Backers becoming more selective

SHIP FINANCE IN GREECE

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The year 2001 that is coming to a close was a truly eventful one for the shipping industry, as well as for shipfinance, both internationally and in Greece.

On the whole, the year witnessed progressively weaker shipping markets across all categories including that of tankers which performed as if on a roller coaster ride. The pace of the decline accelerated in the summer and events of September 11th and their economic aftermath gave it a final blow that brought shipping into recession in earnest by the end of the year. To give but a couple of examples, VLCCs, which earned around $50,000 per day are now near $10,000 per day and Capesizes that started at approximately $20,000 per day in January are now hovering at $8,000 per day.

The above unfortunate and largely unforeseen chain of events had a significant effect on all shipfinancing banks, which started the year lending robustly primarily for newbuildings and are ending it counting their problems, client exposures and cashflows.

What is of deep concern for bankers, however, is that there remain a great deal of newbuildings to come across most sectors (tankers 22%, Panamax 10%, Handymax 16% and Containers 29%) at a time that the world economy and international trade have stumbled and 2002 forecasts are being progressively trimmed. Most forecasts are now calling for moderate world growth of between 1-2% for 2002 with international trade being a little higher. Clearly, such growth rates will not make much of an impression to the sectors where over-ordering has occurred.

Banks are publicly saying and with good justification that their lending, especially over the last 3-5 years has been secured either by newbuildings or very young vessels and, as such, time is on their side. In addition, their client selectivity has meant that their portfolio risk is spread among the higher quality, larger, financially more robust and better organized shipping groups.

Privately, though, banks are concerned and fear the worst, i.e. a prolonged shipping slump, which will call for loan restructurings or in some cases present threats with client failures and walkouts.

A persistent worry among shipping bankers is the attitude towards shiplending by their senior management, especially in the light of the new BASEL II accord guidelines, which render shipping a most 'capital intensive' industry and thus 'expensive' in capital terms. As such, at a time when there shall be pressures on banks from other industries in trouble, e.g. aviation, cruising, etc. shipping may end up as being the sacrificed activity that is not deemed to be 'a key activity' and where a long-term presence cannot be justified.

Although a future recovery in US confidence and an economic upturn in 2002 will do a great deal to allay the above fears, nevertheless the danger persists. Recent examples of bank withdrawals are KBC and Viking for "strategic reasons".

