FINAL TRANSCRIPT

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PRESENTATION

Operator

Good morning, my name is Crystal and I will be your conference operator today. At this time I would like to welcome everyone to the AerCap quarterly earnings conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer session.

(OPERATOR INSTRUCTIONS)

Thank you. Mr. Wortel, you may begin your conference.

Peter Wortel - *AerCap Holdings - IR*

Thank you very much. Good morning, everyone. With me today are Klaus Heinemann, the CEO, and Keith Helming, the CFO. Before we begin, as always, I want to remind you that some statements made during this conference call that are not historical facts may be forward-looking statements. Forward-looking statements involve risks and uncertainties that may cause actual results or events to differ materially from those expressed or implied in such statements.

In addition, this conference call contains time sensitive information that reflects management's best judgment only as of the date of the live call. AerCap does not undertake any ongoing obligation, other than that imposed by law, to publicly update or revise any forward-looking statements to reflect future events, information or circumstances that arise after this call.

Further information concerning issues that could materially affect performance related to forward-looking statements can be found in AerCap's earnings release dated August 7, 2008. A copy of the earnings release and conference call presentation are available on our website at www.aercap.com. This call is open to the public and is being webcast simultaneously at aercap.com and will be archived for replay. I'll now turn the call over to Klaus Heinemann.

Klaus Heinemann - *AerCap Holdings - CEO*

Thanks very much, Peter, and good morning to everybody and welcome to the second quarter 2008 earnings call. I'm very happy to report that despite the state of the industry, AerCap has managed to virtually double, both on an adjusted and unadjusted basis, the earnings from the same quarter last year, which I believe is quite an achievement for AerCap and its franchise.

The success has come despite the weakness that we are seeing in the global aviation industry, driven by rising fuel costs and obviously by follow-on slower economic growth in many economies. However, one of the many recent misconceptions about the industry that I've seen is that demand has fallen on a global basis dramatically across all areas, which it has not.

Passenger traffic growth in May was approximately 9%, for example, in Latin America, 6% for all international travel and 5% for both Europe and Asia. The statistics on a year-to-date basis are also compatible to this type of growth pattern. So what we are observing here is clearly a slowdown of growth, but not negative growth.

Two of the largest European LCC carriers, Easyjet and Ryanair, in the month of June both reported substantial increase in their traveler numbers. In the case of Ryanair, that number was a 19% year-over-year increase. Of course we also observed reductions in specific segments of the market, in particular in the domestic U.S. market. But the global picture remains one, as we have anticipated, of reduction and growth, not negative growth. That is the picture to date.

Obviously also the high fuel costs, whether based on $120 or $150 a barrel, make it clear that new fuel efficient aircraft are more in demand than they have been and that the necessity to cap capacity in markets where that is necessary will mostly take place by retiring older generation aircraft from the global passenger and cargo fleets.

The announcements we've seen to date confirm that assumption, almost without exception, if you look in particular at the U.S. capacity cap announcements which are focused on the MD-80 fleet and on the 737 Classic fleet. However, there are required market adjustments that will have to complete over the coming months before we do see a more rational approach again towards re-fleeting and capacity adjustments among carriers as they come along.

This will continue to cause pockets of issues. It will also importantly create potentially opportunity for aircraft lessors like AerCap opportunistic distressed investments. Our recent TUI Travel PLC portfolio purchase is an example of that. That is while there is threat in the market, there are also opportunities that otherwise would not exist.

It is also important to understand that aircraft lessors like manufacturers of aircraft and engines operate very differently from airlines. Generally lessors like manufacturers benefit from long-term contracts and the related cash flows and earnings to it. These contracts generate cash flows that are predictable and that are stable.

For AerCap the risk mitigant and protection inherent in our portfolio are unique. Our portfolio new and used has been purchased at a significant discount to current market values. This provides AerCap with a very strong lease yield and also contributes to solid gains that we've achieved on aircraft sales. Perhaps more importantly, this serves as a form of protection where aircraft values decline. Our portfolio consists largely of the efficient A320 and A330 aircraft and as well in a growing number, the 737-800, which is the Boeing counterpart of state-of-the-art fuel efficiency in the main market.

