An overview of Greek shipfinance over the last 25 years

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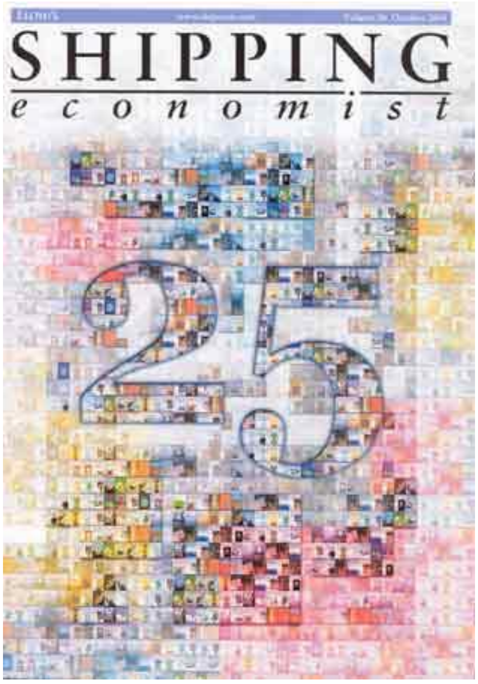

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Greece has always been a crucial market for ship finance with its big fleet and large numbers of owners. Ted Petropoulos reviews its progress in the last 25 years

I must admit to being pleased when LSE requested me to undertake the above review. Having been involved in shipfinance since the early 70s and in Greek shipfinance since 1977, writing this article gave me a rare opportunity to go down memory lane and compare the world of Greek shipfinance then (1979) and now.

May I preface my subsequent analysis and commentary by stating that the changes during the period have been truly startling. These changes in shipfinance reflect not only the evolution of the shipfinance industry but also the development of the shipping industry itself over the period. I will, therefore, also bring into focus in my review certain key changes in both international shipping and Greek shipping over the last 25 years.

Loan Portfolio

The most recently published analysis into Greek shipfinance was produced by Petrofin Bank Research in April 2004 and covered in the LSE June 2004 issue.

There was unfortunately no similar research produced for 1979. As such, through a review of all available data, directories and my own files, I was able to produce comparative figures which are shown in Table 1 below:

Table 1: Number of Banks engaged in Greek Shipfinance

	End 1979	End 2003
Non-Greek banks with a Greek presence (branch or rep office)	20	10
Non-Greek banks without a Greek presence	73	29
Greek banks	12	15
Total	105	54

The results are interesting in that only half of the non-Greek banks with a Greek physical presence are in business today and only 2 out of 5 without a Greek presence. The reduction is due in part to bank withdrawals from Greek shipfinance or shipfinance in general but also to mergers and acquisitions which has been a feature of the banking industry on a global scale.

In Table 2 below we show the same comparative figures by bank nationality

Table 2: Number of Banks engaged in Greek Shipfinance

Nationality	1979	End 2003
Britain	18	5
France / Belgium	14	8
Scandinanvia	4	2
Germany	7	10
Holland	8	5
Greece	12	15
Other European	7	4
Total European	70	49
North America	26	4
Far East & other countries	9	1
Grand Total	105	54

The main departees have been the North American banks where only Citibank remains active and the British banks, including all the smaller 'niche' banks, such as the UK based merchant banks, e.g. Hambros, Guinness Peat, Henry Ausbacher etc. which have disappeared. Shipfinance today has been left mostly to the larger international and primarily European banks. In 1979, there were a number of banks which were also engaged in shiplending as a side activity without necessarily having a specialist shipfinance department or a commitment to shipping.

Greek bank numbers have on the surface not changed a great deal. However, in 1979, only the National Bank of Greece was a major financier for all types of vessels as the remaining banks were involved primarily in coastal, passenger and / or ferry related business. The position in 2003 is totally different since all the Greek banks lend primarily to Greek owners engaged in international shipping.

Loan Volumes

In loan volume terms, however, there has been substantial growth as Greek shipping loans amounted to $25.55 billion at the end 2003, having risen substantially from $16.53bn at the end of 2001 on account of massive newbuilding orders and the growth both in quality and size of the Greek-owned fleet. Global shipfinance estimates vary from $160 to $200 bn, including all shipping related debt. However, these estimates should be seen as 'reasoned estimates' rather than 'factual.'

There are no corresponding figures for 1979, but, based on our own investigation it is believed that the corresponding figure may have been standing at approximately $9-10 billion spread widely over the numerous banks involved in Greek shipfinance. Readers may remember the 1982-1987 slump during which vessel values plummeted and a great number of vessels were arrested and changed hands. In terms of loan volume, therefore, it is believed that total Greek shipfinance fell during the above period before starting to pick up in the late 80s and especially during the 90s.

What distinguishes Greek shipping lenders today is their commitment to the industry, their considerably larger loan portfolios and their dedicated and specialized shipfinance organization and know-how. Although loan approvals for non-Greek banks have inexorably drifted away from local centres and towards far away headquarters, bank's lending strategies are, however, much more clearly defined and focused on their preferred clientele and on transactions that meet the risk/rewards criteria under Basel II.

