

Marketing and Financial Services Company

3116 Girard Avenue South, Suite 206
Minneapolis, MN U.S.A. 55408

Telephone: +01-612-822-3580

Facsimile: +01-612-822-3508

Email: Gerry@mfsaircraft.com URL: <http://www.mfsaircraft.com/>

By Gerry Jackson

Contents

Introduction	2
How do I get the BEST DEAL FOR ME?	2
Some Financing Do s and Donts	2
What s a competitive interest rate?	3
Great Rates Below Prime!	3
The TERM. How long can I finance this baby for?	4
How long does it take to get a loan approved and closed	5
Do I need a Pre Purchase Inspection?	5
Other than my personal bank, Where do I get an airplane loan?	5
The Ugly Truth in credit reporting	5
Why would anyone want to use a broker?	7
Do brokers really expect to get paid?	8
Okay, How much?	8
Special Credit Situations, Bad Credit, No Credit?	8
What must be included in a loan package?	8

Introduction

Aircraft financing is specialized as many who have sought it may have discovered. Many buyers have gone to their local bank to ask for a loan to buy an airplane only to be told that the bank doesn't lend money on aircraft.

The reason for that is because aviation law is very specialized. It is so because there is always more than one government regulatory agency involved in making law regarding aircraft be it general aviation or commercial aviation. There are multiple agencies and law making bodies involved because airplanes are things that are made to move. Even a small airplane can cross into another state or country easily. And when that happens the laws of neighboring states or countries have to enable a lender to secure their collateral, the airplane, in the event it has to be repossessed. Therefore, in order to change many have to be changed.

For that reason most banks choose not to involve themselves in lending for aircraft because they need specialized legal advice to protect their assets. And that's expensive. Further, Banks that aren't experienced at aircraft lending or personally knowledgeable about aircraft don't know how to judge the value or marketability of an airplane. A car, truck or house have easily defined values and markets. Airplanes are very different. They are made and sold in much, much smaller quantities and there are far fewer consumers who purchase airplanes than there are cars. Respectively there are far fewer lenders that will finance airplanes than cars.

In addition to that not all aircraft lenders lend money on all types of airplanes. If a banker doesn't know enough about a particular Make and Model airplane to feel comfortable about the market for that airplane they will refuse to lend money for it.

So, how does one go about financing an airplane and get the "Best deal for ME"?

The answer to the "Best Deal for ME" question is the answer to several questions:

1. How much time are you willing to devote to research?
2. Can you afford to spend 20, 40, 60 or more hours over the course of a couple of weeks or a couple of months to do the work yourself?
3. Do you know whether or not you'll qualify for a aircraft loan anywhere?
4. Are you willing to pay a knowledgeable broker?
5. Are you willing to accept the penalties for whatever mistakes you make and resulting damage to your credit in seeking financing on your own?
6. Are you willing to accept the advice of a broker who tells you these are your options, or do you want to revert to question number 2 above?

Read on. I'll try to help you answer these questions.

Some do's and don'ts.

First: obtain your own credit report, or secure the services of a broker who can. It's free to anyone once a year. You can find "Credit Bureaus" on the Internet or telephone book. If there are problems on the report you should take steps to correct them before seeking an aircraft

loan. Links to the 3 major national credit bureaus are at the end of this article.

Next, you can go to your local bank. They know you best and they know that you have a vested interest in keeping them happy because they hold your money and/or other loans. They also know whether or not you pay your bills as promised. It's also possible that they'll lend you money for an airplane even if, by policy, they don't make aircraft loans, just because you are such a darned good customer of the bank. That's the person who can prove they don't need the loan. We all know that bankers love to lend money to people who can prove they don't need it.

When you ask your personal bank for an aircraft loan it's wise to have a telephone call or lunch with your personal banker. Don't make an official loan application until you determine that they do loan money for airplanes or that they'll loan YOU money for an airplane whether or not it's their policy to loan money for airplanes. I'll explain why you should do this later.