Now I would want to refer at this stage very briefly to an impairment charge of round about $7 million that you won't find in the P&L. And we did not bother to show this as an exceptional item because we do believe that these impairment charges, as long as they're associated with the type of aircraft where we anticipate them and as long as they do not have a material impact on the earnings, which they do not, do not deserve to be treated as anything else but day-to-day operations of a company like ours.

These charges relate to the disposal of four MD-80 aircraft that have come out of our remaining portfolio of lease from American Airlines, and two engines that come off the disposal of our last A340 aircraft that we had in our fleet, i.e. these impairment charges are associated with the portfolio part that is a minor part of AerCap's portfolio and where we do anticipate strains.

Before the question arises, we have some additional MD-80 aircraft left in the portfolio. All of these aircraft are with American Airlines on leases that stretch to 2012, with the cash flows from the contract exceeding the net book value of these aircraft. So from the perspective of demand and marketing, we continue to see what we anticipate and that is further weakening in the older inefficient aircraft market and continuing demand for the state-of-the-art fuel efficient aircraft.

I'm very pleased to confirm that AerCap has achieved not only the release but also the delivery of our Skybus aircraft that were involved in the Skybus bankruptcy. There were six of them all together. The last two aircraft are being delivered as we speak and will be back in revenue service this Saturday.

We're very proud of that because these aircraft were repossessed about a month after the Aloha repossession that was subject to one of our competitors. And it shows you the efficiency of our machinery, how quickly we can get them back into revenue service.

Because as you may have learned in a competing earnings call, there is a difference between releasing and delivering and actually earning revenues again. Our aircraft are delivered, they're earning revenues again, despite the fact that we repossessed about four weeks later. So it shows you that our machinery works as anticipated.

We had another strong operating performance during the second quarter 2008. AerCap executed 49 new aircraft lease agreements or letters of intent, delivered six aircraft and 14 engines to lessees, purchased 24 aircraft and 14 engines and sold ten mostly older aircraft and two engines. The number of aircraft in our owned and still to be delivered portfolio is now at 314.

With regard to the replacement of our A320 and A330 forward orders, we continue to make significant progress, as anticipated, for the first half of 2008. At the end of 2007 we had 57 committed orders for the 100 aircraft of the forward order. The remaining 43 aircraft were already delivered or sold, or were at a future deliveries subject to a lease agreement or LOI or was an option available to us.

After the first six months of 2008, the number of available aircraft has been reduced to 20, which means that 80 of our forward order aircraft are no longer speculative. And those 20 aircraft, all of them are late 2010, 2011 and 2012. So we have made substantial progress in taking risk out of our forward order.

And lastly, although Keith will provide the details, I must mention our successful capital raising results for the quarter. As you would have seen, we were able to raise nearly $2 billion of new capital in the second quarter alone. This is the largest amount of financing ever raised by AerCap in a single quarter. Keith will now take you through the details of our financial and operating performance.

Keith Helming - *AerCap Holdings - CFO*

Thanks, Klaus. Good morning, everyone. Let me take you through the highlights of our second quarter 2008 financial performance. Our total net income for second quarter 2008 was $68.6 million. Our net income excluding the non-cash charges relating to the mark-to-market of our caps and share-based compensation was $58.2 million during this period.

The mark-to-market of our caps was positive and resulted in a gain this quarter because longer-term interest rates increased during the quarter. Total earnings per share were $0.81 in second quarter 2008, including all items. Earnings per share were $0.68 during this period, excluding the previously referenced charges. Again, the difference is largely driven by the gain recorded as a result of the positive mark-to-market on our caps.

The growth in our net spread was strong at the end of the second quarter 2008. Net spreads is the difference between basic lease rents and interest expense, excluding the non-cash charges that I mentioned before. Basic rents increased 2% in second quarter 2008 compared to the same period in 2007, while interest, excluding the adjustments, decreased by 32%. And at the same time, our debt balance actually grew by 20%.

