Executive Certificate in Aircraft Financing and Leasing

Legal Aspects of Aircraft Financing and Leasing

Legal Aspects of Aircraft Financing and Leasing Glossary

Aircraft Financing:
Aircraft financing refers to the process of providing funds to individuals or entities to purchase aircraft. This can be done through various means such as loans, leases, or other financial arrangements. Financing an aircraft allows the borrower to acquire an aircraft without having to pay the full purchase price upfront, spreading the cost over a period of time.

Aircraft Leasing:
Aircraft leasing involves the temporary transfer of an aircraft from the lessor (owner) to the lessee (user) in exchange for periodic payments. Leasing is a popular option for airlines and other operators as it provides flexibility in fleet management and can be a cost-effective alternative to purchasing an aircraft outright.

Aircraft Purchase Agreement:
An aircraft purchase agreement is a legally binding contract between the buyer and seller of an aircraft. This agreement outlines the terms and conditions of the sale, including the purchase price, payment schedule, delivery date, and any warranties or guarantees. It is essential to have a comprehensive purchase agreement to protect the interests of both parties.

Airworthiness Certificate:
An airworthiness certificate is a document issued by the aviation authority of a country that certifies an aircraft is safe to fly. This certificate is required for all aircraft operating in that country and must be renewed periodically to ensure continued airworthiness.

Assignment of Leases and Contracts:
An assignment of leases and contracts is a legal document that transfers the rights and obligations of a lease or contract from one party to another. In aircraft financing and leasing, this document may be used to transfer the rights and responsibilities of a lease or financing agreement from the original lessor or lender to a new lessor or lender.

Bankruptcy:
Bankruptcy is a legal process that allows individuals or businesses to seek relief from their debts when they are unable to repay them. In the context of aircraft financing and leasing, bankruptcy can have significant implications for both lenders and lessees, as it may impact the ownership and operation of aircraft.

Collateral:
Collateral refers to assets or property that is pledged as security for a loan or financing arrangement. In

aircraft financing, the aircraft itself may serve as collateral for the loan, providing the lender with a form of security in case the borrower defaults on the loan.

Default:
A default occurs when a borrower fails to meet the terms and conditions of a loan or financing agreement. In the context of aircraft financing and leasing, a default could result in the repossession of the aircraft by the lender or lessor, as well as legal action to recover any outstanding debts.

Export Credit Agencies (ECAs):
Export credit agencies are government-backed institutions that provide financial support to domestic companies engaged in international trade. ECAs may offer loan guarantees, insurance, or direct financing to support the export of goods and services, including aircraft.

Financing Statement:
A financing statement is a legal document that is filed with the appropriate government authority to establish a lender's security interest in a particular asset, such as an aircraft. This document provides public notice of the lender's claim on the asset and is essential for protecting the lender's rights in case of default.

Governing Law:
Governing law refers to the jurisdiction whose laws will be used to interpret and enforce a legal agreement. In aircraft financing and leasing, the governing law specified in the contract will determine the rights and obligations of the parties involved and may impact the resolution of any disputes that arise.

International Registry:
The International Registry of Mobile Assets is an online database established under the Cape Town Convention to record security interests in aircraft and other high-value mobile assets. The registry provides a centralized platform for registering and searching for security interests, making it easier for creditors to protect their interests in cross-border transactions.

Joint Venture:
A joint venture is a business arrangement in which two or more parties come together to undertake a specific project or business activity. In the context of aircraft financing and leasing, joint ventures may be formed to acquire and operate aircraft, sharing the risks and rewards of ownership between the parties involved.

Kennedy Space Center:
The Kennedy Space Center is a major NASA facility located in Florida, USA, that serves as a launch site for manned and unmanned space missions. While not directly related to aircraft financing and leasing, the Kennedy Space Center plays a significant role in the aerospace industry and may influence related legal and regulatory developments.

Letter of Credit:

A letter of credit is a financial instrument issued by a bank on behalf of a buyer that guarantees payment to a seller for goods or services. In aircraft financing, letters of credit may be used to secure payments for aircraft purchases or leases, providing a level of assurance to the seller or lessor.

Manufacturer's Warranty:
A manufacturer's warranty is a guarantee provided by the aircraft manufacturer that the aircraft is free from defects and will perform as expected for a certain period of time. This warranty may be included in the purchase agreement for a new aircraft and can provide the buyer with protection against unforeseen issues.

Novation Agreement:
A novation agreement is a legal document that transfers the rights and obligations of a contract from one party to another. In aircraft financing and leasing, a novation agreement may be used to assign the rights and responsibilities of a lease or financing agreement to a new party, such as a new lessor or lender.

Operating Lease:
An operating lease is a type of lease in which the lessee (user) rents an aircraft for a specific period of time without assuming ownership or the financial risks associated with ownership. Operating leases are typically shorter-term arrangements that allow lessees to use aircraft without a significant upfront investment.

Pre-Delivery Payment (PDP):
A pre-delivery payment is a payment made by the buyer of an aircraft to the manufacturer before the aircraft is delivered. PDPs are common in the aircraft industry to provide manufacturers with upfront funding for the production of aircraft and may be secured by a letter of credit or other financial instrument.

Quiet Title Action:
A quiet title action is a legal proceeding to establish clear and marketable title to a property or asset. In the context of aircraft financing, a quiet title action may be used to resolve any disputes or clouded titles related to the ownership of an aircraft, ensuring that the lender or lessor has a valid claim to the asset.

Registration:
Registration refers to the process of recording an aircraft with the appropriate aviation authority, typically the civil aviation authority of the country where the aircraft is based. Registration is a legal requirement for all aircraft and serves as proof of ownership and compliance with safety regulations.

Security Agreement:
A security agreement is a legal document that creates a security interest in a specific asset, such as an aircraft, to secure a loan or financing arrangement. The security agreement outlines the terms and conditions of the security interest, including the rights of the lender in case of default.

Trust Indenture:
A trust indenture is a legal document that establishes a trust to hold assets on behalf of a beneficiary. In aircraft financing and leasing, a trust indenture may be used to hold title to an aircraft for the benefit of the

lender or lessor, providing an additional layer of security for the financing arrangement.

Uniform Commercial Code (UCC):
The Uniform Commercial Code is a set of laws governing commercial transactions in the United States. The UCC includes provisions related to security interests, sales of goods, and other aspects of commercial law that are relevant to aircraft financing and leasing transactions conducted in the U.S.

Valuation:
Valuation refers to the process of determining the fair market value of an aircraft for financing or leasing purposes. Valuation may be conducted by appraisers, brokers, or other professionals to assess the value of an aircraft based on factors such as age, condition, and market demand.

Wet Lease:
A wet lease is a type of lease in which the lessor (owner) provides an aircraft along with crew, maintenance, and insurance to the lessee (user). Wet leases are commonly used by airlines to meet short-term capacity needs or to operate routes for which they do not have suitable aircraft or crew available.