

Lloyd's List

Time is running out for some loans

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- by Nigel Lowry

GREEK shipowners have generally been able to count on strong support from their bankers, but in many instances the clock is now ticking on troubled loans, especially in the dry bulk sector, according to analyst Ted Petropoulos.

The head of Petrofin Research says the present crisis facing the sector is "as big if not bigger" than the crisis of the 1980s.

"This is clearly shown if you look at the Baltic Dry Index," says Mr Petropoulos. "We are now back to 1986 levels of earnings, but in the meantime operating expenses have tripled.



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"In addition, while the amounts shipping has borrowed may not be too large per se, the industry is more burdened by debt than it was in the mid-1980s, although interest rates are low."

Mr Petropoulos says the industry is threatened by "acute liquidity asphyxiation".

Up to now, "banks have been in denial and they have been hoping that the problem will go away. Co-operating with clients to adjust repayment schedules in return for higher margins, fees and waivers is a strategy that will work if the market earnings and values do not remain low for too long."

In this respect, the comparatively low-age profile of the Greek fleet in banks' portfolios is likely to give many owners an extra measure of breathing space.

"In most cases, that breathing space has not run out yet," Mr Petropoulos says.

"But there is a time limit and the time factor becomes extremely urgent when the bank is not being paid principal and, in some cases, interest."

Despite the limited number of failures so far, he foresees there will be further casualties as 2013 dawns.

"By the end of this year, the pressure on banks to improve the quality of their portfolios and recover provisions will be enormous.

"When the only prospect is to wait indefinitely, huddled together in the hope of better times, then it is possible that a number of such loans will go bad," he says.

"At some point, the patience of the bank will run out, loans will be classified as non-performing and provisions taken. Then it becomes a recovery case."

While there remains trust between bank and client, solutions can be found. But the number of banks wanting to quit shipping has added to the likely wave of new problems, with the withdrawal of Commerzbank "a bigger shock than all the others combined".

Mr Petropoulos says: "Suddenly you are no longer talking to a committed shipping bank and that can be unhelpful for the relationship."

Even in unpromising situations, in the present grim market, a dry bulk owner can still survive if the company can bring something to the party that is of value to the bank, even if it is just a top-quality operation or chartering ability. But otherwise, the easiest exit route for banks is to bankroll the acquisition of the vessels by a stronger client.

"Distress always involves a loan from the same bank on softer terms," he says.

"I see evidence of these types of deals being done more and more by banks."

Mr Petropoulos views bulker owners as "particularly vulnerable" to bank action. Reasons include the fact that the sector has troughed later than the other two main sectors due to over-ordering and may have a longer recovery time. Bulker owners generally have less charter cover than for tankers and containerships, while the supply surplus is the biggest of any shipping sector.

Petrofin can provide a range of services to banks and owners caught in such situations.

"We can assist sometimes in avoiding conflict and finding solutions satisfactory to both the bank and the client," says Mr Petropoulos.

At the same time there is a need for operators who can meet bank criteria for taking over vessels when this is the preferred solution.

"Generally a bank will prefer a client it has either worked with in similar recovery situations, or which has experience in recovery situations, and one with an excellent record, as well as the ability to maximise vessel earnings in a difficult market," says Mr Petropoulos.

Petrofin is a rarity in being a financial consultant that has experience and a track record of working on problematic loans, while through Petrofin Ship Management it can call on years of experience in managing vessels, too. At present, the fleet comprises five modern dry bulk carriers.

"The main thing is experience of working with the banks," Mr Petropoulos says.

"However, our interest is in providing solutions that avoid conflict. Once conflict occurs, there is no role for me."

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