



Commercial Finance Solutions, LLC

Church, Business, Franchise, Equipment and Aircraft Financing
Commercial Mortgages, and Insurance
<http://www.cfsolutionsllc.com>
Telephone (678) 749-7448
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Aircraft Financing

Here's what a typical customer says about financing with CFS:

"First, I want to thank you for your promised and delivered personal attention. Second to my home, the purchase of a helicopter is my largest and most exciting acquisition to date.

Secondly, the sales price of the ship was never a question. However, the financing was in question from the start. You may recall I started with three of the "big" banks that appear on every street corner. Their national aviation departments promised "big" but delivered small. I changed course after **a few weeks**, and I am glad I did.

I found your services solution driven, flexible, and effortless from my perspective. You did so with little to no involvement on my part. I provided you with the frame and you filled in the picture.

Our daily contact via email and/or phone provided me with real-time input and feedback. The quality of the service provided was paralleled with the speed at which you were able to make this deal occur. I frequently described you as relentless, a compliment of course!

In conclusion, you are in the pole position of my short list for my next aviation purchase, private or corporate. I enjoyed the process!"
-Paul D.

Not everyone enjoys the process like Paul was able to. There are many pitfalls to financing your aircraft. What should be a straightforward transaction is often full of surprises. Unfortunate victims of these surprises are often cash-buyers who discover unknown liens or aircraft damage only when they go to refinance or sell their aircraft. What issues must a borrower or owner beware of to prevent a costly mistake down the road? We're going to cover some key points.

1. Your financial standing
2. Aircraft Valuation
3. Market dynamics
4. Damage history
5. Title search
6. Advance fee schemes



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There is a difference between lenders. Some have a boiler room operation and churn as many loans as they can. Oftentimes, the person you speak to on the phone isn't even a pilot, or has never owned an aircraft. Others, CFS is one, care about establishing a long-term client relationship, we are pilots, and we have owned airplanes. We want your aircraft ownership experience to be a good one. That means, on occasion, we will tell you unpleasant news: your aircraft has damage history; or it has a long buried lien of which you were unaware; or this airplane is too much for your financial resources. But far more often, we are able to deliver "good news" and make financing your aircraft as simple as buying a car.

Your financial standing

The first step in analyzing a transaction is your finances. At CFS, we require a minimum 670 Experian FICO score, no bankruptcies in the past ten years, and income sufficient to cover your debt load. We look at the numbers you put on the application and compare that with the debts listed on your credit bureau report and income from a recent tax return. Up until March 1, 2009, we didn't even require a tax return! We simply looked at debt and stated income. Aircraft valuations were holding so steady that if a borrower defaulted (unlikely because they have good credit), we could take the airplane, sell it, and come out ok. However, with the current financial crisis, we are comparing one year's tax return (two years if the loan amount is greater than \$100,000). Bottom line, we're looking for a debt to income ratio of no more than 40% (to derive your debt to income ratio, take your total monthly payments (plus the aircraft payment) and divide by your monthly income. If that number is less than 40%, you pass the DTI calculation.

Aircraft aren't inexpensive to keep. You have tie-down costs, insurance, annuals, airworthiness directives, routine maintenance, and budgeting for overhauls. We look to see that you have adequate liquidity. Adequate liquidity is a subjective number based on the aircraft make and model. Generally speaking, a single-engine necessitates \$40,000-\$60,000 cash (after your co-payment) and a twin requires \$60,000 to \$120,000. Those numbers are subjective and can vary.

Some aircraft owners paid cash when they bought their aircraft, and now want cash out for various reasons, or want to do upgrades to their aircraft. Many lenders won't accommodate refinance transactions. At CFS, we will. For example, a lawyer owned his aircraft outright and wanted cash out from his airplane for his practice. We loaned him 85% of the value of the aircraft (and he didn't even need to provide a tax return). Another owner wanted to refinance his current loan, and get cash to refurbish his interior and add a Garmin GPS. We refinanced the loan and gave him 50% of the cost of the refurbishment and the avionics upgrade.