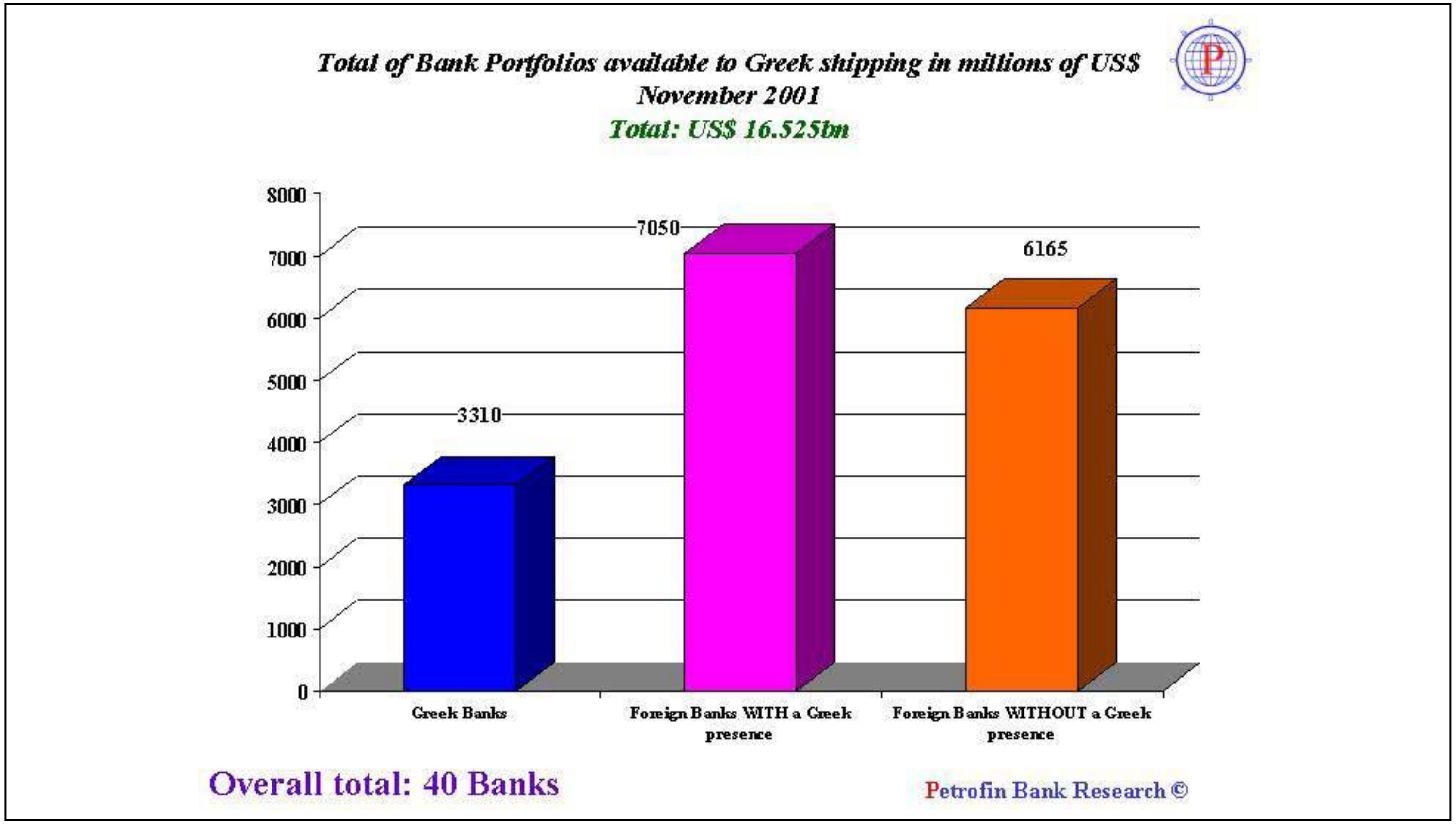
During 2001, the rate of mergers and acquisitions by banks continued unabated. In an effort to develop into bigger even more global players, to reap 'economies of scale' and improve their financial performance, banks have turned to mergers and acquisitions as a solution. A further underlying reason is the need to protect a bank's independence. This may be done by getting larger and / or acquiring other banks so as to reduce vulnerability to a takeover. Petrofin Bank Research © showed that between 2000 and 2001 the number of international banks engaged in shipping had fallen from 159 to 143 whilst the major shiplending banks more significantly from 25 to 23. To understand the long-term trend, the number of banks between 1996 and 2001 has fallen from 201 to 143 and among big lenders from 62 to 34.

TABLE 1: Number of Banks financing Greek Shipping

A recent example is the one of the National Bank of Greece and Alpha Bank here in Greece. Although it is early days to predict what will happen to their respective shipping activities, a period of introspection, adjustment and redefinition of a shiplending strategy after their merger will no doubt follow.

Let us look into the number of banks that are engaged in shiplending in Greece. The most recent study of the number and loan portfolios of banks involved in Greek shiplending was done in November 2001 by Petrofin Bank Research ©. The study shows a total of loans drawn of $ 16.525bn and if one counts the undrawn but committed loans mainly for newbuildings, the overall Greek shiplending rises to $19.525bn.

TABLE 2: Total of Bank Portfolios available to Greek Shipping



The tables A, B and C below show the loan portfolio of each bank split into three main categories:

