Executive Certificate in Aircraft Financing and Leasing

Aircraft Securitization and Capital Markets

Aircraft Lease – A contractual arrangement where a lessor provides an aircraft to a lessee for a defined period in exchange for scheduled payments. Related terms: Operating Lease, Finance Lease. Example: A regional airline leases a CRJ-200 for three years to meet seasonal demand. Challenges include residual value risk, maintenance responsibilities, and regulatory compliance.

Aircraft Securitization – The process of pooling aircraft lease assets and issuing securities backed by those cash flows to investors. Related terms: Asset-Backed Securities (ABS), Special Purpose Vehicle (SPV). Example: A leasing company creates an SPV, transfers a portfolio of Airbus A320 leases, and sells tranches to institutional investors. Challenges involve credit rating, legal structuring, and market liquidity.

Aircraft Trust – A legal arrangement where aircraft titles are held by a trustee for the benefit of beneficiaries, often used to isolate assets and enhance creditworthiness. Related terms: Trust Deed, Beneficiary. Example: An airline places its fleet into a trust to secure financing while retaining operational control. Challenges include tax implications and covenant monitoring.

Airline Debt Management – Strategies employed by carriers to optimize debt structures, refinance existing obligations, and align financing with cash-flow cycles. Related terms: Refinancing, Debt-to-Equity Ratio. Example: A carrier issues green bonds to replace high-cost bank loans, reducing interest expense. Challenges include covenant compliance and market perception.

Airline Financial Statements – Core reports (balance sheet, income statement, cash-flow statement) that disclose a carrier's financial position, performance, and liquidity. Related terms: EBITDA, Operating Margin. Example: Investors analyze the balance sheet to assess aircraft asset values and lease liabilities. Challenges involve accounting for lease accounting changes (IFRS 16/ASC 842).

Airline Leasing Market – The global marketplace where aircraft leasing entities buy, sell, and lease aircraft to airlines, driven by supply-demand dynamics and financing trends. Related terms: Lessors, Lessee. Example: The market sees a surge in demand for narrow-body jets during a post-pandemic recovery. Challenges include fleet age risk and geopolitical volatility.

Amortisation Schedule – A table detailing periodic principal and interest payments over the life of a loan or lease, used to project cash-flow impact. Related terms: Payment Calendar, Interest Rate. Example: A lessee uses an amortisation schedule to plan quarterly lease payments for a new aircraft. Challenges include variable-rate adjustments and early-termination penalties.

Annual Percentage Rate (APR) – The yearly interest rate that includes fees and other costs, expressed as a percentage, used to compare financing offers. Related terms: Effective Rate, Nominal Rate. Example: A leasing contract quotes a 4.5% APR, allowing the lessee to benchmark against bank loans. Challenges arise from differing calculation bases across jurisdictions.

Asset-Backed Commercial Paper (ABCP) – Short-term debt instruments issued by an SPV and backed by a pool of aircraft lease receivables, typically maturing within 270 days. Related terms: Liquidity Facility, Roll-Over Risk. Example: An SPV sells ABCP to fund the acquisition of new jets, relying on continuous investor roll-over. Challenges include market stress and credit rating downgrades.

Asset-Based Lending (ABL) – Financing secured by tangible assets such as aircraft, where loan amounts are determined by asset valuation rather than cash-flow analysis. Related terms: Collateral, Loan-to-Value (LTV). Example: A lessor obtains an ABL facility to purchase a fleet, using the aircraft as security. Challenges include asset depreciation and collateral monitoring.

Bank Loan Syndication – The process of distributing a large loan among multiple banks to spread risk, often used for high-value aircraft purchases. Related terms: Lead Arranger, Participating Bank. Example: A carrier secures a $1 billion syndicated loan to finance a fleet expansion. Challenges involve coordination of covenants and pricing across lenders.

