



Financing an aircraft

For most of us, paying cash for an aircraft is not an option. Similar to buying a home or a car, you have the option of financing, allowing you to enjoy the benefits of a valuable asset now while making affordable payments over time. There are differences in the process. This report outlines what to expect.



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In the United States, financing is readily available for all types of aircraft and for all customers—both individuals and businesses. With a wide variety of options, there is likely a financing tool and lender to meet your needs.

“We are not seeing the days of 110-percent financing like we saw five or six years ago, meaning lending 10 percent more than the customer purchased the aircraft for. If you’re qualified, you can get financing,” said Anthony Schieber, a Beechcraft expert in aircraft financing.

Availability of financing on the international market depends on the region and the aircraft size. In Brazil, Mexico, Europe and Australia, financing is readily available, but in other growing regions, increased risk restricts financing opportunities.

Lenders in the international market often prefer aircraft valued at \$5 million or \$10 million and up. For those who cannot find financing, whether because of the aircraft size, limited lender options or the volatility of the region, the U.S. Export Import Bank (Ex-Im) provides financing at competitive rates.



The U.S. Export-Import Bank (Ex-Im) is an independent agency of the U.S. government that assists in financing American goods in the international market, assuming credit and some country risks that the private sector is unable or unwilling to accept.

Part 1: WHAT ARE THE INTEREST RATES?

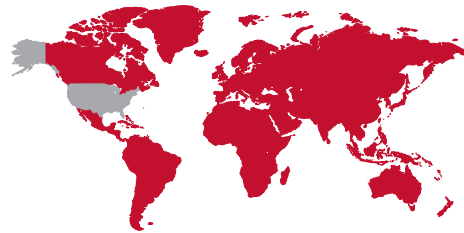
Standard interest rates are primarily based on the customer’s credit and the size of the aircraft. In the United States, fixed rates are typically based on the five-year swap rate, while floating rates—also known as variable or adjustable rates—are based on LIBOR.

U.S. Fixed Interest Rate: 3.5-4.5%*



*Typical interest rate at 300 basis point over index on October 17, 2013 for a turboprop. Actual rate depends on the current five-year swap rate, customer’s credit and aircraft size.

International Fixed Interest Rate: 5-8%*



*Typical interest rate for a turboprop. Actual rate depends on country risk.

“We are seeing typical rates ranging from 200 to 350 basis points over the index, but they can be lower for those with great credit, and higher for less-than-average credit,” said Schieber.

“If we use a 250-basis-point-over-index for a fixed rate, we would be looking at 4.08 percent because the current swap rate is 1.58 percent. Today [October 17, 2013], LIBOR is at 0.18 percent, so you would be looking at 2.68 percent floating. Again, these rates vary based on credit worthiness of the customer.”

Floating rates held mostly constant in 2012 and 2013. In 2102, LIBOR was at 0.21 percent. Fixed rates have been less stable, as the swap rate increased significantly in the second quarter of 2013 then decreased slightly. In 2012, the five-year swap rate was 0.79 percent.

Basis point – a unit equal to one hundredth of a percentage point. 100 basis points equals 1 percent.

Swap rate – borrowing rate between financial institutions. Fixed rates are based on the swap rate.

LIBOR – London Interbank Offered Rate, the average interest rate that London banks are prepared to pay to borrow money from each other. Floating rates, also known as variable or adjustable rates, are based on LIBOR.

“I think it’s safe to say that the floating rate will not go down much further, if at all. It can only go up from here. For countries that are more complicated to do business in or if there is a greater perceived risk, the rate is going to be higher. Rates range from 5 to 8 percent on average internationally, but Ultra High Net Worth Individuals (UHNWI) are able to receive very attractive rates through their private wealth banks, those holding their investments, so they typically garner rates more in line with domestic pricing. There are countries where lenders will not do business,” Schieber said.

Part 2: WHAT TYPES OF FINANCING ARE AVAILABLE?

In the United States, there are three basic ways to finance your aircraft — debt financing, a capital lease and an operating lease. An operating lease is common on larger aircraft, such as jets, for those who are uncertain or unwilling to take the residual risk — what the aircraft will be worth in five years.

If you plan to own and operate the aircraft for a short period or don't want to own the aircraft at the end of the term, you may want to choose a lease over a loan. There are other reasons to choose a lease as well. If, for any reason, you cannot benefit from depreciating the aircraft, you may want to review lease options. If you don't want to take on more debt or your business covenants won't allow you to take on more debt, a lease may be your answer. Some governments and large businesses choose to lease their airplanes when the budget won't allow for millions of dollars in debt over several years, but will fit a several-hundred-thousand-dollar year-to-year expense. For similar reasons, decision-makers who have the authority to authorize expenses under \$1M sometimes choose a lease in order to bypass the approval process for the entire cost of the multi-million-dollar aircraft.