This resulted in a net spread of $93 million in the second quarter as compared to $75 million last year in the same time period. This increase is driven by the 11% growth in our lease assets plus the benefit we received from using interest rate caps.

The longer-term trend for net spread is just as strong. The average amount of net spread per quarter in 2007 was $77 million. This amount grew to $86 million in first quarter 2008 and then $93 million in the second quarter. This growth in net spread is reflective of the growth in our leasing income and is expected to continue to grow. We expect the average amount of net spread per quarter in 2008 to be approximately $95 million, which is an increase of 23% over the 2007 quarterly average.

Total revenue in the second quarter of 2008 was $333 million, an increase of 35% as compared to second quarter 2007. Basic rents increased slightly, as previously mentioned, but the increase in total revenue was largely driven by higher amounts of sales revenue in the second quarter 2008 versus the same period in 2007.

Total sale revenue in the second quarter 2008 was $180 million. This sale revenue related to aircraft was $151 million and engine and part sales totaled $30 million for the quarter. During the second quarter, we sold ten old aircraft, one Fokker 100 an MD-82, an MD-83, 737-300, an A321 and four older A320s. The gain from the sale of the aircraft in the second quarter was $32 million compared to $18 million in the second quarter of 2007.

AerCap's leasing expenses and SG&A for the second quarter 2008 was $47 million compared to $42 million in second quarter 2007. These amounts exclude the cost for share-based compensation. Over $2 million of the increase was a result of higher Euro/U.S. dollar exchange rates. And the remaining increase in SG&A in second quarter 2008 was largely due to the growing portfolio plus other costs necessary for a public company.

Our blended tax rate for the first half of 2008 was 8.7%. The tax rate for our aircraft assets was 7.6% and the tax rate was approximately 27.5% for our engines and parts assets. We expect the blended tax rate for the full year 2008 to be approximately 9% to 10%.

AerCap's total assets have grown 18% as of second quarter 2008 as compared to second quarter 2007. Total assets on the balance sheet are now $5.2 billion at the end of the second quarter and the number of aircraft in our portfolio is 314, which includes the owned aircraft and managed aircraft, as well as the aircraft on order, under contract or subject to LOI.

And the decrease in units that you see since the end of the second quarter 2007 is largely driven by the sales of the much older aircraft, including our managed aircraft. The total number of engines owned or under contract was 76 at the end of second quarter 2008.

We have $1.3 billion of committed purchases of aviation assets for the full year 2008, of which $933 million closed in the first half 2008. The number of aircraft purchases for the full year is expected to be 51, including the purchase and lease back of the 19 aircraft portfolio from TUI Travel.

The utilization rate was 97.6% in the second quarter 2008, down slightly from prior period because of the Skybus bankruptcy, but still at a very, very high level. The yield generated by our aircraft lease portfolio was 17.4% in first half 2008 and the average term of new aircraft leases entered into during the second quarter 2008, inclusive of letters of intent, was 121 months. And the average term entered into during second quarter 2008 of our existing portfolio was 64 months.

The net book value of our leasing assets plus the purchase price of our forward orders totals $5.7 billion and this is our cost basis. This amount is approximately $1.6 billion below current market values, based on external appraisers as of March 31st.

95% of our portfolio consists of A320 family aircraft, A330s and 737 new gens. Within this group of aircraft, only 12% is greater than eight years of age.

The difference in our net book value and the price paid versus the appraiser values of these aircraft is 23% of the appraiser value. As Klaus mentioned previously, this percentage can be viewed as protection against Boeing aircraft values and represents the amount values would have to fall before matching our cost basis.

1.5% of our portfolio values is in 757s, 767s and one A300. Our cost basis in these assets is $80 million and the percentage difference versus appraiser values is 38%. 3.5% of our portfolio values is in 737 Classics plus all other remaining aircraft. And our cost basis in these assets is $200 million and the percentage difference versus appraiser values is 23%.