Bond Indenture – A legal contract between bond issuers and bondholders that outlines the terms, covenants, and protections of a bond issue. Related terms: Trustee, Covenant. Example: An aircraft leasing company issues a senior unsecured bond under a bond indenture that includes cross-default provisions. Challenges include negotiating restrictive covenants that may limit future financing flexibility.

Bridge Financing – Short-term capital provided to cover a funding gap until longer-term financing is secured, often used during aircraft acquisition transitions. Related terms: Gap Funding, Convertible Note. Example: A lessee uses bridge financing to take delivery of an aircraft while awaiting a permanent loan approval. Challenges include higher interest rates and refinancing risk.

Capital Structure – The mix of debt, equity, and hybrid instruments that a leasing company or airline uses to finance its operations and assets. Related terms: Equity Capital, Debt Capital. Example: A lessor maintains a 60 % debt to 40 % equity ratio to balance tax shields and financial risk. Challenges involve optimizing leverage without breaching covenants.

Cash-Flow Waterfall – A hierarchical payment structure that dictates the order in which cash generated by aircraft leases is distributed among stakeholders (senior lenders, mezzanine investors, equity holders). Related terms: Tranche, Priority. Example: In an ABS transaction, senior tranche receives interest first, followed by mezzanine and residual cash to the equity sponsor. Challenges include modeling variability in lease payments and default scenarios.

Collateral Management – The ongoing process of monitoring, valuing, and protecting assets pledged as security for financing, ensuring compliance with loan covenants. Related terms: Security Agreement, Valuation Frequency. Example: A lessor's collateral manager conducts quarterly aircraft appraisals to satisfy lender LTV requirements. Challenges involve market price volatility and regulatory reporting.

Convertible Lease – A lease agreement that includes an option for the lessee to convert the lease into ownership at a predetermined price, often used to align incentives. Related terms: Purchase Option, Residual Value. Example: A carrier leases a Boeing 777 with a convertible feature, allowing purchase after ten years at the fair market value. Challenges include setting a fair conversion price and managing tax consequences.

Credit Rating Agency (CRA) – An independent organization that assesses the creditworthiness of issuers and securities, influencing investor demand and pricing. Related terms: Moody's, S&P Global, Fitch. Example: An aircraft ABS receives a "A-" rating, enabling lower yields on the issued tranches. Challenges include rating methodology transparency and the impact of rating downgrades on liquidity.

Credit Spread – The difference in yield between a corporate security (e.G., Aircraft bond) and a risk-free benchmark (e.G., Government bond), reflecting perceived credit risk. Related terms: Yield Curve, Risk Premium. Example: A leasing company's senior notes trade at a 150-basis-point spread over U.S. Treasuries. Challenges involve market volatility that can widen spreads abruptly.

Cross-Default Clause – A contractual provision that triggers default on one obligation if the borrower defaults on another, protecting lenders from fragmented defaults. Related terms: Trigger Event, Default. Example: An ABS indenture contains a cross-default clause linking the senior tranche to any default on the underlying lease contracts. Challenges include managing multiple agreements to avoid unintended defaults.

Debt Service Coverage Ratio (DSCR) – A financial metric that compares cash available for debt service to the required principal and interest payments, indicating repayment ability. Related terms: Cash-Flow Ratio, Liquidity Ratio. Example: A lender requires a DSCR of 1.25 For an aircraft loan, meaning cash flow must exceed debt service by 25 %. Challenges arise when operating cash flows are seasonal.

Default Risk – The probability that a borrower will fail to meet contractual payment obligations, affecting pricing and investor appetite. Related terms: Probability of Default (PD), Loss Given Default (LGD). Example: High default risk on a lessee in an emerging market may lead to higher lease rates. Challenges include accurate risk modeling and mitigation through guarantees.

Depreciation Schedule – A timeline that allocates the cost of an aircraft over its useful life for accounting and tax purposes. Related terms: Straight-Line Method, Accelerated Depreciation. Example: An airline depreciates a new aircraft over 20 years, reducing taxable income each fiscal period. Challenges involve regulatory changes to depreciation rules.

