Aircraft Financing

Ratings on aircraft finance transactions, worldwide

Overview

The LB-Rating module Aircraft Financing is designed for assessing asset-backed aircraft finance transactions involving one or more aircraft. It can be used without geographic limitation. A differentiated modelling approach allows to take into account the specifics of each aircraft type and financing arrangement. The simulation-based rating algorithm generates a large number of scenarios projecting the future value of the financed aircraft and the financial strength of the airlines involved. The assessment also includes any operating lessors involved in the transaction. The results produced by the rating model are a rating grade corresponding to the one-year probability of default (PD), the Loss Given Default ratio (LGD), and the expected loss (EL).

Annual reviews of Aircraft Financing started in 2009. At the end of that year the module was approved for the IRB Approach for its main area of application, single-airline transactions.

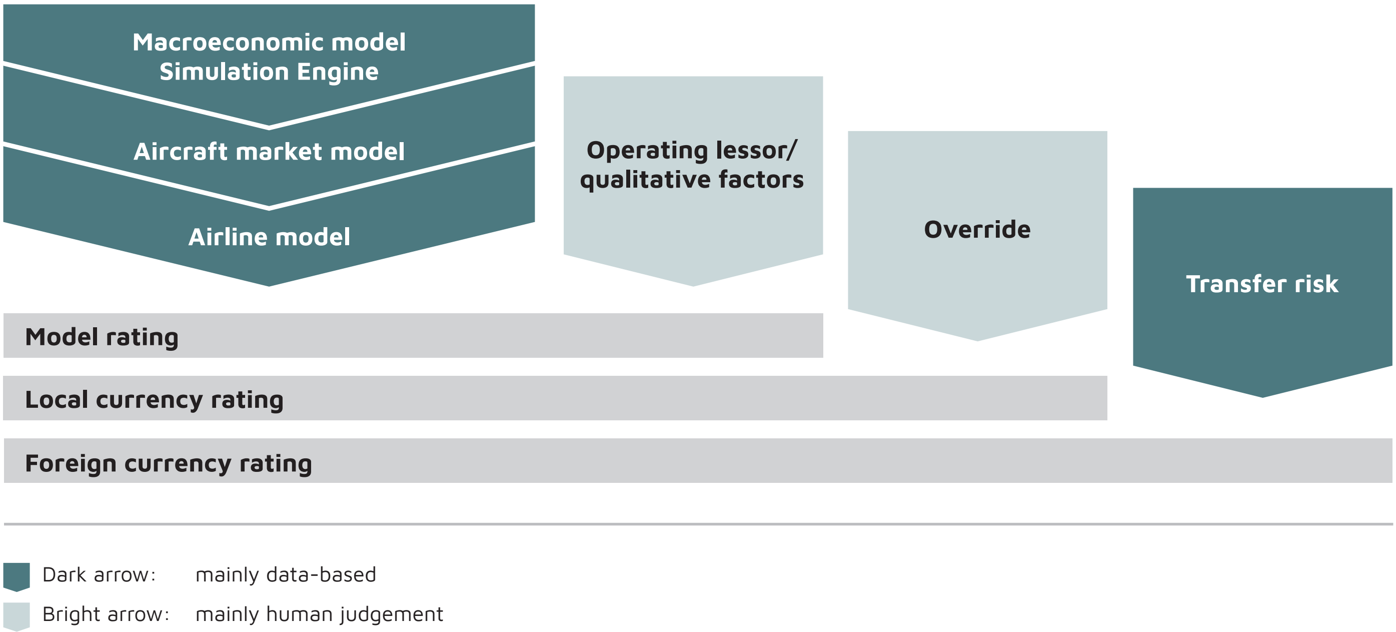
Scope of Application

The scope of application of the Aircraft Financing module mainly consists of special purpose vehicles that are set up to acquire one or more aircraft and lease them to airlines. The aircraft and the lease payments are pledged to the lender as collateral. Both traditional finance leases and various types of operating leases and even complex warehouse facility structures can be evaluated. In addition to typical lease arrangements, the module can also be used to assess transactions not involving SPVs, i.e. direct exposures to airlines, provided that the loan is granted for the acquisition of one or several aircraft and the bank holds an enforceable lien on the aircraft. Integrated ratings can be prepared to cover cross collateral arrangements, holding companies sharing liability or other relationships among several SPVs that affect credit quality.

Limitations

Airlines must be rated with the Corporates module.

Rating Process



Macroeconomic Model, Aircraft Market Model and Airline Model

The rating system uses Monte Carlo simulations to generate a multitude of scenarios showing possible developments of the economy in general. Based on these scenarios and the type and age of each aircraft, the aircraft market model generates projections of the aircraft value. The airline model is designed to simulate the financial strength of the airlines involved, taking into account certain correlations with the development of the aircraft market. Including the repayment scheme and leasing arrangements in the assessment allows to estimate the overall default and loss risk. A broad range of collateral types can also be taken into account.

Operating Lessor, Qualitative Factors

If operating lessors are involved in the transaction, their liability and marketing ability influence the rating.

Overrides and Transfer Risk

If there are exceptional circumstances that have not been sufficiently taken into account otherwise, analysts can override a rating or enter a warning signal and change the rating manually. In addition, the risk of restrictions on foreign currency transfers in the airline's home country is taken into account. This risk must be considered when a loan is not denominated in the obligor's domestic currency.

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