



Seasoned Deals with Russia-Seized Aircraft Poised to See Recoveries

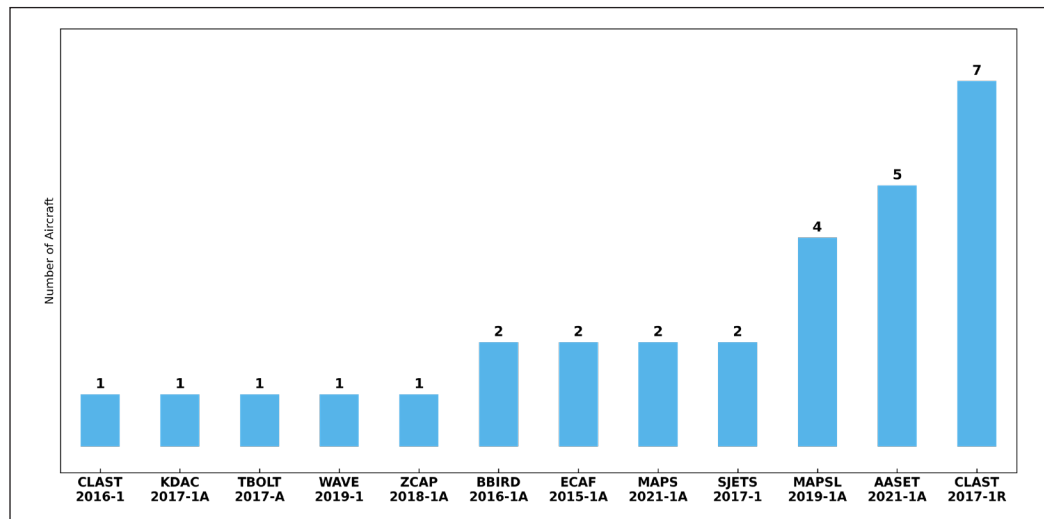
The receipt of insurance proceeds on Russia-seized aircraft could offer material upside to seasoned aircraft ABS deals. Aircraft lessors are inking settlements with insurers and reinsurers; Insurance coverage legal disputes are making their way through court systems; Insurers may be more inclined to put an end to insurance claims after initially being reluctant to pay tens of millions on new aircraft that just appeared to be temporarily stuck in Russia at the time. Taken together, such developments pave the way for deals to receive cashflows on airplanes that have been stranded since February 2022 and deemed total loss.

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Deals that have already seen insurance proceeds flowing in include the \$413.5 million ECAF 2015-1A, and the \$235.8 million CLAST 2021-1A. ECAF received \$62.5 million payment following a settlement agreement on insurance claims on two Aeroflot-operated 737-800 aircraft, based on deal documents. CLAST received ~\$50 million on a similar settlement. Quite a few other servicers are continuing to pursue insurance claims, including in deals such as AASET 2019-2 (four aircraft), 2019-1 (three), and 2018-1 (three), according to rating agencies. Exposed aircraft ABS deals typically had a handful of airplanes leased to Russian airlines at the onset of the Russia-Ukraine war, with exposures by value ranging from 3% to 21% (Figure 1).