Discount Rate – The interest rate used to convert future cash flows into present value, essential for valuation of lease assets and securities. Related terms: Present Value, Weighted Average Cost of Capital (WACC). Example: An ABS model applies a 5 % discount rate to forecasted lease payments to determine tranche pricing. Challenges include selecting an appropriate rate that reflects risk and market conditions.

Equity Participation – The involvement of equity investors in the ownership and profit distribution of an aircraft financing transaction, often bearing residual risk. Related terms: Equity Sponsor, Residual Tranche. Example: A private equity fund provides equity to fund the acquisition of a fleet, earning upside if aircraft values appreciate. Challenges include aligning exit horizons and managing dilution.

European Union Aircraft Financing Directive (EUAFD) – A regulatory framework governing aircraft financing and leasing activities within the EU, affecting cross-border transactions and tax treatment. Related terms: Regulatory Compliance, Tax Neutrality. Example: A lessor structures a lease to comply with EUAFD, ensuring VAT is correctly applied. Challenges involve navigating divergent national implementations.

Financing Gap – The shortfall between the capital required to acquire an aircraft and the amount available from existing financing sources, often addressed through supplemental funding. Related terms: Equity Bridge, Mezzanine Debt. Example: After securing a senior loan, a lessee identifies a $50 million financing gap and fills it with mezzanine financing. Challenges include higher cost of capital for the gap portion.

Fixed-Rate Lease – A lease agreement where the payment amounts are set at a constant rate for the lease term, providing predictability for budgeting. Related terms: Variable-Rate Lease, Interest Rate Swap. Example: A carrier signs a five-year fixed-rate lease for a narrow-body aircraft, locking in payments despite market rate fluctuations. Challenges involve opportunity cost if market rates fall.

Floating-Rate Lease – A lease structure where payments are tied to a reference interest rate (e.G., LIBOR, SOFR) and may adjust periodically, exposing the lessee to rate risk. Related terms: Benchmark Rate, Hedging. Example: A lessee enters a floating-rate lease indexed to 3-month LIBOR, benefiting from lower rates when the market declines. Challenges include managing rate volatility through swaps or caps.

Forward Purchase Agreement (FPA) – A contract that allows a lessee to lock in the purchase price of an aircraft before delivery, often used to secure financing and hedge price risk. Related terms: Price Lock, Delivery Schedule. Example: An airline signs an FPA for a new Airbus A321, fixing the purchase price six months before delivery. Challenges involve market price swings and cancellation penalties.

Funding Ratio – The proportion of an entity’s assets financed through debt versus equity, influencing risk profile and cost of capital. Related terms: Leverage Ratio, Debt Ratio. Example: A leasing firm maintains a 70 % funding ratio, meaning 70 % of its assets are funded by debt. Challenges include maintaining ratios within covenant thresholds during market stress.

General Collateral Mortgage (GCM) – A security instrument that grants a lender a lien on all present and future assets of the borrower, often used in aircraft financing to simplify collateral documentation. Related terms: Security Interest, Priority Lien. Example: A bank obtains a GCM over a lessor’s entire aircraft portfolio. Challenges include ensuring proper perfection of the lien across jurisdictions.

Green Aircraft Bond – A debt instrument issued to finance environmentally friendly aircraft projects, such as fuel-efficient fleets or sustainable aviation fuel (SAF) initiatives. Related terms: ESG, Climate-Linked Loan.

Example: An airline issues a $500 million green bond to purchase next-generation aircraft with lower emissions. Challenges involve meeting reporting standards and verifying environmental impact.

Haircut – The percentage reduction applied to the market value of collateral to determine the loan amount, reflecting risk mitigation. Related terms: LTV, Collateral Valuation. Example: A lender applies a 20 % haircut to an aircraft's appraised value, limiting the loan to 80 % of that value. Challenges include adjusting haircuts during market downturns.