As Klaus mentioned, in the second quarter of 2008 we incurred a $7.7 million charge for impairments primarily on the four MD-80 aircraft and two A340 engines. These charges were the result of accelerating our disposal program of the older, less fuel efficient aircraft. Although we're not immune to impairment charges, the distribution, the cost basis and the makeup of our portfolio significantly limits the amount of exposure.

At the end of the second quarter 2008, AerCap's debt balance was $3.6 billion and our debt to equity ratio was 3.3 to 1. Our book equity amount is nearly $1.1 billion. And the average cost of debt in the second quarter 2008 was 4.1%. And as you can see, over the past 12 months, our funding costs have decreased by 260 basis points across our entire portfolio. Again, this decrease in cost of funding is reflective of the decrease in interest rates and the use of interest rate caps for hedging purposes.

AerCap's cash balance at the end of the second quarter 2008 was $176 million, excluding the restricted cash. Operating cash flows were $86 million for the second quarter of 2008. During the second quarter of 2008, we closed nearly $2 billion of new financing transactions. These deals included a 30-aircraft $1 billion securitization plus almost $500 million of new debt relating to the 19-aircraft portfolio purchase from TUI Travel.

We also closed over $300 million of pre-delivery payment financing relating to our A320 and A330 forward orders and $100 million engine lease facility. Including these new financings, the available lines of credit aggregate approximately $3 billion, which includes the revolving lines of credit, funding from the ECAs and also financings for pre-delivery payments on our order book.

You've already seen the press release regarding the securitization we closed during the second quarter. We'd like to highlight some of the key features of the deal. This transaction provides financing for 30 A320 family aircraft delivering in 2008 through 2010. Class A1 and A2 floating rate notes were issued, which provide for a commitment to fund the aircraft at the time of their future delivery.

This was an unwrapped deal and was rated A1/A+ by Moody's and S&P. The spread in the deal was LIBOR plus 185 basis points and the advance rate was 74% based on current market values, but was much higher based on actual purchase price of the aircraft.

The expected final payment date on the notes is 2020 and we retain the E note, which effectively represents the beneficial interest in the aircraft. And the assets will be fully consolidated in our financial statements. This deal provided access again to the capital markets for AerCap and we're pleased with all aspects of the transaction.

Okay, the update on the outlook for 2008 is as follows. Committed purchases of aviation assets for the full year 2008 are $1.3 billion. The growth in net spread from leasing is expected to increase 23%. We expect gains from aircraft sales in 2008 to be comparable with 2007, although the amount of sales revenue is now expected to be higher than 2007 due to the acceleration of sales of our remaining older aircraft.

And the amount of gains from the sale of aircraft in the second half of 2008 is expected to be approximately 80% of the amount in the first half of 2008, based on current sale targets. The average cost of debt in 2008 is now expected to be 4.5% or even lower. And the 2008 tax rate is expected to be 9% to 10%. Return on equity is still around a 20% level. All right, those are the financial highlights for second quarter, and I'll turn it back over to Klaus Heinemann.

Peter Wortel - *AerCap Holdings - IR*

Actually, Klaus just shortly, this is Peter Wortel. I noticed that in the beginning, the slides didn't seem to flip. We just heard that through the email. For anyone who missed some of the slides, the slides can be downloaded from our website. Klaus, please go ahead.

Klaus Heinemann - *AerCap Holdings - CEO*

Thanks, Peter and Keith. Well in summary, I think we can show you that under the circumstance of where the market is, this is quite an exceptional performance, and more importantly, there are no surprises in there. Stresses happen where we anticipate them. Gains happen where we anticipate them and, importantly, where we have repossession issues, we resolve them as anticipated. So the platform is working as it should, and the results show that. With that, I'd like to close the presentation and open the Q&A.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS)

Your first question comes from the line of Gary Liebowitz with Wachovia.

Gary Liebowitz - *Wachovia Securities - Analyst*

Hi.

Klaus Heinemann - *AerCap Holdings - CEO*

Hi, Gary.

