

# Residual Values: The Effect on Financing

The idea of aircraft financing swinging back to a more open and broader-based service industry is so exciting and expansive in the discussion of a recovery, notes Jay Mesinger. But how will the residual value component impact on lenders' willingness to participate?

**Y**ou'll have noticed in this month's BizAv Intelligence section there are a cluster of articles about financing. The good news is that there are more resources and flexibility around age of aircraft that can be considered. Even a moderate swing toward more liberal terms would be a huge improvement for buyers.

For the last several years, pinning down residual loss rates and a residual value have been plagued with outcomes that have been less meaningful since predictions never seemed to hold true. A combination of factors played into the problematic nature of these assessments.

Thus, rather than developing another financing article, I felt it would be beneficial to expand on the importance of residual value in the financing industry's willingness to provide funds for aircraft that have been overlooked during our recovery.

In the 40 years that I've been buying and selling aircraft across multiple downturns and recoveries, I've never seen a recovery that did not have a robust lending community to help stabilize, and push the recovery along. That fact is interesting because a lack of financing may have slowed the current recovery, but more cash buyers entering in the market means a more solid group of new owners.

When you use all-cash to buy, often the result is a better thought-out purchasing decision and a greater eye towards purchase price. Furthermore, as more lenders trickle back into the market and financing is not limited to a few 'big name' banks that are mostly driven to lend based on strong, long-standing relationships, a healthy competition in favor of the borrower will return.

Rather than summarily declining requests for financing, lenders today are becoming more tolerant regarding the age of the aircraft and models out of production. Discretion still will be - and should be - used to keep our industry recovery on a solid footing. The metrics used to evaluate residual value will surely center on a combination of age, pedigree, records and cosmetic condition, as well as modernization and upgrades.

## Longer Shelf Lives

Will older aircraft bear the cost of avionics modernization? My sense is 'yes' for many aging

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models, and this is a huge factor on our older fleet remaining relevant to the lending community. If we can get an industry buy-in to this concept, we will be able to consider a longer life to our existing fleet. If that happens, we may begin to see a bottom-up strengthening to our market rather than just top-down improvement. This situation will be a change from the recent past when we struggled to assess at what point an aircraft reached its scrap value.

I wouldn't want to spread hope across the oldest, less compliant segment of our fleet (including very old turboprops and non-turbofan jet aircraft). Even though the lenders may embrace slightly older aircraft, they will not have an interest in the very oldest, least compliant models.

Imagine if we could just add 10 years to the fleet life. That change would be a huge benefit to the value component, as well as to the growth rate of our recovery. New weighting components for residual value will increase the attractiveness of aircraft that recently were overlooked or not counted.

I am sure that it will be clear very soon why lenders are becoming more and more willing to take this positive step to aiding and supporting the recovery. The lending community is remembering the great value a well thought-out aircraft portfolio can bring to their bottom lines.

We are very excited about the recovery and all the ancillary growth this will bring to our industry. There is no doubt the manufacturers will continue their work to bring new models to market as well as new iterations to current products - and this will affect the top-end valuation of the market.

I am most excited about the low-end market opportunities for first-time buyers and step-up buyers from turboprops to jets. I believe we are going to have a great 2015 and beyond. Aircraft financing will be a big part of our collective success! ■



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