Holding Company Structure – An organizational arrangement where a parent company holds subsidiaries that own aircraft assets, often used to isolate risk and optimize tax efficiency. Related terms: Subsidiary, Tax Shield. Example: A lessor creates a holding company in Ireland to own its fleet, benefiting from favorable tax treaties. Challenges involve complex corporate governance and regulatory oversight.

IFRS 16 Lease Accounting – International Financial Reporting Standard that requires lessees to recognize most leases on the balance sheet as right-of-use assets and lease liabilities. Related terms: ASC 842, Operating Lease. Example: An airline must record its operating leases as assets and liabilities, affecting key ratios. Challenges include system upgrades and impact on profitability metrics.

Interest Rate Swap – A derivative contract in which two parties exchange interest-payment streams, typically swapping a floating rate for a fixed rate to manage exposure. Related terms: Swap Curve, Counterparty Risk. Example: A lessee uses a swap to convert a floating-rate lease into a fixed-rate obligation. Challenges include basis risk and credit exposure to the swap counterparty.

Investment Grade – A credit rating category (typically BBB- or higher) indicating relatively low default risk, allowing issuers to access broader capital markets at lower yields. Related terms: High Yield, Rating Agency. Example: An aircraft ABS is rated investment grade, attracting pension fund investors. Challenges include maintaining rating through asset performance and market perception.

Leverage Ratio – A financial metric that compares debt to equity or assets, used by lenders to assess a borrower's risk profile. Related terms: Debt-to-Equity, Capital Adequacy. Example: A lessor's covenant requires a leverage ratio below 3.0. Challenges involve managing asset growth while keeping leverage within limits.

Lease Accounting – The set of accounting standards and practices that dictate how lease transactions are recorded, measured, and disclosed in financial statements. Related terms: IFRS 16, ASC 842. Example: Lease accounting requires lessees to recognize right-of-use assets, impacting balance-sheet ratios. Challenges include system integration and consistent treatment of embedded leases.

Lease Buy-Back – An arrangement where the lessor purchases the aircraft back from the lessee at the end of the lease term, often at a pre-agreed price. Related terms: Residual Value Guarantee, Termination Option. Example: A carrier agrees to a lease buy-back clause that sets the aircraft's exit price at fair market value. Challenges include forecasting residual values and financing the buy-back.

Lease Classification – The process of categorizing a lease as operating, finance, or short-term based on criteria such as transfer of ownership risk, lease term length, and present-value of payments. Related terms: Finance Lease, Operating Lease. Example: A 10-year lease covering 80 % of an aircraft's useful life is classified as a finance lease. Challenges involve meeting regulatory thresholds and tax implications.

Lease Rate Factor (LRF) – A percentage used to calculate lease payments by multiplying the aircraft's capital cost; it reflects financing cost, risk, and profit margin. Related terms: Spread, Cost of Funds. Example: An LRF of 0.90 % Applied to a $100 million aircraft yields monthly payments of $750 000. Challenges include market fluctuations that affect the LRF's competitiveness.

Lease Securitization – The transformation of lease receivables into marketable securities, typically by pooling assets into an SPV and issuing tranches to investors. Related terms: ABS, Tranche Structure. Example: A lessor securitizes a portfolio of A320 leases, issuing senior and mezzanine notes. Challenges involve rating agency scrutiny and investor appetite.

Letter of Credit (LC) – A bank guarantee that assures payment to the seller (or lessor) upon presentation of required documents, often used to secure aircraft purchase contracts. Related terms: Documentary Credit, Bank Guarantee. Example: An airline obtains an LC to satisfy the seller's payment condition for a new aircraft. Challenges include fees, expiry dates, and compliance with LC terms.

