

FINANCING & INSURANCE

Insuring a Boat

Many boat purchasers might assume that the best way to insure a boat would be placing a call to the same company that carries their auto insurance to get a similar policy for the new vessel. For some of the most inexpensive and basic boats that won't see much more use than a day or two on a local lake each year, that type of coverage may be adequate. Boats of any substantial value and routinely exposed to marine-related risks are better insured with a specialized policy.

In addition to the most obvious risks such as fire, theft, and sinking, a boat insurance policy should address issues including medical and personal liability protection, towing, personal property and effects, and uninsured boaters. More policies now address an owner's potential liability for environmental fines in case of a fuel spill or other event that results in water pollution.

Insurance experts recommend that coverage be an "all risk" policy. Such a policy states that unless a risk is specifically excluded in the policy language, the insurance company will cover everything else.

Types of Policies

Boat insurance policies offered by a variety of companies can differ substantially in detail, but they will fall into two very broad categories. "Agreed Value" (often referred to as "yacht coverage") policies will typically cover a greater number of risks and provide more extensive coverage. Some lenders will require a borrower to carry an Agreed Value policy. "Actual Cash Value" policies will factor in depreciation when settling a claim.

In the event of a total loss, an Agreed Value policy is settled by writing the policyholder a check for the face amount of the policy, less any deductible listed in the terms. Deductibles are commonly calculated as a percentage of the policy value, and are typically 1 or 2%.

A boater covered by Actual Cash Value insurance would receive only the depreciated value of the vessel in the

event of a total loss. Boaters carrying a boat loan or a marine mortgage will want to consider that a boat depreciates the most during the same years when a loan balance decreases the least. The Actual Cash Value of a depreciated boat may be enough, but often is not enough, to clear the outstanding debt.

In the event of a partial loss, an Agreed Value policy will cover the repair after the insured has absorbed the policy's deductible. An Actual Cash Value policy will often apply the same depreciation percentage to the cost of the repair that would be applied to the value of the boat itself.

Financing

Financing your boat is not like financing your house or even financing your car. It is a specialized field of lending that only a handful of companies is engaged in and is supported by only a handful of lenders. Although, there are undoubtedly many local banks that will offer some sort of financing for boats, often these programs will have higher rates, limited terms and will limit the types and kinds of boats they will finance. These lenders will often have very limited experience in the handling of these kinds of transactions and as a result many problems may arise at the time of closing. You, of course, can search the internet for a lender specializing in boat loans but you will run into two issues. One, many lenders who claim they are experts in boat lending really are real estate lenders in disguise and will try and convert your loan to a home equity loan. The second problem is that many lenders, who claim to be national, are really not but they do broker their loans through national lenders. Preferably, you want to find a lending partner who is local to your area and understands your market. You want a broker/lender that is experienced with the kind of boat you are purchasing but more importantly has the credit and experience to understand your financial profile.

