

Can I Still Get A Boat Loan?

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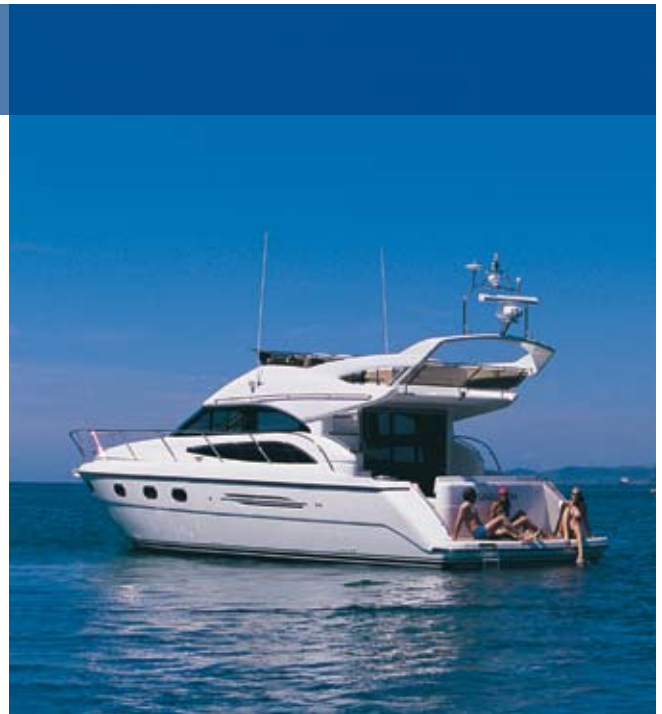
With all the disruptions in the mortgage markets occurring this summer, some potential boat buyers are concerned about the availability and cost of credit to finance their purchases this fall. This is adding anxiety to an already stressful part of the boat buying process. My advice is: sit back and relax, don't worry, be happy! The good news is that credit for marine purchases remains plentiful and historically inexpensive.

Marine lenders do not rely on a secondary market to sell their boat loans into, because they like to hold the loans in their own portfolios. This is because these loans are generally to very strong borrowers (Prime – in the slang of the finance industry) and are more profitable for them than home mortgages. The three primary sources of marine loans are commercial banks, marine finance service companies and financing arranged by the boat dealer. Each of these choices has advantages and disadvantages:

Marine finance is a very specialized type of lending that is not offered by all banks. Your local community bank may not offer boat loans at all or may not offer them at the best rates and terms available. It is very important to choose a bank that does marine lending on a large scale to get the best rates and terms. You can find a list of major marine lenders that are members of the National Marine Bankers Association (NMBA) at their website – www.marinebankers.org.

Some boat loan borrowers like to go directly to the bank that is actually making the loan, because they feel that they will get a better rate by cutting out the middle man. This is only partly true in the world of marine finance. Marine finance service companies have relationships with multiple banks and because of this they can offer their clients a variety of loan programs and rates. They try to arrange financing for their clients with the bank that has the best program and rate for the buyer's particular situation. They do receive a fee from the bank that they place the loan with, but because they are typically placing high loan volumes with the bank, they can get lower rates than many borrowers could negotiate on their own.

Boat dealers also arrange loans with banks through their finance and insurance departments. They usually try and make the process very fast and convenient. They also earn a fee for placing the loan with the bank. While the dealership usually does have relationships with several banks, they typically do not have as many choices as a marine finance service company.



Beyond deciding who to go to for your boat loan, another choice to make is the type of loan to secure. Loans generally come in two varieties, fixed rate and variable rate or a combination of the two. Fixed rate loans are usually offered for terms up to 20 years and have the benefit of the peace of mind that comes with knowing you will have a fixed payment amount every month no matter what interest rates do in the future.

Variable rate loans adjust their payments as interest rates go up and down and are usually offered at a lower rate than fixed. They offer the chance to pay less interest if rates go down, but at the risk that you might pay more if rates go up. Lenders also offer loans that start out fixed for a period, usually 3 years, and then begin to vary their payments with interest rates. These may be attractive if you plan to own your boat for only 3 years. One thing to remember that the bank knows, but you may not – the average boater will keep their boat for 42 months before selling it. This has held true for the last 30 years.

Some loans have a balloon feature. The loan payment may be based on a term such as 20 years, but the balance of the loan comes due or balloons in a much shorter period of time, usually 3 or 5 years. While this type of loan usually comes with a slightly lower rate, it is dangerous because you do not know what the interest rate will be when the loan balloons and you have to refinance.

Remember it is very important to choose your lender wisely and to choose a loan program that fits your needs rather than the one with the lowest rate. In the long run it will save you money. 