credit history, and consider getting pre-qualified for a boat purchase --- before you visit the boat dealer or buy a boat:

- Determine how much you can afford in a monthly payment (see the Monthly Debt-to-Income Ratio section on page 7).
- Your credit score is more important than ever. Obtain a copy so that you have the chance to correct any misinformation that could impact your ability to obtain financing or a more favorable finance rate. You can order a free credit report from each of the three reporting agencies once a year from www.annualcreditreport.com.
- Credit reports disclose your payment history for paid and current credit obligations, as well as any public records and consumer statements you may have added. Any negative reporting is problematic, so check closely for errors and work with the credit reporting agency to correct before going any further. If there are public records that have been resolved but appear to still be open issues on the report, have them updated. Most lenders expect credit scores above 700 and no public records. Some lenders will work with you, even with lower scores, if the problems are behind you and new credit has since been established.
- Boat loan interest rates, though driven by current economic markets, are generally based on your past history in paying loans to financial institutions. This is measured by your credit score, found on your credit report. The higher your credit score, the more favorable your interest rate may be with a particular lender. If you are financing with a dealer or a service company, be sure your credit history and lender options are discussed before your loan application is submitted.
- Compare current finance rates from various lending sources. Discuss loan qualifications so you know what is required to obtain financing. This will help you determine if



there are any restrictions on getting the best rate available. Ask the dealer for any special manufacturer incentives or finance programs that may be available on new boats.

- Ask about fees. Some boat loans come with application fees, loan document preparation fees, or early payoff fees. Know that some lenders charge them and others may not.
- Loan terms, your monthly payment and your cost of a boat loan are related. Typical boat loans have 10-15 year terms, compared to car loans that are generally 5-8 years, depending on the amount borrowed. Remember, it is always the wisest choice to finance your boat at the lowest term that allows the monthly payment to fit into your budget. This can save you serious money in terms of interest you pay the lender, and it reduces your loan balance faster.
- Fixed rate versus variable rate loans. Look for fixed-rate, simple interest loans. Variable rate loans often offer a low "introductory" rate, but have payment-adjustment features that could significantly raise your payment and interest expense. If you are considering a variable rate loan, be sure there is enough difference in the interest rate, compared to a fixed rate, to make it worth the gamble.
- Check boat buying guides, websites, and other resources to determine what your needs are in a boat and where you can find a dealer with that product. Read boat reviews and pre-owned pricing guides to become better informed about values on both new and pre-owned boats.
- www.DiscoverBoating.com, presented by the Recreational Boating Industry, is a great resource for all boaters. The Boat Selector helps determine the best boat to fit your needs, from intended use to boat to size and price range. You'll find details on buying, owning and operating a boat, and the site can help you locate the right boat dealer.

How Much Can You Afford?

Two questions you should ask yourself:

- 1) ... What is the down payment requirement?
- 2) ... What is the monthly payment?

Before you make the decision to buy a new boat, be prepared to make a down payment and have it available. Down payments vary slightly between lenders and are often based on the purchase price and loan amount. A minimum down payment of 15% to 20% is a good rule of thumb.

It is wise to have 6 to 12 months' worth of monthly payments and living expenses set aside as emergency funds. Your down payment should not come from that fund; it should come from money set aside for discretionary spending.

Your verifiable gross monthly income should comfortably cover current monthly debt and the new boat payment, with 55% to 60% of income left for discretionary spending. See the Debt-to-Income Ratio section on the next page.

Be sure to consider general maintenance of the boat, storage, insurance and other costs of ownership.

Keep in mind there are other qualifiers, such as credit history, net worth, stability, and others that are considered in the loan decision. Just because you can afford the payment does not mean you will be approved for the loan.



Monthly Debt to Income Ratio

Complete Column 1 based on current income and loan payments. Begin with gross monthly income before any deductions (withholding taxes, insurance, 401k, etc.). If you are applying jointly with your spouse, include their income. If you have other verifiable income, such as rental, list that. Add to determine your total monthly income. Then list monthly rent or mortgage payment, auto loan payments, and all other debt payments including credit cards, and the new boat payment. Add to determine total monthly debt. Divide payments into income to determine your debt to income ratio.

If your debt to income ratio is higher than 40%, complete Column 2 based on changes you'll need to make to afford the new boat. This could mean borrowing less (either more down payment or less expensive boat), reducing current payments by paying down or paying off current debt, or waiting for verifiable continuous increase in earnings.

	Current	Revised
My monthly gross income	\$ _____	\$ _____
Spouse monthly gross income	\$ _____	\$ _____
Other verifiable gross income	\$ _____	\$ _____
Total monthly gross income	\$ _____	\$ _____
Mortgage/rent payment	\$ _____	\$ _____
Auto loan	\$ _____	\$ _____
Auto loan	\$ _____	\$ _____
Other installment loan(s)	\$ _____	\$ _____
Credit card payments	\$ _____	\$ _____
Other revolving payment	\$ _____	\$ _____
New boat loan	\$ _____	\$ _____
Total monthly debt	\$ _____	\$ _____
Debt-to-income ratio	_____ %	_____ %

Federal Lending Laws

Familiarize yourself with laws that authorize and regulate consumer financing by viewing this website [Credit and Your Consumer Rights](http://www.ftc.gov/bcp/edu/pubs/consumer/credit/cre01.shtml) (www.ftc.gov/bcp/edu/pubs/consumer/credit/cre01.shtml).

For more information on federal credit regulations and consumer rights, contact:

Federal Trade Commission
Washington DC 20580
Phone: 877-382-4357
www.ftc.gov

State Lending Laws

Your state's laws may provide you with additional rights. For information on these laws, contact your state's consumer protection agency or Attorney General's office at www.naag.org

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