CorporateJetInvestor

Basel III and business aviation

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1.0 Executive summary

Basel III will fundamentally change banking. This will include the financing of business jets and helicopters. As finance is a critical component of both new aircraft and pre-owned aircraft sales it will affect all of the corporate aviation industry.

The regulations will come into effect in 2013 and 2014.

Key points:

- Basel III will increase the cost of all debt including aircraft finance transactions;
- Banks have known about Basel III for more than three years and bank appetite for business jet and helicopter deals has not fallen;
- We do not expect any business jet or helicopter lenders to exit because of Basel III;
- Loans to weaker credits and operators will become significantly more expensive and harder to find;
- The need for data on aircraft loans makes it harder for banks to enter the market as pure asset lenders;
- Many banks are focusing on growing private banking relationships so these banks will become even more important lenders;
- Increased regulation of banks is an opportunity for funds like Guggenheim Business Aircraft Investments, Milestone Aviation Group (helicopters);
- Basel III may encourage new sources of finance into the market, including insurance companies, pension funds and the use of more export credit guaranteed loans.

2.0 About Corporate Jet Investor

Corporate Jet Investor provides information, insight and intelligence on business jet and helicopter transactions. Our events bring the market together.

Over 12,000 professionals use the site each month making it one of the most visited specialist websites in the industry.

Our core membership includes: aircraft owners, corporate flight departments, flight departments, family offices, banks, funds, leasing companies, manufacturers, law firms, maintenance providers, consultants, aircraft operators and others in business aviation. More than one thousand people also subscribe to our weekly e-newsletter.

Members use the site to identify opportunities, find potential customers, meet recommended professionals and analyse risk. The site includes data on different aircraft, a list of upcoming deliveries, an interactive business jet finance finder, listings of recommended lawyers, expert articles and the *Official Guide to Aircraft Registration*.

Corporate Jet Investor also organises corporate jet and helicopter finance conferences and events around the world. Recent events have taken place in London, Beijing, Johannesburg and Hong Kong. We also organise specialist training courses focused on aircraft finance. So far in 2012 100% of delegates to our events have said the events were either good or very good.

We also manage the *Corporate Jet Investor Awards* which are chosen by a committee of aircraft manufacturers and leading brokers and are given to financial institutions and transactions.

For the last three years, our events and website have helped members learn, make better decisions, build business strategies, save time, find the best transaction partners, identify risks and accelerate their careers.

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3.0 Basel for beginners

The Basel Accords are global recommendations on banking supervision issued by the Basel Committee on Banking Supervision (BCBS).

Basel I was agreed on in 1988 and implemented in 1992 with Basel II published in 1994. Basel III will come into effect between 2013 and 2019.

The Basel Committee is made up of central bankers from major economies[i]. They agree on banking regulation. Each country then implements them through their own national legislation. As they have all agreed on the accords there is pressure – but no legal obligation – for each country to implement the treaty in a similar way.

The aim of all the Basel Accords is to prevent banks failing. Basel I mainly focused on capital requirements. Basel II used a three pillars approach: 1) minimum capital requirements; 2) supervisory review; and 3) market discipline. The latest accord develops on Basel II principles.

