



**AOPA** FINANCE

## **Common myths surrounding aircraft financing**

### **Myth No. 1: It is always cheaper to pay cash.**

Whether pilots empty their checking/savings account or the stash under their mattress to buy their dream aircraft, they ignore the age-old axiom: "Cash is king."

Pilots are trained to pay attention, use checklists, and possess a high degree of situational awareness. The world is full of opportunities if an individual can act with good judgment and speed. It is also full of pitfalls and dangers.

Once cash is converted into a fixed asset, it can become locked up until the aircraft is sold.

Therefore, if a great opportunity comes up that requires a quick cash commitment, one may have to pass on it if their cash is tied up in a non-liquid asset. There is a lost opportunity cost associated with this. Or, if one dashes off to their aircraft finance source in time of need to borrow against the aircraft, they may find that the amount of cash available via a loan is less than they thought. Again, another real cost due to a lost opportunity.

Finally, the only constant one can rely upon is change. Everyone has obligations. If there is another economic slowdown and one's income goes down, do you have sufficient cash reserves to weather the storm? Borrowing when times are difficult can be very costly. Two or three hundred thousand of cash can go a long way, used monthly!

Pay attention, use a checklist (seek advice from finance professionals), and be aware of possible opportunities/pitfalls.

## **Myth No. 2: A rate quoted by a financing source is not negotiable.**

First, each financial institution has a sweet spot, so a potential borrower has to become savvy and shop around, just like they did for the ideal aircraft.

Every pilot knows about trade-offs. Less fuel, more passengers; lower speed, less fuel burn, and so on. The same is true regarding lending. If one borrows money for a few months today, the interest rate is almost zero. If one is willing to use up more of their cash in the form of a down payment and lower the lender's risk, the rate can be lower than quoted. If one wants to pay back their loan until the next millennium the rate will skyrocket.

Only the borrower can judge which trade-off he or she can live with in exchange for rate. So, negotiate, but be wise.

## **Myth No. 3: A borrower does not need to worry about title if a lender closes a loan.**

Not all lenders understand aviation lending and perform title searches before closing a loan. If a flaw is found later and the borrower cannot sell the aircraft, the lender still has the borrower on the hook for the loan balance. Lenders make loans to borrowers not to title companies.

All purchasers should have their own title search done before they close. It is quick and inexpensive, considering the alternative. Before financing an airplane, contact [AOPA Aviation Finance](#).

## **Myth No. 4: Having a loan on an aircraft slows down the sales process when selling an aircraft.**

This is another myth that can become a truism if the borrower has no situational awareness. The first contact a borrower should make, even before listing the aircraft is with his or her lender. There is no penalty for making that call. It is like checking with flight service for weather before planning a flight. The lender will give the borrower information on the loan balance, any outstanding fees, and various dates of payoff. The lender also will provide instructions and contact information to use in advance of a sale and payoff.

The facts that give credence to this myth arise from the numerous times that a borrower has committed to sell his or her aircraft on a specific date and then learned from the purchaser the day before closing that the purchaser found a lien on the aircraft. Lenders can attest to the panic calls they often get.

How many owners have at their fingertips the account number of their loan, their lender's contact information, and what the payoff requirements are under their loan agreement?

Only the borrower can avoid proving this myth.

## **Myth No. 5: Obtaining an aircraft loan can be painful.**

Unlike buying a new pair of gloves or a book on the Internet, a person seeking aviation financing may only have to go through the application process once every five years or so. Subtle changes in requirements on a provider's website for common products are easy to navigate around if one is frequently visiting the site. However, regulatory changes in aviation, FAA registration requirements, tax issues, and other nuances may be added and changed without a lot of public knowledge.

Therefore, having one-on-one access to a loan expert can help an applicant walk through what appears to be a minefield. Getting on a site such as, [AOPA Aviation Finance](#), can provide answers to a lot of aviation finance questions, and that may be enough for some prospective borrowers. But, as a borrower digs into his or her personal needs, it can become apparent that more depth is needed, which is when obtaining personal attention and expert advice becomes important.

There is no reason why a standard request for a loan with a full package of credit information should take any longer than 36 hours for a decision. The trick is to have a complete and accurate credit package ahead of time. And, the only way to ensure that is to work with an expert.

For information related to these and other aircraft financing myths, contact AOPA Aviation Finance at 800/62-PLANE or visit [www.aopafinance.com](http://www.aopafinance.com). AOPA Aviation Finance's friendly staff will speak your language and take the confusion out of financing your airplane purchase. Don't forget that using AOPA Aviation Finance not only helps you but helps AOPA in its mission to keep general aviation airports open and support your right to fly.