If your bank turns you down, and hopefully you've determined that before making a formal application whether they like it or not, you're in the same boat as most airplane buyers. That means you have to reach out to a bank or specialty aircraft lender who doesn't know you from Adam. And in order to obtain a loan from them they'll have to get to know you by the paper you submit to them that is "VERIFIABLE" information as to income and assets. That means personal and/or business tax returns. Investment accounts, savings and cash accounts, real property etc. If you can document your ability to pay you can get a loan from the better aircraft lenders (sometimes called A and B lenders) at a competitive interest rate. If you can't verify your ability to pay you're relegated to the asset based lenders or, worse, a loan shark. More about that later (not the loan shark, the asset based lender).

What's a "competitive" interest rate?

Interest rates for general aviation aircraft loans are not tied to the Prime Rate, the Federal Discount Rate, LIBOR, Home Loan Rates or any other rate you may have heard tossed around in financial circles or the local bar, which are sometimes the same place.

Aircraft interest rates are set by what the market will bear and competition. Since 9/11 the lending market has shrunk. In addition consolidations have reduced the number of sources available and other companies have simply stopped lending pending sale of their division.

Aircraft lending rates go up when interest rates go up and they go down when interest rates go down. As of December 2001, lending rates are about 7.5% for N registered general aviation aircraft. A bit lower for aircraft valued at more than \$750,000. Experimental classification aircraft will also get about 7.5% rate for qualified buyers, A and B credits, but there are far fewer lenders for Experimental classification aircraft and you'll have to take what you can get. There are also limited sources for helicopters.

Most lenders won't lend money for Experimental aircraft because they don't want to take the chance that a borrower will default on a loan and hand them a half built airplane. That's an asset worth virtually nothing to a bank. The bank can't finish building it and it's nearly impossible to sell. Manufacturers of kits won't, and usually can't, buy them back. So imagine trying to sell a half built airplane to someone which will usually have a bunch of parts missing. A bank is lucky to sell one of those within 12 months of repossession and at about 5 cents on the dollar.

But I've heard about great rates below Prime!

So have I bunky. But not for your Cessna. Look over the shoulder of the guy you overheard and see what's parked on the tarmac. It's a Gulfstream IV or V or a Falcon 900 or a Canadair 604. Something worth \$10 or \$20 Million or more. If you're really in the league of \$10 Million to \$60 Million personal aircraft....***please call me!*** I can get you an interest rate under 6% presently. And you should be glad to pay my fee to hire you the right attorney, arrange the pre purchase inspection and negotiate the purchase and the operating company to manage your beautiful aircraft for you because your time is worth a hell of a lot more than I'll charge you. And you'll get that deal done right and save yourself more than my fee in future liabilities and headaches.

What "Term" or How many years can I finance an aircraft for.

Obviously the "Term" of the loan has a lot to do with how much the monthly payment will be to repay the loan. A typical "Fixed Wing" aircraft loan is 15 years. A longer term, 20 years, isn't uncommon but you'll pay a LOT of interest for a small reduction in the monthly payment. Shorter is certainly possible and desirable if you can afford to make a larger monthly payment to pay off the loan faster.

Loans on Rotorcraft are shorter term. You can plan on 3 to 8 years and that's the best you can do (unless your personal banker really loves you). But you'll find that your local bank is very unlikely to finance any helicopter. Banks believe helicopters really are things that are designed to fall out of the sky and, generally, they don't want anything to do with them no matter how much they like you. If you want a helicopter loan from your local bank you'll normally find that having a nice house that's completely paid for will suffice. Or a medium or large company that's very profitable. Either one of those will be good collateral, with or without the helicopter.

Here are some comparative figures to illustrate how the term affects interest paid.

