

**Minutes of the Meeting of the  
Air Transportation Stabilization Board  
May 21, 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, 20<sup>th</sup> Street and Constitution Avenue, Washington, D.C., on Tuesday, May 21, 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**

Daniel Montgomery, Executive Director  
Michael Kestenbaum, Financial Analyst  
James Levine, Legal Counsel  
Cameron Fleming, Senior Vice President

**Others**

**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  
Chris Clubb, Senior Counsel

**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  
Rebekah Holman, Attorney

**Department of Transportation**

Terence W. Carlson, Attorney, Office of General Counsel  
Regis Milan, Associate Director, Office of Aviation Analysis  
Suzanne Shaps, Office of Inspector General  
Tisha Lynch, Office of Inspector General

GAO did not attend this meeting.

Chairman Gramlich called meeting to order at 2:05 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’s recent interactions with the Board staff and summarized the Board staff’s communications to Frontier to date. He summarized revisions that had been made by Frontier to its application, including a discussion of proposed collateral, the status of its financial statements, its revised forecasts and proposed guarantee fees. He noted that Frontier had renewed its insurance. Mr. Kestenbaum added that the renewal rate increase was minimal.

Chairman Gramlich discussed the potential credit subsidy amount, the collateral value and estimates on possible recovery on the loan in the event of foreclosure.

The Executive Director rendered the Board staff’s analysis of certain criteria stating his belief that Frontier’s insurance renewal made issuance of the Federal guarantee unnecessary and that, even if the guarantee was to be issued, the Government did not have a reasonable assurance of repayment. He stated his belief that, in light of its insurance renewal, Frontier would continue in business if the guarantee request were rejected.

Chairman Gramlich discussed insurance markets in Alaska and the proper role for the Board with respect to possible problems in Alaska insurance markets. He discussed whether the Government had a reasonable assurance of repayment by Frontier. Mr. Van Tine discussed the implications of Frontier’s insurance renewal and Frontier’s prior statements about its business outlook. Mr. Van Tine stated his belief that, due to the renewal, Frontier had not satisfied the requirement of demonstrating that the Federal guarantee was a necessary part of maintaining a safe, efficient and viable commercial aviation system. Mr. Fisher agreed with Chairman Gramlich’s and Mr. Van Tine’s conclusions and stated his belief that some of the statutory and regulatory criteria had been satisfied. He discussed the dilemma of small carriers satisfying all criteria, his concern that small carriers have access to the program and that the ATSB not appear biased against small carriers. He stated his concern about Frontier’s business plan and Frontier’s need for a Federal loan guarantee.

Chairman Gramlich, Mr. Fisher and Mr. Van Tine voted to reject Frontier’s application based on Frontier’s insurance renewal making the Federal guarantee unnecessary and the Government’s lack of reasonable assurance of repayment. Mr. Van Tine indicated his intent to research further Frontier’s receipts under the compensation program to confirm Frontier’s losses due to September 11.

The Board then discussed the application of Vanguard Airlines (“Vanguard”).

The Executive Director rendered an overview of developments in Vanguard’s application focusing on the status of Vanguard’s co-guarantor, revisions to Vanguard’s plan to obtain

equity financing, Vanguard's recent and long term operating performance and the aggressiveness of Vanguard's growth plan. He discussed Fitch's reanalysis of Vanguard's creditworthiness in light of revisions made to Vanguard's application, the credit subsidy estimate and Vanguard's position on warrants for the Government.

The Executive Director recommended that Vanguard's application be rejected. [REDACTED]

[REDACTED] ] In summarizing, he stated his belief that the Government did not have a reasonable assurance of repayment of the requested loan.

Mr. Van Tine agreed with the recommendation on repayment grounds and discussed the possibility of additional equity. Chairman Gramlich and Mr. Fisher discussed the propriety of requesting a specific amount of equity financing to be raised by Vanguard.

Chairman Gramlich noted that Vanguard's need for equity had been the subject of prior discussions and meetings between Board staff and Vanguard.

Mr. Fisher requested that a vote on Frontier and Vanguard be recorded according to individual Board members. Chairman Gramlich, Mr. Fisher and Mr. Van Tine each voted to reject both applications.

The Board then discussed the application of Evergreen International Airlines ("Evergreen").

The Executive Director summarized meetings with the applicant to date and discussed Evergreen's participation in CRAF, issues relating to bankruptcy, Congressional interaction, Evergreen's prior default history and its relations with current and former banks. He and Mr. Van Tine discussed the possibility of contacting Evergreen's current lending banks and their current security arrangements. Chairman Gramlich and Mr. Van Tine discussed [REDACTED] Evergreen regarding past defaults. Mr. Fisher indicated that Evergreen needed to demonstrate a viable business plan and prove satisfactorily that Evergreen was harmed as a result of the attacks on September 11. The Executive Director indicated that on an industry-wide revenue basis, Evergreen would be eligible for [REDACTED] million of the \$10 billion, not [REDACTED] million as requested. Mr. Fisher stated that Evergreen had the burden of demonstrating that credit is not reasonably available at the time of the transaction. Chairman Gramlich, Mr. Fisher and Mr. Van Tine voted to authorize the Executive Director to commence discussions with Evergreen.

The Executive Director then discussed developments in the application of National Airlines and discussed the status of other applicants and potential applicants. Mr. Fisher stated his belief that dialogue with applicants should focus on satisfying the statutory criteria and the applicant's business plan prior to discussion of specific loan terms and structures. Chairman Gramlich and Mr. Van Tine agreed on the need to be explicit with applicants about satisfying the statutory criteria.

The Board then discussed the status of minutes for prior Board meetings. Mr. Fisher requested a vote to adopt and publish all prior minutes. Mr. Van Tine objected stating that staff hadn't finished their review. Chairman Gramlich and Mr. Van Tine agreed to strive to approve prior minutes by the end of the week. Mr. Van Tine and Board Legal Counsel discussed the need to preserve confidential information in the event that the minutes were to be published. The Executive Director and Board discussed an effort to finalize letters to Frontier and Vanguard within 48 hours and make them public 24 hours thereafter.

The meeting adjourned at 3:29 p.m.

[redacted]