

FINANCING

A BUSINESS JET IN TODAY'S MARKET

yes, it's a new world out there,
but you can still get a loan_by Jeff Wieand

YOU MAY HAVE HEARD that is almost impossible to secure business jet financing these days, but to paraphrase Mark Twain, rumors of its demise are greatly exaggerated. Though the feeding frenzy among aircraft lenders is over, you can still find financing if you know where to look.

Since the stock market started falling, the business jet industry has been in disarray. Flight departments have closed and fleets of business aircraft have appeared on the market overnight, giving rise to unprecedented opportunities for buyers and, one would have thought, financiers.

But lenders that took on lots of risky loans a year or so ago are now behaving like, well, banks. It's hard not to see the irony in this. When jet values were at all-time highs and lenders should have been cautious about collateral values and buyer creditworthiness, those lenders fought hard for lending and leasing business, financing 100 percent of acquisition costs at often incredibly low spreads over LIBOR for nearly all comers. Today, when values have sunk to levels that recently seemed inconceivable, and some aircraft may even have the long-term potential to appreciate in value, enthusiasm among lenders to do deals has waned. Lenders are now often over-cautious about values and reluctant to finance 100 percent of acquisition cost for creditworthy buyers at interest rate spreads that would formerly have seemed enormous.

Capital is still tight, and banks will remain careful about whom they lend it to. As one lender told me, "We aren't going to be everyone's aircraft lender anymore." Consequently, if you're looking for financing, you can expect greater due diligence about your credit position.

But lenders aren't pickier these days only about their customers; they're also pickier about the airplanes themselves. Many business jets have a current fair market value that is substantially less than the amount of the loans they secure, and banks don't want to see that happen again, so



they're now deploying the care and caution regarding asset values that they should have in years past. For this reason, you'll find it harder today to get an unofficial commitment on financing terms until the lender knows exactly what aircraft you're acquiring and at what price.

FINANCING TERMS

What will those terms be like? Needless to say, spreads of 80 basis points over 30-day LIBOR (which today would yield an interest rate of slightly more than 1 percent) are no longer feasible. Expect dramatically higher spreads than that. But no doubt the single biggest issue today is ready financing of 100 percent of the aircraft's purchase price. For some banks, lending guidelines effectively prohibit 100 percent financing, while others strongly prefer an 80- to 90-percent loan-to-value ratio. "About 90 percent is probably where the market is now," said one lender.

AIRCRAFT FINANCIAL INSTITUTIONS (2009)

PRIVATE AND COMMERCIAL BANKS AND AFFILIATES

Banc of America Leasing

Corporate Aircraft Finance
One Gorham Island Road, Suite 202
Westport, CT 06880
Beth O'Neill
(203) 727-7059

Center Capital Corporation

36 Firehouse Road
Trumbull, CT 06611
Jim Pulie
(203) 268-6446

Chase Equipment Finance, Inc.

Business Aviation & Corporate Group
1650 Market St., #447
Philadelphia, PA 19103
Mark J. Schrieber
(215) 640-3470

The Citigroup Private Bank

Global Aircraft Finance
666 5th Ave., Fifth Floor
New York, NY 10103
Mary T. Schwartz
(212) 559-0561

Fifth Third Bank Leasing

225 Franklin St., 26th Floor
Boston, MA 02110
Matt McNamara
(617) 573-5191

First Republic Bank

Aviation/Marine Finance
111 Pine St., 4th Floor
San Francisco, CA 94111
James F. Simpson
(415) 296-5783

First Source Bank

Laird Professional Building
110 Hopewell Road, Suite 2E
Downingtown, PA 19335
Jeffrey Lindstadt
(610) 269-1683

Key Equipment Finance

Business Aircraft Finance
Two Gatehall Road
Parsippany, NJ 07054
William D. Dougherty
(973) 299-3118

PNC Aviation Finance

4355 Emerald St., Suite 100
Boise, ID 83706
Wayne Starling
(888) 339-2834

RBS Corporate Aircraft Finance

RBS Asset Finance
71 S. Wacker Dr., 28th Floor
Chicago, IL 60606
Richard Barret
(888) 624-6094

Sun Trust Equipment Finance

Corporate Aircraft Finance
300 East Joppa Road, 7th Floor
Towson, MD 21286
B.J. Honeycutt
(410) 662-3142

TD Equipment Finance, Inc.