Liquidity Risk – The danger that an entity cannot meet short-term financial obligations due to insufficient cash or marketable assets. Related terms: Cash-Flow Mismatch, Funding Gap. Example: A lessor faces liquidity risk if lease payments are delayed, impairing its ability to service debt. Challenges include stress-testing cash flows and maintaining liquidity buffers.

Mezzanine Debt – A hybrid financing instrument that sits between senior debt and equity, often bearing higher interest rates and providing optional conversion rights. Related terms: Subordinated Debt, Equity Kick-In. Example: An aircraft acquisition is financed 60 % senior debt, 20 % mezzanine, and 20 % equity. Challenges include higher cost and covenants that may restrict future borrowing.

Mortgage-Backed Security (MBS) – A type of asset-backed security where the underlying assets are mortgages; in aircraft financing, analogous structures are called Aircraft-Backed Securities (ABS). Related terms: ABS, Pool. Example: The ABS market borrows concepts from MBS to structure aircraft lease pools. Challenges include adapting prepayment models to lease expirations.

Net Present Value (NPV) – The difference between the present value of cash inflows and outflows, used to assess the profitability of an aircraft financing project. Related terms: Discounted Cash Flow, Internal Rate of Return. Example: An NPV analysis shows a positive $15 million value for a lease purchase, justifying the transaction. Challenges involve accurate cash-flow forecasting and discount rate selection.

Nominal Yield – The stated interest rate on a bond or loan before adjusting for inflation or compounding effects. Related terms: Effective Yield, Yield to Maturity. Example: A senior aircraft bond offers a nominal yield of 3.5 % Per annum. Challenges include investor perception of real return versus nominal figures.

Operational Lease – A lease where the lessor retains ownership and major risks, while the lessee uses the aircraft for a short to medium term, often without a purchase option. Related terms: Finance Lease, Residual Value. Example: A carrier opts for an operational lease to quickly adjust capacity during peak seasons. Challenges include higher lease rates and limited customization.

Original Equipment Manufacturer (OEM) – The company that designs and builds aircraft (e.G., Airbus, Boeing), often involved in financing arrangements through their own leasing subsidiaries. Related terms: Manufacturer's Lease, After-Market Services. Example: An OEM's leasing arm provides a lease directly to an airline, simplifying procurement. Challenges involve OEM credit risk and potential conflicts of interest.

Over-booking Risk – The possibility that an airline's revenue projections fall short due to lower load factors, affecting its ability to meet lease payments. Related terms: Yield Management, Capacity Planning. Example: An airline over-books seats, leading to insufficient cash flow for lease obligations. Challenges include accurate demand forecasting and flexible financing terms.

Pass-Through Financing – A structure where cash flows from lease payments are passed directly to investors without significant transformation, often used in simple ABS deals. Related terms: Direct Pass-Through, Cash-Flow Waterfall. Example: A pass-through vehicle receives lease receipts and distributes them to noteholders. Challenges include maintaining sufficient cash flow to meet scheduled payments.

Performance Bond – A guarantee issued by a bank or insurer ensuring that a lessee fulfills contractual performance obligations, such as timely lease payments. Related terms: Surety Bond, Guarantee. Example: A lessee provides a performance bond to the lessor as additional security. Challenges involve cost of the bond and the credibility of the guarantor.

Portfolio Diversification – The practice of spreading aircraft assets across different types, regions, and lessee credit profiles to reduce concentration risk. Related terms: Risk Mitigation, Asset Allocation. Example: A lessor's portfolio includes narrow-body, wide-body, and regional jets across four continents. Challenges include managing varied regulatory environments and maintenance standards.

Pricing Spread – The difference between the interest rate charged on an aircraft loan and the benchmark rate, reflecting the lender's risk premium and profit margin. Related terms: Margin, Cost of Funds. Example: A loan is priced at LIBOR + 150 bps, the spread accounting for the borrower's credit profile. Challenges involve market competition compressing spreads.

