

# Financing a Panel Makeover: *It Can Be Done Many Different Ways*

BY DAVE HIGDON

If you're like many pilots, you find yourself frustrated by the gap between the panel you want and your ability to pay the tab.

Of course, one guaranteed way to the panel of your dreams is to swap that old airplane for a new — or newer — one. But if you love the plane you're with, a panel makeover can close the gap for far fewer funds than the cost of new wings, and it can give you equal — or near-equal — performance to a new bird.

The addition of some equipment to older aircraft may be a worthwhile decision in terms of utility and value. Rework the panel of an older Skyhawk, for

example, and you can get very close to the same utility as a new 172, without the cost of buying those capabilities in a new aircraft.

Remodeling a house or office usually increases the value and utility of a structure; and, in much the same way, investing in a panel makeover can increase the value of an airplane.

The ability to finance the cost of such an upgrade might be as close as your airplane. By exploring the value of the asset you're flying, you might find it is worth far more than what you owe on the plane.

By using the airplane as a concrete asset, such as you would

a home, you generally can find some attractive finance options, and you can use the airplane to secure the loan you need to fly behind the panel you want.

You also might opt to finance an upgrade using a different option. However, aircraft-finance veterans say using the airplane is likely the best route to the best deal.

If you've never thought about how you can make the value of your airplane work for you — even for one you're planning to buy — you might find you're closer to that dream panel than you know.

### Planning Ahead

If you know the right questions to ask before signing for the work, a panel makeover can enable your bird to function at the same level as a new bird, depending on the equipment you opt to install.

Defining that new panel requires answering many questions: How do you use the airplane? What do you want to gain or improve? What can you afford?

Tens of thousands of dollars separate the simple process of upgrading to a new digital nav/com or IFR GPS navigator for a few thousand to the higher five figures you can spend for a complete facelift with state-of-the-art gear. The bigger the

### AEA Avionics/Aircraft Improvement Loan

The AEA recognizes First National Bank Midwest as a source for aircraft improvement loans. Located in the southeastern part of Iowa, First National Bank Midwest is a locally owned commercial bank specializing in lending for single-engine and light-twin aircraft. Its lenders are experienced with both financing and aircraft — as lending professionals, as pilots and as aircraft owners.

First National Bank Midwest makes loans ranging from \$15,000 to \$1 million. Once an application is received, the customer usually receives an answer within 24 hours.

For more information, call First National Bank Midwest toll free at 888-559-8892. Applications are available from the AEA website at [www.aea.net/pilot/fnbapplicationform.pdf](http://www.aea.net/pilot/fnbapplicationform.pdf).



project, the bigger the tab.

Among the most important questions you need to have answered early in the process is how long you plan to keep the airplane you plan to upgrade. Unless you plan to keep the upgraded airplane at least five years, according to several authorities, you may not recoup anywhere near the cost of your investment.

Speaking of value, you also must resolve the question: How much is my airplane currently worth? Current market values provide the basis on which finance companies weigh a loan

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request, with most companies limiting their loans to 80 or 90 percent of an airplane's worth. You can tap services like Vref, brokers and your hull insurance value to get relevant value numbers.

Another piece of information to weigh is the impact of the upgrade on that value number. The good news is, you typically can factor in the new value of the upgraded airplane and use it as the basis for calculating a maximum finance amount. Which brings up a point to remember when considering an upgrade: You generally can count only on the cost of the new hardware in calculating a new value for your airplane. Labor costs and the cost of any routine maintenance, which you might finance, generally are not factored into the

airplane's revised value.

Now, to the two biggest questions you need to have answered: What can you afford to spend and what can you get for that investment?

### **Finance Options Abound**

A small percentage of the flying population is able to simply look at their bank accounts for spending guidelines, then write a check for the funds. For those folks, reading on would be an exercise in entertainment or enlightenment, since they don't need help paying for their dream panel.

Alternately, you could pick a dollar target and start saving as a way to pay for an upgrade. However, you might find the equipment you want is obsolete by the time you've sequestered enough money to proceed.

Dealers, and sometimes OEMs, might offer their own finance deals. Because their rates and terms might not be the best available, their offers should be weighed against the interest rate, term of the loan and total cost.

Some businesses and individuals possess credit strong enough to call up their bankers and obtain signature loans for which the borrowers personally guarantee the loans — possibly encumbering other assets, such as homes or business assets in the process.

Fortunately, for those of us with more credit than cash, a healthy finance industry exists eager to lend a hand. And, to find the best terms and rates, the airplane itself might be the best leverage.

Remember, the airplane can serve as the asset securing

**Continued on following page...**

## **FINANCE RESOURCES**

The Aircraft Electronics Association's Aircraft Improvement Loan Program:  
**First National Bank Midwest**  
888-559-8892  
[www.aea.net/pilot](http://www.aea.net/pilot)

**AOPA Aircraft Financing**  
[www.aopa.org/financing](http://www.aopa.org/financing)

**AirFleet Capital**  
[www.airfleetcapital.com](http://www.airfleetcapital.com)

**AV FundSource**  
[www.avfundsource.com](http://www.avfundsource.com)

**Dorr Aviation Credit Corp.**  
[www.dorraviation.com](http://www.dorraviation.com)

**JetDollars**  
[www.jetdollars.com](http://www.jetdollars.com)

**Mile High Financial Corp.**  
[www.milehighmoney.com](http://www.milehighmoney.com)

**National Aircraft Finance Co.**  
[www.airloans.com](http://www.airloans.com)

**TransGlobal Aviation**  
[www.transglobalaviation.net](http://www.transglobalaviation.net)

## FINANCING A PANEL MAKEOVER

Continued from page 61

financing for a makeover — even if you still owe on a loan secured by the same airplane.

