

ANALYSIS OF FAA CONCLUSIONS REGARDING FINANCIAL IMPACT ON AVIATION INDUSTRY

FAA NPRM: Re-Registration and Renewal of Aircraft Registration

Presented to: Office of Management and Budget

Presented by*: Air Transport Association of America, Inc.
Aviation Working Group
Equipment Leasing & Finance Association
National Aircraft Resale Association
National Business Aviation Association
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*On behalf of a coalition of trade associations
and their constituents, including the ATA,
AWG, ELFA, AOPA, NATA and NARA, and
interested members of the aviation bar.

Executive Summary

- The FAA’s cost estimate for the proposed re-registration and renewal NPRM (Proposed Rule) is based only on owned, non-financed aircraft (about 14% of aircraft), not on owned and financed aircraft (about 86% of aircraft). The Proposed Rule will also have a substantial financial impact on:
 - finance companies serving the aviation industry (such as lenders and non-operator owners/lessors);
 - owners of financed aircraft; and
 - other interested parties (such as lessees, sublessees and trust companies).
- The impact of the Proposed Rule on financed aircraft is at least an additional \$318,501,684 above the FAA cost estimate over 20 years.
- The FAA “Error Rate” of 3% omits mistaken de-registrations of active aircraft.
- Not all costs can be quantified, but they can be enormous.

We respectfully request the OMB require the FAA to: re-evaluate the Proposed Rule’s financial impact on the entire aviation industry and issue a revised rule with a supplemental notice and comment period

Summary of FAA Estimates*

Current System

Status of Registry

- 342,833 aircraft on Civil Aviation Registry
 - 235,838 active aircraft
 - 103,834 inactive aircraft
- Breakdown of 235,838 aircraft
 - 219,400 General Aviation & Air Taxi Aircraft
 - 7,720 Air Carrier Aircraft
 - 5,462 Commuter Aircraft

Assumptions over 20 Year Period

- 901,697 Aircraft will be registered in the Normal Course of Business (NCB)
- \$4.51M Cost (excluding Triennial Reporting System costs)
- NCB includes
 - Newly built aircraft
 - Imported aircraft
 - Aircraft transferred to new owner
 - Restored/newly registered aircraft

* Based on Draft Regulatory Evaluation, Initial Regulatory Flexibility Determination, Trade Impact Assessment, and Unfunded Mandates Determination, Office of Aviation Policy and Plans, Operations Regulatory Analysis Branch, APO-310, dated September 2006, revised March 2007.

Summary of FAA Estimates*

Proposed Rule

Assumptions over 3 Year Period

- 249,100 aircraft will be processed by Registry
- 188,400 aircraft re-registered due to new requirements
- Additional 60,700 aircraft re-registered NCB
 - 50,700 existing aircraft
 - 10,000 new aircraft (assuming 3,350 average annual increase)

Assumptions over 20 Years

- *3 Year Renewal Period:*
 - NCB Registrations – 878,693 actions
 - New Reg & Ren – 1,289,786 actions
- *5 Year Renewal Period:*
 - NCB Registrations – 878,693 actions
 - New Reg & Ren – 691,000 actions
- *7 Year Renewal Period:*
 - NCB Registrations – 878,693 actions
 - New Reg & Ren – 457,400 actions

* Based on Draft Regulatory Evaluation, Initial Regulatory Flexibility Determination, Trade Impact Assessment, and Unfunded Mandates Determination, Office of Aviation Policy and Plans, Operations Regulatory Analysis Branch, APO-310, dated September 2006, revised March 2007.

Summary of FAA Estimates*

Proposed Rule – Costs for 3-Year Renewal

Estimated Costs

\$5 - registration/renewal cost

\$18.60/30 minutes - Cost to aircraft owner to complete registration/renewal forms (based on estimated value of air travel time as \$37.20/hour)

\$12.32 - Cost to FAA to Process Registrations

\$9.26 - Cost to FAA to Process Renewals

3 Year Renewal Period

- *NCB Registrations*
 - 878,693 actions x \$5 = \$4,393,467
- *New Reg & Ren* –
 - 1,289,786 actions x \$5 = \$6,448,929
- *Time Value to Aircraft Owner*
 - 1,289,786 actions x \$18.60 = \$23,990,016
- *FAA Processing Costs*
 - 1,289,786 actions x \$9.71 (blended rate for registrations and renewals) = \$12,519,857

TOTAL: \$47,352,269

* Based on Draft Regulatory Evaluation, Initial Regulatory Flexibility Determination, Trade Impact Assessment, and Unfunded Mandates Determination, Office of Aviation Policy and Plans, Operations Regulatory Analysis Branch, APO-310, dated September 2006, revised March 2007.

Cost Factors Not Considered by FAA

Finance Industry Costs:

- Approx. 86% of aircraft on Registry are financed through loan (68%) or lease (18%) financing*; resulting in liens or other interests in aircraft.
- Each party (owner, operator/lessee, financier, trustee, sublessee) will create redundant monitoring systems to ensure compliance with the Proposed Rule.
- Cost of coordination between aircraft owners, operators (if different) and finance companies on actual registration/renewal actions and the increase in Time Value Cost for Aircraft Owners to Complete Registration and Renewal Forms:
 - FAA estimates only cover a single aircraft owner with no financing – 30 minutes / \$18.60/aircraft/action – covering only 14% of aircraft (412,732 actions).
 - An estimated 68% of aircraft (877,054 actions) relate to aircraft subject to loans.*
 - Coordination between one owner/operator and one lender would require at least a full hour of aircraft owner time (\$37.20).
 - This increases costs for owner action by 100% over FAA estimates (877,054 x \$18.60= \$16,313,204); actual time required and resulting costs likely to be greater when multiple parties are also included in analysis.

