STATEMENT OF JOHN WESLER, ASSOCIATE ADMINISTRATOR FOR POLICY AND INTERNATIONAL AVIATION (ACTING), FEDERAL AVIATION ADMINISTRATION, BEFORE THE SENATE COMMERCE, SCIENCE AND TRANSPORTATION COMMITTEE, SUBCOMMITTEE ON AVIATION, CONCERNING THE AIRCRAFT LOAN GUARANTEE PROGRAM. FEBRUARY 12, 1981.

Mr. Chairman and Members of the Subcommittee:

I am pleased to have the opportunity to appear before you today on the subject of the Aircraft Loan Guarantee Program, particularly as it applies to commuter air carriers. The Subcommittee's interest in this area reflects not only the growing importance of the commuter industry but also a concern for continued viability of air service to small communities.

The first Aircraft Loan Guarantee Act was passed in 1957 to aid certain air carriers, primarily Local Service, Hawaiian and Alaskan carriers, in replacing old and uneconomical flight equipment. The law has been amended in certain respects over the past years; most recently by the Airline Deregulation Act of 1978 which reinstituted the program for five years and broadened its eligibility to include commuter carriers, intrastate carriers and charter carriers. The eligibility was expanded in recognition of the special financing needs of small air carriers and to promote the development of service to small communities. The Act also extended the maximum term of eligible loans from ten to fifteen years, and raised the maximum amount of guaranteed loans for any one carrier from $30 million to $100 million. Following the reinstitution of the program by the Deregulation Act, the maximum size of the loan guarantee program has been set by Congress at $100 million in FY-1979, and in FY-1980, $650 million. In FY-1981, the program commitment is limited to

$400 million. Out of these total program dollars, the Congress has identified amounts for which priority shall be given for commuter airlines serving smaller communities. The amounts identified with the commuters are $50 million in FY-1979, $150 million in FY-1980, and $100 million in FY-1981. These small carriers used $11 million in FY-1979, $40 million in FY-1980, and $5 million so far in FY-1981, a total of $56 million for 38 aircraft. I have attached a table to my prepared statement summarizing the history of the loan guarantee program since the passage of the Airline Deregulation Act of 1978.

I also have attached one other list to my prepared statement which shows the names of commuter carriers with guaranteed loans, the amount of their loans, and the number and type of aircraft acquired. Further, there are 13 applications from commuter carriers currently in process totalling $60 million for 37 aircraft. Not all of these will necessarily be granted and some may be withdrawn.

The FAA follows a set procedure in evaluating each loan guarantee application, which includes sending a copy to the Civil Aeronautics Board for its review and recommendation. The CAB reviews the intended service with respect to service to small communities, the reasonableness of traffic and financial forecasts as well as the carrier's past history. Any significant findings are usually conveyed informally at the CAB/FAA staff level. Our initial review determines the completeness of the application and whether the applicant is in a category eligible for a guaranteed loan. If questions arise, we contact the carrier for clarification or request additional information. The analytical or evaluation process covers a number of specific areas. Our primary focus

is on the statutory requirements which include determining that the carrier's earning power gives reasonable assurance of the applicant's ability to repay the loan, that the value of the security gives reasonable protection to the Government, that without such a guarantee the carrier would be unable to obtain the necessary funds on reasonable terms, and that the aircraft to be purchased is needed to improve the service and efficiency of operation. The FAA has developed and published a set of regulations in Part 199 of Title 14 of the Code of Federal Regulations for applicants to follow in submitting information to aid in these determinations.

Let me describe briefly the kinds of analyses we undertake. For one thing, we assess the quality of the key management officials of the applicant carrier; their background and experience. We examine past financial statements and the carrier's operating history as well as the reasonableness of the assumptions and forecasts of traffic, operations, and financial results. Various financial tests and ratios are also determined such as debt/equity ratio and debt coverage. The suitability and proposed use of the aircraft are likewise assessed along with the age, condition, and future marketability of the aircraft to be acquired.

Given the qualitative nature of the decision-making process involved, we do not have a company profile which must be met in making the decision to approve or disapprove an application. Nor do we know any financial institution that has such an absolute profile. In the final analysis, the decision is made after careful consideration of all the factors involved and whether or not we believe the best interests of all parties will be served, including service to the traveling public.

We do not arbitrarily preclude new carriers with little or no past operating experience from consideration. However, we are not only mandated by law to assure reasonable protection of the Government's obligation, which is often satisfied by the nature of the collateral, but also to determine whether there is reasonable assurance of the applicant's ability and intention to repay the loan as well as his ability to continue in operation. According to Section 42(d) of the Deregulation Act, these latter findings must be made specifically for commuter and intrastate carriers. Because of these requirements a new, inexperienced operator must necessarily receive very close scrutiny.

Many applicants have informal discussions with the FAA staff about program details before submitting a formal application. If, for example, we discover during these discussions that for a start-up operation the key personnel have limited air carrier operating experience or acquaintance with business practices, we would probably suggest that it would be advisable for the applicant to consider and operate under a short-term aircraft lease arrangement to gain experience that could be evaluated at a later date.

We are often asked how long it will take to process a loan guarantee application once it has been filed. Unfortunately, there is no single or simple answer we can give. Processing time may be delayed while applications already on hand are processed. Further, no two applications are ever alike. Some are very complex consisting of many aircraft for use over extensive route systems. Others are for single aircraft for service among only a few cities. Some applications are

filed with complete and extensive documentation, while others require us to go back to the carrier for additional information. The time from filing to execution of a loan averages between five to six months, although some applications have taken as long as ten months. The elapsed time required to process an application through to execution is dependent on a number of factors and involve different groups of people. For example, the quality of the application furnished by the applicant, its complexity, the time required for the applicant to furnish additional information required by the FAA, the processing time required by the lending institution, and the preparation, and review of the loan documents by the FAA. Some financial institutions have slightly shorter processing times, but they also experience a wide range in time between filing and execution of a loan application for many of these same reasons. There have been occasions when it was physically impossible, despite our best efforts, for us to meet an applicant's unrealistic time request of a week or two. In those cases, the carriers were forced to make other arrangements such as leasing the aircraft.

I think it's significant that since the start of the program in 1957 there has never been a default on an aircraft loan guarantee that we have issued, although there have been cases where an operation did not prove successful and the aircraft was sold thus terminating the loan and the guarantee. I also want to mention that the guarantee fee of one-quarter of one percent, which the lending institutions pay to the Government, has

more than offset the program costs. In fact, we have estimated that, to date, the General Fund of the Government has gained by $1.7 million from this program over and above the administrative costs. Of course, this gain in the General Fund would be reduced in the event of any default which might occur.

Mr. Chairman, that completes my prepared statement. I would be pleased to respond to questions you may have at this time.