

Aircraft Lease Asset-Backed Securities and Aircraft Enhanced Equipment Trust Certificates Workouts

David Yu, Christopher Papajohn, and Tasos Michael

David Yu

is a finance professor at New York University Shanghai and chairman of Asia Aviation Valuation Advisors in Shanghai, China.
david.yu@nyu.edu

Christopher Papajohn

is a finance lawyer in New York, NY.
christopher.papajohn@cjpinllaw.com

Tasos Michael

is CEO of Inception Aviation in Monte Carlo, Monaco.
tasos.michael@inceptionaviation.com

KEY FINDINGS

- This article provides a description of ABS and EETCs and the inherent conflicts of interests among stakeholders.
- The study discusses the effect of the COVID-19 epidemic on aircraft ABS and EETCs, including the likely scenarios that investors and airlines will face in the coming months.
- The article presents practical steps that stakeholders can take to maximize their aircraft asset recovery and pricing during these challenging times.

ABSTRACT

The two major multiple aircraft asset financing structures—(1) aircraft lease asset-backed securitizations (ABS) and (2) enhanced equipment trust certificates (EETCs)—have been heavily impacted by the coronavirus disease 2019 epidemic. This article provides a brief explanation of aircraft ABS and EETCs. It also explains the conflicts of interest among investors, servicers, trustees, and other entities within aircraft ABS and EETCs. Several likely scenarios are examined regarding how aircraft ABS and EETCs will be affected by a continued economic downturn in the aircraft leasing industry. The expectation is an initial period of restructurings and workouts followed by insolvencies and bankruptcies. The various options open to investors are discussed including repossession of the aircraft. Finally, some practical steps are analyzed that stakeholders in aircraft ABS and EETCs can take to maximize their aircraft asset recovery and pricing during these challenging times.

TOPICS

Asset-backed securities (ABS), Credit risk management, Financial crises and financial market history*

The coronavirus disease 2019 (COVID-19) epidemic has created an unprecedented time for the airline industry. At the peak of the crisis in March and April 2020, passenger demand fell by close to 98% in many regions globally (Yu 2020). This sudden demand squeeze among other dynamics has created pressure on cash for airlines around the world. Airlines are renegotiating or failing to make payments for leased aircraft, which could result in record levels of lease defaults given that the leased fleet is more than 40% of the worldwide aircraft market. This occurrence

*All articles are now categorized by topics and subtopics. [View at PM-Research.com](https://www.pmr-research.com).

has heavily impacted lessors and their financiers. Aircraft leasing companies have increasingly relied on asset-backed securitizations (ABS) to raise funding to purchase aircraft since the market reopened in the late 1990s. Airlines have used enhanced equipment trust certificates (EETCs) to raise increasingly more funding for their aircraft purchases. Both types of structures are under enormous stress, and bondholders and lessors are facing unusual challenges as airlines begin to default on the underlying leases. In the last few months, Kroll Bond Rating Agency reported that at least 81 aviation ABS transactions were downgraded by the ratings agencies (Kroll Bond Rating Agency Surveillance Report, 2020). Similarly, as of this date, Fitch Ratings reported that it downgraded 32 of 86 (approximately 37%) aircraft ABS tranches across 13 deals (Fitch Ratings 2020). This article discusses the alternatives, likely scenarios, and conflicts that financiers, lessors, and airlines are facing in the coming months as the COVID-19 epidemic continues.

SUMMARY OF AIRCRAFT ABS AND EETCS

Aircraft Asset-Backed Securitizations

Since the mid-1990s, aircraft leasing companies have used ABS to finance large portfolios of aircraft operating leases. In 2019, aircraft ABS issuance neared \$9 billion, 15% over 2018's level and 26% over 2017's level (Structured Finance Association 2020). In an aircraft ABS transaction, a lessor sells a portfolio of aircraft (each backed by a lease to an airline) to a bankruptcy remote special purpose vehicle (the Issuer). The Issuer finances the purchase of the aircraft portfolio by issuing (1) investment-grade rated bonds in a capital markets offering (usually a multi-tranche debt offering including a noninvestment-grade tranche), and (2) E-notes or the "equity" to an investor that takes the residual risk in the underlying assets (usually the sponsoring operating lessor). The Issuer then enters into a Pooling and Servicing Agreement with a servicer (the Servicer), which provides that the Servicer manage and remarket the aircraft. The Servicer (which is often the sponsoring operating lessor) provides lease management and remarketing services. The Servicer's experience and reputation and its right to lease and remarket the aircraft are important requirements for the rating agencies' issuance of an investment grade rating and the bond investor's decision to invest in the bonds (Beringer and Kass 2015). Issues and conflicts faced by the investors and the sponsoring operating lessor or Servicer in a distressed ABS deal are discussed next.

