

Making the Case for Proactive Aviation Asset Management

As operating leases gain popularity, lessors have much to gain from closely managing their aircraft lease agreements. Because the asset—but not the ownership—is transferred to the lessee, lessors should do everything they can to maximize the residual value of the aircraft, including a proactive, systematic approach to ensuring that contractual obligations are being met by the operator.

Industry Outlook

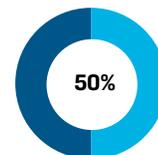
Despite the cyclic nature of commercial aviation, long-term growth continues at a rate above Gross Domestic Product (GDP). Aircraft demand will be driven by growth needs in Asia-Pacific, and replacement requirements in Europe and North America. To meet growth and replacement requirements, more than 17,000 commercial jet aircraft deliveries will be required over the next decade.

The aircraft financing landscape has undergone a number of changes in recent years, and operating leases are an attractive option for many reasons. By 2020, operating leasing is forecast to represent as much as 50% of the world fleet, representing a total of 15,000 aircraft. Among the leasing benefits to airlines are lower cash outlays than other financing options, lower risk of obsolescence residual value exposure, and effective fleet management and transition support. With their increasingly larger pool of new and used aircraft, lessors will play a key role in meeting future aircraft demand, especially in transferring aircraft to regions that have under-ordered from those that have over-ordered.

11-YEAR PROJECTED DEMAND FOR
COMMERCIAL JET AIRCRAFT



PROJECTED PERCENTAGE OF WORLD FLEET
OPERATING UNDER LEASES BY 2020





Effective Asset Management

Asset management comprises elements to support all phases of the lease cycle, and—when implemented effectively—can mitigate risk, maximize returns, and maintain asset liquidity and value through active lease management. Three key example areas demonstrate the importance of active participation to ensure contractual obligations of the lease agreement are fulfilled.



#1: Utilization Data

The lease agreement normally stipulates that utilization data—including hours flown, landings, maintenance performed, and engine moves—must be provided. Beyond using the data to ensure compliance with the terms of the contract, active review helps to build a picture and profile of a lessee with minimal intervention. Even more importantly, without this knowledge, a lessor does not know how an aircraft is being used and is not necessarily able to preserve its value.

Data should be managed through one focal point to ensure correctness in feeding tracking systems and generating invoices. There should be a mechanism to ensure 100% receipt of reports and closed loop follow-up to guarantee no loss of data. In the event of non-compliance, immediate follow-up will help determine the cause and extent, leading to default if persistent. In less extreme cases, data from reports can provide useful information about the aircraft and the operator, including overutilization, underutilization, removal of major assemblies, acceptable MRO locations, language in use, software tools, and interface with lessee.

#2: Aircraft Inspections

A well-managed inspection program contributes to risk management, data acquisition, profiling, and building relationships. Responsibility for maintenance is contractually borne by the operator, but close oversight will protect asset value for the lessor and actually benefits both parties if used correctly. Inspection reports can be used by dedicated fleet managers, lease administrators, and portfolio managers for tracking of findings, follow-up, and closure. A formal process for communication and escalation is essential. Less formally, on-site visits offer the opportunity for operators and lessors to get to know each other as people and share information that can be mutually beneficial.

An effective on-site inspection comprises the three distinct areas of focus, listed below with examples of information to gather.

| Records | Physical Condition | Operator |
|--|---|---|
| <ul style="list-style-type: none"> ▪ Check history and compliance ▪ Repair and damage maps ▪ Modification packages/tracking ▪ Major assembly and title parts ▪ Component removals ▪ Obtain copies of technical records | <ul style="list-style-type: none"> ▪ Structural repair/damage ▪ Modifications ▪ General condition and cleanliness ▪ Maintenance standards | <ul style="list-style-type: none"> ▪ General "feel" of company ▪ Contracts with suppliers ▪ Staff changes ▪ Political, economic, and business factors affecting operation |

Combining the data from reports and inspections offers invaluable intelligence and assists with the creation of spec sheets, maintenance event forecasting, cash flow forecasting, configuration control, risk analysis, and remedial plans. Lessors can benefit from highlighted weak areas for return and events of default that could lead to repossession.

#3: Reserve Claims

Detailed reserves management ensures asset value is retained, interaction with lessee continues, and revenue is maximized. The lessor must manage the technical and financial aspects of a reserve claim, bearing in mind that the current operator is not necessarily concerned with the life of the asset, only through the term of the contract.

A systematic workflow between finance and technical resources ensures tracking of the claim and timeliness of completion, while work-scope approvals ensure the lessor and lessee understand each other's expectations. A suggested workflow for managing maintenance event claims starts with the financial team's assessment of the claim's validity. The technical team is then responsible for evaluating the claim's content and determining the exact value to release to the lessee. Once all is approved, finance will make the payment and manage all related tracking.



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