"I see more customers choosing a loan, as it's the least expensive route since the residual value risk is not on the bank, but on the customer. Typical structure is a five-year term amortized from 12 to 20 years. This leaves a balloon payment at the end of the term. It can be paid off in cash, refinanced or traded in to satisfy the final balloon payment," said Schieber.

90% of Beechcraft customers finance their aircraft with loans



For smaller aircraft, such as pistons, mortgage-like programs are available, such as a 20-year term with a 20-year amortization.

Internationally, loans and capital leases are the most common financing tools for aircraft, as there are few lenders able to provide operating leases. In either a loan or capital lease, the customer is the owner of the aircraft with full tax benefits in most jurisdictions.

Financing Tools

Debt financing (Loan)

Similar to a loan for a car or house, debt financing is the most popular option. The owner builds equity in the aircraft and can take full advantage of all tax advantages, including depreciation on the aircraft. It is also the least expensive option, simply the cost of the aircraft plus interest. The bank does not retain any of the residual value of the aircraft.

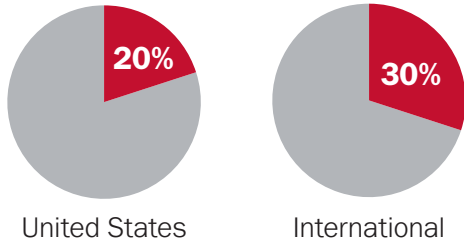
Capital lease

Payments equal or exceed 90 percent of the aircraft's value. Considered the owner, the lessee can take depreciation and interest expense. Full ownership of the aircraft may transfer at the end of the lease with an option to buy at fair market value.

Operating lease

Similar to a car lease, this rental arrangement is common on larger aircraft, such as jets. Lessee pays maintenance costs. The lessor retains ownership of the aircraft.

How much is the average down payment?



Non-recourse program

The customer does not provide a corporate or personal guarantee, and the lender only has recourse back to the aircraft. Available only in the U.S. and Canada, this program requires a significantly-larger down payment.

Part 3: WHAT ARE THE TYPES OF LENDERS?

You can choose from several different types of lenders, including: traditional banks, specialty lenders or export credit agencies such as Ex-Im Bank and private equity organizations.

For the lowest rates, consider a traditional lender. If you have average or below-average credit, you may need a specialty or private equity lender. Specialty and private equity lenders are more willing to take risk, but charge more for that risk compared to traditional banks.

“Even if you have good credit, you may want to go this route, so as not tie up a line of credit with a lender that you may need for other business needs. Of course, international buyers may rely on Ex-Im Bank if financing is unavailable in a particular region or if the financing is not economically attractive,” said Schieber.

Ask your lender about closing costs upfront. While not generally a large expense domestically, they can add up quickly on the international market.

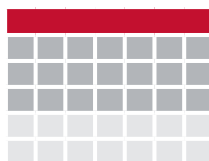
When looking for a lender, ask your seller. Most aircraft manufacturers have someone in the role of sales financing who has relationships with many reputable lenders and can recommend one to you.

“Generally, lenders prefer new aircraft but will loan on used aircraft with complete records that are newer than 10 years old.”

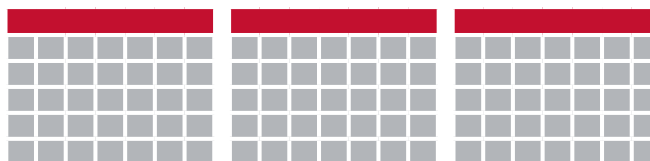
— Anthony Schieber, Beechcraft sales financing

How long does the financing process take?

Timing depends on how engaged and responsive the customer is in providing proper documents and signing the many contracts. International financing through the U.S. Export-Import Bank is on the longer side due to the government approval process.



2-3 WEEKS
United States



1-3 MONTHS
International

Part 4: WHAT'S THE LOAN PROCESS?

Here is a quick overview of the financing process, from making the first contact with the lender to the final payment.

