



AIRCRAFT FINANCING

Cutter CARES Webinar
May 13, 2020



Overview

- **Today's Lending Environment**
- **Current Rates & Terms**
- **Sample Programs**



Aircraft Lending

- **Why Pay Cash?**

- Personal Preference
- Averse to Debt

- **Why Finance?**

- Important to maintain a properly structured balance sheet (balance cash & debt)
- Cash in today's environment is "king", gives business owners flexibility
- It's easier to get a loan when you don't need it
- It makes economic sense to finance
- Historically low rates



Aircraft Lending

- **Aircraft Loans – Typical Characteristics**

- Involve review of tax returns, financial statement, credit
- Less costly compared to home mortgages
- Loan decisions much quicker than a home mortgage
- Closings within a week of credit approval
- Closing through aviation title companies



Aircraft Lending

- **Aircraft-Specific Lender:**

- Loan is placed against your aircraft
 - ✦ Not your home or any other assets
 - ✦ No “rights to offset”
- Long-term fixed-rate financing
- Loan can be deductible for business purposes if properly structured
- Familiarity with unique loan structures (SPEs, partnerships)
- **Benefits: finance with someone who understands an aircraft transaction**



Lending Environment

- **The COVID-19 Lending Environment**

- Very different from 2008-2009
- Strong finance sector at start of 2020
- Market lacked a “bubble” leading up to this year
- Credit is readily available
- Rates are historically inexpensive
- The credit markets are VERY active
- Business aviation is “leading” the recovery



Lending Environment

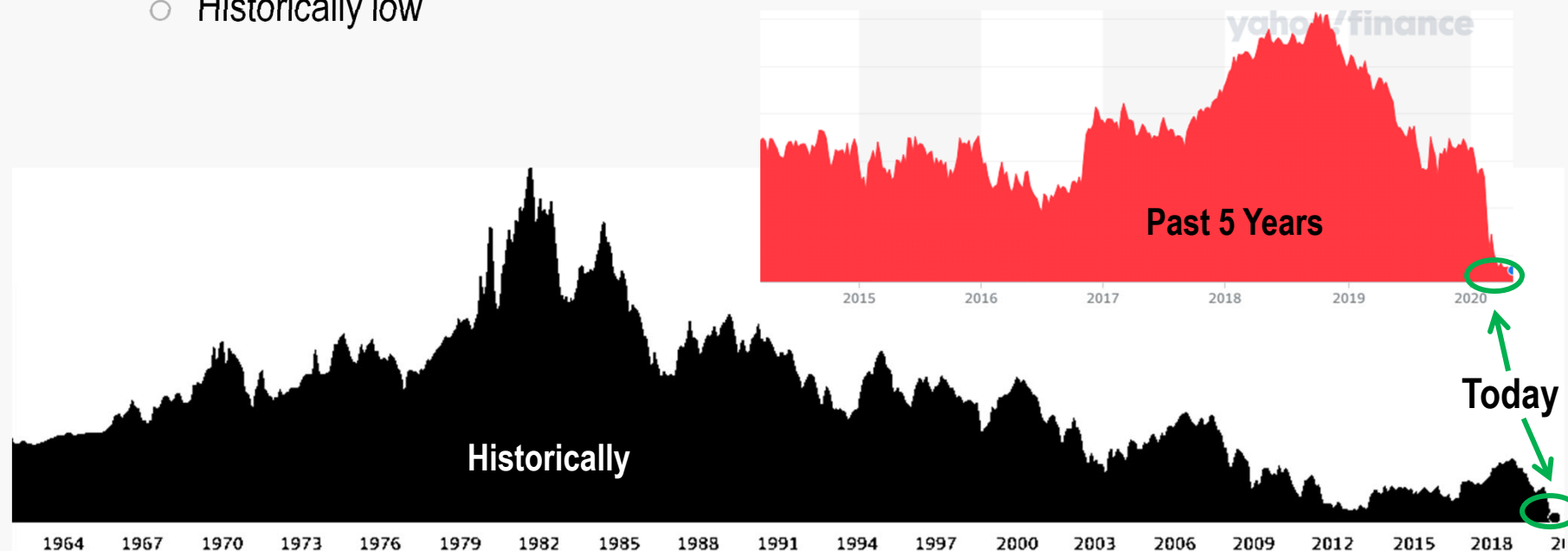
- **However ...**
- **Changes to Expect during COVID-19**
 - Prepare to explain how you/ your business have been impacted
 - Loans currently on “Deferral”? This may impact your ability to get a loan
 - Received “PPP” funds? This should not impact ongoing borrowing
 - Some lenders are restricting lending, tightening access to credit in certain industries
 - Plan further ahead – credit decisions taking longer
 - ✦ Stimulus Support
 - ✦ Refinancing's
 - ✦ Deferrals



Lending Environment

- **Interest Rate Environment**

- Sample Underlying Rates: 5-year Treasury Rates
- Historically low



Lending Environment

- **Interest Rate Projections**

- Cannot drop much further - Banks are setting “floors”
- Rates expected to remain at low levels into a recovery
- The FED will likely keep rates low to help stimulate a rapid rebound
- Banks are projecting improvement in the market in early Q3, however
- This is likely the bottom rate-wise

**"WHEN IS THE
BOTTOM?"**



What's Involved with Financing?

- **Underwriting & Closing Considerations**

- Underwriting
 - ✦ Loans under \$2MM: anticipate 2-3 days
 - ✦ Loans over \$2MM: anticipate 5-7 days
- Post-Approval
 - ✦ Credit Lock – 90 days
 - ✦ Rate Lock (fixed rates up to 30 days)
- Tips when shopping for an aircraft loan
 - ✦ Turnaround time vs. loan amount?
 - ✦ Pre-payment Penalties?
 - ✦ Closing Fees?
 - ✦ Up-front "Points"?



Current Financing Programs

- **Rates Typically Depend on ...**

- Loan Amount
 - ✦ As the loan size increases, the interest rate typically decreases
- Down-Payment
 - ✦ Larger down-payments present a lower risk profile, lower rate
- Utilization
 - ✦ Commercial use is typically higher risk and rate
 - ✦ Commercial use also leads to a shorter loan term (higher use = faster depreciation)



Current Financing Programs

Sample Terms Today

- **Part 91/ Private-Use**

- Down-Payments: 15-20%
- Terms: up to 20 years*
- Fixed Rates: 3.50 - 4.00%*
- ARM Rates (3 years): 3.00 - 3.25%

- ***Commercial Use - Charter-Leaseback Terms Also Available (terms vary)***



**Specific rates and terms based on loan amount, down-payment, aircraft age, and are subject to credit review.*



Thank You!



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