TABLE A: Foreign Banks with a presence in Greece

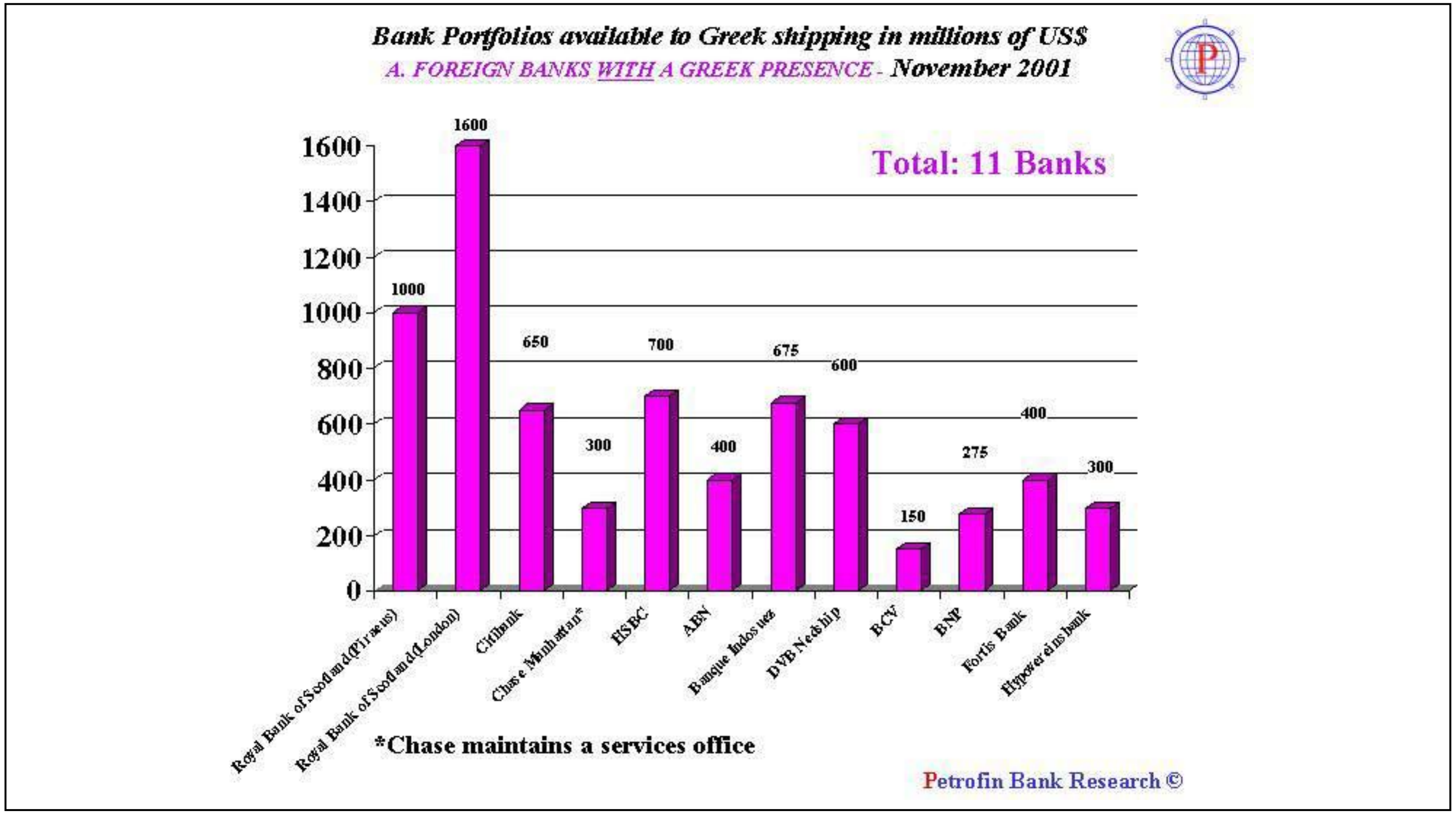


TABLE B: Foreign Banks without a presence in Greece, i.e. no branch or representative office

