

Shopping for an aircraft loan?

Don't make these mistakes

by Jeff Wicand

Though business jet finance has largely recovered from the recession that began in 2008, it is a changing landscape. This year, most banks will be satisfying the more stringent capital requirements of the Basel III global regulatory standards, and looming changes to leasehold accounting will cause aircraft leases to be reflected in part as right-to-use assets on corporate balance sheets. With banks saddled with “know your customer” obligations and struggling to compete with cash, it's an interesting time to finance airplanes.

If you're in the market for a financing deal, make sure you avoid these common mistakes:

1 Paying too much for the aircraft. You see the airplane as transportation, but a financial institution sees it as collateral. Banks these days are extra careful about not financing aircraft that are worth less than the purchase price, let alone the principal amount of the loan, and they structure the deal accordingly.

Most banks want to see a significant down payment (10 to 20 percent of assumed value) and seek to protect themselves going forward with more aggressive amortization schedules and even mark-to-market type covenants. Entering this arena with an aircraft you're paying too much for is setting yourself up for failure. Expert advice about the value of the aircraft (and how well this value is likely to hold up in the future) is crucial.

2 Buying an aircraft that's long in the tooth. Most lenders today



prefer to finance newer aircraft. As transportation, there's nothing wrong with older airplanes (assuming they're equipped to fly where you want to go), not to mention that they are cheaper and often suffer less from market depreciation than brand-new ones. Still, many lenders shy away from them.

Stories differ: one lender wants the jet to be no more than 10 years old when the financing starts, another wants the jet to be less than 20 years old when the financing ends. In any case, if you're looking to buy, say, a Hawker 700 or Challenger 601, you should probably check into your financing options before committing to the purchase.

3 Allowing too little time for financing. Even in the current environment, lenders can pull off some amazing results, but in general, financing a jet today takes longer

than it used to, so don't assume you can contact your lender a week before closing to arrange a loan. Lender concerns about collateral values, compliance with “know your customer” and other lending requirements and just the sheer time involved to document and close the deal make fire-drill jet financings a relic of the past.

If time is short, you may be better off getting a read before closing about what financing terms are likely to be available and then dealing with the arrangements after you own the airplane. That way, the lender can't hold a gun to your head regarding terms.

4 Failing to solicit competing bids. After they cut a deal to buy a new aircraft, many buyers simply call their go-to lender, often the one that financed their current airplane. This can be a good move for many reasons, including the fact

that Basel III rewards banks for making aircraft loans to existing clients and that banks these days increasingly won't provide such loans to anyone else, anyway.

That said, there are good reasons to cast a wider net. First, you may not secure the best deal from a bank that assumes it will get the business. Second, your regular bank may have little expertise with corporate or private jet loans, and as a result it may, for example, be overly conservative about calculating residual values. Further, your regular bank may feel it has enough credit exposure to you already and have little appetite for, say, a 10-year, \$20 million aircraft loan. It can't hurt to compare proposals from several lenders to see where the best deal is.

By the way, in evaluating deals, consider factors other than which institution offers the lowest interest rate. Lenders complain that

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jet-financing customers have been won and lost on 10 basis points; that's less than \$2,000 a month on a \$20 million loan.

Other factors may prove at least as important. Among them: your relationship with the lender; the lender's expertise in aircraft loans; other financial terms, such as the amortization schedule in a loan or early-buyout opportunities in a lease; and the imposition of burdensome loan covenants.

5 Failing to consider both loan and lease financing. Aircraft buyers often approach financing with preconceived

and documents. Buyers often mistakenly figure that their regular corporate or lending counsel should handle financing documents and that aviation counsel need not be involved, as though borrowing on a business jet were no different from borrowing to buy a corporation.

The fact is, prominent aviation attorneys are generally very familiar with aircraft financing documents from major lenders. Experienced aviation counsel can help negotiate bank term sheets and commitment letters; because they review so many of them, they

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notions of what's best for them. Some, for example, will entertain only nonrecourse financing, usually because that's the way they finance everything else in their business. Others may lease their aircraft because that's how they've always done it.

