

## Weathering the Economic Storm



**"A comprehensive look at your finances is an important step in buying a boat.**

Being prepared for emergencies such as falls overboard and having navigational skills that go beyond just knowing how to operate a GPS, chart plotter or autopilot is the mark of a knowledgeable and prudent boater.

And, just as prudent boat owners protect their vessels when heavy weather threatens, so too should boating consumers take extra care with their water-borne investments.

The current state of the economy, coupled with rising fuel costs, makes caution and foresight absolute necessities for boating consumers. While no one would claim that dealing with an emergency on the water or weathering a storm, economic or otherwise, is much fun, the old Scout motto, "Be prepared," is certainly right on the money for consumers.

Earlier this year, our article, "Soft Market, Solid Bargains" (*BoatU.S. Magazine*, March 2008), discussed the severe downturn affecting the marine industry. The article concluded that the combination of an industry hurting from declines in boat sales and a consumer marketplace glutted with used boats converged to make a healthy boat buyers' market for anyone with enough cash or the ability to carry extra debt.

In this article, we will provide guidance to help consumers buy wisely and stretch their boating dollars.

### FOR BOAT BUYERS

A longstanding rule of thumb when preparing a personal or household budget is to keep a nest egg equivalent to at least six months' expenses in case of an emergency. There is also the longstanding advice — unfortunately ignored by many in recent years — to avoid credit card debt.

Keep both of these cautions in mind before purchasing a boat for the first time or before moving up to a larger boat because the costs of owning don't stop with the sales price. Slip fees, insurance, personal property taxes and, these days, fuel, can equal or exceed monthly loan payments.

For example, annual costs of operating and maintaining a boat, as well as repairing or replacing equipment, can range anywhere from \$50 per foot for do-it-yourselfers to well over \$150 per foot if others are hired to do the work. At over \$5 per gallon, filling a 200-gallon tank with gasoline for a weekend's outing costs well over \$1,000. Pre-qualifying for a loan before shopping is one way to get a realistic look at what you can afford. Applicants should answer loan applications honestly. There's a reason banks want to know how much you earn and how much you already owe: these figures are

good indicators of how much debt you can manage safely. Loan applicants who find themselves fudging answers to get a loan should probably rethink their plans.

Regardless of how much boat you can afford, a down payment of 15 to 20% gives you a leg up on equity in the vessel. In addition, if an emergency arises and you have to sell the boat right away, you will have more leeway on price.

Banks typically require no more than 10% down, but loan experts say that this cushion can get eaten up when dealers roll sales taxes and registration fees back into the loan. Pay these fees up front, in cash. Some banks don't ask where the down payment is coming from, but experts caution against using a credit card to cover the down payment because of the high interest rates most cards carry.

"People need to be prepared to make the healthiest down payment they can," says Charm Addington, vice president of BoatU.S. Finance and Documentation. "Whatever you do, don't put yourself in a negative equity situation," where the amount you owe exceeds the value of the boat — especially since some new boats can depreciate as much as 20 to 30% as soon as owners take delivery.

Marine industry analysts say that boat sales in 2008 are a quarter of what they were this time last year, so many dealers are ravenous for customers. But, "don't be pressured into buying," Addington says. "Boats are a highly emotional purchase and people get caught up in the excitement without asking themselves, 'Can I really afford this?'"

"If the loan numbers don't work for you," she advises, "look at an older boat or a smaller one" that's more affordable. Another way to save is to buy directly from the owner.

Regardless of who's doing the selling, buyers should have used boats inspected by an independent marine surveyor prior to purchase. In addition, surveys are essential for first-time buyers who may not have the expertise to choose the right boat for their needs or to evaluate the condition of a boat — even a new one — and for anyone for whom the purchase represents a major investment. The surveyor can help identify structural and safety problems or conditions requiring costly repairs. The surveyor's written report will help the buyer decide whether to go ahead with the deal or look for a boat in better condition.

Choose a surveyor who has absolutely no affiliation with boat brokers, dealers, boat shops or others whose living depends on the sale or repair of boats, especially the one you are about to buy. To rely on a surveyor recommended by the seller is to run the risk

of having defects glossed over during the inspection. For this same reason, do not rely upon a survey report, even a recent one, paid for by the seller.

