

Observed Recovery Rates Dashboard

Aircraft Finance defaults recover 90% on average

As banks actively monitor their portfolios, factoring in the possible risks and impacts of Covid-19 pandemic scenarios, this dashboard dives into GCD's rich and high-quality data set to answer some of the key questions facing institutions with aircraft-backed loans in their portfolios.

How much do banks typically recover from defaulted aircraft-backed loans? How long does it take to recover the funds? And what kind of a haircut can you expect on the value of collateral in this sector?

Drawing on verified information – collected from 24 global or regional banks over 15 years and covering 776 defaulted facilities – the answers to these questions and more are unlocked here through **the power of GCD data**.

Key findings

90% GCD data confirms that **historical bank recoveries for defaulted Aircraft Finance loans average 90%**, a higher figure than for general corporate loans which average 76%.



In terms of recovery, aircraft collateral is the most important driver of high recovery rates and low loss given default (LGD).

New analytics

For the first time, this dashboard provides figures on the observed haircut and loan-to-value of defaulted aircraft-backed loans. Detailed methodology on how these figures are calculated are available in the appendix.

More so than ever in the current macroeconomic environment, banks must continuously assess and upgrade existing risk models. GCD data offers access to a comprehensive toolbox with which to analyse the effects of previous crises and other macroeconomic events and train and adapt their existing models accordingly.

Find out more

This dashboard builds on the wider LGD Report for Large Corporate Borrowers released in June 2020, which is available [here](#).

[Explore our other dashboards](#), covering Corporate, Bank, Sovereign, Real Estate and Shipping Finance defaults.

About Global Credit Data

Global Credit Data (GCD) is a non-profit association owned by 50+ member banks. GCD operates pooled databases on a “give to get” basis, meaning that members who supply high quality data and receive detailed data in return. The robustness of GCD's data collection infrastructure helps place the GCD databases as the global standard for credit risk data pooling.

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Observed Recovery Rates Dashboard Aircraft

October 2020

Lending Portfolio

Most loans are made through an SPV structure (Aircraft Finance - Specialised Lending) or direct to an airline (Large Corporates). Generally, aircraft-backed defaults have higher recoveries than normal corporate loans.

Region of Jurisdiction

The regional spread reflects the number of defaulted cases in the GCD database not worldwide aircraft usage. Aircraft used as a collateral are not limited by the country of the borrower but the legal system where the aircraft is home based may affect the workout and recovery.

Deal Structure

The most common deal structures include normal term loans and revolvers/overdrafts. ECA export finance deals are backed by government-supported loan guarantees and the high recovery rate matches expectations. Pre-export finance is provided to aircraft manufacturers who ultimately support the loan even if the buyer defaults.

Recoveries and Losses in Crisis Times

Higher numbers of defaults and lower recoveries are observed in the aftermath of 9/11 and during the financial crisis starting in 2008. The current Covid-19 crisis has effectively shut down much of the airline industry and is likely to result in a large number of defaults. The final result of these defaults will be affected not only by borrower and aircraft characteristics but also by the course of the virus and the levels of government support. They will ultimately be reported by banks over the next five years.

Note on Terms Used (see [Appendix](#) for more details)

Observed Recovery Rate refers to the historically 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.

776

Nr of Facilities

90%

Observed Recovery Rate

1.6

Time to Peak Recovery

Lending Portfolio

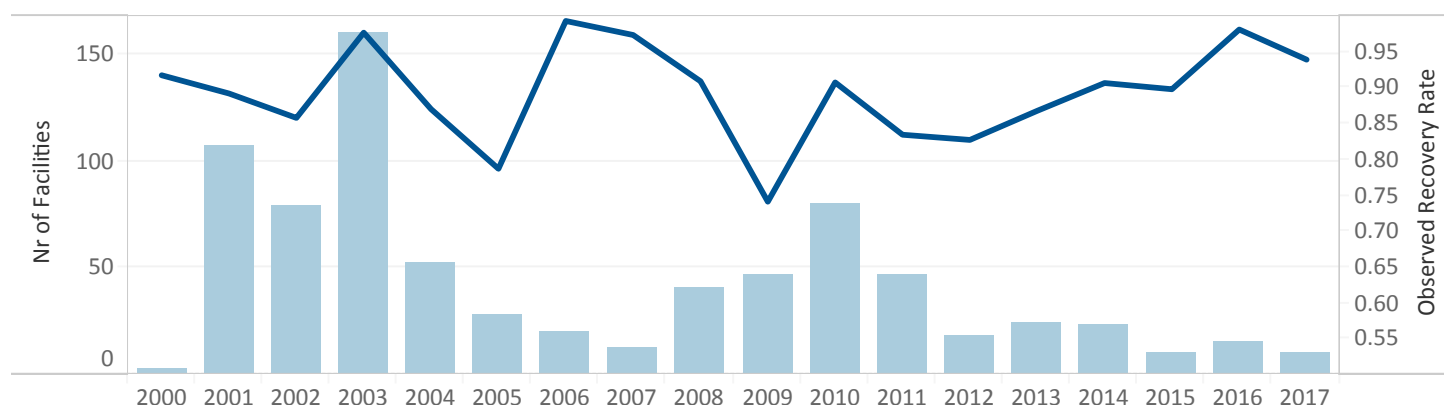
	Nr of Facilities	Observed Recovery Rate	Time to Peak Recovery
Aircraft Finance SL	512	90%	1.8
Large Corporates	89	90%	0.9
SME	76	89%	1.1
Private Banking	75	85%	1.3
Other	24	88%	0.9