STEP 1 Making contact	Decide on the aircraft and the price. Contact a lender. Provide the institution with three years of your most recent financial information along with your interim financials. Depending on the aircraft's use, these documents can include: the business' balance sheet, income statement and cash flow, or a personal financial statement (what you own versus what you owe) if you're purchasing the aircraft as an individual.
STEP 2 Preliminary pricing	The lender provides indicative pricing. This is not a final price nor is it an approval. It's simply an initial offer assuming everything in the approval and due diligence process is acceptable.
STEP 3 Underwriting process	If you agree with the terms of the indicative pricing, sign the documents. Credit underwriting begins. Provide the lender additional information such as tax returns, LLC statements, ownership structure, information about business partners, and organizational chart and ownership structure of the business. If you, as an individual; or the guarantor of the loan; or if you own the business, provide a personal financial statement, company formation documents, and company or personal taxpayer ID numbers as appropriate.
STEP 4 Formal proposal	After reviewing the documents, the bank issues an approval and a formal proposal that is binding once you sign it. The proposal typically requests a "good faith deposit" of \$10,000 to \$25,000 that will be applied to closing fees. <i>If you back out after this point, the bank retains the money to recoup expenses.</i>
STEP 5 Documentation begins	Give the bank the aircraft's serial numbers, engine serial numbers, International Registry confirmation and proof of insurance. With this, the bank generates the documents to be signed.
STEP 6 Closing transaction	At closing, the manufacturer presents the aircraft purchase documents to the bank, such as: bill of sale, certificate of airworthiness and export certificate of airworthiness, if applicable. Sign the acceptance documents as the bank funds the transaction. The escrow agent files the bank's interest in the aircraft with the FAA as well as the International Registry, perfecting its lien on the aircraft.
STEP 7 Making payments	Make loan or lease payments on the due dates as outlined in the loan documents. Keep current insurance on file with the bank, per loan documents.
STEP 7 Final payment	When the loan is paid off, the bank files the lien release with the FAA as well as the International Registry, removing its interest in the aircraft. The buyer becomes the free and clear owner of the aircraft.

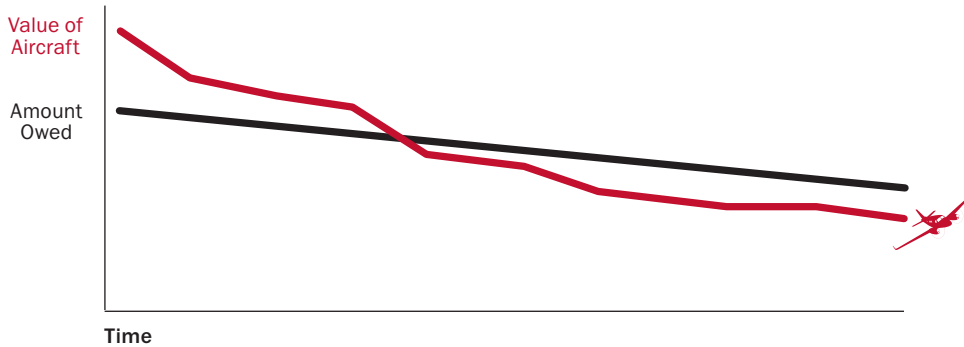
The lease process is nearly identical to the loan process, except Step 7. After the final lease payment, you'll have three options: extend the lease, terminate the lease and return the airplane to the lessor, or purchase the aircraft at the then fair market value.

Part 5: WHAT ELSE SHOULD I KNOW ABOUT FINANCING AN AIRCRAFT?

Prepare an exit strategy for aircraft ownership. Most operators keep their aircraft for five to seven years. If the goal of your initial financing effort is the lowest possible payment by stretching out the amortization, this could leave you underwater on the aircraft when you are ready to upgrade.

Aircraft value vs. amount owed

If you choose to have the lowest possible monthly payments, by the time you want to sell you could owe more than the current value of the aircraft.



For example, at the end of five years, the aircraft may be worth \$5 million, but you owe \$6 million. To move up to another aircraft, you would need to pay off the \$1 million on your current aircraft plus the down payment on the new one.

In today's tax environment, you can depreciate the aircraft faster than its value decreases. For example, after five years, your aircraft may be depreciated (from a tax standpoint) to \$1 million but you still owe \$4 million on the loan because you requested the lowest monthly payment amortized over a longer period. If you then sell that aircraft for \$4 million, you will pay \$4 million to the bank against the note, then you will pay tax on the gains from the sale of the asset.

Instead, if you paid more on the loan each month, you would owe less on the aircraft at the end of the term, which would help offset the taxes on the sale of the aircraft, reducing your lump sum cash outlay for taxes.

"You always have to think of an exit strategy. You don't want to be in a situation where you want a newer aircraft but can't buy it because you are upside down on your current aircraft. Or, something happens and you need to sell your aircraft, but are not in a position to come up with the lump sum to pay the gains from the sale of the aircraft," said Schieber.

Beechcraft has been crafting and supporting globally renowned business aircraft, including King Air turboprops and piston-engine Baron and Bonanza models, since 1932. Since then, we've built more than 54,000 aircraft, with more than 36,000 still in use today. Let us show you how business aircraft can save your company money and make you and your team more productive. Check out our complete line at www.beechcraft.com or call 800.949.6640 for more information on which business aircraft could help you meet your goals.