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Shipfinance - Facts and Fiction

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Bankers have been described as offering their clients umbrellas only when the sun is shining and whisking them away on the first signs of rain.

Another common joke is 'what are 5 bankers at the bottom of the sea? A good start!!'

The main link between banks and their clients in shipping is shipfinance. Why, though, has there developed such an 'attitude' problem by clients towards their bankers? Although not prevalent in all bank-client relationships, it often lurks underneath the surface and is brought about by the first problem where bankers' and clients' views differ.

Having been involved for 30 years, both on the providing side of shipfinance, as well as on the receiving side, I

would like to share some views and offer some comments on some widely prevalent fiction.

Whereas bankers will clamour to lend and offer terms to please and thus build a relationship with the strongest and best of the major shipping names, they suffer from a 'recoil' effect when things go badly. After all they have built up an internal image within their bank of a client and fear the consequences of this image shattering. As such, very often the marketing goes out of the window when a fundamental problem occurs. At that moment, bankers would normally become defensive and need to 'protect their backs'. Consequently, they demand enormous amounts of information data in the shortest period possible at a time that presumably a client is busy facing the actual financial and operational effects of his problem.

This bank transformation does not take place overnight but it does represent a thorough redefinition of the bank - client relationship.

If this rather abrupt change of posture can take place in the case of a big name, you can imagine what happens when the client is small and presumably in more imminent danger and holding a reduced number of options for his recovery.

In older days, the freezing of payments and / or putting a client on a specific payment approval program was widespread. Nowadays, the banks are more aware of the catastrophic effects of such practices, as well as the responsibilities that attach to themselves of such 'financial management' that the directions are more general and discreet even though equally effective.

From a banker's point of view a non-payment of an instalment or the realisation of a problem is a wake-up call that needs to be addressed. Hence, the need for information so that a bank strategy can be determined with the blessing of senior colleagues or the credit committee. Since the scrutiny will be enormous, a banker has to be fully prepared to answer all questions and address all eventualities.

Fortunately, the quantity, quality and timeliness of financial and general information flow from a client to bank has greatly improved, thus allowing for a more gradual evaluation of the problem and a suitable response that would cause less 'ripples in the water' let alone 'waves'.

For clients seeking to enter into a new lending relationship with a bank, especially where there are small to medium

concerns, the information process is extensive and time laborious. A banker needs to be satisfied (and to satisfy those above him) that the risk is properly analysed and an acceptable one. In addition, every aspect of a client's previous life will need to be aired to such an extent that owners often feel that banks are intruding unduly into their private affairs. This is not so though as bankers need to see how their potential clients have built up their business, how they have treated other banks, whether they have met their obligations in the past and in general, how they respond to crises.

An owner with a propensity to seek the help of his banker as a first port of call would make a poor impression on a banker who is primarily interested in trouble-free and smoothly repaying loan relationships.

Another part of fiction lies in a widely held point of view by many owners that banks are 'trigger happy' and 'move in for the kill', when a client faces difficulties, in order to protect their position. Admittedly bankers are being paid to look after the interests of the bank and will do so when they (and their superiors) believe that this is being achieved via a foreclosure. However, the process that may lead to a foreclosure, I can assure all readers is a highly agonising one. It is often the result of long discussions and differing points of view by bank officers that may have taken weeks, if not months, to reach. Once a decision has been made though, the foreclosure process is often ruthless and performed 'in stealth', which may possibly explain the widely held view of bankers as ruthless, calculating and hard individuals. From experience, I wish to dispel the above as fiction and very rarely have I seen examples of the above type although they invariably do exist just like there exist rogue owners.

Moving closer to today, a commonly held view by owners is that bankers prefer corporate style structured clients ((common ownership and interlinking of assets) rather than family structured owners (separate owning companies for assets with a common management company). This is largely an 'imported' piece of fiction that emanates from Northern Europe and is not necessarily adopted by 'Greek' bankers.

Transparency and clarity are the banker's requirements and can be achieved by both types of organisation. The inputs handed over to a bank by a 'family' owner is held in confidence and is equally as good as that of a 'corporate' owner.

It is important not to believe that corporate owners are by definition larger than 'family' owners. Looking at the top

50 of major Greek names, the family model clearly dominates.

Often readers are confused between 'corporate' and 'public' companies. It is possible to run companies on a 'corporate basis' irrespective of public ownership. The main difference is that with a public company the ownership structure and overall means of the company are known with greater precision, whereas with a family ownership the resources of the company often transgress into the resources of the owners provided they are willing to commit these to their businesses.

Large shipping companies, whether public or private, corporate or family, borrow without the benefit of personal guarantees of their major shareholders. Admittedly, lending to a company that owns all the Group's assets does provide some additional support to banks beyond that of their primary security. At times of shipping slump though, such as today, and with stock markets being in a poor state (i.e. ASE now) the advantages of a public company are greatly reduced as their ability to draw capital from the public is reduced.

A corporate style company (public or not) can approach on an equal basis the capital markets for bonds and other products.

Whereas a public company does enjoy a certain degree of 'enhanced quality status' in the eyes of the shipping community aided by and the presence of a stock exchange's rules and regulations, as well as the presence of an accredited board of directors which provide a certain amount of comfort, in practice this 'quality' is often not translated in a reduced borrowing cost, as it should, when compared to non-public shipping Groups.

Due to the above fact, plus the lack of interest in shipping stocks by investors, their low Price to Earnings multiples, their trading prices often at below share value in net asset terms, it is not surprising that a number of public companies are returning to the private status. Angelikoussis (ASL) is a case in mind.

Chief executors of many public corporations have explained that the direct and indirect costs of public ownership are heavy and are not outweighed by the perceived but rare in practice benefits. When shipping shall become an attractive industry from the general public's and investment community's point of view, then undoubtedly the benefits of public status will re-assess themselves. From a banking point of view though, lending to a public company is desirable but not overwhelmingly important.

The ultimate test to a banker is if he would be willing to abandon his direct security (mortgages) and lend directly to the corporate entity on an unsecured basis but with the support of financial covenants. A quick poll of bankers operating in Greece overwhelmingly concluded that they prefer to keep their own security believing in their own quality credit decisions, rather than co-lend to a holding company.

Bankers wish to enjoy their own bank-client relationships rather than share in pools unless the loan amounts become exceedingly high.

With Greek owners discovering the newbuilding market 'en masse', opportunities for direct lending for quality assets has never been higher.

Whereas shipfinance has its own share of fiction, the facts of ship lending remain quite straightforward and traditional and have hardly changed over the decades. Banks wish to eliminate risk whereas owners wish banks to share some of the risk, but without sharing into their equity.

Have a good day.

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