RSU Rating Service Unit

Module Aircraft Financing

Aircraft financing ratings, worldwide

Overview

The module *Aircraft Financing* has been designed for the risk assessment of object finance transactions in the area of aircraft financing. It can be used worldwide for both single aircraft and fleet financings. A differentiated modeling approach allows to take into account the specifics of each aircraft type as well as the funding method and the underlying contractual arrangements.

The simulation-based rating algorithm generates a multitude of scenarios projecting the potential development of the market value of the financed aircraft and the credit standing of the airlines involved. The assessment will also include any operating lessors involved in the financing. The main results produced by the rating model are: one-year probability of default (PD), loss given default (LGD), and expected loss (EL).

In 2007, the module Aircraft Financing was revised and adapted to current trends in the aircraft financing market. It has been included in the annual validation cycle since 2009; since late 2009, it has been approved for its main area of application – single airline financings – for the IRB Approach in Germany.

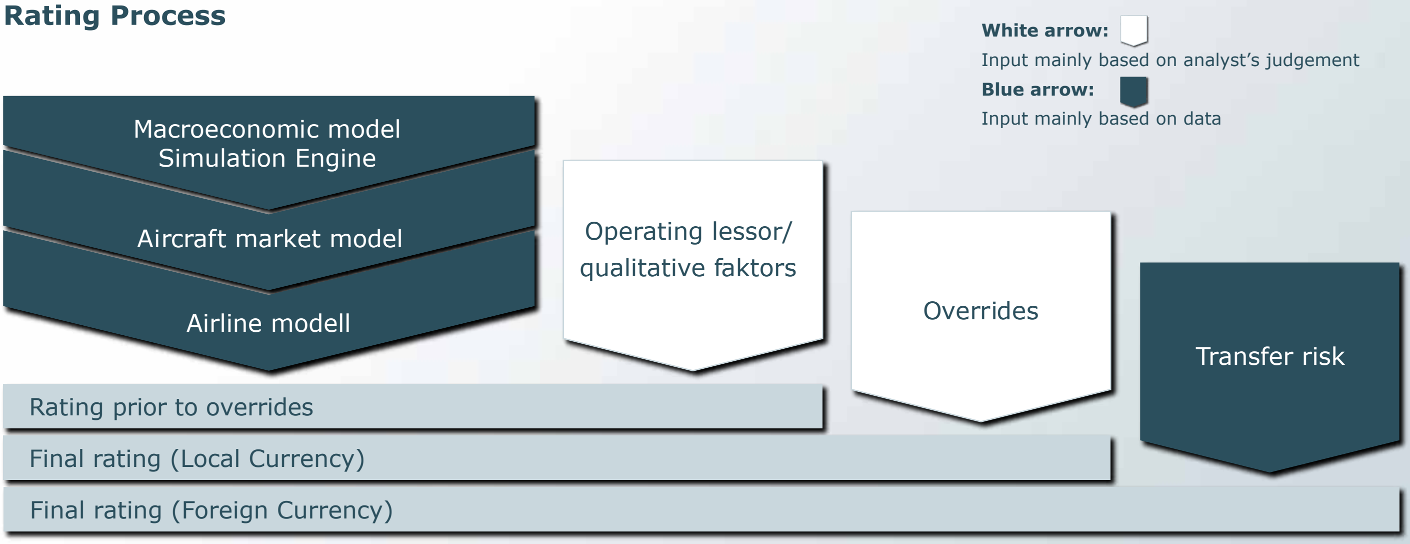
Scope

- The scope of the module *Aircraft Financing* mainly covers financing transactions designed to fund the acquisition of one or several aircraft through special purpose vehicles, which will typically lease the aircraft to airlines. The aircraft and the lease payments are pledged to the lender as collateral. Both traditional finance leasing transactions and various types of operating lease and even complex warehouse facility structures can be evaluated.
- In addition to typical lease arrangements, the module can also be used to assess financings not involving SPVs, i.e. direct exposures to airlines, provided again 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 generated for cross collateral arrangements, overarching holding companies subject to liability or other relationships among several SPVs that affect credit quality.

Limitations

- Airlines must be rated using the *Corporates* module.

Rating Process



Macroeconomic Model, Aircraft Market Model and Airline Model

The module uses Monte Carlo simulations to generate a multitude of scenarios showing possible developments of the economy in general. Based on these scenarios, the aircraft market model generates projections of the aircraft value depending on the type and age of each aircraft. The airline model is designed to simulate the changes in the credit standing of the airlines involved, taking into account certain correlations with the development of the aircraft market. Combining this modeling approach with information on the individual repayment schemes and underlying lease provisions allows an integrated calculation of the default and loss risk. A broad range of collateral types may also be incorporated in the risk assessment.

Operating Lessor/Qualitative Factors

Where operating lessors are involved in the transaction, their liability and the qualitative assessment of their marketing ability influence the rating.

Overrides and Transfer Risk

If, at the previous stages, exceptional risk-relevant circumstances have not been sufficiently taken into accout, an adjustment of the rating may be necessary. For this purpose the system provides an override option. In addition, the transfer risk, i.e. the risk of currency transfer restrictions in the airline‘s home country, is taken into account. This risk must be considered when the financing currency is different from the borrower‘s home currency.

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