MOODY'S: CONTINUED ROBUST DEMAND FOR AIRCRAFT WILL SUPPORT AIRCRAFT FINANCING IN 2017

News / Finance

New commercial aircraft funding requirements will continue to grow at a steady pace in 2017 on the back of robust expansion in the global aircraft fleet, Moody's Investors Service says in a new report. Growth in the availability and trading of mid-life and older aircraft will further sustain the need for financing, and funding sources will remain abundant.

More than 1,300 aircraft are scheduled for delivery this year, and that figure will be even higher in 2018. Boeing Capital Corp. forecasts the value of deliveries at $126 billion in 2017 and $141 billion in 2018, with the majority financed by debt.

"The need for aircraft financing will rise along with growth in passenger and, therefore, aircraft demand," says Moody's Senior Credit Officer, Jonathan Root. "We expect aircraft finance markets to remain strong in the year ahead, providing airlines and lessors with ample liquidity and a wide variety of funding sources."

The three main sources of aircraft financing — cash, commercial banks and capital markets — will all either maintain or grow in overall volume in 2017, according to Boeing Capital. Bank appetite for aircraft lending could decline if proposed modifications to Basel III rules are adopted, however. The changes would restrict banks' use of internal risk models to determine capital levels for specialized lending, and would likely raise the cost of financing.

Regulatory pressures on banks and the limited availability of export credit agency financing are leading to capital market innovation for financing aircraft, with some structures designed to replace bank funding and others to appeal to investors new to aviation finance. Still others combine elements of traditional asset-backed securities (ABS) and managed funds to segment risk in new ways.

"Issuance of aircraft ABS, the majority collateralized by mid-life and older assets, will strengthen in

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2017," says Moody's Senior Credit Officer, Tracy Rice. "Larger aircraft lessors will issue ABS on an opportunistic basis, including to sell aircraft portfolios, while mid-tier leasing companies will use ABS for permanent financing."

Favorable industry conditions will support the credit performance of aircraft ABS transactions and EETCs in the year ahead, Moody's says. And steady demand for aircraft will help ease the rate of decline in the value of older aircraft in outstanding rated deals.

Moody's research subscribers can access the report, "Availability of Aircraft Financing to Remain Robust Amid Rising Industry Pressures," at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1058545.

Image result for Moody's aircraft financing in 2017

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14 FEBRUARY 2017

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