More loyalty ABS issuances on the cards

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03/07/2025

S&P Global Ratings forecasts additional airline loyalty ABS issuances to come to market, but highlights the risks associated with the asset class in its recent report, "ABS Frontiers: Airline Loyalty ABS Have Lift Off."

Possible concerns include the potential devaluation of loyalty miles and exposure to the corporate risk of the parent airline, especially in a restructuring.

“There are risks associated with airline loyalty ABS. Nevertheless, under suitable economic circumstances, we expect airline loyalty ABS to remain a viable alternative to corporate bond issuances for airlines in need of liquidity,” the rating agency says in the report.

“Moreover, airline loyalty programmes can be a convenient source of financing, especially when airlines are struggling to sell tickets."

S&P Global Ratings states that without loyalty programmes, the earnings of certain major U.S. airlines would be significantly weaker in the current economic climate.

Liquidity needs

There are hundreds of airline loyalty programmes worldwide, but S&P focused its report on the three largest U.S. airlines: American Airlines, United Airlines and Delta Air Lines. Their loyalty programs are AAdvantage, MileagePlus, and SkyMiles, respectively.

Post-pandemic, several U.S. airline companies securitised the future flows of their loyalty programmes to generate much-needed liquidity. United raised $6.8 billion, Delta raised $9 billion, and American raised $10 billion — the largest airline debt financing transaction to date.

In 2024, American generated $7 billion in reported revenue from its loyalty programme; Delta earned $7.2 billion; and United reported $2.9 billion in loyalty revenue as part of other operating revenue.

S&P notes that the co-branding partnership with a credit card issuer is a “key driver” of airline loyalty profitability.

In 2022, more than 60% of all loyalty miles earned came from co-branded credit cards. Customers use these cards both to earn airline miles and to redeem them. Delta, which recently extended its agreement with American Express, noted that $280 billion worth of transactions were processed on its Delta American Express card in 2024.

Similarly, American said during its first-quarter 2025 earnings call that AAdvantage members account for 76% of its higher-margin premium cabin revenue.

In 2024, American generated $6.1 billion in cash from co-branded credit cards (including a one-time payment related to its new 10-year agreement with Citi that is effective in 2026).

The company noted that as annual cash payments from co-branded credit cards and other partners approach $10 billion, its annual pretax income is expected to increase by $1.5 billion relative to 2024.

S&P says loyalty programmes have been underutilised as unencumbered assets with potential for immediate monetisation.

Before the pandemic, one of the few instances of tapping the value of an airline loyalty programme was when Air Canada sold its interest in its Aeroplan program through a series of transactions (between 2005 and 2008) for just over C$1.5 billion. (The airline re-purchased this interest in 2017 for C$517 million.)

Pandemic

Following the onset of the pandemic, the first airline to tap into its loyalty program was United, which raised $6.8 billion in June 2020. Soon afterwards, Spirit Airlines raised $850 million, and Delta raised $9 billion.

In March 2021, American issued $10 billion in debt funded by future flows of its loyalty programme.

“There are multiple avenues available to airlines that seek financing. Clearly, leveraging the profitability of loyalty programs proves to be convenient and economically sensible, as it doesn't tie up aircraft or other tangible assets,” says S&P.

However, the agency notes “subtle differences” between airline loyalty securitisations and traditional asset-backed securities (ABS), both in terms of the mechanics and the risks.

S&P considers airline loyalty ABS a nonfinancial future flow transaction, in which the securitised business line is expected to continue operating even if the airline were to default.

More specifically, a future flow transaction "relies on the analytical conclusion that an originator's default will be followed by a reorganisation and not a liquidation.”

In most cases, loyalty programmes are wholly owned by their parent airline and remain on the corporate balance sheet. This raises the question: In the case of airline loyalty ABS, which assets are securitised?

Unlike a corporate debt issuance, the ABS noteholders have no recourse to the airline, and note repayment is covered by the future flows of the loyalty programs, along with other components such as intellectual property.

One key distinction between carrying out a future flow securitisation as opposed to a corporate issuance is that, with proper asset isolation and credit enhancement, the airline loyalty ABS could be rated higher than the airline. ABS with a fully amortising structure can be rated up to three notches higher than the company.

“Given that the three major U.S. airlines derive much of their profitability from their loyalty programs, one could view these entities as effectively finance companies that happen to facilitate commercial air travel,” according to S&P. “The reality, however, is more nuanced.”

First, airlines have lower capacity than banks to sustain relatively higher leverage, given the inherent volatility and cyclicality of the airline industry. Also, losses from reduced passenger travel can overwhelm loyalty earnings-related cash flow.

Additionally, loyalty programme members are likely to spend less on their cards during a recession (hence, airlines receive lower revenue) and may redeem more miles than usual (resulting in a higher cost to the airlines).

S&P notes that although loyalty programmes could be a useful source of liquidity for many airlines, they cannot be viewed independently.

The two sides of the business rely on each other: The airline benefits from the profitable loyalty programe as a source of liquidity, both in terms of current cash flow and to raise debt. Meanwhile, loyalty programs rely on the airline's brand affiliation to ensure the miles have value.