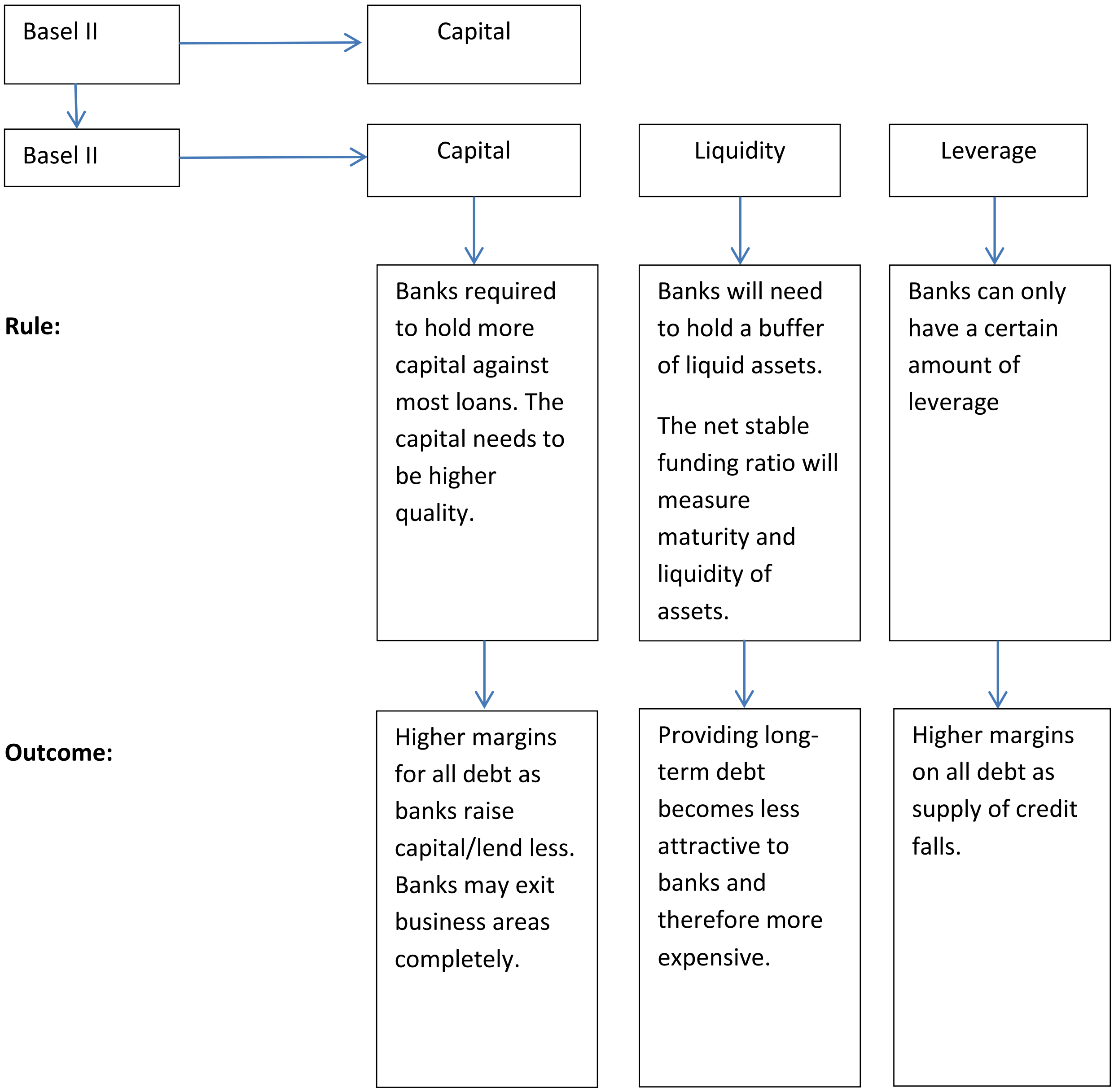
Basel III was largely finalised in September 2010 and endorsed in a G20 meeting the month after. A revised version: *A global regulatory framework for more resilient banks and banking systems briefing paper*[ii] was published in June 2011. Implementation starts in January 2013 and should be completed by January 2019.

The leaders of the world's 20 largest economies agreed to work on Basel III in February 2009, following the 2007 financial downturn where many banks failed. Many of the changes reflect problems that banks had during this period.

The main focus of Basel III is on bank capital, bank balance sheets and liquidity – all weaknesses highlighted in the credit crunch. It also has new restrictions on securitisation and commodity trading.

Corporate aviation finance is not a target of the Basel III regulations but like all lending it will be directly affected as the new capital, liquidity and leverage rule will make debt more expensive.

Figure One: Basel III will make long-term debt more expensive



3.1 Capital

Basel I was mainly focused on capital. Basel III develops this further.

The main concept behind all three Basel Accords is that: all lending carries risk; banks need to recognise this risk; and they should hold capital back to cover losses.

Basel I used a broad approach. Banks were required to hold back 8% of risk weighted assets for corporate loans – regardless of the borrower's strength or any collateral – and 0% for all government bonds.

In 1994, Basel II tried to weight the capital to the type of loan. It accepted that a loan secured by an asset or made to an investment grade borrower has less risk than an unsecured one to a high yield borrower.

It also introduced the concept of loss-given default. The loss-given default is a percentage of the loss over the bank's total exposure when a customer defaults. This is clearly affected by many factors including any collateral backing the loan (see example[iii]).

Banks had the option of three approaches to calculating loss given default: a basic approach (similar to Basel I) and two advanced approaches.

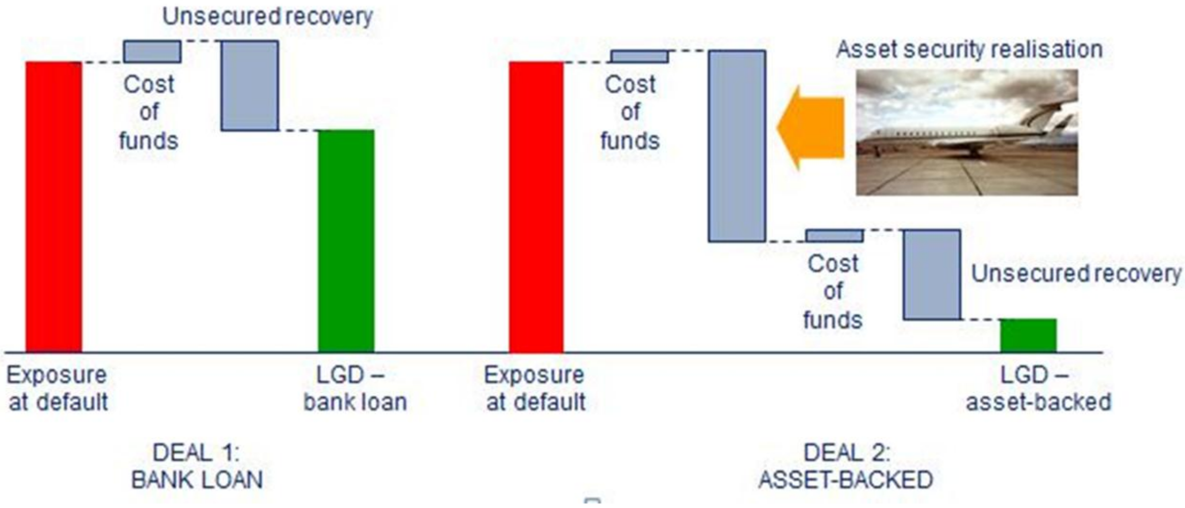
To adopt the advanced approach, banks had to submit their models to their national financial supervisor. The ones that received approval had a real advantage when bidding for aircraft deals, as by using past portfolio data many advanced lenders were able to hold back significantly less capital for aircraft deals. This made them more competitive than basic approach lenders (see Appendix One).

