

Aircraft Financing Considerations for Family Offices

TO FINANCE OR NOT TO FINANCE?



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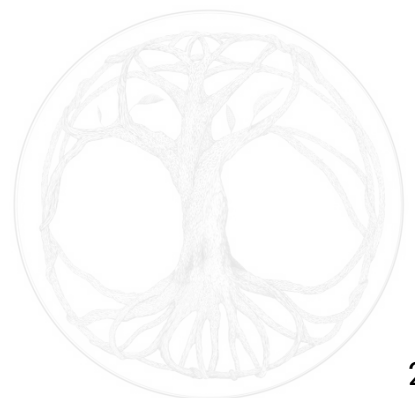
Among the numerous lessons learned over the past 18 months is that holding meaningful in-person meetings will unlikely ever be supplanted by emails, texts, phone calls, or video chat. A private aircraft owned by principals whose assets are managed by family offices, enables the owners to efficiently and safely travel to conduct business in addition to personal use. While some may say the costs associated with aircraft are high, these costs should be considered a part of an investment in one's brand. Financing aircraft, which are long term assets that depreciate over time, makes sense. It is possible for arbitrage, where cost of capital can be fixed over the taxable life of the depreciable asset and the cash can be

freed to invest where returns are greater. However, less than 1/3rd of those who acquired new aircraft in so far in 2021 did so, which is a number relatively unchanged since 2016 (data provided by AMSTAT, an aviation data analytics company.) The number of aircraft financed is low when comparing to real estate, where 87% of new buyers financed their residences in 2020 (according to the National Association of Realtors.) Many credit this disparity to the unwillingness of aircraft owners to share their financial condition with lenders as well as the lack of perceived speed (with some taking as long at 10+ weeks) at which lenders move.



To finance or not to finance your aircraft acquisition is a complex personal, as well as business, decision and one should contemplate the following issues before seeking traditional aviation financing secured by an aircraft mortgage:

- ▶ Does an ownership structure created for tax purposes incent or require you to finance the aircraft?
- ▶ Can you deploy your cash elsewhere and earn a higher rate of return?
- ▶ What is more important to you: low fixed rate terms or anonymity?
- ▶ Do you need to provide additional credit enhancements (e.g., additional collateral, personal guaranties) or significant loan payment amortization to obtain a loan structure that meets your needs?
- ▶ Are you comfortable providing the initial upfront and ongoing personal financial information?
- ▶ Does the forecast future value of the aircraft incent you to leverage the aircraft?



While closing an aircraft transaction in the current environment is a series of multiple sprints, the financing of an aircraft is a marathon that should be viewed as a collaborative team sport. Here are the issues that should be at the top of your mind when selecting the right lender for you:

- ▶ Finding the right lender when you finance an aircraft is as critical as hiring your aviation attorney, aviation tax advisor, and aircraft broker – and one cannot assume that any of these parties is also an expert in finding the best financing solution that will affect your financial flexibility in the future.
- ▶ Remember that the loan will be in place for five to ten years and flexibility beyond the close should be your primary focus.
- ▶ Research the aviation lender's expertise, longevity, and flexibility.
- ▶ Inquire how they handled situations when clients did not meet their financial covenants.
- ▶ Explore how well they work with your other aviation acquisition team members.
- ▶ Ascertain their willingness to provide you with market updates on a routine basis.
- ▶ Valuations change over time, and you may be required to realign the outstanding balance with the current market value of the aircraft.

While owning an aircraft should be viewed as an investment in your brand, building the right team that will support your financing needs over time is a reflection of your values. Discerning between the needs at the initial closing and the relationship overtime should be factored into which financial institution you select to be a part of your aviation relationship team. Clarity and transparency between both parties should be prioritized as it builds the foundation for success in the future.



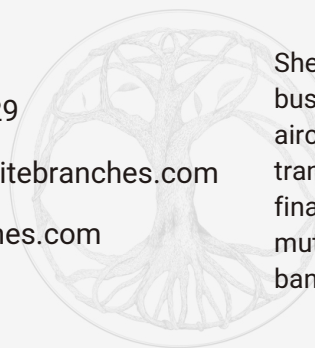
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