A Banker’s View of Aircraft Financing

When Orville and Wilbur Wright first took off at Kitty Hawk, 1st Source Bank had already amassed 40 years of history having been founded in 1863. Today, 156 years after its founding, 1st Source remains a strong, stable, local and personal financial institution for its clients.

The bank's service region covers Indiana’s northern half and Michigan’s southwest area, and 1st Source lays claim to being the largest locally-controlled financial institution headquartered in that area. However, 1st Source also competes nationally, vying for business in several specialized financing services areas.

Indeed, within a specialty finance unit (serving the market for construction equipment, buses, funeral cars, rental car fleet financing and trucking) the bank dedicates an entire division as well as funding solutions for business and private jets, turboprops and turbine helicopters.

Heading up the Aviation Finance Division for the past 28 years is Greg Holst. A 40-year veteran of the Business Aviation industry, Holst's employment history includes management roles with Cessna Finance Corporation, Chase Manhattan Leasing, Textron Financial Corporation and Xerox Financial Services.

Holst, a pilot, has developed specialist knowledge.

Different banks approach aircraft financing differently. How does 1st Source Bank see the aircraft financing market today, and how does it seek to meet the needs of today’s aircraft buyers? Dave Higdon caught up with Greg Holst…
of international aviation lending and leasing, letters of credit, remote capture business checking and deposit management, wealth management and interest-rate swap contracts.

1st Source has a dedicated team of 16 business aircraft banking professionals who serve the US, Mexico, Brazil and Canada. Their goal is to provide clients with straight talk and sound advice that brings efficiency and client-focused solutions to the bank’s relationships.

The key to the success of 1st Source Bank, whether its aviation business or its overall operation, is its aim to provide customer focus on a par with its regional-banking roots.

“We’re focused on service,” Holst explains. “You don’t have to be a multi-millionaire to get our attention. We try to keep our clients’ best interest in mind with straight talk, sound advice, great service and just being there. Knowing you can call on a good person, during or after office hours, and get action toward your goal has always been a key to our operating.”

Aviation Financing: Nothing Like a Decade Ago
Aviation is a big component of 1st Source Bank’s business. “1st Source has been servicing the Business Aviation segment continuously for more than 33 years,” Holst explains. “And aircraft financing has consistently been a double-digit component of the bank’s lending business.

“We have a big commitment to the Business Aviation community,” he continued, “and that’s because of good, consistent management of our portfolio and our dedication to clients.”

According to Holst, 1st Source Bank’s aviation practice goes beyond what’s typical of a regional bank. “We’re more engaged and involved in Business Aviation than most other banks our size, and some larger banks,” he elaborates, noting that 1st Source didn’t suffer most of the problems and panic of the Great Recession (2008/09) that sent many a lender, owner and operator for the Business Aviation exit doors.

Commenting on the current market, Holst notes “[This year] I’ve seen a flattening in the market. But it’s still stable. One of our segments is floor-planning for dealers, which is aircraft held for re-sale, and that’s down right now. The availability of good pre-owned aircraft is very limited.”

Not surprisingly, the many concentrated areas of instability have some would-be operators on hold – but not running for the exits like they did a decade ago. “People are waiting to see the direction of global trade concerns and the 2020 election. I think that’s going to make markets relatively stable or decline modestly,” Holst says.

But Holst doesn’t see the current state of the market being anywhere near as dire as a decade ago. That’s not saying times won’t get tighter before they improve. “I think we’re ultimately going to see some softening in the market until this stuff gets settled out,” Holst projects.
"We've had a few clients sell their aircraft while values are good," he adds, "and some are holding off on replacing their aircraft – for now."

Those previous owners haven’t abandoned the many tangible and intangible benefits of traveling by business aircraft. Instead of bailing on Business Aviation altogether, they’re employing alternative flying options, including fractional ownership programs, membership programs, and, of course, the evergreen aircraft charter and lease.

And Today’s Aircraft Financing Market…?
"In times like these, a lot of lenders want to take an approach that’s ‘tightening’", Holst notes of today’s market for aircraft financing. "We don’t spend as much time tightening – or loosening – credit. We focus on doing business with people who have sound credit, structuring the loan so that the client maintains a significant equity investment in the aircraft."

Much of 1st Source Bank’s aviation practice is colored by Holst’s long career in aviation finance. "My experience is that when people have a bad experience owning an aircraft, when it comes time to sell or trade they don’t come back. They may charter, perhaps buy a fractional share, but they don’t buy again."

Interest rates have been coming down throughout the year, Holst notes, because most lenders key off the swap rates. "Most owners use the airplane for between three and five years. A small percentage want a 20-year loan, but more typical are loans for five to 10 years."

"The marketplace is seeing interest rates that are in the 4% range and even into the 3% range, but there are many variables including how the aircraft is going to be used and where it will operate."

While some fear that today’s market seems to follow the same trends that transpired in 2007-2008, Holst notes some large differences. "What’s different today is we don’t have the over-inflation of the business aircraft market like we had in 2008."

"One thing that hurts us in this current cycle is that the international market can’t boost performance like we had post 2008," Holst cautions. "We had the bubble in the housing market, the subprime-mortgage problem, but international markets helped us out by sustaining sales. Those circumstances don’t exist today."

1st Source’s Key to Success? Focus
Ultimately, 1st Source avoids trying to be a be-all-and-finance-all option, instead focusing on specific types of business aircraft. According to Holst, "We focus primarily on aircraft used for executive transport and revenue generation. When you look at what we do, most of our business is concentrated on Light to Mid-Size jets, Turboprops and Light to Mid-Size helicopters."

Beyond those parameters, 1st Source tries to stay in its lane for its Business Aviation lending. "We finance both new and used aircraft and try to stay within 20 years in aircraft age."

During its 156 years in business, 1st Source Bank has never been liquidated or been acquired. "I think that feeds into the leadership and strategy," Holst offers. "That’s a big reason why I joined this bank 28 years ago. I’d been with some bigger names and when things were good it was great, then we’d go through a downturn and ultimately exit the business. I decided I didn’t want to live that way."

When he first talked to 1st Source, Holst was impressed with the long view and desire to help clients see that picture. "I liked the long view and the commitment to the community the bank serves."

If what’s past is prologue, 1st Source customers should expect more of the same for decades to come. More information from https://www.1stsource.com/business/specialty-financing/specialty-financing/aircraft-and-helicopter