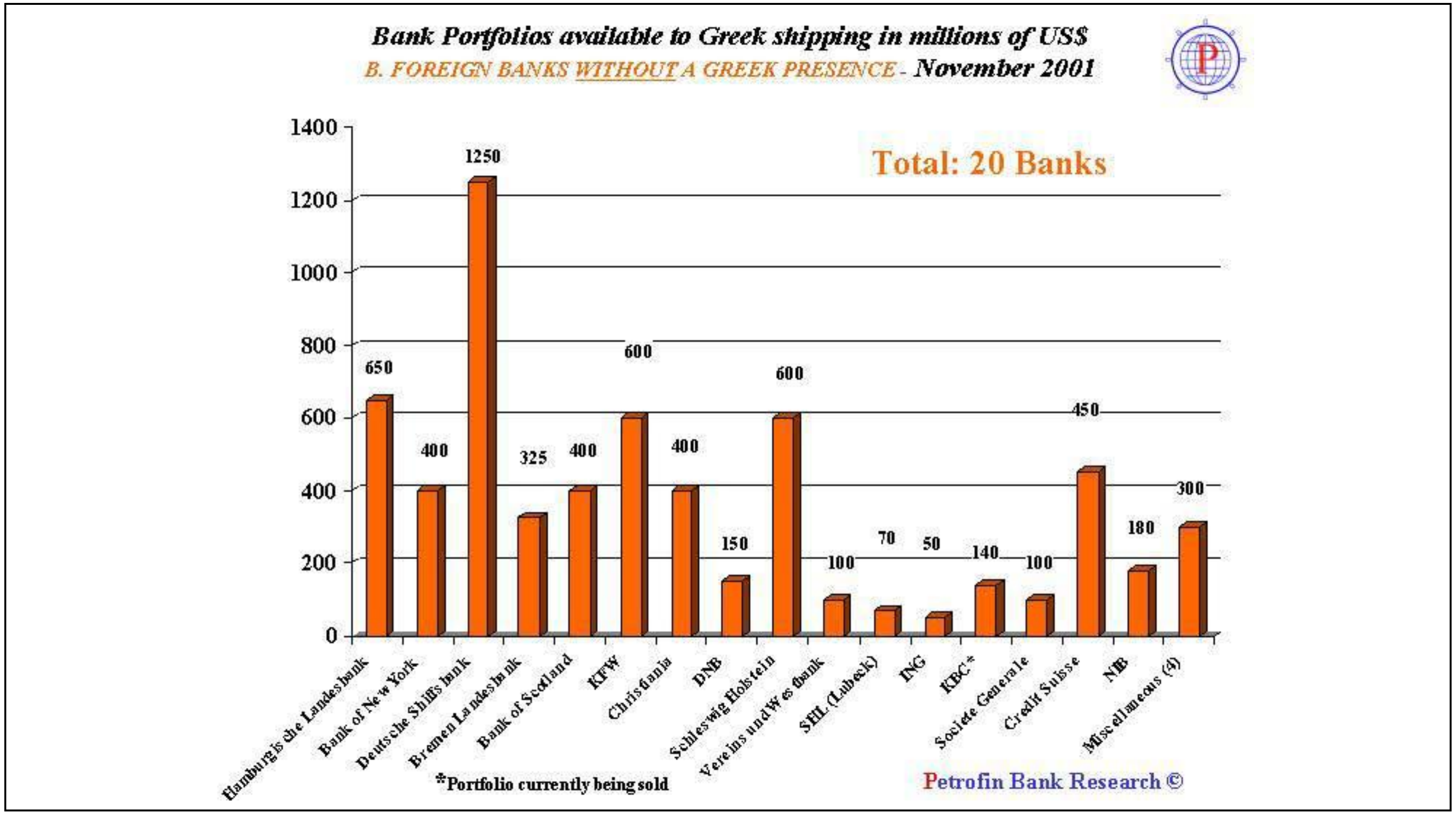
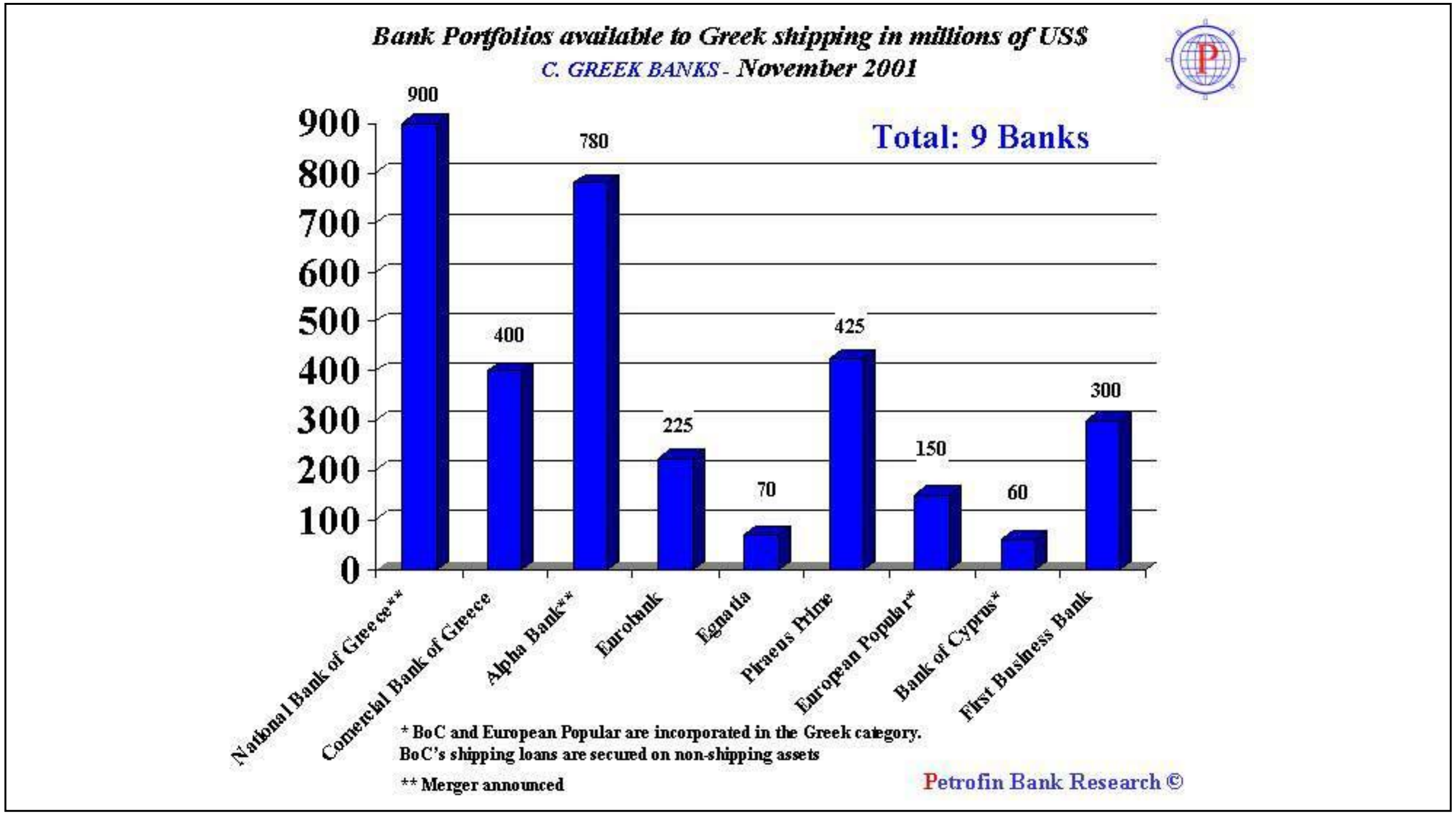