Although surveys don't come cheap — expect to pay between \$300 and \$600 for the typical 25-footer — this is a reasonable price to pay for knowing in advance what shape the boat is in.

The BoatU.S. Surveyor Referral List ([BoatUS.com/insurance/survey.asp](http://BoatUS.com/insurance/survey.asp)) is a good way to locate qualified surveyors. To be listed, surveyors must have proven knowledge of marine manufacturing and safety standards, an apprenticeship with an established surveyor, affiliation with professional groups like the American Boat and Yacht Council, National Association of Marine Surveyors and the Society of Accredited Marine Surveyors, as well as complete autonomy from other marine businesses.

## FOR BOAT OWNERS

Expenses like routine maintenance, slip fees, insurance and personal property taxes are, of course, variable, but fuel costs are downright volatile. High today, they are likely to be even higher tomorrow and well into the foreseeable future.

One way to reduce fuel costs is to change the way you use your boat. Rather than using it as a vehicle for cruises, find destinations that are closer to home and anchor out or even stay at your slip and use the boat as a floating condo. Fitting out your dinghy with a simple sailing rig will let you expand your horizons and give you the chance to learn some new skills if you've never sailed before.

Limiting the amount of time you run the generator will also save fuel costs, but boaters will have to be willing to forego creature comforts like air conditioning and full-time television.

Another option is "fishpooling" — in other words, go fishing with a group. Much less expensive than hiring a party boat and more fuel efficient than half a dozen boats venturing out with only one or two people aboard, sharing the cost of a tank of gas between six or eight buddies can make the day affordable for everyone.

Sometimes, it takes money to save money. Besides protecting your investment, paying to keep up with routine engine maintenance and hull cleaning will make your vessel run cleaner and burn less fuel. Learning how to perform some or all of this work yourself will save even more.

If, despite your best efforts, you are not able to keep up with your boat payments, don't expect any solace from your lender.

It is highly unlikely that you will be able to negotiate with the bank to reduce your debt obligation or spread out payments over a longer period to reduce monthly costs. And, don't assume that simply turning the boat over to the bank in exchange for not making payments will solve your problems.

Selling your boat yourself gives you the option of getting out from under the loan without having to pay the cost of a broker's commission. Find out what comparable boats are selling for in your area and price yours accordingly. The BoatU.S. Value Check service ([boatus.com/buyer/valueform.asp](http://boatus.com/buyer/valueform.asp)) is another resource for fair market prices. Perform any needed repairs and make sure the boat looks its best. Be flexible and be open to lower offers. After all, the goal is to eliminate your debt as quickly as possible.

Give yourself a timeline. If the boat just doesn't sell, it may be time to call in a broker who will have the expertise to advertise and show your boat effectively.

Defaulting on a loan gives the bank the right to seize your boat without notice and sell it at public auction. If the boat sells for less than the amount of the loan, the bank will hold you responsible for paying the difference. Even if the bank recoups the full cost of the loan, the negative report will affect your credit rating for up to seven years, hurting your ability to obtain loans and mortgages in the future.

Consumers who find themselves in financial trouble can obtain assistance from the National Foundation for Credit Counseling, a national nonprofit network with more than 900 offices across the country. Services are free or low in cost and are confidential. NFCC agencies are funded through a variety of sources including voluntary contributions from credit institutions, grants from private sources and foundations and client fees and contributions. The NFCC's web site is [www.debtadvice.org](http://www.debtadvice.org) or call 800-388-2227.

## FINALLY...

The advice in this article may already be integrated into many consumers' psyches. After all, belt-tightening, budgeting and careful planning have made boat ownership possible for many families.

However, for others without strong financial self-discipline, the weak economy, rising costs and consumer debt levels at an all-time high make this a good time to go back to the basics of Life Skills 101, the Scout motto, "Be prepared," and the old sailors' maxim of "one hand for yourself, one hand for the ship." ■

— By **Caroline Ajotian**