

**Minutes of the Meeting of the
Air Transportation Stabilization Board
April 4, 2002**

The meeting of the Air Transportation Stabilization Board (“Board”) was held in the offices of the Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, Washington, D.C., on Thursday, April 4, 2002.

The following people were present at the meeting:

Board

Edward M. Gramlich, Chairman of the Board, and Governor, Federal Reserve Board
Peter R. Fisher, Voting Member of the Board, and Under Secretary for Domestic Finance, Department of the Treasury
Kirk K. Van Tine, Voting Member of the Board, and General Counsel, Department of Transportation

Board Staff

Joseph P. Adams, Jr., Executive Director
Daniel Montgomery, Managing Director
Michael Kestenbaum, Financial Analyst
James Levine, Legal Counsel

Federal Reserve Board

J. Virgil Mattingly, General Counsel
Donald J. Winn, Assistant to the Board
Daniel E. Sichel, Senior Economist, Division of Research and Statistics
Christopher W. Clubb, Senior Counsel

Others

Department of the Treasury

Roger E. Kodat, Deputy Assistant Secretary for Government Financial Policy
Michael D. Scott, Senior Advisor to the Deputy Assistant Secretary for Government Financial Policy
Brad S. Lerner, Attorney

Department of Transportation

Terence W. Carlson, Attorney, Office of General Counsel
Nancy Kessler, Attorney, Office of General Counsel
Regis Milan, Associate Director, Office of Aviation Analysis, Office of the Assistant Secretary for Aviation and International Affairs
Bernard Fishman, Office of Inspector General
Suzanne Shaps, Office of Inspector General
Michael Goldstein, Office of Inspector General

GAO did not attend this meeting.

Chairman Gramlich called the meeting to order at 3:40 p.m.

The meeting commenced with a discussion about Frontier Flying Services (“Frontier”), an applicant for a Federal loan guarantee. The Executive Director gave a brief description of Frontier and then gave an overview of Frontier’s application. He highlighted recent discussions with Frontier’s management, its insurance issues and business plan, the competitive environment in Alaska and Fitch’s credit report. The Executive Director next discussed Frontier’s proposed collateral. He noted the absence of audited financial statements in Frontier’s application.

Chairman Gramlich and the Executive Director then discussed in detail the topic of Frontier’s insurance.

Mr. Van Tine and the Executive Director discussed Frontier’s financial statements, its financial forecast and the collateral value. Mr. Van Tine and Mr. Milan discussed the impact of pending mail preference legislation on Frontier’s use of larger planes. Mr. Van Tine and the Executive Director discussed the possibility of changing loan terms and the appraised value of the collateral.

Mr. Fisher discussed a number of concerns that would need to be addressed before moving forward with the application. These included a significant reduction in the loan amount, audited financial statements, fees and equity upside commensurate with the risk, a credible business plan, establishment of a market collateral valuation, and the establishment of the effects of September 11th on the carrier. Chairman Gramlich concurred that these areas should be discussed. Mr. Fisher, Mr. Van Tine and the Executive Director then discussed the proposed collateral, including the appraised value and the underlying assumptions.

Chairman Gramlich, Mr. Van Tine and Mr. Fisher concurred in instructing the Executive Director to communicate to Frontier minimum parameters for further consideration of its application.

The Board then discussed the application of Evergreen International Airlines (“Evergreen”). The Executive Director presented an overview of Evergreen’s structure, financial history, and business, both before and after 9/11. He discussed the proposed collateral and Evergreen’s participation in the Civil Reserve Air Fleet (“CRAF”) program.

Mr. Van Tine discussed some of the conditions for participation in the CRAF program.

The Executive Director then discussed whether Evergreen had satisfied the statutory and regulatory criteria for a Federal loan guarantee. Mr. Van Tine discussed the impact of 9/11 on Evergreen and possible reasons why credit could be unavailable to Evergreen. Mr. Fisher concurred and added that Evergreen had the burden of proving a 9/11

connection and proving that the Federal loan guarantee was a necessary part of a safe, efficient and viable commercial aviation system. Additional concerns raised were the use of proceeds and the collateral valuation. Chairman Gramlich concurred and discussed again with Mr. Van Tine Evergreen's participation in the CRAF program.

Chairman Gramlich, Mr. Fisher and Mr. Van Tine voted to reject the application, but agreed that the letter to Evergreen should state that if Evergreen could eliminate the deficiencies discussed in the letter, the Board would consider a revised application.

The Board then discussed the status of Vanguard Airline's application. The Executive Director discussed recent changes to Vanguard's application and Vanguard's recent operating performance and forecast. Members of the Board discussed the material presented by staff. Mr. Van Tine expressed concern about the absence of new equity and [REDACTED]

The Board then discussed the status of National Airline's application.

The Executive Director discussed changes reflected in National's revised proposal, including the reduced loan amount and increased equity. He discussed the Fitch review and the potential credit subsidy.

The Executive Director then gave the Board an overview of the airline industry including traffic and revenue trends, capital markets activities and possible future applicants.

The Board then discussed the minutes of prior meetings, revised and approved a correspondence policy and discussed the Board's budget.

The meeting adjourned at 5:10 p.m.

[redacted]