

Trying Times in Aviation

By Thomas H. Chappell

Make no mistake; the recession has hit the general aviation industry. My phone rings constantly with questions concerning various cost saving methods affecting aircraft ownership. I receive a variety of questions ranging from the sale of the aircraft to questions concerning taking on a partner. In fact, the activity has been so strong that I decided to write a special article this quarter in an attempt to answer some of the common questions and possibly give you some ideas on ways to cut costs, mainly in the insurance sector.

So, why not just sell it?

There are several reasons that “just selling it” is not working. The biggest reason is no one is buying. At least the buyers are few and far between. Those that are in the market to buy are looking for a bargain. If the *Aircraft Price Digest* (The Bluebook) is any guide, aircraft values have been plummeting. I looked up my own aircraft in the latest book. The trend is down since last quarter by more than \$120,000. Of course, each aircraft is valued differently, but the trend is down on just about everything. The point is that even if you could sell your aircraft, now may not be the time to do it.

So, why not just keep flying, quit reading the newspapers and watching the television, and have fun? After all, the price of gas has come down. Unfortunately, those that are calling me are struggling in their businesses or preparing for a downturn before their business gets hit. No matter the cause, the recession is real.

One answer may be to find a partner

This may be an individual or a business. It may be a non-pilot who is trying to escape the airlines. You know, one of those folks that in good times always expressed a desire for an aircraft but just couldn't bring themselves to spend the money. If they are ever going to make the move, now may be the time. So find a partner and split the cost of ownership.

And yes, pilots are available. You remember those guys that had worked their way up to a cushy corporate flying job? Many of them are now looking for flying jobs. Any type of aircraft will do. It doesn't have to be a jet. Your new partner may have to send them to school on your aircraft, but most of these pilots are very good at their trade.

You may consider putting your aircraft to work

Depending upon the make and model of aircraft you own, you may be a welcome addition to a charter fleet. Although the charter industry is sick, just like the balance of general aviation, there continues to be demand for certain types of aircraft. The standard in the modern day fleet continues to be the turboprop. It is less expensive to purchase and to operate than jet aircraft.

Many charter operators that have upgraded their fleets to medium and large jets have seen a significant decrease in demand for these more expensive charter aircraft. Those that

have completely replaced their turboprops with jets have found they have nothing to offer their customers who are now demanding less expensive aircraft but will continue to charter to avoid the airlines. This may be an opportunity for you if you own the right aircraft.

For those who own light single-engine aircraft and find they need to reduce their aviation costs, many find an opportunity in the flying school sector. A word of caution is in line here. There are good schools, and there are some that are not professionally run. Do your homework before you make the decision to lease your aircraft to a flying school.

The Dry Lease may be the best solution of all

Most of us know one or two friends who are not pilots but need the use of a personal or corporate aircraft. We once jokingly referred to it as FAR Part 134 ½, but dry leases are legal and acceptable to both the FAA and the aviation insurance underwriters, if you follow all the rules. This is too lengthy a subject to attack in this article but certainly a topic worthy of your research. We have already established that professional pilots are available, and selling a block of time on your aircraft may be the perfect answer for you. This may be the only way the owner of an expensive aircraft will defer some of the cost of ownership.

Trading to upgrade

We get some calls from friends that have an aircraft but need to cut costs. They don't want to get out of general aviation but would like to unload the financial burden of the larger aircraft and exchange it for something more affordable. I have heard that "one man's trash is another man's treasure". I am not saying that anyone's airplane is trash, but you do understand the analogy. Even in bad times, individuals and companies are looking to move up the food chain. If you are looking to move down the food chain, this concept could meet your needs. Ask around, I have seen this concept work.

Take your aircraft off of charter

So, your aircraft is already on a charter certificate, but the demand has dried up and your income with it. You continue to use your aircraft, but carrying that financial burden without the charter income is tough. It may be time to cut expenses. We have already established that professional pilots are now available (assuming that you don't do your own flying). Many will work on a part-time or contract basis, keep your maintenance logs up to date, and help with the overall management of the aircraft. This may be a cost reduction over your current situation (or not). It is worth considering.

Your current charter operator may be willing to continue to manage your aircraft for a fee. This may be a better arrangement simply because your insurance cost may be less by changing the purpose of use to industrial aid (private corporate use).

