

What Every Lender Should Ask Before Approving Aircraft Financing

Whitepaper by David Fisher

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Executive Summary

Aircraft financing remains one of the most specialized areas of commercial lending. Unlike traditional equipment or real estate assets, aircraft values are influenced by technical condition, operational history, regulatory compliance, market demand, and maintenance forecasting. A lender's risk exposure can shift significantly depending on how thoroughly an aircraft and its ownership profile are evaluated before approval.

This whitepaper outlines the critical questions every lender should ask to accurately assess collateral strength, borrower credibility, and long-term residual value.

1. What Is the True Fair Market Value of the Aircraft?

Aircraft value varies widely based on model, total time, maintenance status, and current demand. Relying solely on price guides can create major exposure for lenders, as published values often lag real-time market conditions.

Lenders should ask:

- *Has the aircraft been appraised by a certified, ASA-accredited aircraft appraiser?*
- *Does the valuation reflect current retail transaction trends—not just book values?*
- *How does the aircraft's specification (engines, avionics, refurbishment) compare to others on the market?*

A formal appraisal provides defensible documentation for underwriting and protects against over-advancing.

2. Are the Logbooks Complete, Original, and Verifiable?

Aircraft logbooks are the single most important component of collateral quality. Missing, incomplete, or reconstructed logs can reduce value by 15–50%, depending on the aircraft type.

Key lender questions include:

- *Are all airframe, engine, and APU records present and original?*
- *Have any logs been lost or replaced? If so, what documentation supports reconstruction?*
- *Do the logs show a continuous and compliant maintenance history?*

Without complete records, resale and remarketing become considerably more difficult.

3. Is the Aircraft in Compliance With All Required Inspections and Airworthiness Directives?

Regulatory compliance directly affects both safety and value. Deferred maintenance or missed inspections can create six-figure liabilities.

Lenders should verify:

- *Is the aircraft current on all FAA-required inspections, ADs, and service bulletins?*
- *Are there upcoming major events—such as engine overhauls or landing gear replacements—that will significantly affect residual value?*
- *Have any discrepancies been deferred, and if so, why?*

A technically non-compliant aircraft is not finance-ready collateral.

4. What Is the Borrower's Operational Profile and Utilization Plan?

Utilization affects depreciation, maintenance reserves, and long-term value.

Critical questions:

- *Will the aircraft be used for Part 91 (private), Part 135 (charter), or corporate fleet operations?*
- *How many annual hours does the borrower expect to fly?*
- *Will the aircraft be hangared and professionally managed?*

Lenders should understand how the borrower's operational plan impacts both risk and maintenance requirements.

5. Are the Engines Covered by a Manufacturer or Third-Party Maintenance Program?

For many lenders, engines represent over 70% of total collateral value.

Lenders should determine:

- *Are the engines enrolled on a program such as JSSI, ESP, or TAP?*
- *Is the coverage "pro-rata," "full," or "life-limited parts inclusive"?*
- *Are payments current, and are transferability conditions understood?*

Unenrolled engines significantly increase risk, particularly near overhaul intervals.

6. Does the Aircraft Have Any Damage History?

Damage does not automatically disqualify an aircraft for financing, but it must be fully understood and documented.

Lenders should ask:

- *What was the nature of the incident—cosmetic, structural, or major repair?*
- *Was the repair completed at an OEM-authorized facility?*
- *Are all repair records complete, with engineering data included?*

Well-documented repairs may have minimal value impact; undocumented repairs can severely impair marketability.

7. How Liquid Is the Market for This Specific Make and Model?

Some aircraft resell within weeks; others may take years. Market liquidity affects exit strategy and risk.

Questions lenders should consider:

- *Is demand stable or declining?*
- *How many comparable aircraft are currently for sale?*
- *Are values trending upward, stable, or softening?*

An aircraft with limited resale activity may require tighter LTV ratios.

Conclusion

For lenders, aircraft financing can be highly profitable—but *only when due diligence is comprehensive and specialized*. By asking the right questions, reviewing independent appraisal data, and evaluating both technical and market risk, lenders can protect collateral, strengthen underwriting decisions, and support long-term portfolio performance.



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