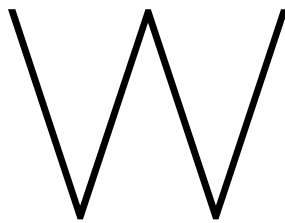


IF YOU WANT IT, WORK IT

The credit crunch has trickled up. As in 40,000 feet up. Here's how to keep it from putting the kibosh on your next big purchase.

BY GARY I. HOROWITZ



Weren't those the days. In just three dizzying months, the same global credit crisis that upended Wall Street, put a squeeze on small businesses and nearly shut down Detroit, has made an absolute hash of the lending market for private aircraft. Financing is tight and getting tighter as lenders sell their aircraft-loan portfolios and leave the sector. Others have simply put out the "We'll be back in 2009" sign. Forget about the jet itself being all the collateral you need for a loan. Many of the institutions that remain in the game are now requiring 20 percent down (or 10 percent down and 10 percent in a cash-collateral account). One lender is still willing to give a "no document" loan — if you put down 40 percent. Interest rates have climbed as much as half a percentage point. And worst of all, some lending operations have backed out on financing com-

mitments, leaving buyers in the tough spot of having to find alternative lending sources or risk breaching their aircraft-purchase agreements.

Clients are asking for the "secret" to avoiding this aircraft-financing mess. I give them the same advice I'm going to give you. There's no silver bullet to kill this beast. If you want to finance a private jet, you need to work for it, be persistent and be creative. The credit crunch is a hydra with nine heads, and financing an aircraft purchase will require a multi-faceted approach. Think in terms of combinations — combinations of actions taken in the course of the acquisition that collectively leads to the desired result. Here are my suggestions:

The Early Bird Gets the ARM. Start to look for financing earlier in the aircraft-purchasing process and seek out multiple lenders. This will give you a good idea of how much of a loan you'll be able to secure, and on what terms. By working with multiple lenders, you'll be able to compare and contrast the differ-

ent terms of each lender's aircraft-financing proposal and gain some leverage in the negotiating process. If the Libor remains high, it might be better to select a floating interest rate on the loan instead of a fixed rate. Also, try to include a financing contingency clause in the aircraft purchase agreement, just in case the loan doesn't come through.

Live and Let Lease. Instead of purchasing the aircraft, you might want to see if the lender will buy it and then lease it back to you for, say, five years with an option to purchase at the term's end for the aircraft's fair market value. This arrangement, which is called an "operating lease" or "true lease," reduces the lender's financing risk because the payments will amount to far less than under a standard loan, plus the lender can claim tax depreciation on its ownership of the aircraft. Of course, that means you *can't*. But depending on your situation (and how far fair-market values fall — something to root for in this scenario) the advantages of not having to pay off a loan



principal may well outweigh any sacrifice in tax savings and the outlay required at the end of the lease should you decide to exercise the purchase option.

That's What Friends Are For. If, no matter what

you do, you still can't get a loan on your own, phone a friend. You probably don't really need the aircraft for 100 percent of the time anyway, and co-owning the aircraft will reduce your aircraft costs and strengthen

your borrowing position.

It Can't Hurt to Ask.

Finally, ask the seller about seller financing. The seller knows how lousy the credit markets are, and might be willing to structure favorable terms that let you pay off the aircraft's purchase price over time. In a down market, you never know what can happen.

The Chinese symbol for crisis is composed from

the words "danger" and "opportunity." The golden old days may be over. By looking at this time as an opportunity, and putting a little creative backbone into it, though, you might find you can start your own little golden era. ■

Gary I. Horowitz, Esq., is a Member of the Bethesda, MD law firm HCH Legal, LLC, specializing in aircraft transactions and tax planning. He can be reached at 301-800-0001 or ghorowitz@hchlegal.com.

THE SELLER UNDERSTANDS HOW LOUSY THE CREDIT MARKETS ARE. YOU NEVER KNOW: MAYBE HE'LL GIVE YOU FINANCING.