



## FINANCE AND INSURANCE

BY LISA GLADSTONE

### **Trends in Finance & Insurance** *How dealers can get the most out of their secondary lenders*

Boat dealers typically feel they need more lenders to serve their “credit challenged” customers. These lenders—known as secondary lenders—can prove quite helpful, but dealers have to know how and when to use them.

Dealers who do not utilize a professional F&I outsource company or employ a professionally trained F&I manager can get themselves—and their customers—into trouble with secondary lenders. These lenders buy what is known as C and D paper, which means they finance customers with credit problems, typically at higher than average interest rates and for shorter terms.

An untrained person might look at a customer’s credit report and assume that the customer will not qualify for a primary lender, so the dealer automatically sends the customer’s credit application to a secondary lender. The dealer may get an approval, but the deal may never close, because the customer is unhappy with the terms of the loan. Consequently, the dealer loses a sale.

An F&I professional will look for ways to get that customer approved by a primary lender who handles A and B paper, so the rates and terms will be more acceptable to the customer. An F&I professional knows how to make this happen, because he or she is trained in evaluating more than just a credit report to determine the customer’s overall credit profile.

#### When to call

A trained and experienced F&I professional knows how to identify those customers who will not qualify for a primary lender. In these cases, a secondary lender can be very helpful.

Dealers should know that the interest rates from a secondary lender would be significantly higher—around 19.95%—but that may be fine to a customer who is already paying 14% on credit cards. Many times a customer is willing to do whatever it takes to become a boater. The good news for the customer is that if he or she pays the boat loan on time for at least 24 months, the customer will reestablish his or her credit and may soon qualify to refinance.

But what happens if the customer seems unwilling to accept a higher interest rate? Don’t worry, a good F&I professional can turn this situation around.

#### Selling the deal

The F&I professional will inform the customer that the primary marine lenders have turned him or her down for the loan. It is important for the customer to understand that the lenders have turned down his or her application—not the dealership. The F&I professional should explain to

the customer that it is much more difficult to obtain a loan for a luxury item—such as a boat—than it is for a car or a home, but there is hope from a secondary lender.

At this juncture, the F&I professional discusses the secondary loan in terms of payments, pointing out that a higher interest rate will increase the customer's payments by only "x" amount of dollars per week. The F&I professional may also suggest a larger down payment, which will decrease the customer's monthly payments. Finally, the F&I professional should re-whet the customer's appetite for the boat, making higher payments a non-issue. This delicate selling process should be trusted only to someone who is trained and experienced at this type of selling.

When working on deals that require a secondary lender, dealers should keep in mind that the F&I professional will need to work longer on the deals, so be patient. Secondary lenders will require things that can take a while to obtain from the customer such as job verification, proof of income, and references. The extra work will be worth it if the customer is approved and the boat is sold. Dealers will also have an opportunity to sell a service agreement and credit insurance on the deal that can be rolled into the financing.

### Lending insights

It is critical for dealers to have a good mix of lenders in their lending portfolio. Dealers need lenders who can serve customers with strong credit by offering competitive rates and terms, but they also need lenders with maximum advances to serve customers with marginal credit.

Dealers can find both national and regional secondary marine lenders. In selecting these lenders, check for those that do not charge a percentage of the amount financed in order to fund the deal.

Remember, finding the right lenders for your customers are the key to moving the greatest number of boats.

---

Lisa Gladstone is president and CEO of Priority One Financial Services, St. Petersburg, FL.