

STATEMENT OF HERBERT J. GUTH, DIRECTOR, OFFICE OF AVIATION ECONOMICS
FEDERAL AVIATION ADMINISTRATION, DEPARTMENT OF TRANSPORTATION
BEFORE THE AVIATION SUBCOMMITTEE OF THE SENATE COMMERCE COMMITTEE
REGARDING S. 2741 ON 12 APRIL 1972

Mr. Chairman and Members of the Committee:

I am Herbert J. Guth, Director of the Office of Aviation Economics, Federal Aviation Administration, Department of Transportation. I appreciate the opportunity to appear before this Committee today to discuss the aircraft loan guarantee program and to comment on S. 2741.

The Aircraft Loan Guarantee Program was established on September 7, 1957 by Public Law 85-307 and subsequently extended for five-year periods, in 1962 by Public Law 89-670 and 1967 by Public Law 90-568. It is currently administered by the Federal Aviation Administration of the Department of Transportation. The purpose of the program is to help qualifying air carriers obtain loans for the purchase of aircraft suitable for local, short-haul and certain other operations in circumstances where commercial lending sources are not available without a guarantee. Loans guaranteed for any one carrier may not exceed \$10 million. The program has never been funded in that no borrower has ever defaulted in payment.

Coverage under the current program is extended to air carriers holding a Civil Aeronautics Board certificate of public convenience and necessity for local and feeder service within the U. S. or within Puerto Rico, for operations wholly within Hawaii or Alaska, between Alaska and the forty-eight contiguous States, and between Florida and the British West Indies, or for metropolitan helicopter service.

A listing of all carriers eligible for loan guarantees under the program is presented in Exhibit A.

The bill under consideration today, S. 2741, would extend the program for an additional five years, increase from \$10,000,000 to \$30,000,000 the ceiling on loans extended to a single carrier, and authorize the Department to guarantee loans for refinancing aircraft purchases. The types of air carriers covered by the program would not be changed.

The Department supported extension of the program in the 1967 hearings. We were cognizant of the fact that when the program was first introduced, the need for the legislation was based on the proposition that the increased efficiency afforded by the purchase of new aircraft could or might reduce the subsidy payments which the local service and territorial airlines required. It was reasoned that their ability to continue the development of potential traffic would depend on the service they could offer the public. Since its enactment, the program has been implemented consistent with legislative intent and has been successful in providing a means whereby carriers could improve the quality of their equipment. During the approximately 14 1/2 years that the Aircraft Loan Guarantee Program has been in existence, a total of \$55,200,000 in loans have been made, and 90 percent of this amount has been guaranteed. A total of 81 aircraft have been financed under the program. A breakdown on the amount of each loan and the equipment purchased is presented in Exhibit B. Total guarantee fees

collected by the Government have amounted to \$547,524 as of March 31, 1972, which is estimated to have exceeded the cost of administering the program.

As a result of an increasing ability to obtain loans without a Government guarantee, there has been little use of the program by eligible air carriers since 1965 and no use of the program since the 1967 extension. For the five-year period ended 12/31/70, the flight equipment investment for the four groups of certificated carriers authorized by the Act increased 3.2 times, from \$228 million to \$734 million. Long term debt for the same period increased 4.3 times, from \$129 million to \$559 million. However, the only guaranteed loans made during this period were to Alaska Airlines for two Hercules airfreighters for use in charter operations in connection with the North Slope oil fields in Alaska. One loan is currently outstanding in the amount of approximately \$780,000 with a maturity date in March 1974.

The fleets of the nine local service carriers included only about 7 piston aircraft at the end of 1971. The other aircraft in the fleet as of that date were all turbine powered: 163 turbo-jets and 250 turbo-props, for a total of 420 active transport aircraft. There are few outstanding orders for new aircraft.

On the basis of these statistics, we see no reason to continue the aircraft loan guarantee program. Although the program has been of use in the past and has been effective for the purpose for which it was designed, its lack of use in the last five years indicates that further extension of the program is not necessary.

I would again like to thank the Committee for giving me the opportunity to appear here today. I would be happy to answer any questions the Committee may have.

AIRCRAFT LOAN GUARANTEE PROGRAM

DEPARTMENT OF TRANSPORTATION

CARRIERS ELIGIBLE FOR GUARANTEED LOANS (21)

Local Service Carriers (9)

1. Air West, Inc.
2. Allegheny Airlines, Inc.
3. Frontier Airlines, Inc.
4. Mohawk Airlines, Inc.
5. North Central Airlines, Inc.
6. Ozark Air Lines, Inc.
7. Piedmont Airlines, Inc.
8. Southern Airways, Inc.
9. Trans-Texas Airways, Inc.

Hawaiian Carriers (2)

1. Aloha Airlines, Inc.
2. Hawaiian Airlines, Inc.

Alaskan Carriers (5)

1. Alaska Airlines, Inc.
2. Kodiak Airlines, Inc.
3. Reeve Aleutian Airways, Inc.
4. Western Alaska Airlines, Inc.
5. Wien Consolidated Airlines, Inc.

Caribbean Area & Florida to British West Indies (1)

1. Caribbean Atlantic Airlines, Inc.

Metropolitan Helicopter Service (4)

1. Chicago Helicopter Airways, Inc. 1/
2. Los Angeles Airways, Inc.
3. New York Airways, Inc.
4. San Francisco & Oakland Helicopter Airlines, Inc.

1/ Scheduled services temporarily suspended

Schedule of Equipment Purchases
Authorized by Guaranteed Loans

<u>Carrier</u>	<u>Amount of Equipment Purchased</u>	<u>Amount of Loan 1/</u>	<u>Equipment 2/</u>
New York (1st loan)	\$2,053,342	\$1,000,000	5 V-44B Helicopters
Bonanza (1st loan)	4,805,003	4,324,500	6 F-27's
Piedmont	5,732,636	4,850,000	8 F-27's
Pacific (1st loan)	5,145,565	4,531,000	6 F-27's
North Central	2,600,000	2,340,000	5 CV-340's
Aloha (1st loan)	2,545,000	2,290,000	3 F-27's
Wein Alaska (1st loan)	1,450,300	1,305,270	2 F-27's
Frontier (1st loan)	2,500,000	2,250,000	5 CV-340's
Ozark (1st loan)	2,354,440	2,118,996	3 F-27's
Pacific (2nd loan)	620,000	469,000	3 M-404's
Aloha (2nd loan)	2,450,153	2,200,000	3 F-27's
Bonanza (2nd loan)	1,605,637	1,125,000	2 F-27's
Frontier (2nd loan)	1,000,000	900,000	2 CV-240's
Pacific Northern	4,701,248	4,125,455	1 B-720
Los Angeles	3,212,930	2,891,637	4 S-61 Helicopters
New York (2nd loan)	3,800,000	3,200,000	4 V-107 Helicopters
Ozark (2nd loan)	1,265,000	1,125,000	4 CV-240's
Mackey (1st loan)	920,000	820,000	2 DC-6's
Mackey (2nd loan)	1,050,000	900,000	4 DC-6's
Bonanza (3rd loan)	10,837,090	6,500,000	3 DC-9's
Wein Alaska (2nd loan)	444,000	399,600	4 PC-6A's (Porters)

Alaska Airlines, Inc. (1st loan)	3,145,360	2,830,824	1 Lockheed Hercules 382B
Alaska Airlines, Inc. (2nd loan)	3,003,149	2,702,834	1 Lockheed Hercules 382B
Total	<hr/> 67,240,853	<hr/> 55,199,116	

1/ Amount guaranteed is 90 percent of loan in all cases

2/ Includes spare parts in most cases