US banks did not implement Basel II. US business jet lenders now have to grasp both Basel II and Basel III at the same time. "The rest of the world is going from 40 mph to 60 mph," says one US private banker. "In the US we are going from 0 to 60."

Although Basel III increases the amount of capital that needs to be held against risk weighted assets, it does not change the methodology that banks use for analysing loans under the capital rules. However, because they are required to hold more capital back on all corporate loans, many of the advantages of aircraft as collateral have gone.

The benefit of asset-backed deals

Collateral backing any deal – in this case, aircraft – helps lower loss given defaults



Source: Gary Crichlow, Asset Management, GE Corporate Aircraft Finance

The new capital rules

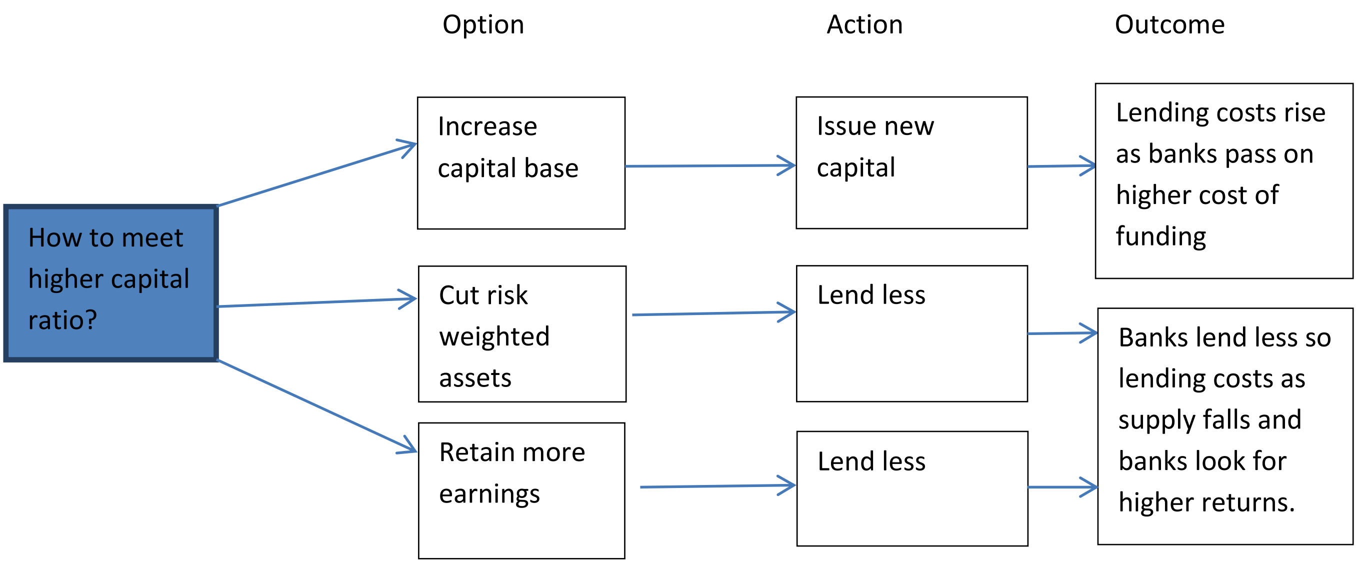
Basel III requires a 6% minimum ratio of capital to risk weighted assets (up from 4%).

Under Basel II, Tier 1 capital could be made up of both common equity (such as ordinary stock) and other capital. Common equity performed best in absorbing losses during the 2007-2008 crisis and so Basel III requires banks to hold more than 4.5% of common equity (up from 2%).

Basel III also introduces a mandatory capital conservation buffer of 2.5% and a discretionary countercyclical buffer, which allows national regulators to require up to another 2.5% of capital during periods of high credit growth.

There are three ways for banks to increase Tier 1 Capital – and they can be used in combination. All result in the cost of debt rising.

Figure Two: Increased capital means rise in cost of finance



3.2 Leverage

Basel III restricts the size of a bank's balance sheet. Banks will be forced to meet a strict leverage standard based on the ratio between tier one capital and combined on-balance sheet and off-balance sheet ratios.

Research from RBS[iv] suggests there is a strong link between bank leverage and net interest. The bank says that in the early 1990s the 20 largest European banks had an average leverage of 22 times rising to 36 times in 208 as asset growth outstripped equity growth. It says the new leverage ratio will send the level to 18 times, which should imply much higher margins.