Principal Protection – A feature in some structured products that guarantees the return of the original investment at maturity, often used to attract risk-averse investors. Related terms: Capital Guarantee, Structured Note. Example: An ABS tranche offers principal protection, ensuring investors receive their initial capital even if lease defaults occur. Challenges include higher cost and limited upside.

Qualified Institutional Buyer (QIB) – An investor meeting specific regulatory thresholds (e.G., $100 Million in assets) eligible to purchase certain private securities, including aircraft ABS. Related terms: Accredited Investor, Regulation D. Example: A QIB invests in a senior tranche of an aircraft ABS, benefiting from higher yields. Challenges involve compliance with securities regulations.

Rate of Return (RoR) – The gain or loss generated on an investment relative to its cost, expressed as a percentage. Related terms: Yield, Profitability. Example: An aircraft lease yields a 7 % annual RoR for the lessor after accounting for operating costs. Challenges include accurate measurement of cash flows and tax effects.

Recourse Financing – A loan where the lender can pursue the borrower's other assets if the primary collateral (aircraft) is insufficient to satisfy the debt. Related terms: Non-Recourse, Credit Enhancement. Example: A recourse loan allows the bank to claim the lessee's cash reserves if lease payments default. Challenges involve higher borrower risk exposure.

Regulatory Capital – The amount of capital that financial institutions must hold to meet regulatory requirements, influencing their ability to fund aircraft transactions. Related terms: Basel III, Risk-Weighted Assets. Example: A bank's regulatory capital limits the size of its aircraft loan portfolio. Challenges include maintaining capital ratios while supporting growth.

Residual Value – The estimated market value of an aircraft at the end of a lease term, crucial for lease pricing and risk assessment. Related terms: End-of-Lease Value, Market Forecast. Example: A lessee projects a $30 million residual value for a 10-year lease on a Boeing 777. Challenges involve market volatility and technological obsolescence.

Risk-Adjusted Return – A metric that modifies the return on an investment by accounting for its risk level, allowing comparison across different asset classes. Related terms: Sharpe Ratio, Alpha. Example: An aircraft ABS offers a risk-adjusted return of 5 % after factoring credit risk. Challenges include selecting appropriate risk measures.

Senior Debt – The highest-ranking debt in a capital structure, receiving priority repayment before junior or equity claims in case of default. Related terms: Subordinated Debt, Tranche. Example: A senior loan of $500 million finances 70 % of an aircraft acquisition. Challenges include covenant strictness and limited flexibility.

Security Interest – A legal claim on collateral that gives a creditor rights to the asset if the debtor defaults, typically perfected through registration. Related terms: UCC Filing, Perfection. Example: A lender files a security interest against the aircraft's registration to secure the loan. Challenges involve cross-border registration and priority disputes.

Servicer – An entity responsible for collecting lease payments, monitoring lessee compliance, and managing defaults on behalf of investors or lenders. Related terms: Loan Servicing, Asset Management. Example: A specialized servicer handles payment collection for an aircraft ABS pool. Challenges include maintaining accurate records and timely default remediation.

Structured Finance – Financial engineering that creates complex securities (e.G., ABS, CLOs) by pooling assets and slicing risk into tranches. Related terms: Securitization, Credit Enhancement. Example: An aircraft leasing firm uses structured finance to issue multi-tranche notes backed by lease cash flows. Challenges include model risk and regulatory scrutiny.

Subordinated Debt – Debt that ranks below senior debt in the repayment hierarchy, bearing higher risk and typically offering higher yields. Related terms: Mezzanine Debt, Junior Tranche. Example: A leasing company issues subordinated bonds to fund residual value risk. Challenges include investor appetite and covenant negotiation.

Syndicated Loan – A loan provided by a group of lenders, coordinated by a lead arranger, allowing large financing amounts with shared risk. Related terms: Lead Arranger, Participation. Example: A carrier secures a syndicated loan of $1.2 Billion to purchase a fleet of wide-body aircraft. Challenges include aligning loan terms and managing collective decision-making.