But nonrecourse financing is more expensive and pending changes in lease accounting may make the original reasons for leasing no longer compelling. In short, as long as you're soliciting a proposal for a loan or lease, you might at least consider requesting a proposal for the other, assuming the financial institution provides lease financing.

6 Not getting good advice. Finally, don't neglect to hire experienced aviation counsel to review your financing proposals

tend to know what's possible and what isn't.

Past experience with documents generally expedites the ability to negotiate the same documents in the future. Counsel familiar with the documents will also be alerted to new and nonstandard terms the bank is looking for. Finally, aviation counsel is attuned to the aviation-related traps in the financing documents that may escape the notice of regular business counsel.

If you can afford a \$20 million business jet, you probably have better things to do with your cash than invest it in an aircraft. Regulatory and accounting changes haven't made things easier for lenders, but they are still ready to do deals that make financial sense. **BJT**

Jeff Wieand (jwieand@bjtonline.com) is a senior vice president at Boston JetSearch and a member of the National Business Aviation Association's Tax Committee.

Banc of America Leasing
Global Corporate Aircraft Finance
Addison, Texas
David J. Jarvis
(972) 455-5855

BB&T Equipment Finance
Towson, Maryland
Steve Olson
(303) 886-7008

BMO Harris Equipment Finance
Corporate Aircraft Finance
Westlake, Ohio
Joseph DiLallo
(440) 385-4433

Cessna Finance Corp.
Wichita, Kansas
Danny Maldonado
(316) 660-1207

Chase Equipment Finance, Inc.
Tampa, Florida
Chad E. Colby
(813) 483-8246

CIT Bank
CIT Aerospace Business Aircraft
Plantation, Florida
Michael J. Kahmann
(954) 359-4646

Citi Private Bank
Global Aircraft Finance
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Ford von Weise
(212) 559-1444

Citizens Asset Finance
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Donald A. Synborski
(603) 634-7522

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CBI Leasing, Inc.
Aircraft Finance
Commerce Bank N.A.
Lake Forest, Illinois
Sean K. Patrick
(847) 295-4601

Deutsche Bank Private
Wealth Management
Private Aviation Finance
Chicago
David W. Rodin
(312) 537-1510

Export-Import Bank
of the United States
Transportation Division
Washington, D.C.
Robert F.X. Roy, Jr.
(202) 565-3557

Fifth Third Equipment Finance Co.
Boston
Matt McNamara
(857) 415-3003

First American Equipment Finance
Aircraft Finance Group
New York
John Unchester
(917) 558-8460

First National Capital Corp.
Aviation and Specialty Finance Group
Foothill Ranch, California
Rob Polichetti
(949) 614-1626

First Republic Bank
Aviation/Marine Finance
San Francisco
James F. Simpson
(415) 296-5783

First Source Bank
Laird Professional Building
Downingtown, Pennsylvania
Jeffrey Lindstadt
(610) 269-1683

GE Capital Corp.
Corporate Aircraft Finance
Danbury, Connecticut
Brent P. Godfred
(203) 749-6657

Global Jet Capital
Boca Raton, Florida
James Noonan
(319) 270-2450

Guggenheim Partners, LLC
Business Aviation Investments
Santa Monica, California
Donald Walsh
(714) 552-5067

Key Equipment Finance
Cleveland
Peter Bullen
(216) 689-8579

Northern Trust
Miami
Glenda G. Pedroso
(305) 789-1554

PNC Aviation Finance
Boise, Idaho
Wayne Starling
(888) 339-2834

SunTrust Equipment Finance
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Corporate Aircraft Finance
Baltimore
Joe Hines
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UMB Bank
Business Aviation
Wichita, Kansas
Morgan Littell
(316) 266-6002

U.S. Bank Equipment Finance
Capital Equipment Group—Corporate Aircraft
Denver
Pete J. Georgelas
(303) 585-4036

Wells Fargo Private Bank
Chicago, Illinois
Jan-Peter Breugelmanns
(312) 592-5621