Financial Markets, Lessors and Impacts on Aerospace Finance

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CIT Commercial Segments

Corporate Finance
Provides lending, leasing and other financial and advisory services to middle market companies, with a focus on specific industries, including healthcare, financial sponsors, energy, communications, media and entertainment.

Trade Finance
Provides factoring, lending, credit protection, receivables management and other trade finance services to companies that sell into retail channels of distribution.

Transportation Finance
Provides lending, leasing, and advisory services to the transportation industry, principally aerospace and rail.

Vendor Finance
Provides innovative customer financing and leasing solutions that support global, regional and local manufacturers and distributors in technology, office products, diversified industries, telecommunications and healthcare.
## CIT Transportation Finance Overview

### CIT Transportation Finance

*$12.4BN Managed Assets*

### CIT Aerospace

- **Commercial Airlines**
  - $7.5BN Portfolio
  - 320 Aircraft
  - 106 Customers
  - 58 Countries
  - 85 new aircraft on order
  - Offices in New York, Ft. Lauderdale, Los Angeles, Dublin and Singapore

- **Business Aircraft**
  - $600MM Portfolio
  - 276 Aircraft
  - 155 Customers
  - 13 Countries
  - Products:
    - Loans
    - Leases
    - Fractional Share Financing

- **Financial Institutions Group**
  - Third Party Transactions
    - Debt
    - Sale Leaseback
    - EETC
    - Aircraft Sales

### CIT Rail

- **CIT Rail**
  - $6.2BN Managed Assets
  - 116,000 Railcars
  - 541 Locomotives
  - ~500 Customers
  - Lease to class 1 railroads, large shipper and short line railroads
  - Located in Chicago, IL
  - Lessees in US, Canada and Mexico
  - Average fleet age 10 years vs. 19 year industry average

### CIT Transportation Leveraged Finance

- $428MM managed assets
- Aero & Defense: $357 MM to 21 Customers
- Marine: $71 MM to 7 customers
- Specific industry expertise applied to corporate finance transactions in Aerospace, Defense and Government Contracting.
- Offices in New York, Connecticut, Los Angeles, Chicago,
Today’s Agenda

• This Time in 2008 and 2009 (What a Long Way We Have Come)…
• Sources Of Aircraft Financing
• Aircraft Supply and Demand
• Outlook and Predictions
A brutal week ended with President Bush signing the historic $700 billion bailout plan after weeks of contentious debate.

Credit markets remained frozen, despite the vote, with two measures of bank jitters rising to record highs. The 3-month Libor - the rate banks charge each other to borrow for three months - rose to 4.33%, the highest level since January 2008. The difference between the 3-month Libor and the Overnight Index Swaps rallied to an all-time high of 2.86%.

The Dow Jones industrial average lost 7.3% for the week. On a point basis, the Dow lost 818 points, its biggest weekly point loss in seven years and the third biggest weekly loss ever.

Also around this time in 2008...

Wachovia was purchased by Wells Fargo
Lehman Brothers filed for Bankruptcy
The US government bailed out AIG, Fannie Mae and Freddie Mac and started the TARP program
Merrill Lynch was sold to Bank Of America
Goldman Sachs and Morgan Stanley converted to Bank Holding Companies
This Time in 2009…

Financial markets had stabilized but were still fragile. The 3-month Libor - the rate banks charge each other to borrow for three months – had dropped to .284% as Central Banks around the world had reduced rates to near zero to stimulate the global economy and bolstered banks through equity infusions and other extraordinary measures.

CIT started discussing debt for equity swaps the ultimately led to the Nov 1, 2009 pre-packaged bankruptcy filing from which it emerged in 38 days. This was one of the fastest trips through bankruptcy ever, and an unprecedented restructuring of a financial firm of the $70B scale of CIT.

Equity markets had staged a huge recovery from the March 2009 lows, but were still lower than Oct 2008.

...There were still concerns about the economy, and financing availability for aircraft orders, but there was progress
Financing Sources for New Deliveries

- Operating Leasing / Sale Leaseback: Some new entrants placing orders and buying aircraft – Notably ALC, by Steven Udvar Hazy of ILFC fame
- Bank Debt secured by specific aircraft: Generally available for new deliveries but still selective on credits and asset type
- Unsecured Financing: Some lessors able to borrow unsecured, but at a very high rate
- Airline Cash or General Bank Facility: Few Airlines Are Cash Rich due to losses during the trough
- Export Credit Agency Financing: Grew Rapidly To Fill Any Funding Gap in 2008 and 2009, still a major source of financing
- Capital Markets transactions (structured debt like EETC’s): Some completed in 2009, But Expensive relative to historical spreads over treasuries
- Manufacturer Financing: Always the last resort, they were able to avoid having to incur increased debt loads as the export credit agencies filled most of the gaps
Operating Leasing