Aircraft Enhanced Equipment Trust Certificates

Unlike aircraft ABS, for which the overall credit rating is based on the cash flows from operating leases from various underlying airline credits, an EETC is based on the credit of a single sponsoring airline. U.S. airlines have issued more than \$35 billion of EETCs since 1994 to finance aircraft in their fleets (Scheinberg 2002). Unlike aircraft ABS, which relies on the cash flows of multiple aircraft leased by multiple airlines, an EETC relies on the credit of a single airline and is secured by the selection of aircraft and/or engines in its fleet as collateral. The EETC is more similar to a secured corporate debt than a securitization. With an EETC, the special purpose issuer of the bonds has a lien on the aircraft collateral and the owner is still the issuing airline, whereas with an ABS securitization the special purpose issuer has title to and owns the aircraft. With an EETC, the investor takes the default risk of a single airline rather than a group of different airline credits as in an ABS securitization.

There are two main alternative structures for an airline EETC. The first structure is called a mortgage financing. In this structure, the airline will issue promissory notes (known as *equipment notes*) in tranches. Certain tranches will rank ahead of others in terms of seniority. The A notes will rank ahead of B notes. The notes will be secured by the aircraft in the airline's fleet.

The second type of EETC structure is called the *leveraged lease financing structure*. In this type of structure, an equity investor, acting through an owner trustee, will purchase an aircraft borrowing up to 80% of the aircraft cost. The remaining 20% will be provided by the equity investor. The owner trustee will issue equipment notes to the investor in tranches (this is similar to the aforementioned mortgage financing except the equipment notes are issued by the owner trustee rather than the airline). The owner trustee then leases the aircraft to the airline. The noteholders are granted security in the form of an aircraft mortgage and an assignment of the aircraft lease. The notes are issued by the owner trustee and serviced by the cash flows from the lease of a single aircraft. This structure is repeated for several aircraft in the airline's portfolio. The equipment notes for a particular tranche from various aircraft will then be held by a particular pass through trust. For example, the Class A Notes issued by the various owner trusts of an airline's portfolio of aircraft are held by a Class A pass-through trust. The Class B Notes are held by a Class B pass-through trust and the Class C Notes are held by a Class C pass-through trust (Scheinberg, 2002).

An EETC (as well as some ABS deals) may also have a liquidity facility. A liquidity provider, often a highly rated bank, will act as a backup to provide up to 18 months interest payments (not principal) if the airline is unable to make a payment. This facility represents the "enhanced" portion in the name. Liquidity facilities are usually revolving credit facilities. Should it not be reimbursed within a specified time, the liquidity provider obtains a superpriority position on the proceeds of the collateral liquidations. It becomes the Controlling Party, having the power to decide how the collateral will be recouped or disposed.

As the EETCs and ABS come under increasing stress, which parties are in control? Who decides what happens to the aircraft collateral? In the next section, potential major conflicts of interest are discussed. Various scenarios over the coming months are discussed as the COVID-19 crisis progresses.

CONFLICTS OF INTEREST

Aircraft ABS and EETCs share some conflicts, whereas other conflicts are particular to ABS deals.

Common Conflicts of Interest in Both ABS and EETCs— Tranche Investor Conflicts

ABS and EETC's have several classes of investors, each holding a particular tranche with differing rights and risks. The senior secured investors (e.g., Class A noteholders) want a fast liquidation of the aircraft collateral. Because of their senior secured position, they stand to recover the most from a liquidation of the aircraft assets. With the remaining waterfall of payments in levels of seniority, after the senior investors are paid, there may be little money left to pay the junior investors if the aircraft are sold at a level that doesn't cover all of the tranches. When the aircraft still have a lease ongoing, junior bond or noteholders may want to hold the aircraft and keep getting income from the airline lease payments. In the other scenario, where the airline has defaulted or there is no lease remaining, junior noteholders would want

to find another lease for the aircraft for additional cash flows to postpone the sale event. This is especially true when the aircraft assets' naked value (without leases attached) is below the full recovery amount for all the tranches.

