WINGS ALLIANCE

EXCELLENCE IN PILOT TRAINING

Raising the Finance

The cost of flight training is high; even though you will save a lot by training with the Wings Alliance as opposed to an integrated school[1]. This guide, based on the UK, will give you some suggestions about how to raise the finance if you don't have enough savings, or assets to sell to raise the money.

If you are not based in the UK, the rules and finance available in your country will be different. However, it is still worth you reading this guide as some of the principles will be the same wherever you are based.

To work or not to work? That is the question.

One of the advantages of studying via the modular route is that you have the opportunity to complete at least part of your training while still working. This can make a massive difference to the effective cost of training, as when you study full-time, you have to consider loss of income as well as training and subsistence costs. It is quite feasible to complete the bulk, if not all of your flight and theory training while working full-time (or maybe part-time).

Some student pilots have the ability to leave employment and become self-employed while training, which gives them extra flexibility and control over their own working hours.

When considering the best employment status for you, do consider its effect on your ability to raise finance (see the next section).

Whatever your situation, make sure that you budget for everything when planning your training; including loss of earning, living and travelling expenses.

First, how good a borrower are you?

- **Have a good credit rating.** You can sign-up with Experian or other credit agencies to get a free credit report (but cancel your subscription within 28 days to avoid being charged) and advice on how to improve your credit rating. The better your credit rating, the more likely you are to get a loan and the better the interest rate you will be offered.

- **Are in employment.** You will find it more challenging to raise finance if you are unemployed or self-employed at the time of application. Generally, once you have received the loan, your employment status becomes less important, as long as you can keep-up the repayments.

- **Are a homeowner.** Certain types of loan, such as mortgages and secured loans are unavailable if the applicant is not a homeowner. Perversely, it may be to your advantage if you have a mortgage rather than own the home outright.

- **Are not too young or too old**. Age will affect your ability to borrow, especially for lengthier loans such as mortgages. Many lenders will be reluctant to lend beyond the state pension age, but may lend for a reduced period. Lending is not normally available to under 18 year olds.

[1] Typically, training up to type rating with the Wings alliance will cost £45-55,000 whereas similar training with an integrated school will cost approximately £95.000.

Source of Finances 1
Professional and Career Development Loans

Professional and Career Development Loans are bank loans to pay for courses and training that help with your career or help get you into work. You may be able to borrow between £300 and £10,000. Loans are usually offered at a reduced interest rate and the government pays interest while you're studying.

How to apply

1. Find out which banks offer the loan and order an application pack by calling the National Careers Service on **0800 100 900** (find out about call charges) or request a call back.

2. Fill in the application form and send it to the bank.

3. The bank will decide if you qualify for a loan.

4. You take out the loan with the bank and agree to their repayment conditions.

You should apply at least 3 months before your course starts to give the bank enough time to process your application.
For more information visit **www.gov.uk/career-development-loans**

Source of Finances 2
Unsecured Personal Loans

An unsecured personal loan offering the you chance to borrow up to £25,000 over five years, for example, is a popular alternative to a homeowner loan. Not only does this option avoid putting your home at risk, it may also come with even lower interest rates – if you qualify for the market-leading deals and if you have a good credit rating. However, borrowing more than £20,000 or for more than five years is more difficult – and often more expensive – via an unsecured personal loan.

Peer-to-peer lenders, such as Zopa are a modern alternative to traditional borrowing from financial institutions and may offer higher amounts, longer periods and better interest rates. From the borrower's viewpoint there is not a lot of difference (except the online application process is simpler). The difference is that the source of funds is investors rather than the institution raising money on the money markets.

A good starting point when looking for unsecured finance is **moneysavingexpert.com**

Source of Finances 3
Mortgages

For larger sums (greater than £25,000) usually the best way to borrow is to take out or extend a mortgage. A mortgage is merely a loan secured by a 'first charge' on a property. A first charge means that in the event of a default, the lender has the first opportunity to recover its money by forcing a sale of the property. First, means ahead of the homeowner or any other lenders.

If you (or someone who is prepared to raise the finance for you) are a homeowner, in employment, with sufficient income, are not too old, have a good credit rating and have sufficient equity[2] in the property, you should find raising finance via a re-mortgage quite straightforward. If the homeowners do not meet all these criteria, all may not be lost; a specialist broker may be able to secure finance for you when a regular broker or a direct application to a lender may fail.

For straightforward application we recommend starting at **moneysavingexpert.com**. For more complex situations, contact us and we can put you in touch with a good specialist broker.

[2] Equity is the value of the property when all existing borrowing is subtracted.

Source of Finances 4

Credit Card Stoozing[3]

Do it right and credit cards are the cheapest way to borrow. You can get 0% for up to 27 months – and much longer if you 'stooze' yet get it wrong and you'll be stuck in debt paying high interest rates for years.

Warning: Stoozing is ONLY for those who are debt-free and financially savvy. If you're not, avoid it as mistakes can be costly. If you're looking for more than just 0% spending, or you've already got debts, then you should not really consider this option.