### What Can You Do?

Finance expert Al Lange currently serves as the Midwest vice president of Dorr Aviation Credit, an aircraft-finance specialty company and his latest stop in a long career in aircraft finance as an executive with some of the top aircraft-finance companies in the industry.

Fortunately for aircraft owners, Lange confirmed aircraft finance programs are plentiful and competitive.

Some financial institutions are affiliated with one membership organization or another, others as branches of local or regional banks, some as a unit of a larger finance business, with still others stand-alone aircraft-finance firms.

They all share one goal: to loan money for sound deals. And, in general, aircraft are sound deals — older aircraft, in particular.

Lange recommended most of the steps already mentioned as a prelude to shopping for financing before you start shopping for a vendor to perform the upgrade.

“First, from my perspective, I’d explore the finance options available,” Lange said. “If an avionics manufacturer offers a program where a person can buy and finance through them, that’s one option.

“The buyer needs to know what the interest rate is, the total costs of financing and the period of repayment.”

Then, there’s the personal-loan approach, he said.

“The owner could explore a personal loan with their banker

and not refinance the aircraft.”

Typically, according to Lange, the third option is the best option: Look for financing with the aircraft as security.

For owners who have loans now, Lange suggested they look at their existing loans, what they want to spend, then go shopping for the best terms. Some owners might find they qualify for an interest rate several points lower than their current notes, particularly if the note is more than five years old.

“Right now, interest rates on used aircraft are fully 2 points below where they were when companies started offering 20-year financing several years ago,” Lange said. “They’re even lower than what was available 10 years ago. Rates in the low-7s, high 6s are out there.

“Most of all, I strongly recommend the owner consult with aircraft-finance specialists.”

### Aircraft Finance Fundamentals

The finance deal most like buying an airplane is the one virtually every homeowner knows — the home mortgage. Financing an upgrade, to continue the analogy, is not unlike a home-equity loan.

“There are similarities to when you have equity in your home — you can borrow against that unencumbered value,” Lange said.

“The same is true of your airplane, whether for avionics, engine work or other stuff like paint or interior.”

If you have an aircraft with equity — or one that’s paid off — and you want to keep the plane and improve it, the lender will use the airplane as security for the loan. The avionics installation becomes part and parcel to that aircraft.

So, here’s Lange’s simple example:

If you had an aircraft worth \$300,000 and a balance of \$100,000, your equity is \$200,000. Most lenders today will not lend more than 80 or 90 percent of the value of the aircraft.

If you want to put in \$50,000 worth of avionics, it would not be an issue. More than likely, the lender would pay off the original note and write you a new one for \$150,000. It would be consolidated into one loan, rather than financed like a second mortgage.

The value of the airplane is going to appreciate after the work, so the value of the asset will be worth more as well. If the gear adds \$30,000 to the value, the airplane would be worth \$330,000 after the upgrade.

Using the 90-percent finance limit Lange cited, the owner could actually qualify for as much as \$297,000 in financing. After the new \$150,000 note, the owner still enjoys equity in the airplane worth \$147,000.

This example also applies to lower-value airplanes with smaller notes — as long as there’s enough equity to cover the upgrade costs.

Say the airplane is worth \$75,000 and the note balance is \$20,000; you have \$55,000 in equity with which to work. Add \$25,000 in new gear and the value goes to \$100,000 — so, you can acquire financing worth up to \$90,000 based on the 90-percent standard.

If the cost of that upgrade hits \$30,000, including labor, you should have little trouble refinancing for \$50,000 — \$30,000 for the upgrade and \$20,000 to pay off the old note for an airplane worth double the amount financed.

You still have \$50,000 in equity

— and you still have your favorite plane with a much-improved panel.

**Avoidance Points:  
Missing Out on a Bad Deal**

Lange encouraged using the airplane as the finance security because of its advantages — best terms, best interest rates, best security.

Lange recommended against loans on an aircraft upgrade in which the lender holds a lien on that equipment separate from the aircraft.

“That lien can complicate selling the airplane as long as it exists,” he said. “The aircraft itself is your best security because it holds value and probably will appreciate during the life of the loan, increasing your equity further as you pay down the loan.”

Most aircraft-finance specialists are well equipped to help you assess the value of your aircraft and find terms superior to signature loans, in-house finance or, probably the worst option, the family or company credit card. But aircraft-finance specialists generally won't write a loan that doesn't use the aircraft itself as the security for that loan.

Remember, the market for aircraft finance business is healthy, extensive and highly competitive. You can start your search for the finance deal you want by visiting the website of the National Aircraft Finance Association.

NAFA members are specialists in aircraft finance of all stripes — and members adhere to an industry code of conduct governing how they deal with both customers and each other. NAFA's website is at [www.nafa.aero](http://www.nafa.aero).

Good luck and happy upgrading. ■