The legal documents provide for mechanisms for resolving some of these conflicts. For example, an intercreditor agreement will define which class of investors or other parties is the "Controlling Party." The Controlling Party could be a trustee representing a particular class of investors or a financial institution such as the liquidity provider. A liquidity provider would often take priority as Controlling Party, as it is often the most senior secured creditor. Each class of investors would then follow as Controlling Party, being separately represented by a separate trustee. A trustee for the Class A investors, for example, would act in the best interest of the Class A investors. After the liquidity provider is paid in full, the Class A trustee would become the Controlling Party. After the Class A investors are paid off, the Class B trustee would become the Controlling Party. Language can be added to the intercreditor agreement requiring trustees to act in a way that maximizes the assets values in the financing structure "as a whole."

ABS CONFLICTS

Sponsoring Operating Lessors/Serviceversus Investors

In an ABS deal, the sponsoring operating lessor/Serviceversus may want to maintain its relationships with the airlines and not pursue aggressive enforcement action. The operating lessor is in the business of leasing aircraft, and it will want to preserve its relationships with the airlines when acting as Serviceversus to continue doing business with them in the future. The investors alternatively may not be as concerned with maintaining an airline's viability and be more concerned with the short-term goal of recovering the maximum amount of their investment as quickly as possible. This potential conflict situation is exacerbated when the Serviceversus is managing or owns aircraft that are at the same airline and there are inflection points such as lease returns, renewals, and placement, even if prioritizing their own fleets is prohibited in the documentation. For example, the Serviceversus may favor those airlines that have other aircraft that it owns.

Sponsoring Operating Lessors/Serviceversus E-Note Holders

Although historically the Serviceversus retains E-notes as a way to be more aligned with the other investors in the tranche structure, this has shifted in recent years as many operating lessors have chosen to sell the E-notes to outside investors rather than retaining them. This change has led to the negotiation of control rights by the investors in the E-notes (Beringer and Kass 2015). E-note holders have sometimes succeeded in negotiating approval rights for, among other things,

- Transactions between the Serviceversus and the Issuer,
- Early lease terminations, and
- Timing of lease default enforcement.

With aircraft ABS deals, however, the Serviceversus still has control over these decisions, creating a conflict of interest with the E-note holders. Typically, the Serviceversus is bound by a standard of care tied to (1) industry standards and (2) how the Serviceversus treats its own assets. An example of such a clause is as follows:

“Standard of Care” means reasonable care and diligence at all times consistent with the reasonable commercial practice of a prudent international aircraft lessor involved in the management, servicing and marketing of commercial jet aircraft and related assets, but in any case no less reasonable care and diligence than it would use with respect to the other aircraft that are owned by the Servicer directly or indirectly. (Beringer and Kass 2015)

LIKELY SCENARIOS FOR ABS AND EETC WORKOUTS IN THE COMING MONTHS

Based on previous recessions and downturns cases and experiences, the following are likely scenarios as the COVID-19 pandemic continues.

Phase 1: Attempts to Restructure the Leases

Since the COVID-19 epidemic began, airlines have made various legal attempts to avoid their lease obligations. Most operating leases, however, are drafted to provide that in exchange for lessor’s obligation to provide an aircraft in the agreed condition, the airline must maintain the aircraft and pay rent in all circumstances. Operating leases almost always contain an obligation to pay rent through “Hell or High Water.” The obligation to pay rent for the full term is absolute. For this reason, the legal defense called “force majeure” is not applicable. Another legal defense, “frustration,” is also unlikely to succeed where operating leases specifically exclude its application. In addition, the occurrence of the virus does not affect the availability of the leased equipment or directly prohibit rent payment. Because the lease is still technically capable of being performed, the airline’s performance is not legally frustrated.

There have been significant requests for rental holidays or deferrals from a large majority of the airlines to their lessors. These have been sent to lessors or Servicers because of either dire circumstances or opportunistically. It is in the rights of the lessor or Servicer to either mutually agree on the terms or reject the proposals. Despite the legal obligation of airlines to pay rent, the drop in demand and empty seats will create a liquidity crisis for airlines that “can’t pay and won’t pay.” The bondholders and Servicer (in the case of ABS) will then have to decide whether to support an airline through the COVID-19 crisis or alternatively to repossess aircraft from a barely solvent airline and attempt to sell it in a depressed market flooded with similar repossessed aircraft (Wilson et al. 2020). If there is confidence in the viability of the economic model of the airline, a rent holiday or other rescheduling of rental payments could be negotiated to get the airline through the crisis. The bondholders and Servicer would want assurances that it would have priority, or at least *pari passu* ranking, with the airline’s other creditors. They may be forced to participate in an airline’s creditors’ committee.