Aircraft Finance
1100 Lake St.
Ramsey, NJ 07446
Matthew W. Parlier
(201) 574-4843

U.S. Bank Equipment Finance

Corporate Aircraft Finance
2150 Highway 35, Suite 250
Sea Girt, NJ 08750
Walter Horsting
(732) 359-0202

**Wells Fargo
Equipment Finance, Inc.**

Corporate Aircraft Division
333 S. Grand Ave., 3rd Floor
Los Angeles, CA 90071
Robert C. Lebano
(213) 253-6125

OTHER FINANCIAL INSTITUTIONS

Cessna Finance Corp.

100 N. Broadway, Suite 600
Wichita, KS 67202
John King
(316) 660-1200

CIT Aerospace

Business Aircraft
2 Lincoln Centre, Suite 410
5420 LBJ Freeway
Dallas, TX 75240
David Davis
(480) 784-1801

**Export-Import Bank
of the United States**

Transportation Division
811 Vermont Ave.
Washington, DC 20571
Robert F.X. Roy, Jr.
(202) 565-3557

GE Capital Corp.

Northeast Corporate Aircraft
44 Old Ridgebury Road
Danbury, CT 06810
Brent P. Godfred
(203) 796-1096

Prudential Capital Group

3350 Riverwood Pkwy. S.E., Suite 1500
Atlanta, GA 30339
Brian Shapiro
(770) 701-2428

Siemens Financial Services, Inc.

9817 Crawford Farms Dr.
Keller, TX 76248
Joe Boles
(817) 562-1566

Still, 100-percent financing is down but not out. Matt Parlier at TD Equipment Finance said, “We can provide 100-percent financing on a jet for a strong credit,” a sentiment echoed by other lenders. “Our ability to provide 100-percent financing,” noted James Simpson at First Republic Bank, “depends on the client relationship, liquidity and similar factors.”

To offer additional collateral protection, some banks are introducing “loan-to-value covenants,” which can require the borrower to pay down the loan if the aircraft’s value falls below a specified threshold. The demand for “cushion” has also affected the financing of progress payments on factory-new aircraft. Banks are now looking closely at the buyer’s potential exposure for defaulting on the contract and in some cases are refusing to finance the portion of the payments that is at risk. Thus, if the borrower defaults on the loan and the lender takes over the contract, the manufacturer will retain the default amounts called for in the contract and return to the lender the balance of its principal. Finding interest-only financing has become more difficult as well.

The term of financing has also been affected by current market conditions. Eyeing the uncertainties of future collateral values, aircraft financiers have come to prefer shorter-term deals. For example, one bank official told me his institution won’t finance progress payments on a factory-new aircraft, effectively limiting its capability to pre-owned aircraft or new aircraft scheduled to be delivered in the near term.

A related issue is a low appetite for fixed-rate financings. Lenders that balk at long-term fixed-rate commitments may promote rate-reset provisions that make it easier for them to extend maturities on fixed-rate financing. (In other words, in a six-year “fixed”-rate loan, the rate is reset after three years for the remainder of the term based on then-current market conditions.) Alternatively, a lender that has no appetite for fixed-rate financing can still offer it by procuring an interest-rate swap—paid for, of course, by the borrower.

DOMESTIC OR FOREIGN?

The availability of financing from institutions also depends on whether the borrower is within the U.S. The Royal Bank of Scotland recently closed the London office that handled its international aircraft finance, though the U.S. office is still seeking aircraft financing in the U.S. Conversely, some U.S. lenders have basically shut the doors to further American business but remain open to aircraft financings overseas.

Aircraft buyers based outside the U.S. can apply for financing to purchase jets manufactured in this country from the Export-Import Bank of the United States (EXIM Bank). Rates are competitive with those provided privately and indeed, when possible, the bank seeks to arrange the financing through private banks backed by an EXIM Bank guarantee. With credit dried up around the world, the EXIM Bank projects a significant increase in jet financings this year. The biggest drawback is that EXIM Bank financings are generally limited to 85 percent of an aircraft’s value.

Rumors abound that this or that financial institution has closed its doors or abandoned the aircraft business. These rumors are usually wrong. One industry consultant’s newsletter incorrectly reported that Key Bank, J.P. Morgan and Cessna “had left the market entirely,” though like most financial institutions, these three are all chastened but still alive and providing aircraft financing. Cessna Finance, for example, though not defunct, will be limiting its financing to Cessna aircraft. Wachovia’s aircraft finance group, though acquired by Wells Fargo and said to be out of the business, is still offering its own loans as of this writing. Before you assume that an institution you have done business with is no longer engaged in aircraft finance, you should give it a call. The likelihood is that it is still providing financing, though perhaps on a different or reduced basis.

