

More Banks and Keener Competition

December 1995

Outlook

Ted Petropoulos

PETROFIN's research into the number, size and nationality of banks active in International Ship Finance, has become an annual feature. This year's results are shown below with those of 1994 in brackets. The results are significant in that they confirm the underlying trend of more banks becoming involved in shipping, a trend which commenced in the early 1990's and gathered pace over the last 3 years.

Readers may be reminded that in 1992, the first year of Petrofin's re- search, the total number of banks was only 67 as compared with 154 now, in accordance with our latest 1995 research. Two years ago we made two predictions, namely

We believe that:

- ***the number of banks involved in shiplending will increase over the years and***
- ***the increase will come primarily from minor / local banks'. This year's results confirm both predictions in quite a dramatic manner.***

We wish to highlight the major changes as follows:

- *The overall number of shiplending banks increased from 119 in 1994 to 154 in 1995, i.e. an increase of 29 % over the year and an increase of 130% over the last 4 years since 1992. However, the number is still smaller in comparison to the over 200 banks that were active in the 1970's.*
- *The number of banks enjoying a major role in shiplending also increased from 43 to 56 since last year. This represents a change from the previous position of a relatively stable number of major banks. The change is related to the success of shipping over the last few years which, over time, has enabled a larger number of banks with a smaller shipping exposure to develop a more substantial presence in the market. This increase is spread across all nationalities and more often it reflects a return to major shiplending by banks that had become rather quiet until recently.*
- *The number of minor /locally active banks also showed an increase from 76 to 98 over the years, which under- lines the greater Interest towards*

shipping by smaller banks, with the establishment of shiplending departments and the development of small but rapidly growing portfolios. The greater number of small shiplenders has added to the ship finance depth of the industry and has assisted the activities of the larger shiplenders through syndicate or club participations.

- *European shiplending banks still account for two thirds of all banks and represent the highest concentration of shipfinance exposure. Their role, however, is being reduced by the emergence of new Far East lenders and the re-emergence of Japanese banks that have been rather dormant until recently.*
- *In terms of specific nationalities, the Scandinavian, German, North American and “other European” categories, increased their presence, whilst the French, Dutch and UK based banks largely maintained their ground.*
- *The biggest increases have been recorded by the ‘other European’ and ‘Far Eastern’ and ‘other nationalities’ categories, especially to the smaller lenders. These nationalities represent the breeding stock for aspiring shiplenders in the years to come.*

| INTERNATIONAL SHIPPING BANKS 1995-1994 | | | | | | | | |
|---|-------------------|-------------|-------------------|-------------|--------------|-------------|-------------|-------------|
| COUNTRY/REGION | MAJOR ROLE | | MINOR ROLE | | TOTAL | | % | |
| | 1995 | 1994 | 1995 | 1994 | 1995 | 1994 | 1995 | 1994 |
| BRITAIN | 7 | 6 | 10 | 11 | 17 | 17 | 11 | 14 |
| FRANCE/BELGIUM | 6 | 3 | 3 | 6 | 9 | 9 | 6 | 7 |
| SCANDINAVIA | 7 | 5 | 10 | 7 | 17 | 12 | 11 | 10 |
| GERMANY | 7 | 6 | 7 | 4 | 14 | 10 | 9 | 8 |
| HOLLAND | 5 | 5 | 3 | 3 | 8 | 8 | 5 | 7 |
| OTHER EUROPEAN | 4 | 1 | 32 | 24 | 36 | 25 | 23.5 | 21 |
| NORTH AMERICA | 10 | 10 | 13 | 8 | 23 | 18 | 15 | 15 |
| FAR EAST & OTHER COUNTRIES | 10 | 7 | 20 | 13 | 30 | 20 | 19.5 | 18 |
| GRAND TOTAL | 56 | 43 | 98 | 76 | 154 | 119 | 100 | 100 |

In addition to the numbers, the overall Dollar volume of shiplending has substantially increased because of 2 additional factors, namely: a) the vast majority of banks had greater budgets to fill in 1995;

Petrofin's research suggests that shiplending capacity of existing banks increased by 20 in 1995 over the levels of 1994 and b) the levels of shiplending exposure towards the end of 1995 for most banks are at, or very near, capacity.

Why is shipping so attractive to Banks?

Shiplending has attracted more interest primarily because of the following factors:

- *increased demand for loans to finance either newbuildings, or second-hand vessels whose values have risen.*
- *Steady worldwide economic growth.*
- *The robust prospects (until recently) for the shipping industry.*
- *The availability of funds by banks that have become capital-strong and awash with lendable funds, and more importantly,*
- *The yields of shiplending which although in decline, still represent a higher return for banks than those offered by other industries and lending opportunities.*

Until the late summer of 1995, shiplending competition has been intense with many banks willing to reduce their terms in order to retain established Greek clients and / or obtain their fair share of shipfinance business.

As such, for quality owners (quality name, operation, liquidity, size and management) spreads of 1% or just over became quite common with arrangement fees down to ? %.

When banks offered a slightly higher percentage of finance and / or a longer repayment period and / or non resource lending, better than the above terms were possible for those banks that were able to provide this more attractive finance. The better margins offered by Greek shipping began to attract the interest of Scandinavian and other North European banks that saw their own home market margins approach critically low levels.

The picture changed dramatically in the fall of 1995 as the Biffex began its sharp fall which, admittedly, caught most bankers and owners by surprise. Suddenly, ship purchasers became wary and held back, awaiting better buying opportunities.

Shiplenders too (especially their credit departments) also became wary of the steep decline in freights.

Although ship values have not fallen to any significant extent and even though most owners still enjoyed substantial cash flow earnings and held strong liquid positions, most shiplenders became cautious and began to resist the owners' overtures for higher finance and better terms. Shipfinance deals became harder to pass through Credit Committees and often banks "walked away" from deals rather than follow the competition as was done earlier in the year. Sensing the change in sentiment, ship valuers began to mark down vessel values even though this was, more often than not, based on lower market sentiment, expectations and own safety, rather than actual sales.

The combined effects of the correction of Biffex which admittedly affects only the larger sized dry bulk carriers, has put a dampener on the exuberance of owners and bankers. It has stopped the excessive competition among banks that has prevailed for the first 8 months of the year and has stopped for the time being the decrease in ship finance terms as outlined earlier.

Without doubt 1996 will represent a year of change for shiplending. Should the year and freight correction develop into a recession, as many shipping analysts expect, the expansion of shiplending will come to an abrupt halt

As such, the number of shiplending banks will cease to grow and overall shipfinance volumes will decline, margins and terms will improve for banks and there will be a 'flight to quality'.

However, these effects should be seen in terms of the longer term development of shipping, as a mere correction to the long term growth of shiplenders and shipfinance volume



*From SPECIAL REPORT OUTLOOK
1995*