
Executive Certificate in Aircraft Financing and Leasing

Risk Management in Aviation Finance

Acceptable Risk: The level of risk that an organization or individual is willing to accept, often determined through a risk management process. In aviation finance, acceptable risk may be the level of risk associated with an aircraft investment that a lender or lessor is willing to accept based on their risk tolerance and financial objectives.

Aircraft Lease: A contractual agreement between an aircraft owner (lessor) and an airline or other operator (lessee), allowing the lessee to use the aircraft for a specified period of time in exchange for rental payments. There are various types of aircraft leases, including operating leases, finance leases, and lease-to-own agreements.

Aircraft Lessor: An individual or entity that owns one or more aircraft and leases them to airlines or other operators for a fee. Lessors assume the financial risk associated with aircraft ownership, while lessees benefit from the use of the aircraft without the burden of full ownership.

Aircraft Lender: A financial institution, investor, or other entity that provides loans to aircraft buyers, typically secured by the aircraft itself. Lenders in aviation finance must assess and manage various risks, including credit risk, market risk, and operational risk, to ensure the successful financing and repayment of aircraft loans.

Asset-Backed Securities (ABS): A financial instrument created by pooling together various assets, such as aircraft loans or leases, and selling securities backed by those assets to investors. ABS in aviation finance allow lessors and lenders to transfer risk and free up capital for further investment in aircraft.

Credit Risk: The risk that a borrower will default on their financial obligations, such as failing to make loan payments. In aviation finance, credit risk is a primary concern for lenders, as default can result in the loss of their aircraft collateral.

Depreciation: The reduction in value of an asset over time due to wear and tear, age, or obsolescence. In aviation finance, depreciation is an important factor in determining an aircraft's residual value and the overall profitability of an investment.

Finance Lease: A type of aircraft lease in which the lessee assumes most of the risks and rewards associated with aircraft ownership, including maintenance and depreciation. At the end of the lease term, the lessee may have the option to purchase the aircraft at a predetermined price.

Insurance: A contractual agreement in which an individual or entity transfers risk to an insurance company in exchange for premium payments. In aviation finance, insurance is a crucial risk management tool,

protecting against various risks such as physical damage, liability, and loss of income.

Lease-to-Own: A type of aircraft lease agreement in which the lessee has the option to purchase the aircraft at the end of the lease term, often at a predetermined price. This arrangement allows the lessee to acquire ownership of the aircraft over time while minimizing upfront capital investment.

Lessee: An individual or entity that leases an aircraft from a lessor for a specified period of time in exchange for rental payments. Lessees benefit from the use of the aircraft without the burden of full ownership, but may also assume certain risks and responsibilities associated with aircraft operation.

Lessor: An individual or entity that owns one or more aircraft and leases them to airlines or other operators for a fee. Lessors assume the financial risk associated with aircraft ownership, while lessees benefit from the use of the aircraft without the burden of full ownership.

Market Risk: The risk that fluctuations in the market, such as changes in interest rates or demand for aircraft, will negatively impact the value of an aircraft or an aircraft investment. Aviation finance professionals must evaluate and manage market risk to ensure the long-term profitability of their investments.

Operating Lease: A type of aircraft lease in which the lessee is responsible for maintenance and insurance costs, while the lessor retains ownership of the aircraft. At the end of the lease term, the aircraft is typically returned to the lessor, allowing the lessee to avoid the risks and responsibilities associated with full ownership.

Operational Risk: The risk that the normal operations of an aircraft or an airline will be disrupted, resulting in financial loss or reputational damage. Operational risks in aviation finance include aircraft downtime, maintenance issues, and pilot error, among others.

Portfolio Management: The process of managing a collection of investments, such as aircraft loans or leases, to maximize returns and minimize risk. In aviation finance, portfolio management involves monitoring and adjusting investments based on market conditions, creditworthiness of borrowers, and other factors.

Residual Value: The estimated value of an aircraft at the end of its useful life or the end of a lease term. Residual value is an important consideration in aviation finance, as it impacts the overall profitability of an aircraft investment or lease agreement.

Risk: The possibility of loss, harm, or negative impact resulting from exposure to various factors, such as financial, operational, or market risks. In aviation finance, risk management is critical to ensure the successful financing, leasing, and operation of aircraft.

Risk Management: The process of identifying, assessing, and mitigating potential risks to minimize their impact on financial and operational objectives. Effective risk management is essential in aviation finance to ensure the long-term success and sustainability of aircraft investments and lease agreements.

Underwriting: The process of evaluating the creditworthiness of a borrower and the value of an aircraft to determine the risk and terms of a loan or lease agreement. In aviation finance, underwriting involves assessing various factors, including the borrower's financial history, the aircraft's market value, and the overall demand for aircraft.

Valuation: The process of determining the value of an aircraft or an aircraft investment based on various factors, such as market conditions, historical data, and financial metrics. Valuation is an essential aspect of aviation finance, as it informs decisions related to purchasing, leasing, and financing aircraft.

In summary, this glossary covers essential terms and concepts related to risk management in aviation finance. Understanding these terms is crucial for professionals working in this field, as they enable informed decision-making, effective risk management, and successful aircraft investments and lease agreements.