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
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

Diagram:
- Lenders
- Single purpose company (SPC)
- Lessee

Connections:
- Loan agreement from Lenders to Single purpose company (SPC)
- Finance Lease (inc. PO) from Single purpose company (SPC) to Lessee
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
Why do lessors care about the value of the leased aircraft?
- Finance lessor – security
- Operating lessor – asset on its balance sheet
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
- Montréal
- Ottawa
- Québec
- Toronto
- Vancouver

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

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

Asia Pacific
- Bangkok
- Beijing
- Brisbane
- Canberra
- Hong Kong
- Jakarta*
- Melbourne
- Perth
- Shanghai
- Singapore
- Sydney
- Tokyo

Africa
- Bujumbura**
- Cape Town
- Casablanca
- Durban
- Harare**
- Johannesburg
- Kampala**
- Nairobi**

Middle East
- Dubai
- Riyadh*

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