Not only would the bondholders and Servicer be forced to negotiate with other creditors, but they may also be forced to negotiate with each other. With a diverse pool of investors, the smaller investors may be outvoted by the larger investors and be forced to accept a particular solution.

Phase 2: Noncompliance/Failure to Make Lease Payments

If the COVID-19 crisis continues for a significant amount of time (which looks likely), it may be difficult to renegotiate rent payments or structure an out-of-court restructuring. If the negotiations break down, the airline may be forced to miss lease payments. The lease will be in default, and the ABS Servicer or Party in Control

(in the case of an EETC) may begin foreclosure proceedings or attempt to repossess the aircraft.

Phase 3: Insolvency and Repossession, Bankruptcy, and Schemes of Reorganization

At this point, an airline may choose to file for bankruptcy protection or liquidation or an equivalency depending on the jurisdiction.

If an airline chooses to file for bankruptcy protection, financiers may face one of three situations (Scheinberg 2002):

- Rejection or return of the aircraft (for aircraft collateral that does not fit into the airline's fleet plan).
- Affirmation of aircraft financings (for aircraft that are critical to an airline's fleet plan).
- The airline may seek to negotiate contract terms under threat of returning the aircraft.

Alternatively, after the restructuring process afforded by the relevant bankruptcy procedures in the US, which provides for a minimum 60-day holiday prohibiting foreclosure action (as well as relief from payments), a financier may choose to repossess an aircraft. Repossession may not be a good alternative when the market is already flooded with aircraft and values are depressed. Several different bankruptcy regimes could govern such a repossession. Experience has shown that even a US bankruptcy may become complicated by a foreign jurisdiction's procedures where the aircraft is located outside the US. This may result in many months of uncertainty, lost revenue, and lost opportunity costs for the use of the asset.

US Bankruptcy and the Cape Town Convention

The US bankruptcy code provides for a period of restructuring through a Chapter 11 filing. A Chapter 11 bankruptcy filing allows for operational continuity while the restructuring is completed. This why it is known as a "reorganization" bankruptcy. The Chapter 11 terms providing for bankruptcy protection from creditors are subject to the airline's fulfillment of its obligations under a plan of reorganization. American Airlines and Delta Airlines both reorganized under Chapter 11 slightly more than 10 years ago. A non-US company can also file for Chapter 11 if it has property in the US or some other nexus to the US (Wolynski and Althoff 2020). Generally, once a debtor files for bankruptcy the bankruptcy code's automatic stay prevents a secured creditor from repossessing its collateral as long as the collateral is "adequately protected."¹ To continue the automatic stay's protection of aircraft equipment, section 1110 of the US bankruptcy code requires the debtor-in-possession (DIP) to "agree to perform its obligations of the debtor" under the financing agreement and cure all pre- and postpetition defaults by the 60th day after the bankruptcy filing (an 1110(a) Election). In the absence of a consensual extension of the 60-day period, the DIP's failure to "assure and cure" voids the automatic stay and allows the aircraft financier to exercise its contractual remedies against the aircraft, allowing it to repossess the aircraft (Kirkland and Ellis 2005). In addition, under section 1110 a debtor may not be able to "cram down" a creditor (i.e., reduce the amount owed by the debtor to the creditor to the fair market value of the collateral) secured by qualifying aircraft

¹ See US Bankruptcy Code, 11 U.S.C. section 362 (automatic stay), section 361 (adequate protection).

equipment although abandonment or consensual restructuring would be possible (Wolynski and Althoff 2020).

The Cape Town Convention on International Interests on Mobile Equipment (the Cape Town Convention),² on the other hand, is an international treaty that provides for the creation and priority of specified interests in aircraft. The treaty creates an International Registry for recording these interests as well as a system of priority of these interests and notice to third parties. The Cape Town Convention's Aircraft Protocol provides, among other things, two alternative remedies for creditors in a bankruptcy scenario:

- A. Alternative A provides that the within a specified period to be elected by the "Contracting State," the debtor must give up possession of the aircraft to the relevant creditor or agree to perform all obligations under the relevant debt/lease and cure all existing defaults (other than insolvency related defaults).
- B. Alternative B provides that the debtor must, after the request of the creditor, give notice to such creditor whether it will cure all defaults and agree to perform under the relevant agreement or give the creditor an opportunity to take possession of the collateral under applicable law. Absent agreement among the parties, it is up to the relevant court to determine whether the creditor can take possession of the aircraft collateral and under what terms and conditions. In general, Alternative B is similar to existing law in the relevant jurisdiction.³

