

# 4 STRATEGIES TO GETTING THE BEST AIRCRAFT FINANCING DEAL NOW - BEFORE RATES TAKE OFF

## AN EQUIPMENT FINANCING & LEASING PERSPECTIVE



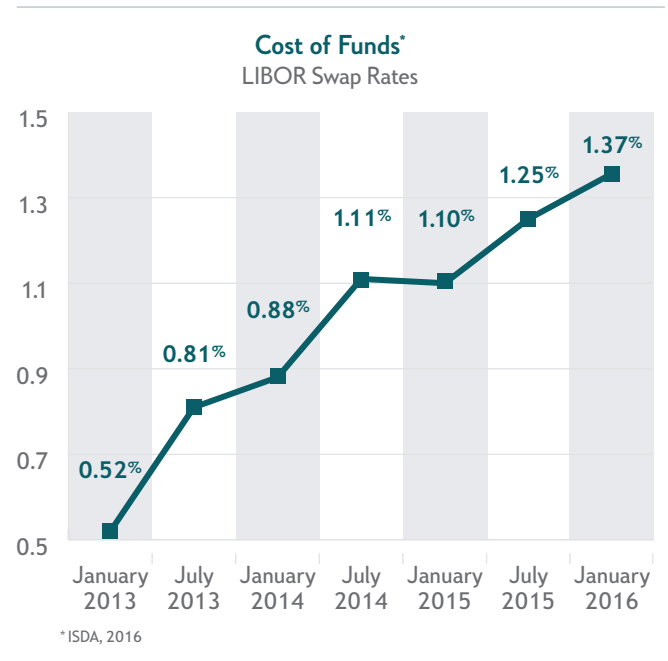
*The Fed has finally broken out of its holding pattern, and started raising rates at its December meeting. For borrowers, that means the era of rock-bottom rates is over. Fortunately, there's still time to get a good deal on financing a new aircraft - if you keep in mind four important tips.*

### 1. ACT FAST - BECAUSE THE COST OF CAPITAL WILL KEEP GOING UP

The first secret to getting a good financing deal: Speed.

The Fed's recent move isn't the first or only sign of rising rates for borrowers. Despite the common perception of low interest rates, a variety of indices - such as the London Interbank Offered Rate (LIBOR) and the LIBOR Swap Rate - have actually been drifting slowly upward over the past few years. For instance, the 3-Year LIBOR Swap has increased 73 basis points between January 2013 and July 2015. Lenders use these indices as benchmarks to set their own interest rates, adding margins to cover their overhead and credit risk. While margins have remained fairly flat over the past two or three years, rising indices have been pushing up the cost of funds for borrowers.

When you are financing a capex purchase as large as an aircraft, even small movements in interest rates can make a big impact on the cost of ownership. For example, between January and July of 2013, the 3-Year LIBOR Swap Rate rose only 29 basis points. Yet that sliver of an increase resulted in an extra \$29,000 owed on every \$1 million borrowed. As of January 2016, the rate has risen by another 56 basis points.



Most rate observers believe the upward trend has only just begun. If so, higher rates could add tens of thousands of dollars to total aircraft acquisition costs. By acting now, borrowers can lock in lower rates while they still can.



## 2. ENSURE THE MAINTENANCE STATUS OF THE AIRCRAFT – AND HAVE THE ELECTRONIC RECORDS TO PROVE IT

One of the best ways to secure favorable financing terms is through a long-term maintenance program. Engine Maintenance Programs are now the industry standard and an aircraft without enrollment will experience its future value impacted dollar for dollar.

Whether they take the form of paper or electronic records, the logbooks that document the maintenance of an aircraft are critical. Without them you cannot prove what maintenance has been performed, which could adversely impact the value of the aircraft by as much as 20%. Electronic records have additional advantages of being easily accessible, stored and safeguarded, providing transparency for the lender to assess both future value and loan structure.

## 3. STRUCTURAL ELEMENTS SHOULD MATCH INDUSTRY STANDARDS

The structural elements of your transaction should match up with generally accepted industry standards. For example, an aircraft's operational hours should fall within the norms for its particular model. Maintenance and repair history should offer no surprises. The requested structure amortization should match the estimated depreciation rate for the aircraft in question so one is not upside down in the aircraft. And the aircraft's capabilities should fit the requirements of its business mission.

Lenders also look to see whether you are providing recourse – directly, through a personal or corporate guarantee, or through assignment of a long-term dry lease. The more your request meets common expectations, the greater your likelihood of receiving favorable terms.

## 4. BE KIND TO YOUR BOTTOM LINE WITH A LIKE-KIND EXCHANGE

There are other elements that can drive structure in addition to interest rates and future aircraft value. A like-kind exchange, or LKE – also called a 1031 exchange – can help you save money and maximize the amount of capital available to fund acquisition. Essentially, a LKE enables you to swap your current, owned aircraft for a new one without owing capital gains tax on the sale. Instead, you defer those taxes by rolling your gains into the cost basis of the new aircraft.

For aircraft buyers, a 1031 exchange offers some compelling advantages. Capital gains taxes can be deferred. Sale proceeds earn interest until they are reinvested. Perhaps most importantly, deferring taxes frees up extra cash so that buyers can upgrade to a larger or newer model aircraft.

### How to meet the key requirements of a like-kind exchange

**Exchange similar assets**, which can be properties of like kind or used in the same manner.

**Identify the new asset within 45 calendar days**, starting with the day after closing of the sale of the old asset. You can identify up to three potential targets.

**Close on the new asset within 180 days** of the sale of the old asset. You must purchase one of the three targets you already identified.

**Keep sale proceeds in escrow.** Do not commingle with other corporate funds until the purchase of the new asset is complete. By law, you must use a Qualified Intermediary as an exchange partner – an independent third party who is not a member of your family and has had no business relationship with you within the previous two years.

**List identical taxpayer names on both titles.** The seller name(s) on the old title must mirror the buyer name(s) on the new.

**Reinvest all sales proceeds in the new asset** if you want to defer 100% of the capital gains tax. The new property must be of equal to or greater value than the old, and all cash profits must be reinvested from the escrow account upon purchase of the new aircraft.

Interest rates are finally heading up, and the cost of capital will continue to rise. But borrowers can still get a deal on a loan if they follow a few important guidelines: Act fast. Prove aircraft status through long-term maintenance programs and electronic records. And make sure your loan conforms to reasonable industry standards. Techniques like 1031 like-kind exchanges can also help you get the biggest bang for your buck. These tips can help fuel your aircraft financing – even if rates do keep climbing.

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