Gary Liebowitz - *Wachovia Securities - Analyst*

Klaus, I was wondering, you wrote down the MD-80s because they were coming back from American Airlines. Did you do a complete portfolio analysis and impairment test? Or was it limited just to these specific assets?

Keith Helming - *AerCap Holdings - CFO*

Gary, we continuously do impairment tests every quarter, and the reason that these four MD-80s were written down was because we're actually selling these MD-80s as we speak. So these are -- the write-down was based on specific purchase price amounts that we knew we were going to generate. So that as well as the purchase price on A340 engines.

Gary Liebowitz - *Wachovia Securities - Analyst*

Were there any other assets or asset classes that were close to failing the impairment test? I'm thinking specifically of the 737 classics.

Keith Helming - *AerCap Holdings - CFO*

No. Based on the fact that these aircraft are on lease and have reasonable lease rates attached to them, these assets are not impaired. Now obviously, if there were defaults on some of these assets and we had to take these back, I mean, there could be then an impairment situation. But as long as these leases stay intact, we're accelerating the depreciation on the older assets and don't expect an impairment if the leases are paid through.

But again, as we tried to point out in one of the charts, 95% of our portfolio is in the aircraft that you'd like to see us have, and there's limited amounts of book value and cost basis in the older aircraft. So as I said, again, there -- we're not immune to impairments but, again, the exposure is limited.

Gary Liebowitz - *Wachovia Securities - Analyst*

Okay. And one other for you Keith. Back in April, you pointed to about $1 billion of financing that you still need to secure to meet your commitments for new aircraft. When does that have to get done, and when might we expect an announcement?

Keith Helming - *AerCap Holdings - CFO*

As you recall, I mean, the transactions that we were working on, obviously the TUI transaction was completed. The securitization was completed. We're very far down the process now with the ECAs on $1.3 billion of financing, and we'll start using that financing in fourth quarter with the delivery of our A330s and then probably with A320s in first quarter.

So as you mentioned, that's about $1 billion of remaining capital needs. We sold down seven slots in 2009, so the actual amount of capital that we'd need is actually less than $1 billion now. And to answer your direct question, most of that financing is needed in 2011.

Gary Liebowitz - *Wachovia Securities - Analyst*

Okay, thanks. I'll get back in the queue.

Keith Helming - *AerCap Holdings - CFO*

Okay.

Operator

Your next question comes from the line of Gary Chase with Lehman Brothers.

Gary Chase - *Lehman Brothers - Analyst*

Good morning, everybody.

Keith Helming - *AerCap Holdings - CFO*

Hey, Gary.

Klaus Heinemann - *AerCap Holdings - CEO*

Gary.

Gary Chase - *Lehman Brothers - Analyst*

You know, if I take a look at the slide that looks at the 100 aircraft that you've got on order, it looks like the activity level's stepping up. This quarter, you wrote 16 lease agreements and six LOIs. Is there a reason that the pace of activity seems to be really accelerating? And what can you tell us about the terms? You know, as you move through the agreements that were signed this quarter, how do they look relative to the ones that were signed last quarter and the quarter prior?

Klaus Heinemann - *AerCap Holdings - CEO*

Okay. Well first of all, you're correct. This acceleration is taking place, and it is a result of the extreme fuel spike having focused more airlines than before on the necessity to refleet, never mind that some of them may not wish to increase capacity. But in many, many cases, the refleeting is an absolute necessity for the capacity that they wish to retain, so this is clearly a result of that. And that's why I said, earlier in my prepared remarks, this is entirely as anticipated. The market screams out for fuel efficient aircraft, and this shows.

As far as the terms are concerned, you see that we are continuing to make progress with respect to the length of the fixation. On the rental levels, we don't see any further increases, but we don't see declines either, so they sit on a high plateau at the moment.

Gary Chase - *Lehman Brothers - Analyst*

Okay. And it seems like the conditions in the marketplace are deteriorating a little bit for the older aircraft, and you've said that a number of times. Why -- why then pick up the pace on the sales? Is that still an NP -- an NPV-positive decision? Is there still enough of a market where that makes sense? Or -- ?