At the moment most banks fall within leverage rules, however there will be stricter rules for larger banks that are judged to be Systematically Important. *Corporate Jet Investor* considers 12 of the 30 systematically important banks to be key business aviation lenders (see Appendix Three).

This will again limit the amount that banks can lend. The liquidity ratio is also a very simple measure so does not reward collateral like aircraft finance (which Basel II did) This means that banks that had adopted Basel II will need to hold more capital against aircraft loans than before.

"Basel III takes a blunt instrument to the art of aircraft finance."

Under the Basel II advanced approach, aircraft transactions were weighted below many other loans and this is still true for calculating loss given defaults. However, under Basel III, the leverage ratio requires a 3% capital requirement for all loans – whether they are secured by collateral or not. This rule is designed to stop banks from overvaluing assets.

"The leverage ratio is not a sophisticated measure as it does not recognise the quality of your assets. It is a basic ratio in opposition to the credit-risk sensitive approach for capital," says one French aircraft banker. "It means you have to put in more capital in front of good quality assets based on their nominal amounts—which is conservative and will impact pricing."

Elisabeth Evans, a partner at Jones Day in New York, agrees: "Rather than relying upon the financiers and appraisers to accurately assess the credit-quality of the aviation asset, Basel III takes a blunt instrument to the art of aircraft finance.[v]"

3.3 Liquidity

The new liquidity rules are most significant develop from Basel II.

Problems at Lehman Brothers and others emphasised how important liquidity is to a bank's survival and it is generally agreed that Basel II failed to address this.

Basel II introduces two ratios:

- The Liquidity Coverage Ratio (LCR);
- The Net Stable Funding Ratio (NSFR).

3.31 Liquidity coverage ratio

The liquidity coverage ratio is designed to make sure banks have enough capital to ride out short-term liquidity disruptions – such as the freezing of bond markets.

Basel III compels banks to hold an amount of highly-liquid assets, such as cash or Treasury bonds, equal to or greater than their net cash over a 30 day period (having at least 100% coverage).

As part of its stress test, Basel III distinguishes between types of deposit. This is a fundamental change. Basel III assumes that just 5% of deposits from private individuals would be withdrawn during a crisis whilst competing banks would withdraw all of their cash.

Deposits from corporates are split into two categories (and it is worth noting that large private bank clients are viewed as corporates rather than individuals by most banks):

- If a bank does not have an operational relationship with a client, Basel III assumes that 75% of deposits would be withdrawn.

- However, if there is a relationship with the corporate customer, the bank can assume that just 25% of cash would be taken from the bank. Any cross-selling activity – such as factoring or a business jet loan – counts in the banks favour.

3.32 The net stable funding ratio

The net stable funding ratio calculates the proportion of long-term assets which are funded by long-term (more stable) funding.

Stable funding again includes customer deposits as well as long-term debt and equity. Banks are required to match long-term loans of over a year with long-term funding. Although the funding itself only needs to be over one year so does not need to match a 12 year loan with a 12 year deposit for example.

This makes all long term loans – like business aircraft finance loans which typically have terms of between three and seven years –less attractive to banks.

4.0 When will Basel III happen?

The first implementation starts in January 2013 and many banks are already lending using Basel III criteria.

The Basel III committee's members come from Argentina, Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the UK and the US, and all of these countries are in the process of implementing Basel II to the following time-table.

"Perhaps surprisingly to some people, China is one of the most advanced countries at implementing Basel III," says Kenneth Gray, a consultant at Norton Rose LLP, with over 25 years' experience in aviation finance. "There is peer pressure on countries to implement it properly - even though a bank in Singapore clearly faces very different issues to one in Chicago."

Requirement	Deadline	Notes
Capital requirements	January 2013	3.5% share capital, 4.5% Tier-1 capital and 8% total capital
	January 2019	4.5% share capital, 6% Tier-1 capital and 8% total capital
Conservation buffer	January 2016	Will need to hold 2.5% of the RWA
	January 2019	Need to 10.5% of their risk weighted assets
Leverage ratio	January 2012	
Liquidity cover ratio	January 2015	
Net Stable Funding Ratio	January 2018	

5.0 Debt costs will rise

Banks and consultants all believe that Basel III will make banks charge more for debt to reflect their greater capital costs.

McKinsey[vi] estimates that long term corporate loans (the category that most business jet deals to corporates or high net worth individuals will use) will rise by at least 50 basis points (bps). This rise is mainly attributed to general rise in capital costs (30bps), liquidity costs (10bps) and a higher funding cost as banks need to match long term debt with assets.

This could be an opportunity for aircraft financiers.

"As everyone will pay more, we actually think Basel III could help us," says one banker. "Corporates that have just been using corporate facilities will be more likely to use asset-backed loans."

"Corporates that have just been using corporate facilities will be more likely to use asset-backed loans."

On the whole, most aircraft finance lenders feel that customers will take a rise in funding. "We find that customers are more interested in obtaining finance than worried about pricing," says one manufacturer.

In fact, the lack of capital in the market following the 2008 downturn has meant that most customers now expect to pay more.