Twenty five years ago banks themselves and their credit approval criteria varied greatly. Consequently, marginal owners could find a bank to finance a substandard older vessel although at a higher cost. Loan losses in the 70s and 80s were colossal, especially for banks which treated Greek shipfinance without due care and attention. Owner size was also less important in the old days and lending to start up owners was much more common than today.

Risk analysis today and the thoroughness of credit investigation as well as credit presentations are especially better. Consequently, due to better systems, analysis and controls as well as a better performance by the shipping industry, shipfinance is no longer stigmatized or regarded as 'exotic' lending.

Attitudes of banks and owners

There has been a remarkable change over the years in the attitude of banks towards Greek owners and vice versa.

Scanning through the news of the past, one sees abundant evidence of mistrust between banks and owners. Foreclosures and vessel arrests by banks raised the concern of both the banks and owning communities and created deeply held suspicions.

In some cases, Greek shipping ministers and other bodies made pleas to banks to be patient and accommodating to Greek owners. Banks in the spotlight with prominent disputes with owners often felt the need to explain their actions or policies in interviews in an effort to limit the damages to their reputation and ability to conduct further business. Although the situation worsened in the 80s as a result of the shipping slump, the late 70s also witnessed numerous Greek owner failures. There were numerous articles in the shipping press where banks were blamed for overlending and for being co-responsible for many failures.

Greek owners' attitude to banks in general was one of caution. Owners were used to banks entering / leaving the industry based on shipping market conditions and prospects. With the exception of some bank names still prominent today, the vast majority of banks (and bankers) have disappeared which gives credit to owners' caution. On the other hand, many owners were only too keen to over-borrow and paid little attention to their liquidity which gave little room for flexibility by banks hardly helped by owner secrecy.

Today the attitudes have considerably improved to one of healthy respect and mutual understanding of each other's requirements and expectations.

Transparency

If corporate transparency is one of today's issues, financial transparency (or lack of it) was the main issue in 1979. I saw an article in 1984 by Mr. Dimitris Krontiras, G. M. of Citibank at the City University Conference in Greece in which he raises concerns about the lack of audited financial statements and the attitude of Greek

owners towards banks requesting information as an 'invasion of privacy'.
Today banks and owners expect to receive / provide in addition to audited financials substantially more detailed financial, organizational and structural information, as well as a clear investment and financial strategy.

Quality of vessels

Banks in 1979 and for at least 10-15 years subsequently were quite concerned with the quality of the vessels they financed. Repair and maintenance standards were more relaxed then and banks often found out about the real condition of their collateral at the time of foreclosure or serious breakdown. Consequently, many banks insisted on vessel inspections before granting a loan and on regular inspections thereafter.

Today, not only has the standard of maintenance greatly improved but the stringent regulatory, insurance and chartering requirements leave little room for owners operating substandard vessels.

Coupled with the fact that the Greek-owned fleet is now much younger than 25 years ago and bank-client relationship are closer and stronger, concerns over vessel condition have largely subsided.

Instead, banks today are worried to limit their own potential liability in the event of vessel' pollution (especially tankers), as well as if their clients have the organizational ability and know-how to overcome all the regulatory obstacles continuously being raised in front of them.

Loan amount

In 1979 a $5-10m loan would be regarded as a fair medium-sized loan and so would a $20m overall client exposure. Corresponding figures today would be $25m and $50m respectively.

In addition, whereas bank loan portfolios in the past would consist of a few top names with relatively large exposures and the remainder well spread across many clients with a diverse type of fleet and age profile, nowadays, banks have fewer clients with much higher average loan exposures. Furthermore, whereas a 15-year old vessel in 1979 was well able to obtain medium term finance, most banks today wish their loans to expire by the time vessels reach 15 years of age.

As vessel collateral became younger so did to an extent the loan period become longer. As such, from some research into loans being granted in 1979, the average loan period was shorter than today by about 2 ½ years on average, i.e. 5 years in 1979 and 7 ½ years today. The average age of the vessels being financed, however, has improved by at least 6-7 years.

Loan financing percentages have not greatly changed over the period with 65-70% still being regarded as the industry norm.

What has changed is the loan spreads structure. In 1979, an average loan spread of 2% was quite normal, whereas today, despite pressures from Basel II average loan spreads are undeniably lower. Client quality has, however, much improved and it may be argued that shipfinance today net of loan default provisions provides higher net returns to banks. The deviation from the spread average has however reduced with fewer banks having very high and low spread margins. Giveaway extremely low spreads that were a feature of the 90s have however, virtually disappeared since all banks have inflexible minimum spreads and are also unlikely to be swayed by large spreads to accept sub-standard business. Greater use of financial covenants and ratios as well as better loan monitoring is being made today and the whole complexity of documentation has grown enormously.

First Mortgage lending is still the norm for Greek shipfinance, as there are still few corporate shipping names. Nevertheless, financial complexity has increased and Greek owners were among the first to make use of junk bonds in shipping with undeniable success (to themselves) as well as increasing use of public markets. Banks too have started to become more seriously involved in supporting their Greek clients' efforts to tap the public markets as well as to promote their products and services in shipping and in other areas such as private banking, investment banking, hedging, etc. Consequently, income from non credit related services is now a significant portion of shipping banks' overall income by their shipping departments.