TABLE C: Greek Banks



It is interesting to note, however, that although the total Greek loan portfolio has risen over the last 6 years from an estimated $9bn to $16.525bn, the number of banks engaged in lending to the Greek shipping industry has declined from 67 to 40 over the same period.

The trend, therefore, is a clear one in favour of the consolidation of bank numbers both internationally and in Greece. Moreover, what is noteworthy is that the banks that have disappeared have been the smaller and more flexible ones that have catered to the small and medium owner. As such, the remaining banks all strive to lend to the same top 50 names, whilst largely ignoring the remainder 735 shipping companies out of a total of 785, as per our last Petrofin Research © published earlier in 2001.

Clearly, the ability for differentiation between banks on credit terms has become much slimmer and banks nowadays are seeking to differentiate on the basis of service, know-how and commitment to the shipping industry, additional non-risk services, swifter response to proposals and so on.

A major development has been the emphasis placed by each bank for the build-up of non-risk related income from clients. Use of the bank's auxiliary services has become almost compulsory in our days by those banks which provide loans to their clients as parallel condition to lending. These profits do increase the attractiveness of shipping to banks and support their continued involvement in shipping.

Turning to the credit terms themselves, a clear trend over the year has been the hardening of spreads and fees as banks gear up to BASL II. Owners believe that this is an excuse to charge more. However, shipping has hardly demonstrated a consistent record of rewarding banks and as such, making shiplending more attractive to banks in today's demanding market conditions may not be such a bad thing.

Financing percentages and loan periods have not changed dramatically over the year. The 70% rough financing rule still holds and most banks require vessels to be between 15 to 20 years old at loan maturity. However, the appetite by banks for fresh business has waned and only the best clients and proposals can now be considered.

Bankers have remarked that it is quite rare to have a market such as today's, when all markets are in decline across the board. This is unsettling and most banks shall be looking at vessel valuations by year-end to check the quality of their own loan portfolios.

There is, however, a saving grace for shipping since most bankers and owners make frequent use of the September 11th incident and its fall-out effects as justification for restructures and / or delays in payment. Up to a point, this is correct but thus far it has only earned sympathy rather than tangible assistance.

Another key development has been the pressure by the European Union on standardizing the credit rating of loans. This has impacted all banks and German Banks in particular. As some German banks are state owned / controlled and their funding cost has traditionally been lower, the EU has been concerned that loans should not be underpriced, thus creating unfair competition to those privately owned banks. All banks have set up independent credit rating departments that once again favour the larger corporate client. Quantitative bias of such credit rating models is quite common but many owners are fearful that qualitative credit characteristics such as character, quality, reputation etc. may be underrated in the new world of mathematical models.

The prospects for shipfinance in Greece appear mixed. In the short term, the cyclicality of the markets and effects of mergers and acquisitions is reducing the number of banks engaged in shiplending in Greece which is a negative development.

The longer-term patterns, however, are more positive. The main reason lies in the qualitative improvement of Greek shipping that is taking place across the board and reflecting itself in younger vessels, higher technical standards, better organization, swifter and more comprehensive financial information systems, increasing corporate style and greater transparency.

Banks are attracted by quality and size. As Greek shipping is developing fast in both these aspects, banks will reassess the Greek shipping risk. As such, I estimate that a number of prominent international banks that are not lending to Greek owners at present will positively reconsider the Greek market and the opportunities it provides and shall begin to lend on a selective basis.

In the meantime, banker and owner should huddle together and pray for a swift recovery.

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