Tax Shield – The reduction in taxable income resulting from deductible expenses such as interest payments or depreciation, enhancing after-tax cash flow. Related terms: Deductibility, Effective Tax Rate. Example: Interest on an aircraft loan provides a tax shield that improves net cash flow. Challenges include changes in tax legislation that affect deductibility.

Term Loan – A loan with a fixed maturity date and scheduled principal repayments, commonly used for aircraft purchases. Related terms: Amortisation, Bullet Repayment. Example: A term loan of $800 million is amortized over 12 years to finance a fleet expansion. Challenges involve refinancing risk at maturity.

Thorough Due Diligence – Comprehensive investigation of the lessee’s creditworthiness, aircraft condition, market outlook, and legal compliance before financing. Related terms: Credit Review, Technical Inspection. Example: A lessor conducts due diligence on a lessee’s cash-flow projections and aircraft maintenance records prior to lease signing. Challenges include obtaining reliable data and assessing geopolitical risk.

Ticketing Revenue – Income generated from passenger ticket sales, a primary source of cash flow for airlines that supports lease payments. Related terms: Yield Management, Ancillary Revenue. Example: Declining ticketing revenue during a downturn can strain an airline’s ability to meet lease obligations. Challenges involve demand volatility and price competition.

Trade Finance – Short-term financing tools (e.G., Letters of credit, documentary collections) that facilitate the import of aircraft and related components. Related terms: Supply Chain Finance, Export Credit. Example: An airline uses trade finance to pay the OEM for a new aircraft prior to delivery. Challenges include currency risk and documentation compliance.

Tranche – A distinct segment of a structured security with its own risk-return profile, priority, and maturity. Related terms: Senior Tranche, Mezzanine Tranche. Example: An aircraft ABS issues a senior tranche at 3 % and a mezzanine tranche at 6 % to meet different investor appetites. Challenges include modeling cash-flow waterfall and ensuring adequate credit enhancement for junior tranches.

Under-writing – The process by which an investor or bank assesses risk and determines the terms and pricing of a financing transaction. Related terms: Risk Assessment, Pricing. Example: Under-writers evaluate a lessee’s credit profile before committing to a lease financing. Challenges involve balancing risk tolerance with competitive pricing.

Variable Rate Note – A debt instrument whose interest payments adjust periodically based on a reference rate, exposing investors to interest-rate risk. Related terms: Floating-Rate Debt, Benchmark Index. Example: A variable rate note tied to 3-month SOFR pays interest quarterly. Challenges include volatility in benchmark rates and investor demand for fixed-rate alternatives.

Venture Debt – A form of financing that combines loan features with equity upside, often used by emerging leasing platforms to fund growth without full dilution. Related terms: Convertible Debt, Equity Kicker. Example: A fintech leasing startup raises venture debt to acquire aircraft, with a covenant allowing conversion to equity. Challenges involve higher interest rates and covenant restrictions.

Weighted Average Cost of Capital (WACC) – The average rate of return a company must earn on its assets to satisfy all capital providers, weighted by the proportion of each capital component. Related terms: Cost of Debt, Cost of Equity. Example: A lessor calculates a WACC of 6 % to evaluate the profitability of a new lease portfolio. Challenges include estimating market risk premiums and adjusting for tax shields.

Yield Curve – A graphical representation of interest rates across different maturities, used to assess market expectations and price fixed-income securities. Related terms: Term Structure, Spread. Example: A steep yield curve indicates higher rates for longer-dated aircraft bonds, influencing issuance strategy. Challenges include interpreting curve shifts caused by macroeconomic events.

Z-Score Model – A statistical tool that predicts the probability of default based on financial ratios, often applied to assess lessee credit risk. Related terms: Altman Z-Score, Credit Scoring. Example: An aircraft lessor uses a Z-Score model to screen potential lessee candidates. Challenges involve adapting the model to the aviation industry's unique cash-flow characteristics.