

Fitch: Financial Guarantor EETC Exposure to Delta & Northwest [Ratings](#)

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Fitch Ratings-New York-September 19, 2005: The Chapter 11 bankruptcy filings by Delta Airlines, Inc. (Delta) and Northwest Airlines Corp. (Northwest) on September 14, 2005 bring renewed focus on the financial guarantors' exposure to enhanced equipment trust certificate (EETC) transactions involving these airlines, according to Fitch Ratings. Aggregate net par in force exposure to EETC transactions involving Delta or Northwest for financial guarantors followed by Fitch totals about \$2.3 billion.

Among the financial guarantors, the largest exposure is held by MBIA Insurance Corp. and Ambac Assurance Corp. MBIA has exposure to four Northwest EETC transactions totaling \$686.1 million and one Delta transaction totaling \$800.2 million, for a combined total of \$1,486.3 million net par exposure. Ambac has \$277.0 million of exposure to a Northwest transaction and \$317.0 million of exposure to a Delta transaction, for a combined total of \$594.0 million net par exposure. In addition, XL Capital Assurance Inc. and XL Financial Assurance Ltd. have combined net par exposure of \$192.9 million to a single Delta transaction, and Assured Guaranty Corp. has assumed aggregate net par exposure of \$67.5 million to two Northwest transactions. Financial guarantors' exposures to EETC transactions already insured by an unaffiliated financial guaranty company are not included in the aggregate \$2.3 billion total.

In EETC transactions, a trust issues classes of notes backed by a collateral pool comprising secured aircraft debt or notes issued pursuant to leveraged leases of aircraft. The financial guarantors typically insured the most senior class of such notes, which benefit both from prioritization of collateral cash flows and dedicated liquidity facilities. The aircraft financed via these EETC transactions initially continue to be used by the sponsoring airline, commonly under a lease or other financing arrangement. In Chapter 11 bankruptcy, an airline generally has the right to reject the lease or financing arrangement for aircraft that it no longer needs or that it can obtain on better terms. Such rejection by an airline causes the aircraft to be returned for disposition or releasing to new parties, thereby exposing the EETC transaction to market risk on the returned aircraft. The financial guarantors' senior position in EETC structures provides some cushion against market risks on the aircraft, as well as significant control rights on decisions regarding collateral of the EETC trusts.

The prospect of Chapter 11 filings by Delta and Northwest was recognized for some time. However, the impact these reorganizations will have upon the composition of the respective aircraft fleets and the extent they will result in aircraft rejections affecting the insured EETCs, remains to be seen. Significant changes to the aircraft fleets may in turn influence market values and financing terms for individual types of aircraft. More clarity on these issues is needed before a meaningful assessment can be made of the impact of the airlines' bankruptcies upon the financial guarantors' exposures to the insured EETC transactions; however, Fitch believes these transactions generally can be expected to experience additional stress as a result of the bankruptcies. Nevertheless, both MBIA and Ambac have been proactive in dealing with their problems in this sector and have demonstrated access to the resources and expertise needed to effectively manage them.

Fitch will continue to monitor the ongoing developments with respect to the bankruptcies of Delta and Northwest, as well as other affected airlines, as to possible implications on the exposed financial guarantors.

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