The US has adopted the Cape Town Convention, which has the force of law, but the US did not elect either Alternative A or Alternative B.⁴

In general, in a US bankruptcy filing the qualifying aviation equipment that is used as collateral by financiers or leased out by lessors will be protected under section 1110 or by the Cape Town Convention in other Contracting States. However, there are exceptions where an airline is not an FAA-certificated US air carrier yet files for bankruptcy under the jurisdiction of a US bankruptcy court. In this situation, the leased aircraft equipment will likely fall under section 365 of the US Bankruptcy Code (executory contracts and unexpired leases). Under section 365, the debtor does not need to agree to perform the agreement by the 60th day and does not have to cure all previous defaults. In this situation, a creditor can argue that the Cape Town Convention (including the Aircraft Protocol) should apply to a chapter 11 debtor whose home jurisdiction is a Contracting Party that has adopted Alternative A (Wolynski and Althoff 2020). This theory has not yet been tested in bankruptcy court.

UNCITRAL BANKRUPTCY

Although the largest creditors would probably be subject to the U.S. Bankruptcy Code's Chapter 11 provisions, another bankruptcy regime that is less popular is the

²As adopted in the United States as the Cape Town Treaty Implementation Act of 2004 (the Implementation Act) (P.L. 108-297, 118 Stat. 1095 (2004); see also 14 C.F.R. § 49.61 and 14 C.F.R. § 49.630). The Cape Town Convention creates an international body of law to regulate interests and establish remedies in respect of qualifying mobile equipment, including under its Aircraft Protocol, Aircraft assets between conditional sellers, financiers, and lessors.

³Alternative A also provides that during the "waiting period" the debtor must preserve the aircraft object and maintain its value pursuant to the underlying agreement.

⁴There are many other differences and similarities between section 1110 and the Cape Town Convention that are not discussed in this article.

UNCITRAL Model Law on Cross-Border Insolvency of 1997 (the Model Law).⁵ The Model Law, drafted by International Commission on International Trade Law, provides solutions to problems arising in cross-border bankruptcies. These include determining the relevant jurisdiction to a cross-border insolvency, ensuring that insolvency officials from that jurisdiction are recognized in other states, and ensuring that other states cooperate with the insolvency process in the relevant jurisdiction.

English Law Insolvency Alternatives

Under English law, the airline may attempt to restructure its debts under (1) a scheme of arrangement or (2) a company voluntary arrangement. A scheme of arrangement is a court-approved compromise with the company's creditors. It must be approved by at least 50% in number constituting 75% in value of each relevant class of creditors to bind the creditors (including secured creditors). A company voluntary arrangement is a contractual arrangement between the company and its creditors that must be approved by at least 75% by value of creditors who vote and more than 50% by value of shareholders who vote (Wilson et al. 2020). Often these arrangements lead to administration and the eventual termination of operations and winding up of business activity. This is what happened with the recent insolvencies of Monarch and Thomas Cook airlines.

On June 25, 2020, a new Corporate Insolvency and Governance Act 2020 (the Act) came into force in the United Kingdom. This act contains the most far-reaching reforms to the UK insolvency law in more than 30 years (Herbert Smith Freehills 2020). Among the provisions of the new act are a new moratorium for eligible companies of up to 40 business days without court or creditor approval providing for a payment holiday and a prohibition on legal proceedings. The new act also provides for a restructuring plan. Finally, it will make certain creditors' ipso facto clauses ineffective thereby prohibiting certain suppliers of goods or services to terminate or vary the terms of a contract solely on the basis of the customer's insolvency. The act, however, would not override the rights of a lessor or a financier under the Cape Town Convention. This means that even with the new act, lessors will still have the right to repossess leased or financed aircraft upon the expiration of the 60-day waiting period under the "Alternative A" insolvency regime (Herbert Smith Freehills 2020).

PRACTICAL TIPS

Finally, some practical tips for all stakeholder parties in an aviation ABS or EETC are offered from the authors' experiences (Wolynski 2020).

Be Aware of Your Obligations and Cover Your Exposures as a Stakeholder

Understand the fiduciary duties of the officers and directors of the Servicer and Security Trustee. For example under Delaware law in the US, when a company files for Chapter 11, the fiduciary duties of officers and directors are transferred from the corporate entity to the creditors. When an Irish company (as most leased aircraft are based) becomes insolvent, its fiduciary duties are expanded to include creditors. Local insolvency counsel should be consulted as to the obligations of officers and directors.