*Assumptions: Based on informal anonymous survey of National Aircraft Resale Association members conducted April 2010.

Estimated Finance Company Costs: Initial Set Up/Support Costs*

STATIC SET UP COSTS FOR A SINGLE FINANCE COMPANY

- Project Team Engagement (including legal, risk, operations, finance functions) -- **\$225,000**
- IT System Adjustment to track registrations and renewals -- **\$50,000**
- Initial Communications Campaign -- **\$10,000**
- Call Center Staffing -- **\$20,000**
- Annual Communications -- **\$2,500**
- Monthly process review -- **\$5,000/yr.**

**TOTAL STATIC COSTS -- \$312,500/
finance company**

VARIABLE SET UP COSTS PER AIRCRAFT

- Validate Insurance Coverage -- **\$.66**
- Validate FAA Searches -- **\$58.19**
- Validate UCC Searches -- **\$133.19**
- External FAA counsel fees -- **\$144.16**

**TOTAL VARIABLE COSTS PER
AIRCRAFT -- \$336.20**

**\$336.20 x 249,100 (FAA estimate of
aircraft processed by Registry) =
\$83,747,420**

* Based on cost assumptions provided by experienced finance company.

Estimated Finance Company Costs: Processing Costs Per Aircraft

LEASES

Review internal records for current registration -- \$9.00
Validate address -- \$3.00
Notify customer -- \$20.00
Schedule/perform field audit -- \$158.00
Deliver registration to agent -- \$18.00
Agent & Courier fee to deliver registration to FAA -- \$40.00
Registration Fee -- \$5.00
Receive registration from FAA/update records -- \$18.00
Coordinate/effect registration swap with customer (incl. telephone calls/emails/travel) -- \$230.00
Receive old registration/update status -- \$18.00
Deliver old registration to Agent/FAA -- \$35.00
Confirm old registration returned to FAA/update records --\$9.00

**TOTAL \$563 (less \$5 reg. Fee) = \$558
unaccounted additional leasing
costs/aircraft**

LOANS

Notify customer -- \$11.00
Coordinate with customer -- \$72.00
Receive registration/update records -- \$18.00

**TOTAL \$101 unaccounted additional
lending costs/aircraft**

Alternative Estimated Costs For 3 Year Renewal Period

FAA ESTIMATE (slide 5): **\$47,352,269**

PLUS

FINANCE INDUSTRY ESTIMATE*

Initial Set Up and Support Costs (slide 7) **\$84,059,920****

- **\$312,500 static costs** + \$83,747,420 variable costs**

Additional cost to aircraft owners with financed aircraft (slide 6): **\$16,313,204**

Additional cost to Finance Companies for Loans (slide 8):

- $1,289,786 \times .68 = 877,054$ actions on loans **x \$101 = \$88,582,454**

Additional cost to Finance Companies for Leases (slide 8):

- $1,289,786 \times .18 = 232,161$ actions on leases **x \$558 = \$129,546,106**

TOTAL ESTIMATED COST **\$365,853,953**

**COSTS ARE AT LEAST \$318,501,684 MORE THAN
THE FAA ESTIMATE**

* Assumptions: 86% of aircraft on Registry are financed: 68% loans, 18 % leases

** Static costs are per finance company so estimate would be a multiple of this number.

FAA Cost Estimate Based On Incomplete “Error Rate” Analysis

- The FAA cost estimate includes a 3% “Error Rate” for inactive aircraft that would be mistakenly re-registered if the Proposed Rule were to become final.
- The FAA’s “Error Rate” did not include active aircraft inadvertently not re-registered.
- A valid “Error Rate” should include both:
 - aircraft inadvertently re-registered; and
 - aircraft inadvertently not re-registered.

The FAA cost estimate did not consider all of the significant and unquantifiable costs of the Proposed Rule

Significant, Unrecognized, Unquantifiable Costs to Financing Parties

The Proposed Rule would result in:

- Additional burden and cost to financing parties due to continual compliance monitoring during the life of a transaction (particularly owner/lessors who have no possession of the aircraft).
- Unpredictable adverse effects on liens held by financing parties if registration lapses (no predictable effect on commercial and bankruptcy law issues).
- Significant increase in the likelihood of civil and criminal penalties for inadvertent error resulting in loss of registration.
- Potential invalidation of insurance coverage resulting in inadequate collateral and liability protection for financing parties if inadvertent error results in operation of unregistered aircraft in violation of policy terms.
- Increased likelihood of expensive, protracted litigation to resolve inevitable disputes between financing parties, aircraft operators, insurers, governmental agencies and other impacted third parties.

**Significant and Unquantifiable Costs Could Jeopardize Interests of
Financiers and Investors in the Aviation Industry**

Conclusions

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