



Financing and Re-Financing in the Downturn

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Some Issues in Current Business Aircraft Market:

- Fewer Banks in the aviation finance market;; Bank's issues:
 - Capital availability – which markets to lend to?
 - Risk concentration – client type, geographical area, aircraft type?
 - (margin issues?) – some re-alignment, restore viable risk vs. reward
- Aircraft prices down by up to 15% on new aircraft (worse on older aircraft)
- November 2008 'departures' (ESRA) down 13% on November 2007
- Corporate insolvencies predicted to increase by 35% on 2008
- Private Investment values significantly down on 2008 levels
- High inventory levels





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Banks and Clients – the immediate future ...?

- Client Credit – Key is quality information; funding for better run business and clients who understand the risks and benefits of aircraft operation and ownership– what can you do to help?
 - Clients must be prepared to have ‘quality’ UTD financial information available
 - Understand what type of deals the Bank is looking for - jurisdiction/ client profile/ aircraft, etc.
 - Business plans and operational forecasts that show ‘sensitivity’ analysis
 - Realistic as to terms available – down-payments/ period/ depreciation profiles
- Banks sharing risk on deals – participation/ syndication can create more appetite and should not deter clients
- Banks may adopt strong marketing activity when liquidity does recover – aircraft generally excellent assets compared with many others; market has inherent resilience
- Potential for new banks/ investors to come into market?





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What can Banks offer as a solution today...

- Finance stage payments – return cash tied up with the Manufacturer to the client
- Work with Manufacturer to structure finance deal (buy-back schemes/ re-marketing agreements/ payment deferral schemes?)
- 100% financing (subject to down-payment placed on investment with ‘private banking’ arm of the bank – SGEF = SG Hambros Private Banking)
- Cash flow efficient schemes – residual values/ balloon payments, structured repayments reflecting annual/ cyclical business cash flow
- Operating Lease – Bank assumes Residual Value risk
- Secondary security in other aircraft – older aircraft available as security?
- Re-financing – clear reasons/ strategy – justifiable, realistic and achievable...





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Mitigate:

- Make adequate provisions for upward movements in interest rates – fixed rate/ combination of fixed and variable rates/ Options to change to fixed rate/ forward fix funds?
- Avoid all 'eggs in one basket' – concentration of risk
- Flexibility to exit finance – quantify breakage costs/ termination charges – work with Bank on future disposal and purchase plans
- Deal with Banks who have background in financing business aircraft; a saving of 0.25% on the interest rate could lead to 0.50% equivalent spent on negotiating documentation?
- Identify and discuss the full details of the transaction and documentation;
 - Have all areas of mutual risk been fully understood and addressed?
 - Flexibility to change aircraft/ operation of aircraft?





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In Summary...

- Banks and Clients need to understand each other better
- Banks can work with Manufacturers to secure sales
- Experienced banks will have confidence to offer better solutions
- Have quality financial and supporting information available
- Ask questions!
- Where possible, introduce flexibility into structure and work with Bank to plan ahead
- Be realistic in expectations...