Figure 1. Russian Airlines Exposure of Select Aircraft ABS Transactions

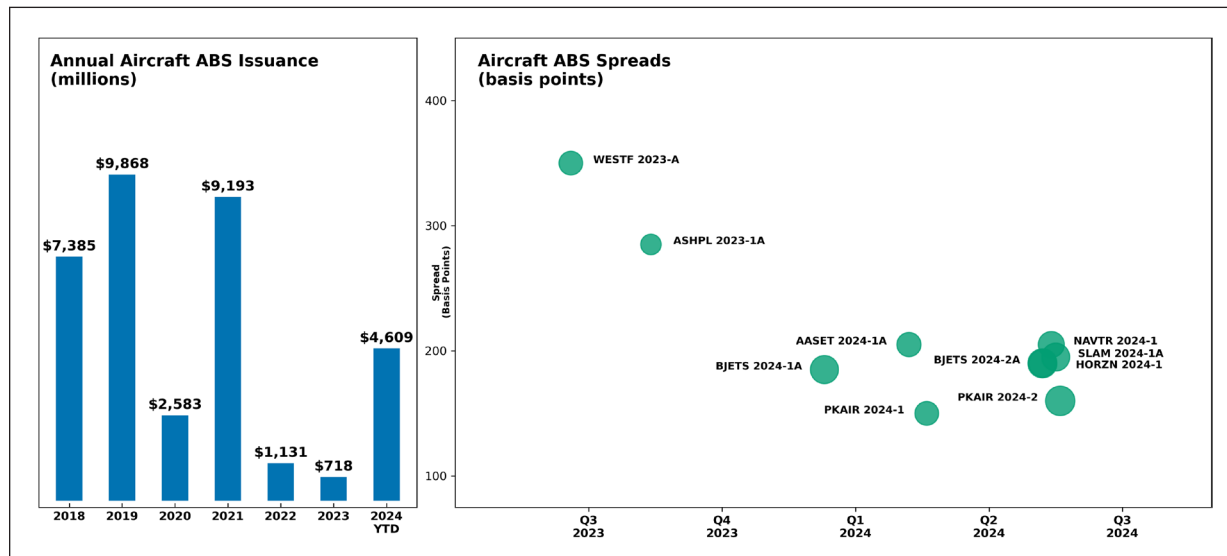


Source: S&P Global and Academy Securities

Aircraft ABS: Momentum Builds for Insurance Booster

The potential cashflow booster insurance proceeds can provide exposed deals underscores the relative value of seasoned deals amid the flurry of recent aircraft ABS issuance. Eight new deals issued YTD, with \$2.9 billion pricing across five deals just in September (Figure 2). Spreads have tightened over the year. For example, the single-tranche \$556.0 million HORZN 2024-1 priced its A-rated class at 190bp over benchmark, 10bp tighter than guidance, and 15bp tighter than AASET 2024-1's A-rated class back in June. To be sure, seasoned deals also saw their prices rallying in secondary trading. But we see seasoned deals still offering higher returns, and significant insurance-driven delevering potential.

Figure 2. Aircraft ABS Issuance and Spread Levels



Source: Bloomberg and Academy Securities

Confidential Settlements and Dense Legal Battles

Despite the momentum on resolving outstanding insurance claims, projecting the timing and scope of deal cashflows remains tricky. There are typically few public details about the specifics of the settlement agreements servicers already struck. This makes it hard to fully understand what drove the resolution, and what investors can expect in other servicer negotiations. In ECAF 2015-1A, the servicer kept confidential the agreement it negotiated with Aeroflot and the Russian insurers and reinsurers, according to deal reporting.

In turn, in the ongoing legal battles between lessors and insurers we see a slew of disputed aspects such as: (1) what constitutes an airplane “seizure”, (2) the actions lessors took back in February 2022 to retrieve their planes from Russia, and (3) somewhat obscure angles such as “cut through” provisions, that allow lessors to claim insurance proceeds even though the lessors are not party to the insurance and reinsurance agreements. The litigation is taking place across the globe, in Irish and UK courts, as well as in Florida, among other venues. Clearly it is not easy to model the outcomes of the legal cases.

Wide Range of Insurance-driven Recoveries

Beyond outcome timing, we see that the ratio of insurance proceeds to the aircraft insured value can stretch a wide range, based on anecdotal evidence. AerCap received ~70% of the insured value of its planes in settlements it struck in February 2024. The settlements may not represent the full potential insurance recovery, as AerCap is also negotiating with other insurers and reinsurers on the same airplanes. In turn, Carlyle mentioned in court documents it expects payments representing 94.05% of the insured value of its stranded aircraft. In ECAF 2015-1A, deal documents suggest 92.8% recovery.

Thunderbolt Aircraft Lease (TBOLT 2017-A) provides another interesting, yet likely unique data point on insurance recoveries. TBOLT received insurance proceeds that were higher than the latest appraised value of a B737-800 aircraft that was destroyed during conflicts in Sudan, according to rating agencies. Of course, the experience in TBOLT is completely unrelated to the Russia-seized aircraft situation. But it does allude to the varied outcomes investors may see around insurance claims in aircraft ABS deals. The TBOLT aircraft was considered total loss just before the deal distributed the insurance proceeds across the waterfall in July 2023.

Rating agencies projections reflect the uncertainty around the outcomes on Russia-seized aircraft. At least one agency regards any aircraft previously on lease to a Russian airline as total loss. Others may assume some insurance-driven recovery. For example, in ECAF, Fitch's pre-settlement base case scenario assumed the deal may receive insurance proceeds at 60% of the aircraft [value](#).¹

It has also become clear that insurance is the only path to see recoveries on Russia-seized planes. An end to the Russia-Ukraine conflict is not in sight. In fact, Academy's Geopolitical Intelligence Group (GIG) sees escalation in the region. Russia and Iran dramatically escalated Putin's war in Ukraine with Iran supplying ballistic missiles to Russia, according to GIG's General Robert Walsh. In turn, the U.S. and its allies are considering lifting some of the restrictions on supplying to Ukraine long-range weapons such as the U.K. Storm Shadow (~150-mile range) and even the U.S. ATACMS (~190-mile range). Putin has said that if these systems are used inside of Russia, he will view this as the U.S. and NATO getting directly involved in the war, as the latest "Around the World with Academy Securities" discusses in [detail](#).²

¹ "Aircraft ABS: Waterfalls Playing Catch-Up as Fundamentals Recover," Securitized Products Special Topics, Academy Securities, September 21, 2023

² "Around the World with Academy Securities," Academy Securities. September 24, 2024

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