

Aviation ABS deals under scrutiny

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Kroll Bond Rating Agency (KBRA) has placed 18 securities from six aviation asset-backed securitisation (ABS) transactions on 'Watch Downgrade'.

The six aviation ABS deals on 'Watch Downgrade' are Aergo Capital's METAL 2017-1 Series A, B, C-1 and C-2 notes; Air Lease's Thunderbolt III Series A and B notes; BBAM's Horizon Aircraft Finance I Series A, B and C; Carlyle Aviation's AASET 2017-1 Trust Class A, B and C notes; DVB Bank's KDAC Aviation Finance Series A, B and C notes; and Seraph Aviation's Raptor Aircraft Finance I's Series A, B and C notes.

The transactions have experienced performance degradation owing to the economic impact of Covid-19, resulting in interest deferrals for five of them, while none of the securities have received full scheduled principal payments.

It is unclear how long it will take to receive the previously unpaid principal amounts, despite recent improvements in air traffic, said KBRA analysts.

KBRA considered the structural provisions of the transactions and the priority of each security in the securitisation's capital structure.

Ratings for the 18 securities were previously lowered in 2020 due to performance degradation, which has continued since then.

Each deal has also breached its applicable debt service coverage ratio (DSCR) trigger, causing a rapid amortisation event for several months.

The KBRA analysis also considered certain collateral characteristics such as off-lease aircraft and bankrupt lessees.

As of the March 2021 remittance report date, rent collections declines that had begun in prior months continued as a result of factors including deferrals and delinquencies related to Covid-19.

The rent collection declines impacted available collections flowing through the waterfalls, said KBRA. As a result, on the March 2021 payment dates, while all of the A and B securities had received scheduled interest payments, none of the securities were receiving full scheduled principal payments, the analysts noted.

[Aircraft values and lease rates face continued downward pressure due to "the dearth of trading and thus liquidity"](#), KBRA said last month. It predicted that more airlines would default in 2021, following 37 collapses in 2020.

On 16 April, regional lessor Falko went to market with a new \$255 million ABS deal – Regional 2021-1.

Proceeds will be used to acquire 39 aircraft and related leases. At closing, 12 aircraft were off-lease, six of which had executed letters of intent and the remaining 27 aircraft were on lease to seven operators.

Canyon Financial Services was managing agent; Citibank was trustee, security trustee and operating bank; Sun Life Assurance of Canada was the liquidity facility provider; and Citigroup Global Markets served as lead structuring agent in the Falko deal.

KBRA has assigned a BBB+ rating to the \$255 million Series A Falko loans.

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