"If lending becomes less profitable you can either increase pricing or get extra returns from other services," says one head of aircraft finance at a Swiss bank. "It depends on your business model but you could do both."

It is worth remembering that US banks did not implement Basel II and the effects will be greater in the world's biggest business jet market. It could be argued that many US banks did not reflect the risk in aircraft deals to poorer credits. This should, at least in theory, now change.

In the last few years we have seen spreads on loans for strong US borrowers – like ultra-high-net-worth individuals – tighten whilst finance has been harder to find for operators buy aircraft and then rely on charter revenue. This will continue.

5.1 Tougher for weak credits and operators

Since Basel II, loans to charter operators and air taxi companies – where cash flow from the asset, like charter revenue, is used to repay loans – have been covered object finance rules which are part of the specialist lending category.

McKinsey predicts that the cost of all specialised lending could rise by 60 basis points. The rise for object finance, such as shipping, commercial aircraft, business jets and helicopters operators could be even higher.

Since 2007 there has been a real shortage of lenders prepared to consider charter operators and this looks likely to continue. Traditional commercial aircraft lenders are increasingly focusing on what they call relationship-customers and this does not exclude operators.

Some bankers believe that the increased cost of aircraft finance will stop new entrants. “Buying aircraft to charter them has never made sense and will make even less sense under Basel III when debt costs have to reflect risk,” says one head of aircraft finance.

However, orders from operators are important to manufacturers – particularly as it gives the certainty about production – and their finance departments have worked closely to encourage export credit agencies to support operators.

In the last two years companies like Flight Options and VistaJet have relied on export credit guaranteed loans and this will continue.

> ***“Buying aircraft to charter them has never made sense and will make even less sense under Basel III.”***

6.0 How important is aircraft finance to banks?

As well as Basel III, other banking regulations like the US Dodd Frank Wall Street Reform and Consumer Finance Act[vii] are forcing banks to change their overall strategies.

PricewaterhouseCoopers says that banks are stopping offering all things to all people ('ubiquity') and becoming much more ruthless in their focus on core relationships and sources of value ('precision').

This means there is a risk that business jet and helicopter departments could be cut. In Europe several banks have stopped all commercial aircraft and ship finance citing Basel II. But this has not yet happened with any business jet lenders.

Ironically, the biggest reason that we do not expect banks to exit business aviation is because they had the opportunity to do this during the market downturn from 2008 onwards.

Nearly every business jet lender suffered losses and banks that were less committed to the sector chose to exit when the business jet market fell following the credit crunch. The banks that are active now recently made a decision to remain in the sector and ride the cycle, knowing what Basel III would look like.

"We don't see there being a major impact on corporate aircraft financing," says one head of aircraft finance at a large European bank. "If you can handle the risk, then the sector is not any less attractive. You have to look at the whole balance sheet – we still consider aircraft as good assets."

The other reason that business aviation finance should survive is because of cross-selling opportunities.

In its report, Pricewaterhouse adds: "Banks may not be able to withdraw from all aspects of their business offering a relatively unfavourable return as this might cause them to miss out on other opportunities. A case in point would be trade finance, which, while receiving punitive treatment under Basel III is nonetheless vital in attracting business in the fast growing emerging markets of Asia, Africa and Latin America."

Banks have left commercial aircraft finance but not business jet finance

Basel III is making banks review entire business lines and there is a risk that this could happen to business jet and helicopter finance.

In Europe several large banks have exited from commercial aircraft finance, including HSH Nordbank, Lloyds Banking Group, Royal Bank of Scotland and Société Générale. Even more banks have stopped financing ships.

All of them have said that Basel III is a contributing factor in their decision. (Although it is hard to separate the effects of the Eurozone crisis – particularly their ability to lend in US dollars – general deleveraging and losses from other parts of the bank.)

Perhaps surprisingly, most of these banks have agreed to stay in business jet finance. RBS is still active through Lombard in Europe and RBS Asset Finance in the US; SG is still financing aircraft through SG Equipment Finance; and Lloyds is still offering business jet and helicopter finance through its asset finance division.

All of the banks that have exited had built large billion dollar commercial aircraft portfolios which required large amounts of regulatory capital. Although significant the business jet portfolios are smaller and have escaped similar cuts.

"If you can handle the risk, then the sector is not any less attractive. You have to look at the whole balance sheet – we still consider aircraft as good assets."

Business jet and helicopter finance offers similar benefits to trade finance, and many institutions – particularly private banks – offer aircraft finance as a way of winning and retaining customers.

For this reason we do not expect any private banks to exit because of Basel III, and in fact, a greater focus on private banking is likely to encourage new entrants into the market. About half of the world's largest private banks have business jet finance teams and this number could rise (See Appendix Three.)

"When clients asked us if we would finance a business jet we would say no and then introduce them to GE or another bank. We then found we would lose them as a customer within two or three years," says one aircraft specialist at a large private bank that entered business jet finance in 2010.

Leasing companies also cross-sell aircraft finance to existing customers and many capital intensive industries – mining, energy, and manufacturing – are become increasingly international making business jets useful tools.

