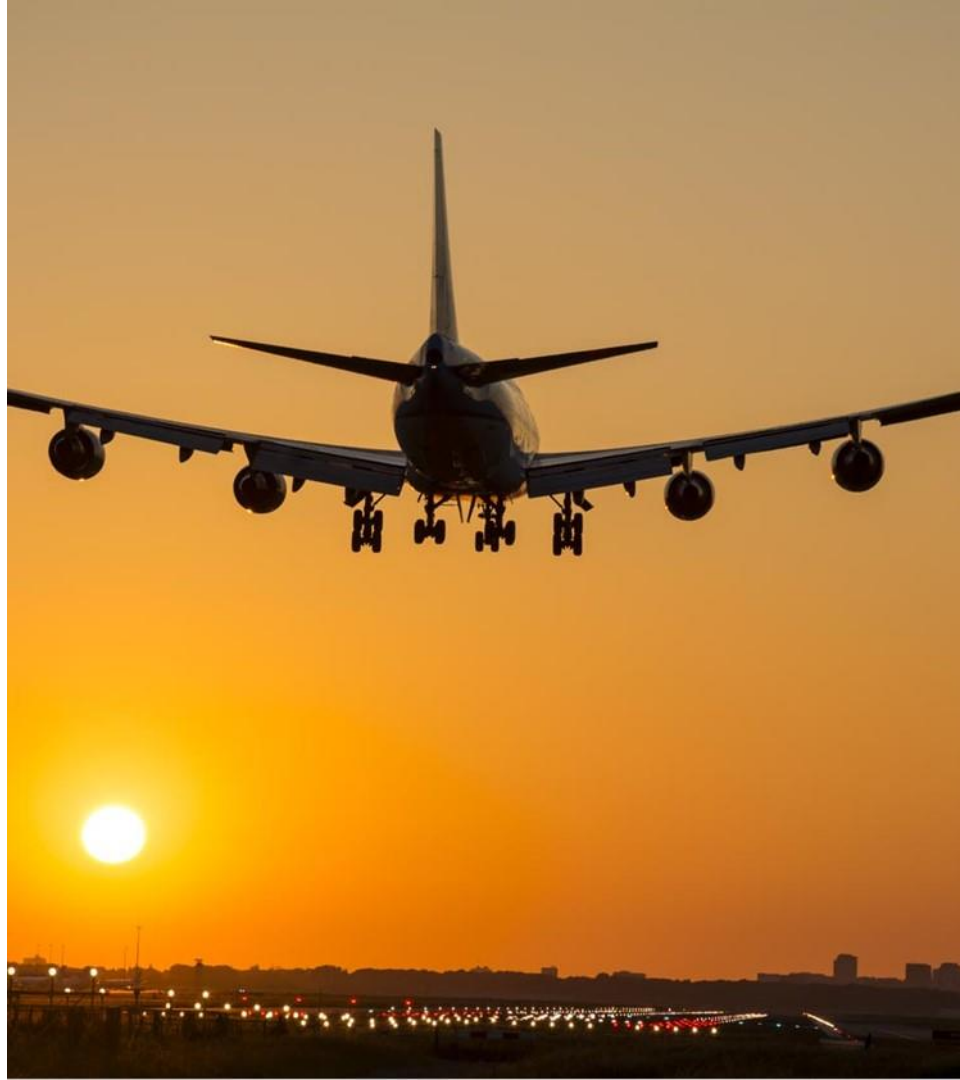


# Essentials of aircraft finance and leasing

**Kenneth Gray**  
Consultant



# Aircraft finance

## What makes it so different?

- Pre-pandemic
- Volume
  - Over 1750 new jets/turboprops delivered annually
  - \$143bn cost
  - \$50 bn refinancing in secondary market
- Future value
- Remarketability
- Price financed
- Inherent internationality
- Profitability of airlines