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Aircraft Valuation


Once we know that an aircraft will not be a financial strain for you, we do an indepth analysis of the aircraft. We need a spec sheet detailing how the aircraft is equipped and its hours. We use up to four sources: Blue Book, Controller, Amstat, and V_{ref} . If you're overpaying for an aircraft, we're going to tell you. Many sellers are simply unaware what the market conditions are doing to their aircraft. For example, a '90's vintage Mooney has lost approximately 16% of its value over its lifetime. Of that 16%, 12% took place in 2008, and of that 12%, 9% was in the last quarter of 2008! In other words, the Mooney had lost just 4% of its value until the beginning of the year, but took a major hit due to the financial crisis! Some sellers haven't yet adjusted to the new reality. Don't get burned when buying an airplane by paying too much!

Damage History

 (click the paperclip to view a sample damage history)

Concurrent with valuing the airplane, we will do a check for damage history through the FAA and NTSB databases. Any damage, even that which occurred 20 years ago, reduces the value of the aircraft by 10-15%. Again, many pilots who paid cash for their aircraft, and which aircraft had missing airframe logbooks, are chagrined to learn their pride and joy had a gear up landing 10 years prior to them buying it! Or, you may pay for a pre-buy and learn about damage history from the A&P that wasn't disclosed by the seller. We'll tell you as we establish the value whether the aircraft has a clean record or not.

Title Search

 (click the paperclip to view a sample title search)

A certain aviation organization offers an inexpensive title search. The unfortunate fact is that title search is far less than in-depth. Remember the examples of lawyer and the refurbishment/avionics upgrade client? Both of them had clouded titles dating back over 10 years. In one case, the bank that held the lien had been taken over four times and was now owned by Wells Fargo. We have a contact at Wells whom we contacted and got the release of lien. Each of these gentlemen had a title search done by the same aviation organization. Our title search goes back to the date the aircraft got its airworthiness certificate. Neither of these gentlemen had any issues, but what if the liens were still valid? How are they going to sell their aircraft? Who are they going to go after to get someone else's debt repaid? What a hassle! You want a lender who's going to protect your interests-not just theirs! Get the assurance of receiving a thorough title search.



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Advance Fee schemes

While not a major issue for GA aircraft, it's more of an issue for hard to finance jets and turbo props. An advance fee scheme is where you are charged some amount upfront, from \$2,500 to \$10,000 (or more) for the "promise" of financing. At CFS we have heard from both brokers who have charged such a fee (and are in search of financing) and borrowers who have paid the fee (and lost their money). This issue is mentioned here only because desperate financial times are causing desperate acts. Beware of any scheme that charges upfront fees. If you happen to be in the market for a loan for a turbo jet that is not stage III noise compliant, or that is not RVSM, we cannot help. These jets face a challenge as many corporations are being compelled to close down their corporate aviation divisions and sell their jets.

Solution

At CFS, our general-aviation lending program is simple and straightforward. General aviation, normal category, single or multi-engine aircraft, built since 1965, generally qualify. We don't finance experimental, kit built, LSA, or war birds. As of March 1, 2009, our program for loan amounts between \$40,000 and \$100,000 is a 15 year amortized loan, 7.25%, no pre-payment penalty, 5 year term.

At the 5 year point, we re-evaluate the aircraft. If its usage has been in accordance with how we did the underwriting, it should be effortless to refinance it. Your payments are made via direct debit ACH clearinghouse from your bank. You'll have a perfect payment record. But the fact of the matter is, most pilots trade or upgrade their aircraft by that 5 year point, so it's a moot point!

If your loan amount is greater than \$100,000, the rate will be lower, and in some cases, the amortization will stretch to 20 years.

Aircraft may be utilized for personal, business, flight instruction, or charter operations.

Aircraft may be titled as an individual, an LLC, or a corporate entity.

Contact John Janssen for further information about any aspect of aircraft financing, or even for a free damage check of your airplane. John is an ATP rated pilot and a CFII-ASMEL

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