

Building A Future Together

As we watch and wonder about our collective future in this industry, many seek the help of a crystal ball when all they really need is to look in the rear view mirror. Over the last six months we have finally seen some pricing stability in our market. Along with this stability has come some confidence, and with the confidence renewed business activity. All of this is great. All of this sounds so promising. However, there is one problem: lending, or lack of it!

In writing this article I stopped several times and started to find other topics. Every time I stopped and thought about a different topic, a prospect or client would call and talk about this very topic. It is obviously a discussion that needs to occur.

Most of the activity that is happening is coming from buyers who can purchase aircraft without the benefit of traditional aviation lending. These limited numbers of buyers are capable of generating funds without having to utilize the traditional method of aircraft specific lending. They are able to generate the funds internally or by tapping into other credit facilities they may have. What does this mean to the industry? Let me put this into perspective.

In the past there has never been a downturn that was not followed by a recovery in which aircraft lending was not available. In prior recoveries lenders would throw money at a buyer. Today, there is no reason to duck since no one is throwing money. I would venture to say that in the past - pre-downturn of 2008 - at least 80 percent of the clients I sold aircraft to purchased them with lending as a component of the purchase. Today I would say that of that group, only 5 to 10 percent of them would either qualify for, or would even have an interest in the funds available to them due to terms and rates of current loans.

So there you have the perspective of the diminished buyer universe in our present recovery. I appreciate the lenders need to articulate new habits needed among borrowers. I even understand the mandate to move towards the middle with respect to new terms from lenders. For instance, the rear view mirror would show lenders loaning from 80 to 100 percent of what a buyer paid. This makes sense not to finance premiums on top of already full retail purchase prices. I also

realize the need to create better loan-to-value ratios. Borrowers certainly have responsibilities in this process, and this means meeting lenders in the middle.

The good old days certainly contributed to what became the bad old days. What I do not grasp is why lenders would create such onerous segment-damaging conditions that could literally wipe out the value of the largest sector of aircraft equipment being operated in the world today - those aircraft over 20 years old!

I would understand and agree with different weighted values based on compliancy and condition of older aircraft, as this makes good business sense to me. However, it is this mandate by lenders regarding aircraft over 20 years old not being able to qualify for financing under any circumstance that does not make sense to me, and which is contributing to the creation of huge recovery problems as well as valuation hardships for not only that segment of the fleet but for the entire business aircraft market.

In a quest to out-bid their competition, lenders won deals based on what turned out to be poor business decisions based on faulty lending considerations. Now they find themselves with portfolios that are in trouble. The very group who is suffering with these inferior portfolios is the very group that could start reviving the values of aircraft. Buyers are coming back in to the markets because they have renewed confidence in pricing. In fact they are coming back to buy at all levels, including the older planes. If buyers are willing to purchase these planes, why are lenders not willing to meet them in the middle at least on a selective basis?

Just imagine with me for a moment a fleet universe that was cut by as much as 40 to 50

percent, based on age. Now think about this happening almost overnight.

Consider the devastating impact this would have on the entire industry. Think of the pilots that would be unemployed, the fuel that would go unsold, and the modification and paint facilities that would lose that huge segment of business.

There is plenty of room for saying 'no' to a loan as a lender, however, base the refusal on standards that do not diminish an entire category of aircraft.

There is no magic to a healthy recovery. But I do believe there is a process of making good business decisions based on logical valuations and rates that make a profit for those lending, and fair prices and terms for those borrowing. Penalize individual aircraft whose condition does not meet fleet standards. Create terms that are inviting to those borrowers who can demonstrate an ability to repay and show operational sensibility.

Lenders, help us to create and build our industry as a sustainable place where both buyers and lenders can thrive. Together let's reduce pre-owned inventories and begin to rebuild the value proposition for the manufacturers to sell new equipment again. This vitality will be contagious. This real eye towards working together to create a future that is acceptable and sustainable to everyone will be the key to our recovery and success.

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