Lloyd's List

No bridge yet for the funding gap

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The difference between what owners want to borrow and what they can remains unresoled

No bridge ye

MOST of the recent attention on bank lending to shipping has been on the Owill the wonœt they' question of whether banks will pull the plug on non-performing shipping loans if eborts to restructure them are unsuccessful.

But the fact remains that whatever the fate of existing loans, most banks are likel to remain extremely restrictive in the amounts they lend to shipping, the deals they fund and their terrs for doing so.

This means there is still a sizeable gap between the perceived requirement for new hipping finance by owners for newbuildings and secondhand acquisitions, which are picking up, and othe corporate needs.

Even though some shipping banks have indicated they are prepared to agree new lendig for suitable deals, there is little sign of any significant increase in overall lending capacity for shipping.

There is still some debate about how big this funding gap is, with estimates rangin from $50m to $200m The biggest single component of the outstanding funding requirement is still the newbuilding orderbook, but the gap depends on what assumptions are made and, crucially, the estimated numbr of cancellations and how the orderbook is valued

The latter varies according to the values are assigned to newbuildings. Ship values and newbuilding prices appear to have reached a relatively stable level, but should newbuilding finnce requirements be set according to the prevailing value believed to be contracted?

With so many orders being renegotiated, even if not cancelled, it is difficult to mke an accurate calculation

Recent reports suggest likely outright cancellations have been overstated and that ven where owners have cancelled orders, the ships will discounted prices.

The current best estimate for the value of the orderbook is about $400m. This happes to be about the same size as the current aggregate c

At the end of 2009 Petrofin Bank Research managing director Ted Petropoulos suggestd cancellations and delays could reduce the total ne 25%, although the latest estimates put the proportion at rather less than that. It an be further reduced by downward revaluations and reduce by banks.

Assuming about half the outstanding total is still to be funded, the total figure i reduced to about $100m. Additional funding for secondhand requirements must be added. This increases the overall net requirement currently t somewhere in excess of $150m to be raised in the next

A large proportion of this can be met by run-offs of existing loans, still leaving net additional lending requirement to be found o though not a circumstances.

But in the current situation facing banks even a conservative estimate of about $50n in extra net lending in the next three years could prove

Most leading shipping banks in Germany that are heavily committed to the strugglin containership sector are not in a position to increase le portfolios will contract.

The expected bank restructuring in Germany o a country that was the leading source of bank lending for shipping o is likely to mean bank fi

Most other shipping banks have indicated their portfolios will remain approximatel at current levels, with lending capacity limited to replacing shipping banks say they are in a position to increase their loan books modestly thi year.

Efforts by some funds to acquire shipping loan books from banks that are looking t use proceeds of sales to strengthen their capital base cc

While banksœ shipping departments are naturally resistant to such approaches, sen management may not be so committed to shipping at a sharply and restructuring is taking a major effort

Lloydœs List understands that several shipping banks have been approached by othearties, including funds and other banks, offering to tak their hands. So far, most banks have been reluctant to sell shipping assets or loa books, but some deals could be done

If shipping loan portfolios are not attractive for the banks, why should anyone els want to take them on? Most banksœ shipping portfolios ar the ugly. Many loans are performing or near maturity. Others can be turned around trough restructuring, while a few will have to be written c

Depending on the structure of individual portfolios, the prospects of making acceptble returns on reduced value assets may seem a distant some loans are costing banks more to maintain than they are earning, because they wre negotiated at low spreads, while the cost of financ

Banks that are willing to offload their shipping portfolios could be tempted to do o at a discount and use the proceeds for more profitable pu

Most banks are still seeking to boost their capital bases and reduce their exposurto risk. Those that have received state support are anxiou have funds available, banks are unlikely to increase lending to shipping until restucturing of existing non-performing loans has been comple valuation of the assets they are being asked to finance

Dagfinn Lunde, head of ship finance at DVB Bank, which, as a dedicated transport fiance bank, was untainted by the banking crisis, said he this year to be similar to 2009, but overall there was no sign of lending capacity oming back into the shipping market

There is, therefore, little or no prospect of any overall increase in bank lending apacity to shipping at least this year and it will probably be s this situation changes, depending on wider economic and financial circumstances

Even then banks are likely to remain cautious, while spreads and lending terms wi not return to the liberal approach before the financial cras spreads down to what were widely regarded as unsustainable levels

This means that even if the loan finance gap is smaller than some estimates, the ga is still there and needs to be bridged somehow

Some Asian banks, especially Chinese and export import banks, are providing some adtional funding, especially to domestic shipbuilding ir the Middle East, are also providing new funding to domestic and regional shipping cmpanies.

Other sources of funding that are being tapped by shipowners in an attempt to fillhe void include private equity funds, although the former n is in effect closed.

A number of funds have been created to seek out distressed ship sales, but there ha been little business concluded so far. Banks have bee prices as they would take a financial hit, but that could change

There has also been an increase in capital market activity with a number of bond isues, while the public equity market is stirring, with severa secondary issues under way or planned

However, not all owners are able to use these alternative funding sources, as they ften depend on favourable ratings. Moreover, while a fev interest, even in aggregate they amount to only a few billion dollars and can makeittle impression on the overall finance gap for shipping

How to fill this gap, whatever its size, in the next two to three years remains ave issue with no obvious answers, although the search goes c innovative individual solutions.

One response is that the apparently insurmountable gap will be a good discipline fc shipping, preventing a resurgence of overordering as m to secure finance for ship acquisitions at viable terms if they have a strong deal acked with firm employment and revenue streams, or if they putting up large ratio of equity finance. The gap would therefore gradually wither away naturally.

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