Klaus Heinemann - *AerCap Holdings - CEO*

Yes. Well I think on the older aircraft, and the four MD-80s are a prime example, we firmly believe that these aircraft only will go in one direction, and therefore we have to bluntly stop your losses there. And this is why we dispose of them as soon as they come off lease without exception.

Gary Chase - *Lehman Brothers - Analyst*

Okay. And then last quarter, you referenced there were I think three or four airlines that were on -- you called it your watch list or something. Can you just update us on that?

Klaus Heinemann - *AerCap Holdings - CEO*

Yes. That situation remains similar. We have one other bankruptcy issue, Gemini, where two of our MD-11 freighters are. We're waiting next week for the 60-day period to expire, and then either there will be an assumption of the lease by Gemini, which is a possibility or alternative. We have pre-marketed these aircraft in other arenas. So we don't anticipate that that will cause us any pain, because the MD-11, unlike the DC-10 as a freighter, remains in very strong demand. And other than that, we have, from time to time, slowness in receivables, which we address with the parties but no other default situations.

Gary Chase - *Lehman Brothers - Analyst*

Okay. And then I apologize for this, Keith. I just missed when you said it. The aircraft sales are $151 million, and then it was a $32 million gain specific to the aircraft?

Keith Helming - *AerCap Holdings - CFO*

That's correct. That's right. It's on that chart.

Gary Chase - *Lehman Brothers - Analyst*

Okay, great. Thanks, guys.

Klaus Heinemann - *AerCap Holdings - CEO*

Yes.

Operator

(OPERATOR INSTRUCTIONS)

There are no further questions at this time.

Klaus Heinemann - *AerCap Holdings - CEO*

Okay. Well thank you very much, everybody. For those of you who attend their lunch, we'll see you later on at the St. Regis. Other than that, talk to you the next quarter.

Peter Wortel - *AerCap Holdings - IR*

Well actually --

Keith Helming - *AerCap Holdings - CFO*

One more --

Peter Wortel - *AerCap Holdings - IR*

There's one more question coming.

Klaus Heinemann - *AerCap Holdings - CEO*

Sorry?

Peter Wortel - *AerCap Holdings - IR*

There's a question coming.

Klaus Heinemann - *AerCap Holdings - CEO*

Okay.

Peter Wortel - *AerCap Holdings - IR*

Operator, can you put the next question up?

Operator

Yes, sir. Your next question comes from the line of John Stilmar with FRB Capital Markets.

John Stilmar - *Friedman, Billings, Ramsey & Co. - Analyst*

Hi, guys. I don't know what my problem with my phone here was previously. Can you talk a bit about pockets, or pockets of demand, for different types of aircraft? Obviously, the classics are the ones that are of most kind of what's called valuation concern.

Klaus Heinemann - *AerCap Holdings - CEO*

Yes.

John Stilmar - *Friedman, Billings, Ramsey & Co. - Analyst*

And given the exposure to your portfolio, or even the part of the portfolio that I think, Keith, you said that 12% of the narrow-body and sort of the modern aircraft was older than eight years. I would -- should we be thinking about those as classics? And then secondly, how should we be thinking about pockets of demand relative to market values, because, Klaus, I think you talked about those potentially being down as much as 30%?

Klaus Heinemann - *AerCap Holdings - CEO*

Yes, okay. First of all, no, age itself doesn't make a classic. If you look, for example, some of the older aircraft in our portfolio, the older A320s, an old A320 is only very marginally less fuel-efficient than a brand new A320. It is basically still state-of-the-art equipment, so it's distinctly different from a 737 classic.

It's even more distinctly different from an MD-80. So you're really talking about the MD-80s. You're talking about the classics. Within the classics itself, you will have to distinguish between the 300s, the 400s and the 500s. The 300s and the 500s, which are not our portfolio aircraft, are more impaired than the 400 aircraft.

And then you have to look at the location of the aircraft. An aircraft that is in the U.S. may be less attractive than an aircraft that operates already in the European arena for follow-on users, the reason for that being that there are certain technical modifications you have to make to the aircraft to make is licensable for flying in Europe, which are not worthwhile to invest it from a U.S.-bound aircraft, but that you don't have on the European aircraft.