Region

Region	Nr of Facilities	Observed Recovery Rate	Time to Peak Recovery
Africa & Middle East	10	97%	1.4
Asia & Oceania	69	88%	1.5
Europe	353	94%	1.9
Latin America	29	92%	0.6
North America	315	85%	1.4

Deal Structure

Deal Structure	Nr of Facilities	Observed Recovery Rate	Time to Peak Recovery
Term Loan	367	89%	1.6
Capital & Operating Lease	110	83%	1.4
ECA Export Finance	76	98%	1.6
Revolver/Overdraft	66	85%	1.7
Pre-export Finance	45	100%	1.7
Other	112	92%	1.6



Observed Recovery Rates Dashboard Aircraft

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Aircraft



483

Total Aircraft

-19%

Observed Haircut

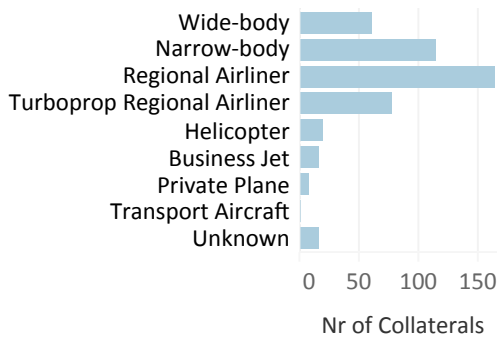
72%

Loan-to-Value

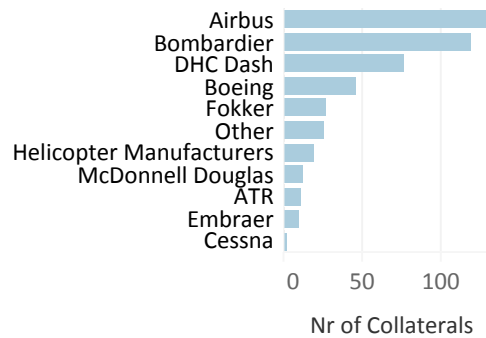
This section explores the collateral dimension on the defaulted facilities from the previous page. A single loan can be secured by multiple aircraft and a single aircraft can be used as collateral for multiple loans. Therefore, the number of aircraft collaterals and the number of loans will not be equal.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

Aircraft Collateral Characteristics

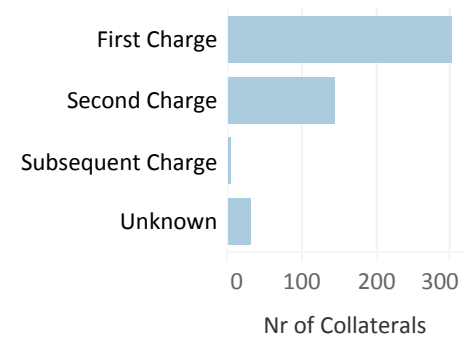
Aircraft Types



Manufacturers



Rank of Security



Haircut and Loan-to-Value

Haircut

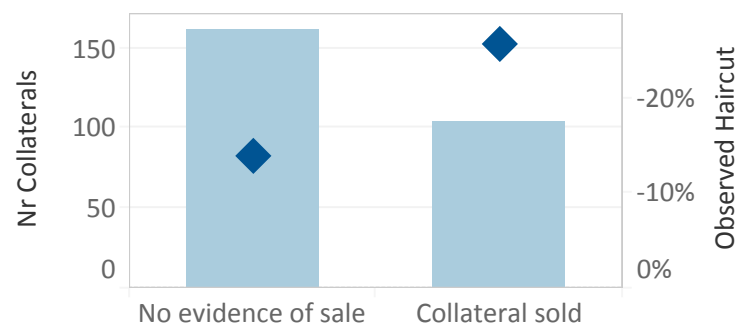
Typically the value of collateral declines during the default and workout process. On average, this decline (haircut) is observed as 19%. The level of haircut is seen to vary based on whether the collateral is sold or not. When the collateral is not sold, the decline can be interpreted as representing the general market decline for second-hand aircraft due to age depreciation and market circumstances. When the collateral is sold most likely there is an extra deduction for forced sale which could come from changed bargaining power and the state of the aircraft. The low number of sold collaterals indicates that a sale is not the most likely workout scenario.

Loan-to-Value

A typical aircraft financing case involves a long-term loan which amortizes as the value of the aircraft financed declines with depreciation. The data indicates that cases with high loan-to-value prior to default produce higher LGD. Aircrafts are recognized as high quality collateral with low volatility over time. For lenders this results in generally high recovery rates even when lending at approximately 70% loan-to-value.

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

Collateral Haircut



Measure Names

■ Nr of Collaterals ■ Observed Haircut

Note on Terms Used

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