Loan Amount	Interest Rate	Term	Monthly Payment	Total interest paid full term
\$50,000	7.5%	5 years	\$1,001.90	\$10,114.00
\$50,000	7.5%	10 years	\$593.51	\$21,221.20
\$50,000	7.5%	15 years	\$463.51	\$33,431.80
\$50,000	7.5%	20 years	\$402.80	\$46,672.00

You can see in the table above that the reduction in the monthly payment between a 15 and 20 year loan is small compared to the increased amount of interest paid over the course of the loan.

Something to consider in selecting the term of a loan is depreciation. We all know that you're going to want a bigger, faster, more luxurious airplane down the road. And that means you'll probably sell the current one. And that means that you'd like the airplane to be worth more than you owe on it. Possibly a lot more to help with the down payment on the next big beautiful bird. A 20 year payment plan isn't paying off the principal on the loan very fast. So a word to the wise is "New or late model aircraft depreciate." Don't get caught owing more

money than an airplane is worth when you want to or have to sell it.

How long does it take to get a loan approved?

From 2-3 days to 2-6 weeks. It varies with your credit situation, the aircraft make and model and how busy the industry happens to be at any given time. Most ordinary loan applications that consist of a widely known, popular, fixed wing aircraft and a creditor with a simple one income one employer tax statement will usually receive an answer within 2-3 days from most sources. This can expand to a week or 10 days in busy times. That's just the approval. Closing the loan takes, typically, another 10 days to 3 weeks. Situations that involve special credit situations, aircraft located in a foreign country to be re-positioned in the U.S., or vice versa, take longer. Aircraft being financed on sale / lease back take longer. Any extraordinary situation takes longer. From 1 week to 2 months longer. Commercial aircraft (Part 135 is commercial) can take longer. Plan on at least 30 days and up to 3 months if it's for foreign use and/or includes special credit situations.

If you call me and say that you have to close on the purchase/sale this week or you're going to lose this beautiful airplane, you're going to lose the airplane. The only exception is if you pay for the airplane with your cash and proceed to put it on financing after the purchase. That can be done and it isn't a problem **unless** you have a credit problem. The best solution in that situation is to tell me, or your bank if you wish, what the situation is, send me your loan package and I can tell you what the likelihood of getting a loan is after the purchase.

Do I need a pre-purchase inspection?

Your personal bank may or may not require one. Other lenders will require various types and degrees of inspections. Each one has different requirements that vary with the type and value of airplane. It will vary from no inspection to a thorough, physical inspection by a qualified A&P plus a certified appraisal from a certified appraiser of the lenders choosing in writing. Generally speaking, most lenders will accept an inspection that costs about \$350 to \$500 from any licensed A&P for a single engine piston powered aircraft. And it can usually be arranged to be done within 2 to 5 days and the report can be sent by fax so it won't hold up the closing process.

Other than my personal bank, where do I get financing?

You can get on the Internet Go to any search engine and type in "aircraft (or airplane) financing" and press enter. You'll be presented with a list of from 30 to 300,000 sites to look at, research, investigate, call and bargain with. And some of those will actually be aircraft lenders. Some of them will be brokers, some of them will be sites that have little or nothing to do with aircraft lending. This is where you get to test your desire to do all the work yourself or let a broker do the work for you.

There is one more thing to watch out for here. Remember that I advised to get an answer from your bank BEFORE submitting an application? Here's why.

The ugly truth in credit reporting!

When that friendly banker says "Yes Mr. Jones, I'd be happy to take an application from you. Just fill this out and I'll see what we can do for you." Watch out. Although there isn't a "Personal Banker" in the world that will admit it they are salespeople! They're trained,

especially the newer ones, to GET APPLICATIONS! Banks make money by loaning it out and collecting interest. And to make loans they have to get applications. What they don't tell you is that the first thing they do when you turn in your application they obtain a credit report on you from one or more of 3 nationwide credit bureaus. When they do that the credit bureau records a credit request from them. Three (3) or more of those in a 90 day period results in a "Warning" being placed on all subsequent requests for a credit report on you.