You may want to have your own insurance agent provide you with a premium quotation for industrial aid or pleasure and business (P&B) use. When flying under a charter certificate you were paying for insurance with a purpose of use to include "commercial or Part 135" use. Commercial use can be more expensive than P&B.

Your aircraft is not being flown at all

No matter what your situation is or what your purpose of use, if your aircraft is not flying, why pay for full ground and flight coverage? Contact your insurance agent and have him change your insurance policy to ground only coverage. This means that you are only insured for losses that occur while your aircraft is “not in motion.” If you need to fly in the future, contact your agent and ask him to reinstate full ground and flight coverage. This one little step could save you as much as 50 percent of your insurance expense during the ground-only period. The underwriter will not make this change over and over, taking your aircraft on and off flight status. Depending upon the underwriter, they will require that the aircraft be laid up for a minimum of 30, 60, or even 90 days. Make sure that you have a full understanding of the exercise or “run up” provisions. The definition of in-motion and not-in-motion is critical here.

I wish I had known that

“My aircraft has not flown in four months and those charter rates are high.” For certain purposes of use and in certain circumstances, the underwriter may allow you to go back to the date the aircraft was last flown as the beginning of your lay-up period. When you put your aircraft back in service, they will calculate your “ground only” premium for the lay-up period and give you a return premium credit. In many cases, the underwriter is not required to offer “lay-up credits” but usually tries to do the right thing for both the client and the insurance company he works for.

The banks

Many aircraft are financed by banks that don't understand our world. I receive numerous phone calls from banks wanting us to insure aircraft that they have repossessed. Banks experienced in financing light aircraft will usually carry a Banks Financial Interest Insurance Policy and are prepared for the repossession process. Banks that are inexperienced in repossession of general aviation aircraft often make mistakes. My advice to them is if the loan is performing, don't get nervous or repossess the aircraft just because the debt equity ratio is out of balance. Don't use the *Aircraft Price Digest* as a guide to aircraft value during times when sales are low. The Price Digest is a great tool, but the prices it quotes are reported by aircraft dealers around the country. If nothing is selling, it is hard to establish a true comparable. Bankers see a downward trend and panic. My advice to the banker: Forget the bank auditors and let the loan perform. Otherwise, you may create a foreclosure situation where none existed.

Another mistake we see the inexperienced bank make is the upgrade. We see this primarily in the light piston aircraft. The bank will repossess the aircraft and have it evaluated by a local maintenance facility. The advice is to overhaul the engine or to make some other costly repair. The advisor will say that in order to sell this aircraft for anywhere near the amount the bank had loaned, it has to be upgraded. In truth, it should have been consigned to a good dealer for sale on an “as is where is” basis. Cut the bank's losses and get out.

Adjust your hull value

Your insurance policy is an “agreed value” policy form. This means that the hull value shown on the declarations page of your policy is the value of your aircraft for purposes of settling a claim and in calculating your hull insurance premium. During times of changing aircraft values, whether up or down, attention should be given to the insured value of your aircraft. If your aircraft “agreed value” goes up, the premium goes up. If your aircraft “agreed value” goes down, the premium goes down. (Your rate per \$100 of value may change depending upon the hull value rating bracket.)

In today’s erratic economy, you may find that you are insuring your aircraft for far more than the aircraft is worth. Step one is to determine the market value of you aircraft. Call your insurance agent and ask for a revised premium quotation on the hull portion of your insurance premium. If you are nearing your policy anniversary, this exercise may not be worth the effort until your normal renewal negotiations.

One word of caution: If you have a lien on your aircraft, you may want to keep the financed amount in mind when re-evaluating your aircraft. You don’t want to reduce your hull insurance below your required debt to equity ratio. This tends to upset bankers.

Shop for hangar space

Can you remember the waiting lists of aircraft owners waiting for hangar space? On many airports and at many FBOs, those days are over. They are over at least for now. If you are at an airport with multiple FBOs or at an airport with other neighboring airports, check around. You may find less expensive hangaring facilities as well as cheaper fuel prices.

Keep it professional

I will tell you this. Whether you choose to sell, charter, lease to a flying school, or operate under a dry lease, do it with a professional. The life and condition of your aircraft depends upon it. Poor operators can damage your aircraft and put innocent lives at risk. What was intended to be a cost savings plan can turn out to be a very expensive disaster.

This includes you. Don’t ever think you are saving money by cutting corners on maintenance or training. Always insist on the best. ➔