We watch that very carefully, and the market is very differentiating between these three aircraft types, the 500, 300 and 400 and where they are coming from. But on the older A320s, we do not see any weakness in the market. Quite to the contrary, the announcement of the freighter conversion program, there is rising interest in it because is -- it is associated with a substantial life extension of the aircraft that will be commissioned and licensed by Airbus, which will increase the life expectation of this aircraft by around about ten years. So on the A320 side, it is not an issue, the same, by the way, is true for all the A330s.

John Stilmar - *Friedman, Billings, Ramsey & Co. - Analyst*

Okay, great. And in terms of --

Klaus Heinemann - *AerCap Holdings - CEO*

(inaudible - multiple speakers) confined to the classics and the MD-80s.

John Stilmar - *Friedman, Billings, Ramsey & Co. - Analyst*

Okay. And in terms of geographic, are you seeing any shifts in demand for some of those aircraft, but -- ?

Klaus Heinemann - *AerCap Holdings - CEO*

Yes. It's interesting if you look where our six Skybus aircraft went, none of them were placed back in the U.S. Two of them went to eastern Europe. Two of them went to the Middle East. One went to the Caribbean, and one went to north Africa. Interesting point here, all of them went to existing clients of ours.

You know, some of those that I talked to during the road show and in one-on-ones, I always said part of the franchise value is that it's easier, especially in difficult times, to place an aircraft with an existing client than with a client who doesn't know you. That holds entirely true in a situation like this, and it's possibly one of the reasons why we were so quick at putting them back into revenue services.

John Stilmar - *Friedman, Billings, Ramsey & Co. - Analyst*

Okay. And then the next question, can you talk a little bit more about your desire, especially at this point in time in the cycle, to start expanding your exposure to the cargo market?

Klaus Heinemann - *AerCap Holdings - CEO*

Yes. The cargo market shows an age profile of its fleet that makes the passenger market look young. Right? So there's a replacement need that is recognized by all parties as substantial. Where some people have issues is if the anticipated growth rate in this industry, the long-term growth rate, will be where, for example, Boeing in a recent research puts it, and that is in 5% above.

There are some people who are saying, well, that may be less, because some of that are complex issues of logistics [change] and globalization and are difficult to assess. Certainly on the medium-haul freighter, the A320, we believe that replacement alone, even if one assumes zero or even slightly negative growth, will provide ample opportunities for that freighter.

John Stilmar - *Friedman, Billings, Ramsey & Co. - Analyst*

Great. Thank you, guys, very much for my question.

Klaus Heinemann - *AerCap Holdings - CEO*

Sure.

Operator

Your next question comes from the line of Mark Streeter with JPMorgan.

Mark Streeter - *JPMorgan Chase & Co. - Analyst*

And Keith, just want to jump in here, I'm wondering if you could talk just a little bit about trends in the banking market? You've been very successful this year, year-to-date, in tapping into a variety of different banking institutions. But with the capital markets still effectively shut down, is -- are you sensing any trends?

We're hearing anecdotally that the European banks, the last couple months, are starting to pull back and pass on a lot of deals that they've been shown regarding aircrafts. And I'm wondering if you can comment on maybe what you're hearing in the marketplace, and also maybe give some comments on the export credit agencies and the available of the -- the availability of funding there going forward?

Keith Helming - *AerCap Holdings - CFO*

Yes, certainly. With -- obviously with our second quarter, you saw that we didn't really have any difficult time accessing financing, and a lot of the investment in the securitization has come from European banks, but also some Asian banks now have started putting some investment into the aviation industry. So we're seeing -- we're seeing a reasonably strong level of interest across the board.

Now the European banks have become much more selective in terms of who they're lending to and as to what types of assets they're lending against. So based on what is happening in the industry, that's how they've reacted. And of course, you saw the spreads have increased somewhat, and obviously advance rates have come down as well. But again, the pricing that we got on securitization and the advance rate that we got on securitization still is very attractive relative to the assets we're financing there, and we make a very strong return on equity with that level of financing.

