

Lloyd's List

Landing a 10-year ship loan is 'like winning the lottery'

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- by [David Osler](#)

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Petropoulos: "Further ship finance global reductions are anticipated for the next one to two years."

Exclusive: Petropoulos unveils new Petrofin research that points to even tougher times ahead

TOP 40 shipping bank lending has fallen to the point where getting a 10-year loan is "like winning the lottery", with worse to come in 2013 and 2014, a prominent ship finance specialist warned an industry gathering in London today.

Ted Petropoulos, head of Athens-based Petrofin Research, was speaking at the 25th International Ship Finance and Investment Conference, organised by Informa Maritime Events.

"Total ship finance debt has and is continuing to fall," he told a heavyweight audience of bankers and shipowners. "Further ship finance global reductions are anticipated for the next one to two years."

The quality of shipping loan portfolios is set to weaken, with increased provisions and workouts likely due to low values, poor vessel cashflows and borrower financial exhaustion.

This will lead to more charterers and owners defaulting, pointing to liquidity asphyxiation.

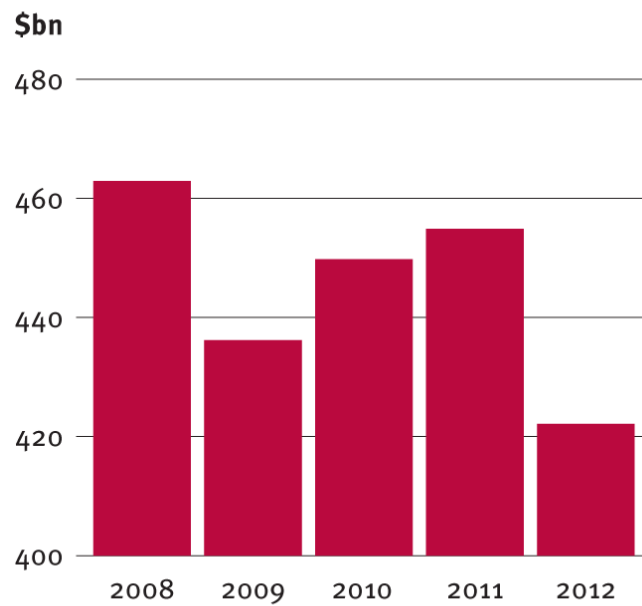
To date, only a few of the multiple shipping banks have rushed for the exit — notably Société Générale and Lloyds — and found buyers for all or part of their shipping books.

However, Mr Petropoulos believes others, such as HSH, Bank of Ireland and Royal Bank of Scotland will manage to offload in the months ahead.

According to figures from Petrofin, ship lending as of November 2012 came to \$475bn, including the offshore support sector, but excluding rigs and shipyard finance.

TOP 40 BANK LENDING TO SHIPPING

Ship finance based on data up to November 2012



Source: Petrofin Research

Given a world fleet of all types, sizes and ages numbering 92,707 according to the latest statistics from Clarksons, that averages out at just \$5.1m per ship.

Petrofin says that the top 40 shipping banks account for \$422.1bn of overall lending, or 88.9% of the total.

Leading the way by a considerable margin is HSH Nordbank, with estimated exposure of \$39bn, followed by DNB on \$26bn, Commerzbank/Deutsche Schiffsbank/Dresdner at \$25.5bn, KfW at \$18.2bn, RBS at \$18bn and Nordea at \$17.5bn.

In percentage terms, the market share of the top six is down less than one percentage point, from approximately 35% last year to 34.2% this year. But the decline in the European bank portion of top 40 exposure is more marked, falling from 81.7% to 75.1% over the same period.

Some of the slack is being taken by the US, albeit from a low base, and by the Far East and Australasia. More interest from private equity funds such as Oaktree and Carlisle is also likely.

However, neither the current shipping recession or the conditions facing the banks are conducive to the ship finance climate, with the partial exception of offshore, liquefied natural gas and liquefied petroleum gas. Loan margins are set to increase across the client spectrum.

"Client selection has become obsessive," Mr Petropoulos warned. "Obtaining a 10-year loan is nearly equivalent to winning the lottery."

In particular, it is important to note that the trend has fallen sharply from the top 40 lending peak of \$462.9bn in November 2008.

In the wake of the Lehman Brothers crash, that headline tally fell to \$436.2bn by November 2009, a level that Mr Petropoulos dismissed as a kneejerk reaction to the financial crisis.

Indeed, the following two years saw partial recovery, with exposure at \$449.8bn in November 2010 and \$454.9bn in November 2011.

Now lenders appear to be facing something of a tipping point, with exposure as of now estimated at \$422.1bn.

Petrofin's research also includes an opinion poll of 28 leading shipping bankers, which also points to opinions hardening. Not one of them expected ship finance activity to revive in 2013. Expectations for an upturn are divided roughly equally between 2014, 2015 and "2016 and beyond".

Regarding their own institution, some 25% of the bankers expected their shipping portfolio to increase next year; 54% expected it to decrease.

Two thirds said spreads would stay constant, while one third thought they would increase. Nobody argued that they would fall.

The sample was virtually unanimous in believing that non-performance will wax in the forthcoming 12 months. Some 79% said it would rise and a further 18% said it would rise significantly.

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