Syndication lending was move prevalent for large owners twenty five years ago. It was relatively easy to find participating banks whilst the lead banks were only a handful.

Difficulties with syndications especially during the 80s' shipping slump lead to their increasing unpopularity. In any case, Greek owners used but were never the 'protagonists' in this form of finance. What has become increasingly more popular for Greek owners is the club loan consisting of 2-3 banks sharing similar views to shipfinance and financing owners they know and with whom they feel comfortable.

Risk attitude by banks

Another feature today is that investment funds and / or mezzanine providers view Greek names more positively in our times. The transformation has taken place due to the good experience with Greek owners, the quality of the collateral and the owners' willingness / ability to obtain period charters.

The attitude to shipping risk by banks has changed. Banks realised that an increase in loan spread / fees could not compensate the increase in risk and consequently became more risk averse. Risk is being carefully assessed and where it is larger than a bank's credit criteria, the business is simply turned down.

Fortunately for banks the appetite of Greek owners towards newbuildings and younger vessels has been so high that from an asset point of view, shipping risk has improved. Due to economies of scale, ownership has tended to become more concentrated among fewer names.

Overall, banks have benefited from three factors:
a) their own better strategy, organisation, systems, analysis and monitoring;
b) the quality improvements in Greek owners and their fleets, and
c) the improved performance of the shipping market over, especially, the last 10 years.

Number of Greek owners

Latest Petrofin research published in April 2004 showed a total of 733 Greek owners operating fleets from 1 to well over 80 vessels. The numbers have decreased by 12% over the last 5 years due to the departure of small owners mostly operating 1-2 overage vessels.

No corresponding studies were conducted / available for 1979. However, using directories and data from that time, the total number of Greek owners in 1979 is estimated at 950.

Parallel development

Following a period of market related difficulties in the 1980s, the Greek-owned fleet developed strongly from 1990 onwards. In 1990, 82.9m DWT was owned by Greek companies as opposed to 81.9m DWT owned by the Japanese. Interestingly, 1.33m DWT of newbuildings were on order by Greeks as opposed to 9m DWT for the Japanese (Naftiliaki – Summer 1990).

In 2004, Greeks owned 180m DWT or 18% of the world fleet as against 114m DWT or 13% for the Japanese. Greek newbuilding orders amount to over 370 vessels worth in excess of $14bn equivalent to 18.13% of the world orderbook with the Japanese following very closely (Naftiliaki – Summer 2004 / Lloyds Shipping Economist).

The above is one example of the shift in size and relative importance of Greek shipping compared to the world fleet.

In addition, the average age of the Greek-owned vessels including newbuildings as per statistics presented in March 2004 by the Greek Shipping Co-operation Committee were 16.8 years which can be contrasted to an average age in excess of 25 years in the late 70s.

Greek shipfinance volumes were, therefore, influenced not only by the rapid increase in the number of Greek-owned tonnage, but also by their younger age and correspondingly higher vessel values.

There has also been a shift in the location of Greek owners away from London and towards Piraeus due to cost differences, tax-related reasons and the greater ease of staffing Greek-based offices with qualified lower cost shipping personnel. The above locational shift has lead to more banks focusing on Piraeus for finance, as well as in the build-up of Greek-based shipping related companies offering a variety of products and services.

Additional factors

In addition to the factors already outlined, there has been a qualitative shift in the modus operandi of Greek management companies, which has increased their efficiency and attractiveness as potential clients to banks.

Assisted further by a world-wide improvement in telecommunications, greater and swifter information flow and improved training and education, the Greek shipping industry has evolved into a modern and serious competitor for efficient management of vessels whilst keeping its well known commitment, flexibility and commercial flair. Although still family-based and having some way to go before it developed into a corporate owning structure, it has retained a competitive edge and the ability to inspire confidence to banks.

No comparison should fail to note the enormous difference in US dollar interest rates in the early 80s (ranging well into 15-20% p.a.) and today with 1-year LIBOR at about 2.3% p.a. The above benefits for a capital intensive and highly leveraged industry plus the recent enormous rise in freights for all vessel types as well as the interest by charterers to fix for longer-term periods has transferred enormous liquidity into the hands of Greek owners. Should one consider that newbuilding prices today are about the same in dollar terms as those prevailing 25 years ago, there seems to be improvement (for the time being) in shipowning returns to unprecedented levels.

Whereas markets will inevitably revert to a longer-term equilibrium, the liquidity benefits to Greek owners will largely remain which provides comfort to both owners and banks.

Greek shipfinance, just like global shipfinance, will continue to evolve both in volume and sophistication, as long as the fundamentals of seagoing transportation shall remain positive and world trade can develop free from politically inspired quotas, preferences, regulations and other distortions.

The principles of free trade and competition have developed an efficient and low-cost transportation industry which benefits international trade and economic growth. Greek shipping relies on such free trade to continue its growth and contribution to world trade.

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