Market caps and loyalty valuations for three major U.S. carriers as of 2023

Chart 2A

United

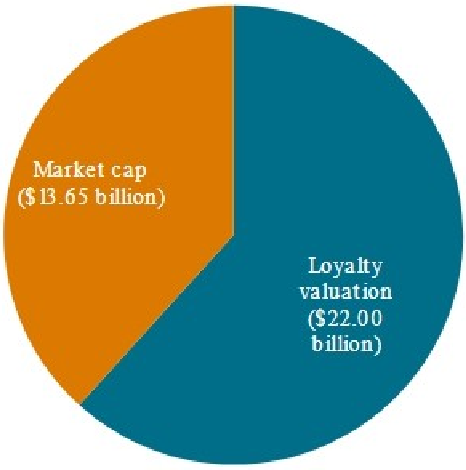
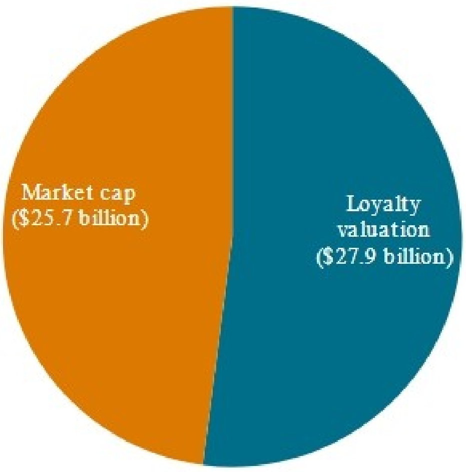
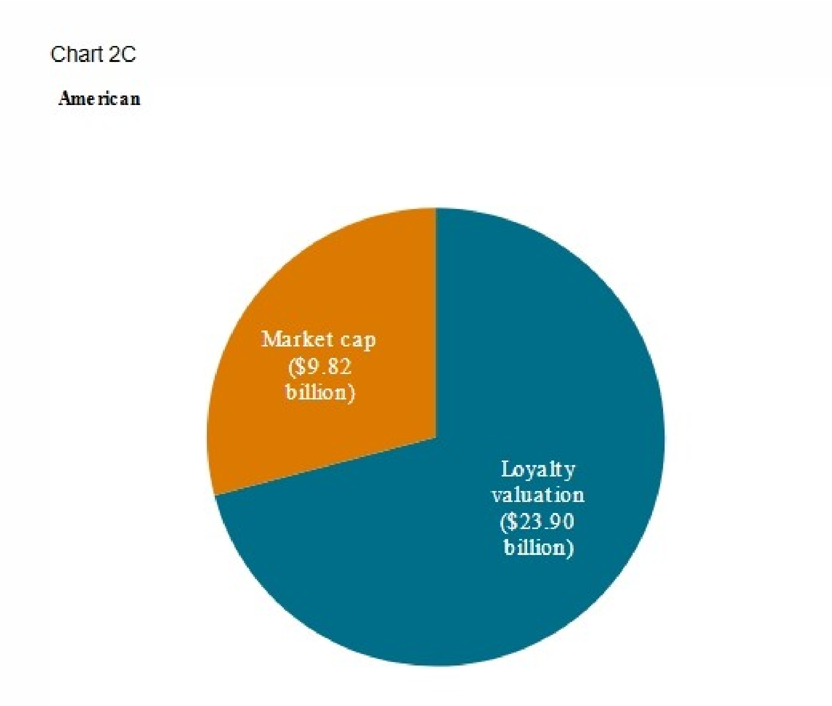


Chart 2B

Delta





Devaluation risk

S&P also flagged several concerns, including the risk of devaluation. At a fundamental level, one of the risks associated with airline loyalty ABS stems from whether the airlines will honour the miles that they award. The value of the miles (both what credit card companies pay and the implicit worth perceived by consumers) is predicated on whether the airlines eventually honour all redemptions.

Corporate risk is another concern. As with a traditional ABS transaction, airline loyalty securitisations involve a bankruptcy-remote special-purpose vehicle (SPV) that contains future flows, intellectual property, and other assets.

However, the performance of the ABS can't truly be decoupled from the credit profile of the airline.

An example is Spirit Airlines, which filed for bankruptcy in late 2024. The airline issued $850 million in ABS in 2022, backed by its loyalty programme, followed by another $600 million two years later.

Although the SPV was technically bankruptcy-remote, the resulting airline workout led to ABS noteholders owning equity in the emerging parent company, along with other assets unrelated to the future flow of the loyalty programme.

“This outcome demonstrates an embedded corporate risk exposure present among all airline loyalty ABS. Regardless, loyalty programmes have survived nearly all airline bankruptcies and mergers to date,” says S&P.

Airline loyalty programmes are also exposed to various legal and regulatory risks, which could in turn jeopardise the future flows of a transaction.

For example, the U.S. consumer is broadly protected against misleading statements concerning the value and terms of use of miles, as well as opaque pricing and devaluation of miles.

Other legal considerations include data breaches that could compromise consumer privacy and antitrust considerations, both of which could impact the airline loyalty business model.

Finally, miles are issued by the airline loyalty programme, purchased primarily by the credit card companies, and then awarded to consumers, which are the ultimate beneficiaries.

There are a limited number of companies that elect to co-brand; therefore, if a loyalty programme were to lose a credit card partner, the limited availability of replacements could jeopardise the future flows that fund the ABS notes.

This amounts to a form of concentration risk that must be factored into any credit analysis.

Still, loyalty programmes are integral components of many airline business models. The value of reward miles is supported by convenient alliances between the various loyalty programmes, while partnerships with banks that offer co-branded credit cards generate reliable cash flows, which successfully hedge against industry downturns when consumers are less likely to travel.

Securitisation of loyalty programme future flows is a relatively new method of raising capital for airlines. However, note spreads have tightened over the past five years, suggesting that investors are becoming increasingly comfortable with the asset class, S&P concludes.