Check to see that your exposures are covered by relevant insurance policies. Make sure that Directors and Officers policies are up-to-date and that all entities are covered. They should offer protection in the event of a bankruptcy or similar

⁵As adopted in the US in Chapter 15, Title 11 of the US Code.

insolvency petition or filing. Unless negotiated into the policy, these events may be excluded because they are considered to be a “Change in Control.” Finally, make sure that your policy covers the relevant jurisdictions. For example, if the policy is issued outside of Ireland but covers Irish Directors and Officers, you should purchase an Ireland-specific “passport” policy to cover the significant civil and criminal exposure of the Irish Officers and Directors. Also, be sure to negotiate a tail policy covering officers and directors for claims after the policy expires. (Wolynski 2020)

The Assets

Understand the current state of the assets and any contractual obligations tied to these assets. Understand and refresh the valuations of the assets on differing levels of situations as laid out earlier to attempt to maximize recovery and pricing. For comparable prices, it is better to use prices of similar assets sold recently or alternatively the cost of a sale-leaseback or financing. Direct market comparable valuations are ideal data points used in conjunction with other methods rather than strictly using historically based models especially during times of severe dislocation like COVID-19. It is important to understand that timing is key, as delays may lead to values falling below current levels.

The Waterfall

Understand the cash management system and cash flows in your ABS or EETC deal and where your position lies. Make sure that your intercompany debt is accurately tracked and good accounting records are maintained. This will help creditors understand the financial structure and trace funds in the event of a bankruptcy or insolvency (Wolynski 2020).

The Triggers

Understand the financial triggers in the respective ABS and EETC deals. Separately, it is important to understand the financial triggers in the underlying leases.

1. What are the relevant events of default?
2. What are the related grace periods?
3. What do the acceleration and remedies clauses provide?
4. Review the underlying leases for termination rights and events of insolvency.
5. What covenants are at risk?

Location Matters

What law applies? Is the airline in the US subject to the US Bankruptcy Code? A non-US airline can also file for Chapter 11 if it has property in the US. Or alternatively, is it a traditional Irish liquidation? Is the airline’s jurisdiction a party to the Cape Town Convention? Multijurisdictional events can make the entire process more complex and can result in times when results or events are not totally in sync with each other.

RECENT BANKRUPTCIES: AVIANCA, INC. AND LATAM AIRLINES GROUP S.A.

As this article goes to press, many ABS and EETC deals are in the process of workouts and restructurings. There have also been significant bankruptcies or

restructuring of more than 30 airlines globally from the authors' research, including Avianca Airlines and LATAM airlines, which both filed for bankruptcy in May 2020 under Chapter 11 of the US Bankruptcy Code in the US Bankruptcy Court in the Southern District of New York.⁶ The same day that LATAM filed for bankruptcy, it rejected 17 leases that were part of an EETC created in 2015.

The LATAM EETC originally had two tranches of notes: Class A and Class B used to finance a number of aircraft in Chile and Brazil. In 2017, it issued and privately placed Class C Certificates to raise an additional \$140 million. The 17 aircraft leases that LATAM rejected are made up of 11 Airbus A321-200s, four Boeing 787-9s, and two A350-900s—some of the largest and most expensive aircraft in LATAM's fleet.

The EETC has a 21-month liquidity facility, during which the interest payments of the Class A and B notes are being serviced. This is more than the usual 18 months liquidity facility reflecting additional time needed to repossess and remarket the aircraft. The Class C notes are not covered by the liquidity facility. An agreement was reached with the EETC trustee on July 23, 2020, to return the aircraft, and they are being remarketed by an outside agent. At the end of the 21-month period, the Liquidity Provider becomes the most senior Controlling Party and takes control of the sales process. Given the evolving secondary market, it has yet to be determined whether the noteholders will remain whole after the sale of the aircraft.

CONCLUSION

This article presents the challenges and conflicts that a typical aviation ABS or EETC structure may face in the current economic downturn. Although there are many scenarios of possibilities, the authors have no doubt in the ultimate recovery of the industry. The upcoming 12 to 24 months will produce some interesting challenges. The faster that some of these issues are recognized and addressed, the faster the investors and other stakeholders can reset and continue on the long-term growth path of the asset class.

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