So the net result of your efforts to get your own aircraft loan can be that your bank turns you down saying something like "We don't normally do aircraft loans but I wanted to try for you because you've been a long time customer of the bank. Unfortunately the "Board" decided that even though you're a good customer we still can't do aircraft loans."

Now you find 6 more places on the Internet to go to and submit an application looking for the "BEST DEAL FOR ME" and submit applications to each of them. **Do that and you've just committed a big no no.** Here's what can and does happen. The first company sees that you submitted to your bank and the fact that you're now submitting to them tells them that you were turned down. So he or she may reason that there is a reason for the turn down even if he or she doesn't see it. Then if your report isn't otherwise stellar in terms of income to debt ratio, beacon score, zero late payments within the past 5 years and whatever other criteria they use, you may just get another turn down without doing anything wrong. And each lender has their own set of criteria in determining loan worthiness and they won't tell YOU what those criteria are.

And you've just submitted an application to 5 other lenders. Each one of them is going to see that you're submitting to each of the others, which not only shows up but results in a "Warning" being placed automatically on your credit file, and they may well dub your application what's called "Shopping." Now you may receive more turn downs and you still haven't done anything wrong. Or the one guy that decides to take your loan decides there's an additional element of risk involved because of all the perceived turn downs and offers you an interest rate of 9.5% with a 2 year balloon because you're a bad risk.

In addition, there is something called a beacon score applied to everyone's credit file. It's an indicator of creditworthiness which carries a lot of weight with lenders. Excessive credit file requests serve to lower your beacon score. Each lender has a rule that they will not loan to anyone with a score below a certain number. Excessive inquiries can lower an average score below many lenders minimum and cut off your chance to obtain a loan at the better rates or any rate at all.

Sounds like a horror story doesn't it? Doesn't sound fair does it? Well it can be horrible and it isn't fair. But it's the real world. And this exact scenario has happened to clients who've come to me because they can't get a loan even though they have money and they pay their bills on time. Some of them so bad that credit worthy clients couldn't get a loan even with my help and very lengthy time consuming and costly explanations.

The lesson is that if you're going to do this yourself be smart and very, very patient. Proceed cautiously with your bank. If your friendly personal banker won't tell you anything about your chances without submitting the loan application they may be simply trying to "Get Applications" to fulfill their quota this month. If that's the case, run for the hills and don't look back. They probably aren't going to give you the loan anyway. **If you decide to continue on your own, submit one application at a time and work through the process with that lender. It takes longer but it will preserve your credit rating and increase your chance**

of getting a loan. If you fail at your bank and one other lender you need to stop and figure out what's wrong. If you proceed to another lender in the same manner and with the same loan package **you will fail again.** You need to either figure out what's wrong and fix it or seek professional help.

If you decide to "surf the net" and do the job yourself talk to the lenders on the phone. Don't submit applications on line without finding out if the lender actually loans money on the type of plane you want to buy. They'll obtain a credit report and you may have a strike against you. Don't blanket the world with an application to every lender in sight. You'll be dubbed a shopper and get strikes against you. "Shopper" applications go to the bottom of the pile on the underwriters desk (that's the person who approves or rejects your loan).

If your bank is nice but tells you "Sorry we don't do aircraft loans" and you go to the net or someone your friend recommended and you get an approval and you want to know if that's the "BEST DEAL FOR YOU" call another lender or two. Tell them you've been approved for a loan for this amount of money for such and such an airplane by so and so and you'd like to know what their rates and terms are. They'll tell you! A little information can be very powerful.

If three people give you the same rate you're done. You've found the "BEST DEAL FOR YOU." Calling 20 or 30 people to, first, find out if they lend money for your type aircraft and, second, to see if they'll shave a tenth of a point or two is a waste of time in my opinion. But it's your time. Do with it as you wish.

I can do that, you say. So why should I use a broker?

