GUIDE

Advanced Certificate in Asset Finance and Leasing

Aviation Finance

Aviation Finance is a specialized field that involves the financing and leasing of aircraft and aircraft-related assets. In this explanation, we will cover key terms and vocabulary related to aviation finance in the context of the Advanced Certificate in Asset Finance and Leasing.

Aircraft Financing: Aircraft financing refers to the various methods used to fund the purchase of an aircraft. These methods can include traditional bank loans, operating leases, finance leases, and securitization. The choice of financing method depends on various factors such as the creditworthiness of the borrower, the type of aircraft being financed, and the intended use of the aircraft.

Operating Lease: An operating lease is a type of lease agreement where the lessor retains ownership of the aircraft and provides it to the lessee for a fixed period. The lessee is responsible for maintaining and operating the aircraft, and at the end of the lease term, the aircraft is returned to the lessor. Operating leases are often used for short-term aircraft needs or for aircraft that will become obsolete quickly.

Finance Lease: A finance lease is a type of lease agreement where the lessee assumes most of the risks and rewards of ownership of the aircraft. The lessee is responsible for maintaining and operating the aircraft, and at the end of the lease term, the lessee has the option to purchase the aircraft at a predetermined price. Finance leases are often used for long-term aircraft needs or for aircraft that will retain their value over time.

Securitization: Securitization is a financing technique where a pool of assets, such as aircraft leases, is used to create securities that can be sold to investors. The securities are backed by the cash flows generated by the underlying assets, providing investors with a return on their investment. Securitization is a popular method of financing aircraft because it allows lessors to raise large amounts of capital quickly and at a lower cost than traditional financing methods.

Aircraft Valuation: Aircraft valuation is the process of determining the value of an aircraft. This can be a complex process due to the unique nature of aircraft and the various factors that can affect their value, such as age, condition, and market demand. There are several methods used to value aircraft, including market value, residual value, and economic life value.

Market Value: Market value is the price that an aircraft could reasonably be expected to sell for in the current market. This value is influenced by factors such as the age and condition of the aircraft, as well as market demand.

Residual Value: Residual value is the estimated value of an aircraft at the end of its useful life. This value is important in financing and leasing arrangements because it determines the amount of equity that the lessee or borrower will need to provide.

Economic Life Value: Economic life value is the present value of the future cash flows that an aircraft is expected to generate over its useful life. This value is used to determine the maximum amount that a lessor or lender is willing to pay for an aircraft.

Aircraft Maintenance: Aircraft maintenance refers to the various tasks and procedures required to keep an aircraft in safe and airworthy condition. This includes routine inspections, repairs, and overhauls. Aircraft maintenance is a significant cost factor in aircraft ownership and financing, and it is important to factor in maintenance costs when determining the value and financing of an aircraft.

Maintenance Reserve: A maintenance reserve is a fund set aside by the lessee or borrower to cover the cost of future aircraft maintenance. The reserve is typically established at the beginning of the lease or financing term and is funded through periodic payments. Maintenance reserves provide lessors and lenders with a degree of protection against unexpected maintenance costs.

technical life: Technical life is the period during which an aircraft is expected to remain in service before it becomes technologically obsolete or uneconomical to operate. Technical life is an important factor in aircraft financing and leasing because it determines the residual value of the aircraft and the length of the lease or financing term.

Aircraft Insurance: Aircraft insurance is a type of insurance that covers the risks associated with owning and operating an aircraft. This can include damage to the aircraft, liability for injuries or damage caused by the aircraft, and loss of income due to downtime caused by an accident. Aircraft insurance is a significant cost factor in aircraft ownership and financing, and it is important to factor in insurance costs when determining the value and financing of an aircraft.

Hull Insurance: Hull insurance is a type of aircraft insurance that covers damage to the aircraft itself. This can include damage caused by accidents, theft, or other perils. Hull insurance is typically required by lessors and lenders as a condition of financing or leasing an aircraft.

Liability Insurance: Liability insurance is a type of aircraft insurance that covers the legal liability of the aircraft owner or operator for injuries or damage caused to third parties. This can include passengers, other aircraft, and property on the ground. Liability insurance is typically required by law and is an important consideration in aircraft ownership and financing.

Loss of Income Insurance: Loss of income insurance is a type of aircraft insurance that covers the loss of income due to downtime caused by an accident. This can include lost revenue from cancelled flights and additional expenses incurred during the downtime. Loss of income insurance is an important consideration in aircraft financing and leasing because it can affect the cash flow of the lessee or borrower.

In conclusion, aviation finance is a complex and specialized field that involves a wide range of terms and concepts. Understanding these terms and concepts is essential for anyone involved in the financing or leasing of aircraft. By understanding the key terms and vocabulary related to aviation finance, lessors, lenders, and borrowers can make informed decisions about the financing and leasing of aircraft, and ensure that they are adequately protected against the risks associated with aircraft ownership and operation.