Klaus Heinemann - *AerCap Holdings - CEO*

And Mark, if I might come in here, what you see on the European market, and we are continuously in very, very close touch with all of them, is a bifurcation. They continue to do business as usual with names that they're comfortable with. Names that they're comfortable with have to have three characteristics. First of all, it's preferably a banking relationship that dates back a little bit, i.e. there is -- there's a trust level and a knowledge level about the counter-party that is there.

The second one is it needs to be a company that needs to be extremely well capitalized, and the liquidity position needs to be without doubt. If that is there, the European banking market responds in the usual way and sometimes even reasonably aggressively. In all other situations, it's no longer let's put 20 basis points margin on it. It's much more frequently a -- if these three boxes are not ticked, the answer is simply no. And I think that is what we are seeing in the market, and that is why both stories are true, the story that you are seeing for some names that try to raise money in the markets and Keith's story.

Mark Streeter - *JPMorgan Chase & Co. - Analyst*

And can you just talk about export credit and any trends there, any developments in terms of regulations or anything that might impact the availability of funding there going forward?

Klaus Heinemann - *AerCap Holdings - CEO*

No. These markets are open. The guarantees are there. There is no regulatory change to it other than there is an adjustment to the fee scale, which may, under certain circumstances, be somewhat higher, the guaranty fee, than previously. But overall, it still provides for a significant submarket margin, even inclusive of increased guaranty fees.

Mark Streeter - *JPMorgan Chase & Co. - Analyst*

And then one last question, Klaus, and this one, I think, is for you. I think it's -- the folks at Ascend and Airclaims have said that peak to trough for even good aircraft, they anticipate that we could see a 20 percentish type decline, which seems a little bit bearish relative to what you're talking about. I'm just wondering if you want to address that view that they've put in writing?

Klaus Heinemann - *AerCap Holdings - CEO*

Well again, it's right and wrong. Could there be an across-the-board 20% decline, which is round about the number we saw post 9/11? Yes, but that decline will have a range that goes from 50%, 60% on older inefficient aircraft to zero on, like last time, for example, on the 737-800 NG. So the average for that perspective is, unfortunately, in a way, a meaningless number. It may be correct, but it's still meaningless.

Mark Streeter - *JPMorgan Chase & Co. - Analyst*

Yes. And I think what they're talking about is that they're -- the average is even more so, but that -- they've made some comments about even the best aircraft, even the next-gens and good A320s and 737s might see that type of peak to trough decline, which seems a little bit aggressive to me relative to what we've seen in the past, but I was just wondering if you had any comments on that specific view that they have?

Klaus Heinemann - *AerCap Holdings - CEO*

That depends on the situation, right? If you have a situation, Mark, where, for example, you suddenly need to place again an aircraft that you thought you had placed in 2009. You might see for that aircraft, you know, if you want to sell it a decline, because it is a distressed sale, even if it is a brand new aircraft, into a market where demand is limited to specific pockets.

That doesn't mean that your 2010 or 2011 delivery is coming under pressure, because that is a non-distressed placement. Quite to the contrary, if you look at the escalation, that is the inflation in the new purchase price of aircraft, that is increasing. It has gone up from around about 2% to around about 4% compound per annum. So aircraft new from the manufacturer are becoming more expensive. And as I said, if you see discounts to full-base value for modern, fuel-efficient aircraft, it is most probably caused by a distressed placement.

Mark Streeter - *JPMorgan Chase & Co. - Analyst*

Okay, that's helpful. Thanks for your comments.

Operator

(OPERATOR INSTRUCTIONS)

There are no further questions at this time.

Klaus Heinemann - *AerCap Holdings - CEO*

Okay, it looks this time we're done. Again, thank you very much for everybody -- for attending the earnings call. And for those of you who'll join us for lunch, we'll see you in a couple of hours. Thanks, everyone.

Operator

This concludes today's conference call. You may now disconnect.