Clients come to me for a variety of reasons, some of which are:

1. To save time. They value their time and don't object to paying a small fee to have a professional do the work.
2. Because they want to avoid possible damage to their credit rating.
3. Because I have the ability to obtain one credit report and submit their loan package to multiple lenders with only the one report, thereby, protecting their credit file rating and beacon score while getting competitive bids in a shorter period of time than they can.
4. Because I deal with a wide variety of lenders for all the various situations, aircraft and rotorcraft.
5. Because they have a special credit situation which will require professional assistance to obtain a loan. I've succeeded in obtaining financing for more than one client who is a high net worth individual and has been turned down for an aircraft loan because they have little taxable income.
6. Because they've been referred by a friend or other industry professional or organization.
7. Because they've been going about it themselves, have reached their frustration level and are glad to hand it over to me for a small fee.
8. Because they've already submitted and been turned down and, therefore, need help.
9. A myriad of other reasons.

What are my fees?

For services to obtain financing; typically 1% to 3% of the amount FINANCED or \$500 whichever is greater. In many cases, for aircraft valued at \$1 Million or more, I'm able to earn my own fee in the transaction at no cost to the buyer, other than a retainer fee.

There can be exceptions to this rule but I'm not anxious to bargain away my pay. And I couldn't possibly cover every situation here.

What do other brokers charge? Some quote $.5\%$ (I've heard of only one), some 1%, many charge more, and some will leave it unclear what the charges are or how they get paid.

Do all brokers charge a retainer? I do. Once I've received your loan package and have obtained a conditional commitment to financing I collect a retainer to continue working on your project. To be blunt, no pay no work. I'm not an accident and injury attorney who works on contingency fees suing insurance companies who, therefore, know they'll get paid.

I have a special credit situation, credit problem, can't prove assets or income or have been or know I will be turned down. What can I do?

If you have a special credit situation, bad credit and have either been turned down or believe you likely will be, yet still want or need a private airplane there may be a way. Special credit problems may be handled according to the situation and those persons may still be able to receive preferable rates. For other problems there are companies who are "Asset based lenders." They loan money based on the value of the asset and the amount they will loan against that asset. The interest rates for this type of loan are higher and down payment requirements are larger for obvious reasons. They will typically be from 13% to 15% interest and 20% to 30% down payment.

There are some who offer this type lending at interest rates of 18 to 24 percent. My advice is that if you find one of those RUN LIKE HELL. People who let their desire to own an airplane outweigh an ounce of common sense usually wind up losing the airplane after making a substantial down payment of 25 to 50 percent. That's hard to take but it won't be the end because the company that repossesses the airplane isn't done with you yet. There will be maintenance performed, whether you like it or not, that the lender will claim was essential to resell the airplane. And the interest will continue accruing until the airplane is sold. All of that money will be charged to you. And that lender will collect or obtain a judgment against you for any deficiency. On the other hand, if you're sure that buying a plane will make you so much money that it's worth the risk, it's your life and who am I to tell you what to do with it.

What do I need to include in my loan package?

The basic package for an individual purchasing an airplane will include a personal financial statement, 2 most recent years tax returns for yourself and, if you've selected the desired aircraft, a specification sheet for the airplane along with a signed offer to sell/purchase the airplane. As a broker, once I receive that much information I can tell you what other information may be required. If you submit to a lender yourself different lenders may each have questions, some the same, some different. If you wish to be pre qualified for a loan simply omit the aircraft specification and offer to sell/purchase the aircraft.

If there is a company involved in the purchase then company tax returns for the most recent 2 years will also be required, assuming the company is privately owned and not publicly traded.

If you decide to use my services you may print a financing application form and a personal financial statement form from my web site at <http://www.mfsaircraft.com/> And just go to the Forms link.

There you have it. Aircraft financing made easy. Well, the basics anyway. I hope it helps you decide which path to take, do it yourself or use a broker, and I wish you good luck whichever you decide.

If you have additional questions please feel free to call Gerry Jackson at +01-612-822-3580.