The Role of the Purchase Agreement in an Aircraft Appraisal

Why I Request and Analyze the Purchase Agreement in USPAP-Compliant Appraisals for Lending

Barnett Investment Group, Inc. • Aircraft Appraisal & Management

As part of any aircraft appraisal I perform, I request and review the purchase agreement for the aircraft whenever one exists and is available to me. Clients occasionally ask why this document is necessary, particularly regarding lending purposed when the loan file already contains a contract price. The purpose of this memorandum is to explain, in plain terms, why analysis of the purchase agreement is both sound appraisal practice and a requirement of the Uniform Standards of Professional Appraisal Practice (USPAP), and to make clear that reviewing the agreement in no way compromises the independence of my value opinion.

1. The Purchase Agreement Is Direct Evidence of Market Value

In a lending appraisal, the opinion being developed is ordinarily market value. The purchase agreement is one of the most direct pieces of market evidence available on the specific aircraft in question. Unlike comparable sales, which require adjustment and interpretation to fit the subject, a current, arm's-length purchase agreement reflects an actual meeting of a willing buyer and a willing seller on price and terms for the very asset being financed. Ignoring that evidence when it is available would disregard the most directly relevant data point in the assignment.

Reviewing the agreement also allows me to test whether the transaction is genuinely arm's-length and whether the stated price truly reflects market value. The document reveals the parties to the sale (and whether they are related), the terms of the transaction, what is and is not included in the sale, and any concessions that may distort the headline figure.

Common factors that can cause a contract price to diverge from market value include:

- Related-party or non-arm's-length transactions (for example, a sale between affiliated entities or a dealer transfer);
- Trade-in components, whereby another aircraft or asset forms part of the consideration;
- Seller financing, rebates, or other concessions that inflate or depress the nominal price;
- Items included in or excluded from the sale, such as engines enrolled on maintenance programs, avionics upgrades, spare parts, or aircraft records; and
- Timing differences between the contract date and the effective date of the appraisal that may affect condition or market conditions.

A lender extending credit against the aircraft needs to know whether the price it is financing is supported by the market or propped up by terms. That determination cannot be made without reading and analyzing the agreement itself.

2. USPAP Requires Analysis of the Agreement of Sale

Beyond being good practice, analysis of the purchase agreement is a requirement under USPAP. Because an aircraft is personal property, an appraisal of it is governed by STANDARD 7 (Personal Property Appraisal, Development) and STANDARD 8 (Personal Property Appraisal, Reporting). These standards are the personal-property counterparts to STANDARD 1 and STANDARD 2, which govern real property and contain the widely cited Standards Rule 1-5.

Standards Rule 7-5 is directly on point. It provides that, when the value opinion to be developed is market value, an appraiser must — if such information is available to the appraiser in the normal course of business — analyze all agreements of sale, options, and listings of the subject property current as of the effective date of the appraisal, and analyze all sales and other transfers of the subject property that occurred within the three years prior to the effective date. In other words, the current purchase agreement for the aircraft falls squarely within the information USPAP obligates me to analyze.

Standards Rule 8-2 carries this through to the report itself. It requires that a personal property appraisal report summarize the results of analyzing the subject sales, agreements of sale, options, and listings when, in accordance with Standards Rule 7-5, such analysis was necessary for credible assignment results and the information was available in the normal course of business. My workfile must therefore reflect that the agreement was obtained and considered.

The SCOPE OF WORK RULE reinforces both. It requires that the scope of work be sufficient to produce credible assignment results, and that an appraiser not allow assignment conditions or client preferences to limit the analysis to the point that the results are no longer credible. Where a purchase agreement exists and is available, a scope of work that excludes it from analysis would fall short of this standard.

Finally, the **RECORD KEEPING RULE** of the ETHICS RULE requires that my workfile contain the data and analysis supporting the assignment results. The purchase agreement, and my analysis of it, belong in that file. Its unexplained absence would be a vulnerability if the appraisal were later subject to review, audit, or litigation — precisely the circumstances in which lending appraisals tend to be scrutinized.

3. Reviewing the Agreement Does Not Dictate the Value

It is important to distinguish analyzing the purchase agreement from being bound by its price. My value opinion remains independent. The contract price is evidence to be weighed, reconciled against comparable sales and broader market data, and explained — it is not a figure I am obligated to match. Indeed, that independence is the point of the exercise: the lender wants to know whether the price it is financing is genuinely supported by the market.

Where my opinion of value and the contract price align, the lender receives independent confirmation that the price is well supported. Where they differ materially, my report explains why — whether because of a motivated or distressed seller, related parties, trade or financing concessions, differences in the aircraft's condition or equipment, or changes in the market between the contract date and the effective date. Either outcome strengthens the credibility of the appraisal and better protects the lender's collateral position.

4. Summary

Requesting the purchase agreement is not a formality. It is the analysis of the single most directly relevant piece of market evidence on the aircraft, it is required under USPAP Standards Rules 7-5 and 8-2, the SCOPE OF WORK RULE, and the RECORD KEEPING RULE, and it produces a more credible and better-supported appraisal. Providing the agreement at the outset of the engagement allows me to complete the assignment efficiently and to deliver a report that will withstand later review. My value opinion remains my own, independent, professional conclusion — the agreement simply ensures that conclusion is fully informed.

This memorandum is a general explanation of appraisal practice and USPAP principles prepared for client information. It is not legal advice. USPAP is revised periodically; rule citations herein should be confirmed against the edition of USPAP in effect as of the appraisal's effective date.