"We are moving towards a situation where only private banks and banks with specialist leasing arms will be in the market," says one private banker.

6.1 Tougher for new bank entrants

In order to be an advanced lender under Basel II, banks need data to allow them to model risk and their loss-given default. This analysis then needs to be approved by their regulator.

This is especially difficult in a niche market like business jet finance. Even in larger markets like commercial aircraft finance and project finance, banks have shared data through the Pan-European Credit Data Consortium (PECDC).

Few lenders have enough diversity in their business jet portfolios to allow them to rate aircraft loans and large US lenders that do have this have very little international data. It is even harder for banks looking to enter the market for the first time. Particularly as aircraft values are key to calculating loss-given default as the table demonstrates.

"There will be big differences between how financial institutions will look at business jets and helicopters going forward," says the head of aircraft finance at a French bank. "The LGD [loss-given-default] will depend very much on each bank's track record."

Not having data makes it harder for banks looking to become aircraft lenders. They are at a disadvantage as they do not have the data to model loss given defaults accurately.

““There will be big differences between how financial institutions will look at business jets and helicopters going forward. The loss-given-default] will depend very much on each bank’s track record.”

However, several US banks that have recently established aircraft teams appear to be using a strategy of only lending to corporates. This allows them to model loss given defaults using data from their corporate loan book or by only lending to rated corporates. Whilst this is good for strong corporates these banks will not lend to operators – which will typically be weaker credits.

7.0 The future under Basel III

Banks will start implementing Basel III in January 2013, with all of the proposals fully implemented by 2019. However, as with previous changes, the effects will be felt gradually. Stock analysts and financial investors have already started to force financial institutions to comply with Basel III when reporting but not all banks are yet fully Basel III compliant.

Whilst some believe it will make little difference to business jet finance others believe the changes will eventually be dramatic.

"Basel III is genuinely game changing," says Kenneth Gray, a consultant at Norton Rose LLP. "In a few years' time the corporate aircraft finance market will look very different with new entrants and new structures. And it will be because of Basel III."

The business jet market has already changed dramatically since 2007. No bank is active in all parts of the market and certain markets are underserved (see Appendix Four).

Basel III will accelerate this change leading to three quite separate markets based on the borrower:

High net worth individuals
Rich individuals will continue to be well served by private banks which will make loans to strengthen relationships. These loans will be held by banks which benefit from deposits.

Strong credits should benefit from Basel III as banks compete hard for their business. Weaker credits will pay more, but still finding finance readily available provided they are willing to place assets under management and provide personal guarantees.

There will still be substantial opportunities for the few lenders not requiring personal guarantees.

Corporate borrowers
Basel III should encourage companies to consider using specialist aircraft finance loans rather than rely on corporate facilities. As with HNWIs, competition for strong credits will be fierce.

Banks that syndicate debt to other banks and institutions that are not governed by Basel III – such as insurance companies and pension funds – should have a significant advantage.

Air taxi companies, operators and charter companies
These borrowers will be hit the hardest. Unless they are part of larger institutions it will be harder for them to find debt and when they do find it, it will cost more. They will be increasingly reliant on export credit.

New entrants

In the commercial aircraft market some 40% of all financing comes from specialist operating leasing companies. The business jet market is, in comparison, underserved by non-bank lenders.

Basel III is a real opportunity for financiers like Guggenheim Business Aircraft Investments, Singlepoint, Canada's Element Financial and others to compete with traditional lenders.

Although these new entrants may use more expensive bank debt to leverage, they are not subject to the same capital allocation rules and will have a strong advantage.

Helicopter leasing companies, like Milestone and Lease Corporation International – which finance aircraft for operators – should benefit even more as banks charge operators more for debt. Many helicopter operators are weak credits so leasing will become more attractive.

The other type of financing that should increase is government guaranteed export credit loans. This may be the only type of finance available for some borrowers

Banks have, and continue to spend billions of dollars implementing Basel III and there is a real danger that business aviation finance has been overlooked. Heads of business aviation need to work hard to sell the benefits of aircraft finance inside their banks and to look at solutions like syndication or export credit. Aircraft finance is vital to business aviation and the industry needs strong lenders.

Borrowers will also need to adapt and understand the process and appreciate why financier's needs are changing.

Basel I and Basel II changed banking and Basel III will too. It will take time for everyone in the market to truly understand the implications. By then we will probably be discussing Basel IIII.

> ***"Basel III is genuinely game changing. In a few years' time the corporate aircraft finance market will look very different with new entrants and new structures. And it will be because of Basel III.""***

Appendix 1: How Basel I, Basel II and Basel III have treated aircraft finance

Each bank calculates their Risk Weighted Assets in a different way, so it is difficult to show how the three regimes treat aircraft. However, a paper[viii] by Christophe Beaubron of PK Airfinance, a commercial aircraft lending subsidiary of GE Capital Aircraft Services, covering Basel I and Basel II is a useful guide. The following is an adapted version.

Basel I – implemented in 1992

Under Basel I all aircraft loans fell under corporate exposure so received a 100% risk weight. This meant that banks needed to allocate 8% of the loan's value.

The one exception was for export credit guaranteed loans (of which there were few) which were 0% rated.