# Aircraft finance cont/d

## 2020 - the pandemic

- Financial impact on airlines, lessors and banks
- Liquidity crunch for airlines
- Defaults
- Restructurings
  - Domestic
  - Cross-border



# COVID-19: 2022

- 1450 new Airbus and Boeing aircraft deliveries
- Delivery queues for new aircraft

# Russia/Ukraine

- Impact of sanctions
- Re-registration of aircraft
- Over \$50bn
- Impact on Chicago Convention, Cape Town Convention
- Fuel prices
- Cost of living

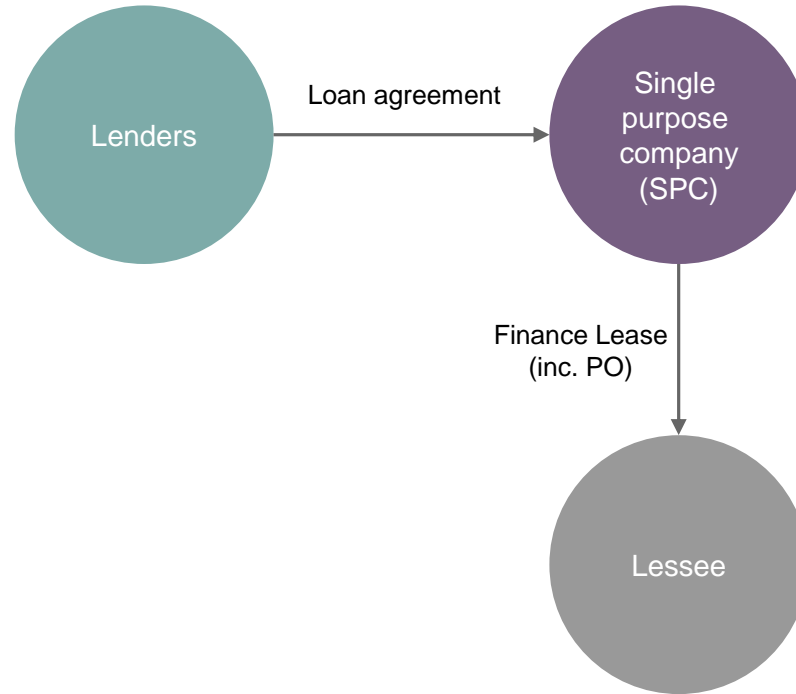
# Lending vs Leasing

# Aircraft finance and leasing

- What are lenders' and lessors' principal concerns?
- Credit risk
- Security
  - Over the aircraft
  - Over the cashflow
- Economic value
- Enforceability
- Timeframe
- Remarketability

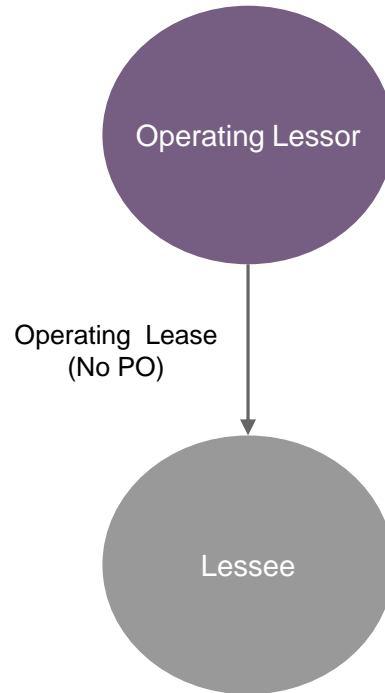


# The basic structure: finance lease for an airline





# The basic structure: operating lease for an airline



# Finance leases

- Investment – acquisition of asset by lessee
- E.g. full pay out hire purchase agreement
- Medium to long term
- Finance lessor is a credit institution
- Looking to rentals purely to amortise acquisition cost



