Global Credit Data
by banks for banks

Aircraft Finance

Annual observed recovery rates trends

July 2024

Covid Year Recoveries now largely known

2024 Outlook

The aircraft industry has largely returned to pre-pandemic operations with global passenger demand expected to reach pre-COVID levels in 2024. Air cargo, a lifeline during the pandemic is affected by economic uncertainties and falling global trade. Climate change and air transport energy transitions together with operational safety concerns are the main challenges for the future and will affect both defaults and recovery rates. With the 2020 defaults now largely worked through by banks, GCD's data shows higher than usual number of defaults but not as high as in previous peaks. Recoveries from these COVID times have not dipped, staying in the 90% to 100% band, which marks this downturn as different from the post 9/11 and Global Financial Crisis aircraft downturns, possibly reflecting the high level of government support.

Aircraft Defaults in the Global Credit Data Loss Database

Bank internal Loss and Recovery Data has been collected from 29 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.

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.

882	89%	1,4
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	590	90%	1,6
Large Corporates	120	92%	0,8
SME	69	80%	1,0
Private Banking	76	85%	1,3
Other	27	88%	0,9

Region

Africa & Middle East	17	95%	1,4
Asia & Oceania	99	86%	1,5
Europe	288	91%	1,7
Latin America	85	97%	0,7
North America	393	86%	1,4

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

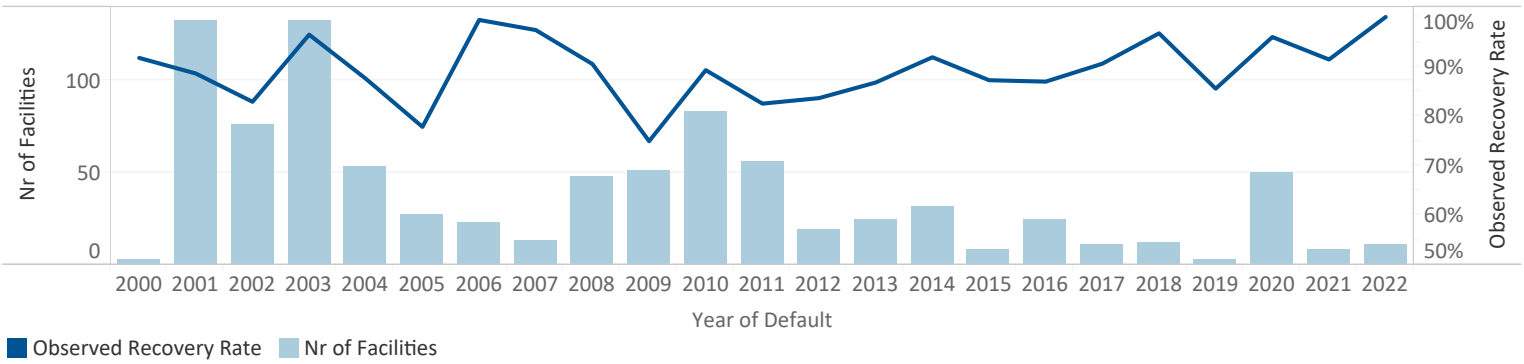
Deal Structure

Term Loan	536	89%	1,4
Revolver/Overdraft	75	84%	1,6
Capital & Operating Lease	121	84%	1,3
ECA Export Finance	28	97%	1,8
Other	122	93%	1,5

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

	Nr of Facilities	Observed Recovery Rate	Time to Peak Recovery
9/11 2001-2003	342	90%	2,1
GFC 2008-2011	238	85%	1,2
COVID 2020	50	96%	0,8
Other Years	252	89%	1,0