- 100% financing of acquisition cost
- Currently finances 1/3 of the world fleet
- Modern aircraft types still in demand, though traffic slowdowns of 2008 and 2009 caused oversupply of seats globally that will take more time to fully absorb
- A380 and 787 delays are prolonged a shortage of new widebody lift, helping A330 Demand
- A fleet with staggered lease expiries gives airlines the ability to add or reduce to meet demand
- New orders from lessors have returned, but with some new entries and some notable names still on the sidelines
- M&A activity increased, but more about portfolio sales than the large scale enterprise sales many had expected
Most Financing Markets Have Returned To “Normal” Function

- Government Guaranteed / Backed Lending Has Very Low Interest Rates:
  - Treasury bonds (Is More Quantitative Easing Coming?)
  - Bank Deposits
  - Agency Backed Mortgages (Fannie Mae / Freddie Mac Conforming)
  - Export Credit Backed Aircraft Finance
  - Interbank Lending (LIBOR)

- Capital Markets are Generally Strong
  - Corporate bonds attracting high demand

- Some Financing Availability / Rates Remain Challenging:
  - Small / Medium Business Finance
  - Used Aircraft Financing
  - Aircraft Asset Backed Securitization
Aircraft Backed Bond Yields Have Returned To Pre-Crisis Levels

2009 EETC issuances have traded well. AMR, CAL, DAL and UAL bonds issued in 2009 all trading at ~110-115, yielding 5.5-7%, down from issue coupons of 10.3%, 9%, 7.75% and 10.4% for the senior parts respectively.

The spread between these bonds and treasuries is still among the widest of bonds carrying the same Moody’s or S&P ratings.
Airline Traffic Growth Has Returned

<table>
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<th>YTD Sep 2010 vs. YTD 2009</th>
<th>RPK Growth</th>
<th>ASK Growth</th>
<th>PLF</th>
<th>FTK Growth</th>
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<tbody>
<tr>
<td>Africa</td>
<td>13.1%</td>
<td>9.2%</td>
<td>68.3</td>
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<tr>
<td>Asia/Pacific</td>
<td>10.6%</td>
<td>1.6%</td>
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<td>4.6%</td>
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<td>44.3%</td>
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<td>Middle East</td>
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<td>13.2%</td>
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<td>North America</td>
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<td>1.0%</td>
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<tr>
<td>Industry</td>
<td>8.1%</td>
<td>2.5%</td>
<td>78.0</td>
<td>27.5%</td>
</tr>
</tbody>
</table>

Source: IATA

Following The Historical Recovery Pattern
Supply and Demand Outlook

Equilibrium level for values

Production Held Up In This Traffic / Economic Downturn
Aircraft Manufacturing Outlook

• OEM Production rates being increased (especially A320/737 size), as backlogs did not materially shrink during the downturn.
  – Traffic growth eating into near term oversupply
  – Ongoing debate about re-engining and implications on values and next technology

• Key broad OEM sector trends:
  – Increased international deliveries (China, India and Middle East).
  – Fuel economy benefits driving replacements.
  – Significant pent-up demand for new aircraft in the U.S. for replacement.

• Trend toward widebodies will help materials demand for the near-term forecast period.
  – Widebodies require 3x the material content of narrowbody aircraft.
  – Maintenance requirements are more significant as well given the high utilization of widebody aircraft.
Outlook / Predictions From Last Year- Accurate?

- Traffic Growth will Begin in 2010, and accelerate through 2011
- Orders will remain slow until surplus is absorbed and airline profits return
- Financing markets will continue recovery, and quality assets will still find attractive financing
- Energy prices, environmental concerns and infrastructure constraints will hold traffic growth rates in the next 10 years to less than the past 10 years
- Private capital will come to the lessor sector through M&A
- Financing Issues / “Funding Gap”, will continue to be hot topics through 2010
Outlook (2010 views)

- Traffic Growth will need real GDP growth to continue rate of increase (Most of the benefit of releasing restrained demand already arrived in 2010)
- Orders will remain near or just above delivery rates as there are already significant backlogs, and narrowbody demand will be impacted by re-engine uncertainty
- Financing markets will continue recovery, and quality assets will still find attractive financing, used aircraft trading will find funding
- Energy prices, environmental concerns and infrastructure constraints will hold traffic growth rates in the next 10 years to less than the past 10 years
- Financing Issues / “Funding Gap”, will NOT continue to be a hot topic as a constraint to deliveries