



How Co-Buyers Help Secure Recreational Loan Approvals

Written by: Lorraine Mariotti, Vice President of Lending

Co-buyers aren't the solution for every credit challenged customer you see, but savvy F&I managers know when a co-buyer will help secure a recreational loan approval and when they won't. Of course, a lot of this depends on your lenders' guidelines as well as the amount financed, but knowing when to seek a co-buyer and when not to can help save you and your customer precious time when working on an approval.

It is a misconception that co-buyer and co-signer mean the same thing. They do not. Most lenders use these terms differently, so be sure to understand your lender's definition. Typically, lenders define a "co-buyer" as a person who has equal ownership (deposit, monthly payments, tax and insurance) of the unit and equal liability (subject to collection on payment defaults). The definition of a "co-signer" is someone who signs the loan with the primary buyer and is obligated to make the payment if the primary buyer does not. A co-signer usually has no ownership in the unit.

Qualified co-signers are used extensively in the automobile business; however, co-signers are typically non-existent when it comes to recreational lending. Why? Unfortunately, lenders have stricter underwriting guidelines for boats and RVs and lenders believe that in most cases if a person doesn't qualify for the loan on their own, a co-signer won't help that person qualify either. For the purposes of this article, the term "co-buyer" will be used, indicating a borrower who will have equal ownership in the unit.

A co-buyer is an important tool in an F&I manager's toolbox and can help secure a recreational loan approval in the following ways:

- When the total annual income of one buyer is not enough to meet the requirements of the loan.
- If there is a high debt-to-income ratio, using an employed spouse as a co-buyer can effectively speed up the approval process.
- When trying to improve guidelines for revolving debt.
- When trying to qualify the original applicant for a better credit score.
- When the original applicant has a good credit history, but could be somewhat light in the area of comparable installment history.

(continued)

Co-buyers can be a husband and wife, a parent and child, significant other, siblings, or close friends, but typically recreational lenders look for a co-buyer to be living at the same address as the buyer and have a vested interest in the purchase. It is important for the co-buyer to understand that he or she is making a large, long term commitment when agreeing to become a co-buyer and not just to help the original applicant become approved for the loan. A co-buyer is just as responsible for the loan as the original buyer. They are considered a joint owner of the purchase, so the co-buyer is equally responsible for the repayment of the loan. The loan will appear on the co-buyer's credit bureau as an obligation, and it will figure into the co-buyer's individual debts. If the buyer makes a late payment, or if the unit is ultimately repossessed, this will also reflect on the co-buyer's credit bureau. Both the buyer and co-buyer are named on the loan contract and on the title.

A co-buyer typically cannot help secure recreational loan approvals when:

- The buyer has derogatory credit. Lenders qualify each applicant's credit individually. If one applicant does not qualify, the entire application is declined. Lenders view co-buyers as adding strength but not solely supporting a loan.
- A spouse who has no additional income sources. Actually, this particular buyer can even hurt the loan approval process.
- Additional debt is brought to the equation, which is not entirely offset by their added income.

A good F&I manager will add the co-buyer's information (if helpful) when they first submit the application to their lenders to save time and to maintain acceptable funding ratios with their lenders. Additionally, an F&I manager should set proper expectations with their customers as to how a co-buyer can or can't help secure a recreational loan approval right from the beginning and NOT wait until the loan has been declined to bring the subject up. When to add a co-buyer and setting the proper customer expectations is critical in today's sales and lending environment and gives your dealership the *best* chance at securing an approval and delivering a unit to the customer.

About Priority One Financial Services

Priority One has been serving the marine and RV industry since 1987. Acquired in 2007 by Forest River, Inc. a Berkshire Hathaway company, Priority One serves as the F&I managed services provider for hundreds of dealers nationwide. For more information, visit www.P1FS.com.

Contact:

Laura Smith
727-822-7171 ext 322
www.p1fs.com