Global Credit Data
by banks for banks

Aircraft Finance

Annual observed recovery rates trends

June 2023

2023 Outlook

The aircraft industry was profoundly impacted by the COVID-19 pandemic. Airlines encountered severe financial challenges due to travel restrictions and reduced passenger demand, with only some large airlines managing to secure government support. In an effort to cut costs, some airlines returned leased planes and canceled new orders if they could. Moving into 2023, the aircraft industry is gradually rebounding as passenger confidence is slowly being restored. However, it remains to be seen how the rise of remote work and virtual meetings during the pandemic will change business travel on the long run. Climate change and air transport energy transitions will further impact load factors, costs and pricing beyond 2023, which will affect both defaults and recovery rates.

Aircraft Defaults in the Global Credit Data Loss Database

Bank internal Loss and Recovery Data has been collected from 28 global banks since 2000. Historical observed recovery rates and time to peak recovery are shown here by common risk drivers: Lending Portfolio; Region and Deal Structure. LTV and haircut are analysed on the next page.

Recoveries and Losses in Crisis Times

The COVID-19 crisis in 2020 has resulted in higher number of defaults compared to previous years (also see GCD PD Report 2022 for a detailed analysis of the Air Transport Industry during the pandemic). However, it is important to note that the numbers presented for both number of facilities and recovery rates are still incomplete. Defaults included here have naturally short workout periods and high recovery rates (resolution bias). The effects of the current economic situation are ongoing, and the ultimate recovery rates are yet to be fully determined.

Higher number of defaults and lower recoveries are observed in the aftermath of 9/11 and during the financial crisis.

Note on Terms Used (see Appendix for more details)

Observed Recovery Rate refers to the historical observed nominal average recovery cash flows divided by outstanding amount at default.

Time to Peak Recovery is calculated as the center point of recovered cash flow.

832	88%	1.5
Nr of Facilities	**Observed Recovery Rate**	**Time to Peak Recovery**

Lending Portfolio

	Nr of Facilities	Observed Recovery Rate	Time to Peak Recovery
Aircraft Finance SL	564	89%	1.7
Large Corporates	102	90%	0.8
SME	65	80%	1.0
Private Banking	76	85%	1.3
Other	25	87%	0.9

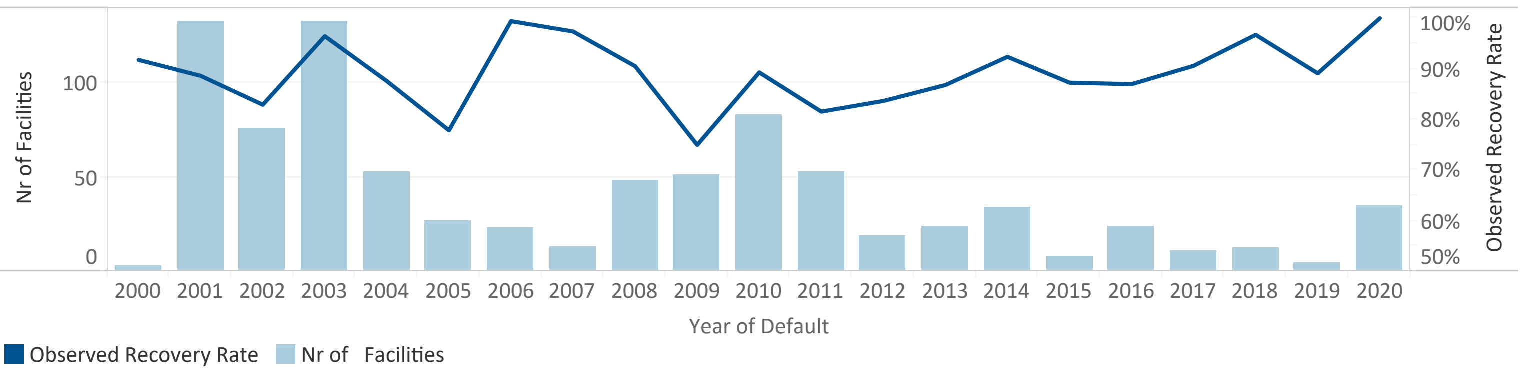
Region

Africa & Middle East	13	94%	1.5
Asia & Oceania	84	86%	1.7
Europe	281	91%	1.7
Latin America	68	97%	0.7
North America	386	86%	1.4

The regional spread reflects the number of defaulted cases in the GCD database not worldwide aircraft usage.

Deal Structure

Term Loan	496	89%	1.4
Revolver/Overdraft	71	83%	1.6
Capital & Operating Lease	115	83%	1.3
ECA Export Finance	28	97%	1.8
Other	122	93%	1.5



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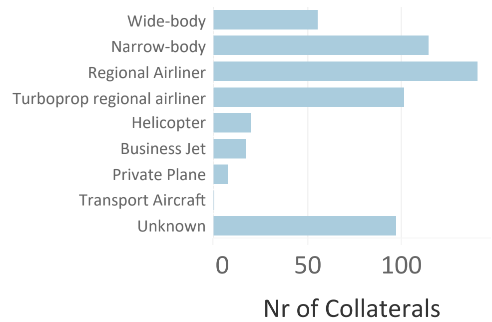
553	18%	73%
Total Aircraft	**Observed Haircut**	**Loan-to-Value**