Asset class	Risk weight	Capital ratio	Example loan amount	RWA	Minimum capital required
Treasury bonds, cash, gold, OECD government debt	0%	8%	\$10m	\$0	\$0
Municipal bond, claims to OECD banks, US government entities,	20%	8%	\$10m	\$200,000	\$16,000
Residential mortgage	50%	8%	\$10m	\$5m	\$400,000
Aircraft loans, corporate debt, emerging market debt, real estate, equipment finance	100%	8%	\$10m	\$10m	\$800,000

Basel II – implemented in 2006 (not in US)

Basel II was much more complex. Banks had the option to use three approaches; a standardised approach or one of two internal rating based approaches.

One other major change is that under Basel I, all aircraft loans were treated as corporate loans. Basel II introduced a section called specialised finance with a category for object finance. Object finance – which includes aircraft, ships, satellites and other assets – only really applies to corporate aircraft used owned by operators. Deals only fall into this category where cash flows from the asset are relied upon to repay loans.

For business aviation, this would apply to helicopters that are being used for contracts like oil transport (government and EMS could typically be viewed as government debt) and charter operators.

Corporates and high net worth individuals that use jets are viewed as corporate exposures by banks. (Loans to high net worth individuals are treated as corporates rather than retail loans by nearly all banks).

Standardised approach

Broadly similar to Basel I, the only change is ratings for borrowers. Basel II continued to request 8% collateral.

External rating	**Risk weight**	**Capital**
AAA to AA-	20%	1.6%
A+ to A-	50%	4%
BBB+ to BB-	100%	8%
BB- and below	150%	12%
Unrated	100%	8%

Like Basel 1, the standardised approach does not allow aircraft to be used as a risk mitigant reducing capital. Very few banks active in aircraft finance used the standardised approach for this reason.

Internal rating based approaches

Under the internal rating based approaches, banks determine a transaction's risk category by using a qualitative assessment of the credit quality of the borrower, the strength of any collateral (in our case aircraft), country risk, counter party risk and structural risk.

Category	**Deal rating**	**Risk weight**	**Capital required**
Strong	BBB- or above	75%	6%
Good	BB+ or BB	100%	8%
Satisfactory	BB- to B+	150%	12%
Weak	B to CCC-	350%	28%
Default	D	625%	50%

However, advanced users were able to lower the capital required even further.

To be approved as an advanced user banks were required to demonstrate that they could calculate their probable risk of default on a deal and also their loss given default

Maturity
Example of how maturity affects a satisfactory (B rated) borrower

Maturity	Risk Weight	Capital
1	89.6%	7.2%
2	96.71%	7.74%
3	103.47	8.28%
4	110.22%	8.82%
5	116.98	9.36
7	130.49	10.44%

Basel III

Similar to Basel II concerning credit – although all banks will need to increase tier one ratios.

The big change with Basel III is the introduction of leverage rules. The leverage ratio requires a 3% capital requirement for all loans – whether they are secured by collateral or not. This rule is designed to stop banks from overvaluing assets.

Appendix 2: Systematically important banks and business jet finance

	Significant business jet or helicopter lender	Some business jet or helicopter lending	Comments
Bank of America	X		Very active
Bank of China		X	Active in China
Bank of New York Mellon			
Banque Populaire CE		X	Active through Natixis Leasing in France
Barclays	X		Now part of private bank so likely to remain lending
BNP Paribas	X		Still relatively active
Citigroup	X		Part of Citi Private Bank
Commerzbank		X	
Crédit Agricole		X	Very limited lender to key clients. Reducing lending
Credit Suisse	X		Part of Private Bank
Deutsche Bank	X		Part of Private bank
Dexia		X	
Goldman Sachs		X	Occasional private bank deals
HSBC		X	Rumoured to be looking at entering
ING Bank		X	
JP Morgan Chase	X		Active in US and internationally
Lloyds Banking Group	X		Stopped commercial lending
Mitsubishi UFJ FG			
Mizuho FG			
Morgan Stanley	X		Still active, mainly private bank
Nordea		X	Strong in North Sea helicopter finance and Scandinavia
Royal Bank of Scotland	X		Sold commercial aircraft finance business but still active through equipment leasing businesses – Lombard in UK and RBS Asset Finance in US
Santander		X	Some deals in core markets
Société Générale	X		Reducing commercial aircraft business but still financing aircraft through SG Equipment Finance
Sumitomo Mitsui			
UBS	X		Part of Private Bank
Unicredit Group		X	
Wells Fargo	X		Supporting Private Bank

Source: Financial Stability Board and Corporate Jet Investor

Appendix 3: The world's largest private banks and their expertise in private aviation