The way this works is to apply for one or more 0% interest credit cards. Many cards will allow you to spend at 0% and/or transfer debts from other cards. Usually the period in which you can transfer or spend is limited to the first few months. However, the 0% period can last for 2 or more years. Once the interest free spending/transfer period is over, stop spending on the card and enjoy a 0% loan until the 0% period is over. Usually, you will have to repay the minimum amount (typically 2% of the debit outstanding) each month, but this is repayment of the capital, not interest. Just before the 0% interest period expires, either repay the loan, or transfer it to another 0% credit card.

Sometimes there will be a fee for transferring other debts to the 0% card, but these are typically much lower charges than interest rates available on personal loans.

If you are not organised enough to make sure you clear the debt before the end of the 0% period, or you are concerned that you will not be in a position to clear the debt then, do not consider this option.

If you want to know more, read an excellent guide to credit card stoozing and information about the current best cards on **moneysavingexpert.com**

Source of Finances 5

Personal Borrowing

Personal borrowing means borrowing from friends and family; usually informally. Many would consider this option first, rather than 5th. However, others want to stand on their own feet and will not wish to be indebted to friends and family, or put the lenders at risk. If you are in the lucky position of having someone who can afford to and is willing to pay for some or all of your training, consider being explicit about the terms on which the payment is made. Is it a gift? Is it a loan? If it is a loan, what are the terms?

It is worth considering having a lawyer draw up a simple loan agreement (sometimes called a 'promissory note') once you have agreed the terms. Although some people may be offended by introducing this formality, it does add clarity which may be important later. For example, if you are married, what if any, liability does your spouse have for the loan in the case of your relationship breaking down? What happens if the lender dies; will their estate be at liberty to demand repayment? How is the lender protected if you become unable to repay due to illness or death? Is the lender able to recall the loan? If they are, under what circumstances? These may be difficult details to consider when you are faced with the generosity of a friend or relative, but maybe, for the protection of both parties, the unexpected should be considered.

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[3] Credit card stoozing is the expression given to borrowing on a credit card at 0% and then moving the loan to another 0% card before the 0% period of the first card expires.

Source of Finances 6

Salary Sacrifice

This may not apply to many would-be-pilots but if you are able to finance your training this way there can be huge tax advantages. The way it works is quite simple. Assuming that your new qualifications are 'of value' to your employer, your employer pays for your training and recoups the expense by reducing your salary. Usually, the total cost of your training less any repayments you have made becomes immediately repayable if you leave employment before the whole 'training debt' is repaid. Otherwise, if you carry on working for your employer, the debt gradually reduces as you sacrifice a bit of salary each pay period.

The advantage to you (other than raising the finance) is that your employer will be able to reclaim the VAT, if any, on your training or associated costs (such as travel and accommodation). So your training instantly becomes VAT-free. There are other tax savings too.

Let's say you are liable to pay income tax at 20% and National Insurance at 12%. If your pay was £30,000 p.a. but you sacrifice £10,000 p.a. to repay your training, the whole of the £10,000 would go to pay off your training costs. If instead you took the extra £10,000 (gross salary), paid tax on it (at 32%) and then repaid your training costs yourself, you'd have £6,800 available to repay your debts, not £10,000! Potentially there is more. You pay 12% National Insurance, but your employer pays another 13.8% on your behalf (and you thought you paid 20% income tax, not 45.8%). Your employer would save £1,380 per year if you took the salary sacrifice. So, if you own the company you work for or can persuade your employer to contribute this saving towards your training costs, this is another benefit to you.

This is a very advantageous way of paying for training. A course that costs £12,000 in the UK (where the VAT rate is 20%) will cost you £17,647 in gross salary terms (£17,647 less 32% tax = £12,000). However, if your employer contributes the National Insurance saving as well, your salary sacrifice to pay for the same course would be just £8,778 which is a saving of 50%! (A £12,000 course costs £10,000 before VAT; the Employer's National Insurance contribution on £8,778 is £1,212; £8,778 + £1,212 = £10,000).

Source of Finances 7

Secured Loans

A secured loan is a loan secured on property (or other assets) just in the same way that a mortgage is. The difference is that a secured lender does not have a first charge over the property. This means that interest rates are generally quite a bit higher, and the lending criteria are tighter. If you or the person borrowing on your behalf is able to raise the funds by re-mortgaging, that is always a better option. If you need a smaller amount (under £25,000) career development and other personal loans, especially peer-to-peer borrowing, are better. However, as a last resort, secured loans may be a viable source. The disadvantages include cost; interest rates are higher and the broker fees can be 10% or more of the sum borrowed! The advantages are that the sums available are higher than personal loans and the repayment periods longer.

This is what Martin Lewis, of moneysavingexpert.com has to say about secured loans:
Contrary to glossy TV ads, secured loans aren't an easy option for those with heavy debts. A home isn't something to gamble with. These are purely loans of last resort. The only good reason for using them is to cut existing debt costs. Those considering secured loans for new borrowing or purchases should simply not do it.

If, after all these warnings you still wish to investigate secured loans, start by looking at **moneysupermarket.com**. It will cut-out the brokers and their fees which can be substantial.

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