# Operating leases

- Lessee acquires no economic interest in the aircraft
- Security deposits
- Maintenance reserves
- Return conditions
- Operating lessor is a trading company
- Not looking to rentals purely to amortise acquisition cost



# Registration - Chicago Convention

- International Convention on Civil Aviation, 1944
- Set up ICAO
- Article 17: Aircraft have the nationality of the State in which they are registered
- Article 18: An aircraft cannot be validly registered in more than one State, but its registration may be changed from one State to another
- Article 19: The registration or transfer of registration of aircraft in any Contracting State shall be made in accordance with its laws and regulations



# Why does registration matter?

- Regulatory authority
- Maintenance, crewing, operational supervisory role
- AOC
- EU Banned List
- Security
- Aircraft may only be registered in one jurisdiction at a time
- Deregistration
  - At request of registered person
  - By law
  - Deregistration Powers of Attorney
  - Cape Town Convention IDERAs
  - Irrevocable Deregistration and Export Request Authorisation
  - Political risk

# Basics of a lease

Transfer of possession

For a fixed term

Consideration

Quiet enjoyment

Default



# Lessor's rights following an event of default

- Terminate the lease
- Repossess and deregister the aircraft
- Claim damages from the lessee
- Moratoria
- Chapter 11 in the US
- Alternative A under the Cape Town Convention



# Maintenance of value

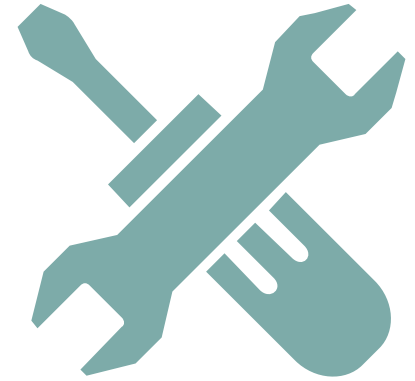
- Why do lessors care about the value of the leased aircraft?
  - Finance lessor – security
  - Operating lessor – asset on its balance sheet





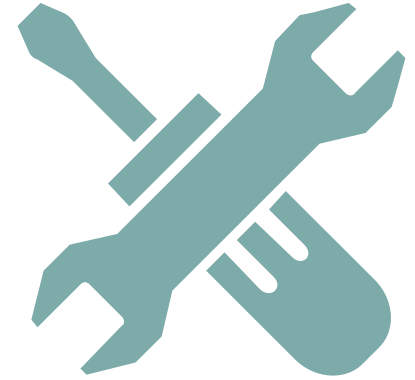
# Maintenance of value

- What constitutes the value of an aircraft?
  - Model and variant
  - Engines
  - Fuel efficiency
  - Age and useful life
  - Lease attached
  - ESG issues
  - Maintenance costs
  - Manufacturer support



# Maintenance of value

- What constitutes the value of an aircraft?
  - Physical condition
  - Maintenance, repair, operation
  - Freedom from liens
  - Registration status
  - Manufacturer's warranties
  - Manuals and technical records
  - Insurance
  - Return conditions



# World

## Canada

Calgary Québec  
Montréal Toronto  
Ottawa Vancouver

## Europe

Amsterdam Hamburg Munich  
Athens Istanbul Paris  
Brussels London Piraeus  
Düsseldorf Luxembourg Warsaw  
Frankfurt Milan

## Asia Pacific

Bangkok  
Beijing  
Brisbane  
Canberra  
Hong Kong  
Jakarta\*  
Melbourne  
Perth  
Shanghai  
Singapore  
Sydney  
Tokyo

## USA

Austin  
Chicago  
Dallas  
Denver  
Houston  
Los Angeles  
Minneapolis  
New York  
San Antonio  
San Francisco  
St Louis  
Washington, DC

## Latin America

Mexico City  
São Paulo

## Africa

Bujumbura\*\*  
Cape Town  
Casablanca  
Durban  
Harare\*\*  
Johannesburg  
Kampala\*\*  
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