Bank	Bank	Assets under management	Specialist team	Notes
1	Bank of America	1,994	Yes	Stepped up considerably since Merrill Lynch merger
2	Morgan Stanley	1,628	No	(Had been referring to Citi for tailored lending)
3	UBS	1,559	Yes	
4	Wells Fargo	1,398	Yes	
5	Credit Suisse	865	Yes	
6	Royal Bank of Canada	435		Some local deals
7	HSBC	390		Considering stepping up
8	Deutsche Bank	368	Yes	
9	BNP Paribas	340	Yes	Selective deals
10	JPMorgan	284	Yes	
11	Pictet	267	No	
12	Goldman Sachs	229	No	Selective lender when needed
13	ABN Amro	220	No	Offers it to clients
14	Barclays	185	Yes	Moved to private bank in 2011
15	Julius Bar	181		
16	Credit Agricole	171	Yes	Selective deals
17	Bank of NY Mellon	166		
18	Northern Trust	154		Selective lender when needed
19	Lombard Odier	153	No	
20	Citi Private Bank	140	Yes	

Source: Scorpio Partnership[ix] and Corporate Jet Investor

Appendix 4: Corporate Jet Investor June 2012 Business Jet Finance Review

	HNWI	Corporates	Operators
Africa		+	
- North Africa*	+	-	
- South Africa			
- West Africa	+	+	
Asia			
- China			+
- India*		+	
Australasia			
Eastern Europe*		+	+
Middle East			
Latin America			
- Brazil	+	+	
- Mexico			
North America	+	+	
Russia*		+	
Western Europe	+		

Key

Green: finance easily available and competitive.

Orange: available but from fewer sources.

Red: Finance may be available but significantly less choice.

+ Finance market strengthening

- Finance market weakening

Finance availability by aircraft

- New $10 million +
- New $1 - $10 million
- Pre-owned > $10m + <8 years
- Pre-owned < $10m + <8 years
- Pre-owned 8+ years

4.1 Market Commentary

The market has not seen many significant new entrants but neither has it seen any large financiers formally leave the market. This is in contrast with the commercial aircraft finance which has seen large European banks exit.

The private banking market is becoming more competitive and seeing more deals.

At EBACE, the US Ex-Im Bank made a commitment to finance more than $1 billion in jets in the next two years. This is not reflected in the tables yet but could change the outlook for fleet operators outside the US significantly.

Africa

The large jet market in South Africa continues to be competitive with both local banks and international lenders financing aircraft (Guggenheim has just closed its first deal in the country). However, there is less appetite for smaller aircraft.

Nigeria and West Africa is seeing a lot of demand but is still a challenging region for many financiers.

Asia

International lenders like Bank of America, Credit Suisse, Citi Private Bank, Deutsche Private Bank, GE Corporate Aircraft Finance, Guggenheim, UBS and others are firmly up and running in the region and there is no shortage of financing for aircraft that are not on local registries.

In China there are no obvious shortages but we have heard rumours that Minsheng has started looking to sell positions. International banks are still getting to grips with India although the planned launch of a credible management firm in the country should help.

Australia and Oceania

Similarly to the US, Australian institutions and international deal are looking for deals in this region.

Eastern Europe

Many local institutions are still tied up with existing portfolios. However, depending on country foreign lenders like SG Equipment Finance are still active.

Middle East

New deliveries to this region are relatively quiet but there is no shortage of international financiers including the same banks as Asia (with GE Mubadala active in this region) and UK lenders like Lombard and Barclays

Latin America

Brazil and Mexico are relatively easy countries to find finance. Brazil, in particular, sees local banks competing with US and European ones for deals. Other countries like Argentina are still more challenging.

North America
The US is showing signs of recovery with large corporates buying aircraft. However, some of these are still using cash. Whilst pricing and volume are not at pre-peak levels US banks are keen to do more deals. Financiers talk of the market quietening down in the second quarter.

Element Capital, which hired a number of GE Corporate Aircraft Finance business jet specialists, is a significant new entrant in Canada.

Russia
European private banks like Credit Suisse and UBS are still active with Russian clients but only for foreign registered aircraft. There is a shortage of local lenders.

Western Europe
The on-going Eurozone crisis has not impacted business jet deals yet. But demand for new aircraft finance has fallen significantly.

Footnotes and references

[i] http://www.bis.org/bcbs/ The Basel III committee's members come from Argentina, Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the UK and the US

[ii] It is worth noting that the main Basel III briefing paper is just 77 (almost unreadable) pages. http://www.bis.org/publ/bcbs189.htm

[iii] From a presentation by Gary Crichlow of GE Corporate Aircraft Finance at Corporate Jet Investor's School of Aircraft Finance 2012 www.corporatejetinvestor.com

[iv] Basel III: Ramifications for the Syndicated Loan Market, September 2011 by Richard Bartlet and Sean Malone: http://mib.rbs.com/insight/regulatory-change/ramifications-for-the-syndicated-loan-market

[v] http://thewritestuff.jonesday.com/rv/ff0005f6b0ca4e9e739ae741824989b6d0c2231f/p=1

[vi]McKinsey Working Papers on Risk No25

[vii] And other legislation and policy like EU Regulation No1092/2010 establishing a European Systemic Risk Board; the UK Vickers report;

[viii] http://www.pkair.com/pdf/AircraftBackedFinance.pdf

[ix]World's Biggest Private Banks
http://www.scorpiopartnership.com/uploads/pdfs/110707_Scorpio%20Partnership_PRESS%20RELEASE_2011%20Global%20Private%20Banking%20Benchmark.pdf