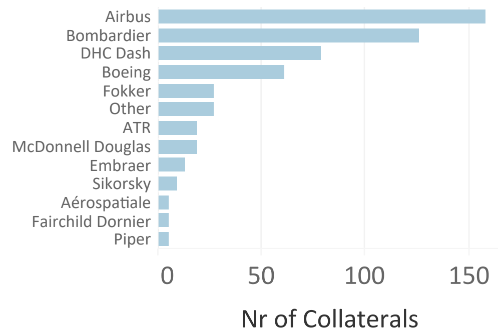
This section explores the collateral dimension on defaulted facilities from the previous page. A single loan can be secured by multiple aircraft and a single aircraft can be collateral for multiple loans. Therefore, the number of aircraft collaterals and the number of loans will not be equal. At the same time, where there are aircraft industry facilities without an aircraft collateral then these cases are excluded.

Aircraft Collateral Characteristics

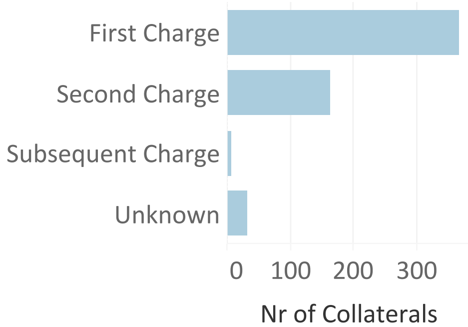
Aircraft Type



Manufacturers



Rank of Security



Haircut and Loan-to-Value

Haircut

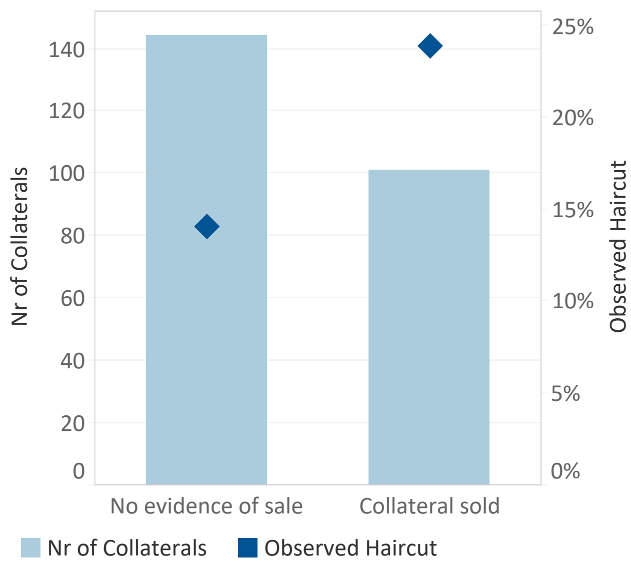
Typically the value of collateral declines during the default and workout process. On average, this decline (haircut) is observed as 18% for aircraft defaults. When the aircraft is not sold, this decline is seen in lower valuations after default representing the general market decline for second-hand aircraft due to age depreciation and market circumstances e.g. downturn. The low number of sold collaterals indicates that a sale is not the most likely workout scenario. Banks tend to not sell the collateral at the bottom of the market but wait for better market conditions.

Loan-to-Value

A typical aircraft financing case involves a long-term loan which amortizes as the value of the aircraft declines with depreciation and a final balloon payment. The data indicates that cases with high loan-to-value prior to default produce higher LGD. Aircraft are recognized as high quality collateral with a liquid second hand market despite some volatility. For lenders, this results in generally high recovery rates after default even when lending at approximately 73% loan-to-value.

GCD members receive detailed data enabling them to create loan-to-value and haircut-based aircraft financing models.

Collateral Haircut



Note on Terms Used (see Appendix for more details)

Observed Haircut is the collateral value prior to default (max. 2 years prior) minus the collateral value after default (e.g. date of sale or resolution) divided by the collateral value prior to default.

Loan-to-Value (LTV) refers to the ratio of the outstanding amount of a loan to the value of the collateral at the default date.

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Global Credit Data maintains the world's highest quality, most exhaustive member-bank contributed data source for credit risk.

More from Global Credit Data

This report draws on verified information collected from 50+ global or regional banks over 20 years and covers over 300,000 defaulted facilities in total.

Explore our other reports. They provide an instant insight into observed Recovery Rates and other key benchmarks for various exposure classes, industry sectors and collateral types:
Corporates, Banks and Financial Institutions, Sovereigns, Real Estate Finance, Shipping Finance, Aircraft Finance.

To meet the standards set by global regulations like BCBS239, GCD has established a robust framework to continously measure, monitor and improve data quality.

About

At GCD, our mission since 2004 has been to empower banks and the financial industry with a deep understanding of credit risk through a unique data source. As a non-profit organisation owned by 50+ member banks, we collect valuable data directly from banks' books.

GCD's activities revolve around pooling credit loss data, particularly from low default portfolios. Beyond data pooling we foster knowledge exchange, facilitate research and information sharing services, creating a dynamic environment for insights and collaboration.

Join our community to access exclusive data insights gain market understanding, and benchmark your performance against industry peers.

www.globalcreditdata.org

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