Global Credit Data
by banks for banks

Aircraft Finance

Annual observed recovery rates trends

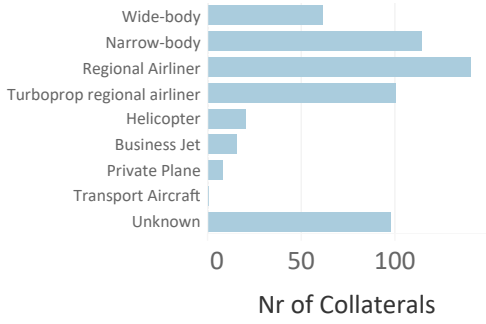
July 2024

562	18%	71%
Total Aircraft	**Observed Haircut**	**Loan-to-Value**

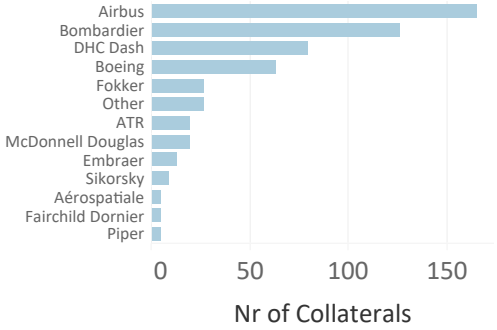
This section explores the collateral dimension on defaulted facilities from the previous page. A single loan can be secured by multiple aircraft and a single aircraft can be collateral for multiple loans. Therefore, the number of aircraft collaterals and the number of loans will not be equal. At the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

Aircraft Collateral Characteristics

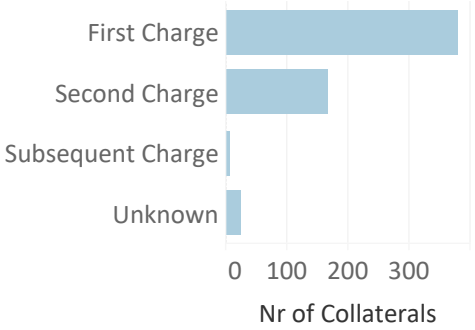
Aircraft Type



Manufacturers



Rank of Security



Haircut and Loan-to-Value

Haircut

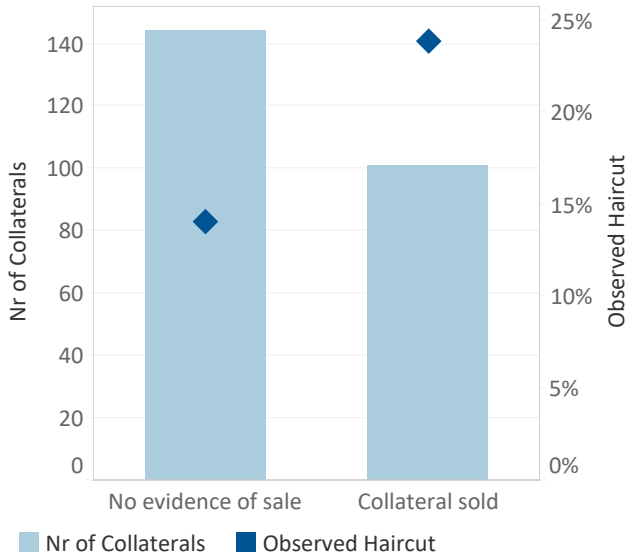
Typically the value of collateral declines during the default and workout process. On average, this decline (haircut) is observed as 18% for aircraft defaults. When the aircraft is not sold, this decline is seen in lower valuations after default representing the general market decline for second-hand 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 71% 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 (e.g. date of sale or resolution) minus the collateral value after default (max. 2 years prior) 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.

Global Credit Data
by banks for banks

Global Credit Data maintains the world's most exhaustive and high quality, 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 or RDARR GCD has established a robust framework to continously measure, monitor and improve data quality.

About

At GCD we pool credit loss data directly from banks' books, providing vital insights into the financial industry since 2004. As a non-profit organization owned by over 50 member banks we focus on collecting detailed credit risk data, particularly for low default porftolios.

Beyond data pooling we offer a platform to exchange knowledge and foster research. We are actively engaged in understanding and assessing climate risk, demonstrating our commitment to addressing contemporary and future financial challenges.

Joining GCD grants you access to an exclusive community of banks and deep data insights. Gain market understanding and benchmark your performance.

www.globalcreditdata.org

Contact

Nina Brumma
Head of Analytics and Research
nina.brumma@globalcreditdata.org

Membership Inquiries

jakub.tomczyk@globalcreditdata.org