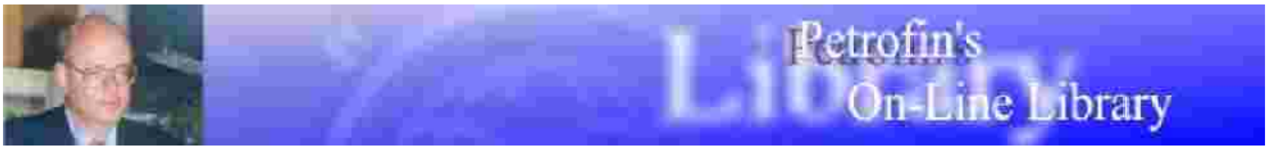

The Inadequacy of Banks to meet the Shipping Industry's Credit Needs in the 1990s

December 1992

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There is a widespread view that shipping is experiencing a “credit squeeze”.

The idea is not new and it tends to recur at times when the industry is facing a recession. During such times, vessel values and earnings fall, liquidity resources are stretched and less robust owners describe the lack of shiplending appetite by Banks as a “credit squeeze”. However, there are serious grounds to believe that the industry is truly experiencing a structural “credit squeeze” since both the number and ability of shiplending Banks have declined alarmingly over the last decade. A ch, the problem does not arise from a sudden and massive increase in t e demand for shipping loans (not yet anyway) but from the unavailability of sufficient credit to meet the industry’s fleet renewal requirements.

In order to substantiate the truth of the above, we have conducted research into the number of active shiplending Banks and their ationalities. The findings, which are displayed in the attached table, are both significant and supportive of the widespread belief that there are relatively few Banks engaged in international shiplending.

The number of Banks with a major role are only 39 of w ich 77% are European based and only 18% North American based. With this number, however, are numerous Banks, which may be described as major regional rather than International shiplending Banks.

Bearing in mind, the importance of worldwide transport ion in general and shipping in particular, as well as, the capital in ensive nature of the industry, and given the great number of International d National Banks on a worldwide basis, the small number of Banks with a ajor shipping involvement is truly startling.

TABLE: BANKS INVOLVED IN INTERNATIONAL SHIPLENDING 1992

COUNTRY/ REGION	MAJOR ROLE		MINOR ROLE		TOTAL	
UNITED KINGDOM	7	18%	6	21%	13	19%
FRANCE	7	18%	2	7%	9	14%
SCANDINAVIA	6	13%	1	4%	6	9%
GERMANY	4	10%	2	7%	6	9%
NETHERLANDS	4	10%	1	4%	6	8%

OTHER EUROPEAN	3	8%	8	28%	11	16%
NORTH AMERICA	7	18%	7	25%	14	21%
OTHER COUNTRIES	2	6%	1	4%	3	4%
GRAND TOTAL	39	100%	28	100%	67	100%

The minor leading Banks (28) are those, either enjoyin small market "niches" or consider shiplending as one of their many credit areas, and which commit little concentration of resources and especially personnel. However, these are Banks with a "shipping desk" and the ability to enter into a shipping transaction on their own.

We have not considered "shiplending" Banks those Banks that merely participate in other lenders' credits, since they would be relying more on the lead Bank's own knowledge and reputation and less on their own ability to assess shipping credit risk.

It is important to note that European Banks account for 77% of the total and that their share of shiplending has come to dominate the industry, whereas only a decade ago it was U.S. based Banks that vided the bulk of the industry's requirements.

The main reason for the small number of shiplending Banks, lies with the poor lending record of the industry for many Banks in the 70's and more importantly in the 80's. A number of Banks faced considerable losses although it would be wrong to only blame the cyclical nature of the shipping industry, because part of the blame must fall on excessive lending and lax credit criteria used by many Banks at that tim Still, shipping developed a name for complexity, specialization and high risk; hardly conducive to keeping, let alone attracting new Banks to the industry.

Turning to the ability of shiplending Banks to lend, we must relate this declining ability to:

- The higher capital adequacy ratios descreed by the central Banks.
- The " high risk profile" of shipping.
- The mounting provisions and losses faced by Banks in o her areas e.g. real estate, sovereign lending, energy etc.
- The increasing emphasis by Banks in non-risk products and services.

Faced with the above challenges and with shipping bein a "lender's market", Banks have reduced both the percentage of finance and the terms of shipping loans, which have had a dramatic effect of he amount of capital required by the industry to renew, let alone increase, its fleet.

In response to the lack of competition, there has been nsiderable evidence that both loan spreads and transaction fees h ve begun to rise. As such, loan yields have increased, which render shiplen g more attractive. Should the industry recover and shipping losses be restricted to limited and / or acceptable levels, then the industry will beg to look attractive for new Banks.

As such, we anticipate that there will be an increase in the number of shiplending Banks worldwide. Of particular note for Greek shipping in particular is that, we anticipate an increased role sh played by Greek, state and primarily owned, Banks. These will find shiplending opportunities practically, at their doorstep, too hard o refuse.

Whilst the number of shiplending Banks are expected to increase, the number of major, experienced and committed lenders is not expected to show changes until shipping shall have become an indus in which risks are commensurate with those of other industries. Overcoming the current recession with few losses will be a step in the right direction.

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From International Marine Business
December 1992