

Single-tranche structure re-opens ABS market

Olivier Bonnassies

16/10/2023

Any re-opening of the aviation asset-backed securitisation (ABS) market was expected to include several structural enhancements to reflect current market conditions.

So it was no surprise to see the latest transaction structured as a single tranche, as subordinated tranches are harder to sell.

[WEST VII](#) represents sponsor Willis Lease's first ABS transaction with a single tranche, though.

The loan to value is 72.2% initially, similar to the issuer's previous deal WEST VI (72%) in 2021.

In its pre-sale report, KBRA flagged that the WEST VII transaction benefits from credit enhancement levels that are sufficient to withstand its rating stresses.

The transaction includes numerous tests that increase principal payments to the series A notes if triggered.

There is a minimum number of assets test. If the issuer does not own at least eight assets at the end of the delivery period, the transaction will begin to use any excess cash to pay down the series A notes after the application of scheduled principal.

A collections test means that subject to certain conditions, if on a single payment date rent payments received are less than 75% of what is due from all leases, the transaction will use 25% of excess cash to pay down the series A notes after the application of scheduled principal.

Under a three-month DSCR test, the debt service coverage ratio (DSCR) is calculated off a three-month look-back window of cash flows, compared with pre-Covid-19 aviation ABS transactions that use a six-month look-back window.

At closing, all cash security deposits will be deposited into this account. Excess amounts on deposit will be available to cover shortfalls on senior expenses, liquidity facility payments, and interest on the series A notes. At the option of the equity holder, excess amounts can also be used to cover principal shortfalls on the series A notes. These amounts cannot be released to the equity holder until the notes have been paid in full.

There is also a liquidity facility sized to 12 months of interest due on the series A notes, compared with nine months of interest due on the senior notes in most aviation ABS transactions.

As of 31 August 2023, seven narrowbody engines (12.4% by value) were off-lease, although Willis signed a lease agreement for one with Air India for four years, leaving six engines remaining off-lease as of September 2023.

KBRA said the percentage of off-lease assets is comparable to previous two ABS transactions (WEST VI: 10.5% by value and WEST V: 10.5% by value).

The weighted average remaining lease term of the contracts in the portfolio is approximately 3.5 years.

The rating agency noted that no lessee in the initial portfolio had outstanding deferrals or was subject to a usage-based rent agreement, as of 31 August 2023.

The portfolio includes two engines (3% by value) on lease to Scandinavian Airlines (SAS), which filed for bankruptcy protection last year and is not expected to emerge until the second quarter of 2024. The two IAE V2500-A5 engines are currently installed on an owned airframe which Willis believes is core to SAS' fleet strategy.

The transaction exhibits diversity by lessee, with 15 lessees representing 57.6% of the initial portfolio. The three largest lessees by value

AIRFINANCE GLOBAL

comprise 30%, and include Air India (10.7% by value), Wizz Air (10.5% by value), and Pratt & Whitney (8.8% by value). However, the initial portfolio exhibits geographic concentration, as three countries represent nearly 40% of the transaction, including the United States (18.8% by value), India (10.7% by value), and Hungary (10.5% by value).

The transaction has no or limited exposure to lessees in geographies with ongoing military conflicts. As of 31 August 2023, no lessees in the portfolio were located in Russia or Ukraine. In addition, unlike other aviation ABS transactions issued prior to the conflict between the two countries, the subject transaction's concentration limits do not allow for future lessees based in Russia or Ukraine.

Thank you for printing this article from Airfinance Global, your essential intelligence resource for aviation finance. If you have been given this article by a subscriber, you can contact us through email at accountmanager@airfinanceglobal.com or call us on +44 (0)20 7779 8015 to discuss our subscription options.