FINANCING A JET

What’s the best way to finance a business jet today? First, consider whether you want loan or lease financing. One reason to think about this at an early stage is that not all financial institutions offer aircraft leases, Citigroup and First Source Bank being examples of ones that don’t. On the other hand, institutions such as GE Capital specialize in aircraft leases. Knowing what kind of financing you want will help you decide which financiers to approach.

Why lease instead of buying outright? Buyers with publicly traded securities are showing renewed interest in leases because leases keep the aircraft off the company’s balance sheet. With all the negative press recently about business jets, you may not want to highlight your ownership of one. Moreover, with profits down in the current economy, the tax deductions associated with business jets are often less useful. Many aircraft buyers don’t plan to use the aircraft in a trade or business anyway, so a lease, where the lessor takes tax depreciation and the bulk of the benefit is passed on to the lessee, will be attractive to them. (Of course, it’s an open question these days whether a given lender can use the tax deduction, either.) But if a buyer can use the tax depreciation, especially the newly resurrected bonus

depreciation, a loan probably remains the best option.

Second, consider what you might buy. Your acquisition consultant can help you get a sense of what aircraft models you should be considering and how much they're likely to cost. You may be pleasantly surprised at how much aircraft you can get for your dollar in today's market.

Armed with this information, try testing the waters with the financial institutions. If you have a relationship with a banking institution that offers corporate aircraft finance, ask it for indicative loan or lease terms for the aircraft model and vintage you're interested in. Since you're already a customer, the institution should be able to provide this without requiring much additional information. Even if you're not a customer, a lender may be able to give you an idea of what to expect. Beth O'Neill at Bank of America said that she often provides preliminary financing terms based on factors such as unencumbered liquid assets, total net worth and recent income history.

Sooner or later, though, you need to reach a deal on a specific aircraft. More than ever, lenders are reluctant to do much more than make informal estimates of financing terms in the absence of a specific aircraft, even if they are

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familiar with your credit. On the other hand, many buyers (some of whom believe in the rumored demise of aviation finance) are reluctant to commit to buying an aircraft without knowing the financing will be there. Aircraft deals usually begin with a signed Offer to Purchase Letter or Letter of Intent. Most such agreements allow the buyer to get out of the deal before a true commitment is made—when the aircraft is “accepted” following a pre-purchase inspection or a binding purchase agreement is signed, for example. This gives you time to talk to lenders if available financing is crucial. But you need to be careful; if word gets around that you're buying a given aircraft before you have it locked up, the seller may be tempted by a better offer.

When you get to the point of seeking a real financing commitment, you should probably solicit several proposals. The path of least resistance is to just ask your primary bank, assuming it offers and has expertise with business aviation finance. Indeed, in the current climate, relationships like this are more important than ever, as many institutions are focused solely on providing aircraft financing to their existing clients. Nevertheless, you can still

find institutions that want to write aircraft financings and attract new customers, so it's certainly in your interest to see whether such lenders can do better than yours. A competitive situation is entirely to your advantage.

Once you have the proposals in hand and have negotiated them as best you can, you should just accept the one with the cheapest financial terms, right? Wrong. Of course,

if one proposal offers financing at 200 basis points over three-year LIBOR and the others are at 400 basis points over, the choice will seem obvious. But a variance this dramatic is extremely unusual. Borrowing \$10 million to purchase a jet from Bank A instead of Bank B because Bank A's rate is 10 basis points lower may make sense, but it also may not. The annual difference in interest cost is



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\$10,000 (or about \$6,000 on an after-tax basis), and other factors may weigh in favor of Bank B. How healthy is Bank A? Is it in danger of being acquired? Are there other expenses related to the Bank A financing (such as paying legal fees to the bank's outside counsel) to consider? Does Bank B have years of experience in aircraft lending whereas Bank A is trying to make an entrance? Can Bank B provide significant advantages through creative structuring of the loan? Does Bank B have a reputation for being helpful to borrowers who need an accommodation, such as waiver of a prepayment penalty?

After receiving a loan commitment, the next step is to review the financing documents. For this tedious task, it's extremely important to retain aviation counsel instead of relying on your regular corporate attorney. Experienced aviation attorneys are likely to have reviewed the lender's documents before (sometimes on numerous occasions) and can therefore provide comments in an efficient and cost-effective manner. Moreover, aviation lawyers are attuned to the aircraft-related issues lurking in these documents, such as the return conditions in a lease, treatment of maintenance programs and the ability to charter or operate under Federal Aviation Regulations Part 135. Take advantage of their expertise.

Don't believe the rumors of the demise of business aviation finance. It's true that less money is available and that the terms aren't as favorable as in recent years. But if you're buying an aircraft at the right price and your credit is good, you should have no trouble finding acceptable aircraft financing terms. ■

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