Doing ship finance in Greece

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by Nora Huvane

If there is one region in the world that comes to mind when shipping is discussed, that region is Greece - where owners have a long history in the business and a glamorous reputation of profiting through its
peaks and troughs. And where there is shipping, there must also be ship finance. And even as Greeks have been coming to New York in droves to raise capital over the past few years, many many more have raised funds in bank offices – and aboard yachts - in Athens and Piraeus. In order to take the current temperature of ship finance in this important region, we spoke to **Ted Petropoulos** at Petrofin in Nea Kifissia, Athens.

The first thing that came out of this conversation will not surprise many of our readers, but was particularly interesting to remember here in New York, in a world dominated by financial models, forward earnings forecasts and capital momentum: the single most important factor in whether a deal gets done has been and continues to be the character of the owner.

Before any business can be done, the owner seeking the loan is carefully vetted and judged based on his history, relationships with banks, past credit performance, and all manner of business relationships, including those with charterers, brokers, suppliers, insurers, shipyards and others.

Of course, the quality of the owner's fleet, management and operations all come into account as part of this process, but look at any loan proposal and somewhere you are sure to find the very crucial details about the "reputation and excellent name" of the borrower.

If, and only if, the owner is deemed competent and trustworthy, then his proposal will be reviewed and feasibility and potential terms can be discussed. The size of the loan requested, valuations, the collateral, the period and the cash flow the vessel(s) to be financed are expected to generate are all taken into consideration at this point.

If the process is still moving along in a positive direction after this step, then the bank may start to examine the company's financials, check its liquidity and meet with its key managers. They may also take note of its insurances, charterers and commissions. If the bankers are happy with the results of all this examination, then a loan may be forthcoming, with terms that are dependent upon the assessed risk.

This then is the lending process primarily applicable to small to medium sized owners dealing with small to medium sized banks. Mr. Petropoulos points out that there is, however, a distinctly two-tiered market for shipping debt in Greece. The first tier consists of the largest and most established companies, and it is where the banks, particularly the bigger ones, tend to concentrate their attention, making it a client's market. Transactions here tend to be bigger and involve newbuildings or modern vessels, with cash flow estimates frequently backed up by employment contracts. Supply of financing tends to outstrip demand and, as such, it is not surprising that in "first tier" deals, terms tend to be noticeably improving from the owner's perspective, with everlower fees and spreads.

The second tier comprises both smaller owners and smaller banks. This is the more "regional" of the markets and is where the vetting process tends to be most common. Here there is more demand for finance than supply, creating more of a bank's market. **Mr. Petropoulos** explains that here terms have improved over the last year, but very gradually and not nearly on the level that they have improved for first tier transactions.

So could the existence of this second, more developmental tier of financing help account for the growth of so many small and medium sized shipping companies in Greece? While **Mr. Petropoulos** conceded that the very existence of smaller banks that focus on smaller owners is of importance to the more developmental stage financings, he stressed that the chances of someone obtaining the necessary financing to become a new owner are extremely low and, in the event financing is obtained, it is generally required that the owner commit a great deal of his own equity.

As to why there are so many Greek owners if financing is indeed hard to come by, **Mr. Petropoulos** indicated that the answer is essentially cultural, explaining simply that Greeks tend to be very committed when it comes to the sea – it gets "into their blood." This leads to the presence of a large pool of people with the necessary experience and aptitude to become shipowners. And, of course, the more people who try, the more there will be who succeed, regardless of whether the success rate is any higher.

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