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‘Shipfinance from the perspective of both Owners and Bankers’

presented by

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***P*ETROFIN S.A.**

A - Shipfinance – The owner's view



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Prerequisites

- **Determination of owner's business strategy**
- **Determination of owner's investment and financial strategy**
- **Determination of owner's shipfinance strategy in the context of the above two strategies**

The Components of a successful shipfinance strategy

“the owner’s view”

- 1. Establish the owner’s strengths and weaknesses from a banker’s point of view**

- 2. a) Develop / enhance strengths**
b) Eliminate / reduce weaknesses

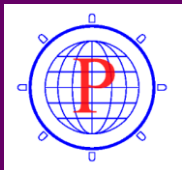


The Components of a successful shipfinance strategy

“the owner’s view”

Examples:

- 1. Corporate structure weaknesses*
- 2. Ownership weaknesses*
- 3. Historic weaknesses*
- 4. Management weaknesses*
- 5. Product weaknesses*
- 6. Chartering weaknesses*



The Components of a successful shipfinance strategy

“the owner’s view”

Examples (cont):

7. *Reputation weaknesses*
8. *Technical weaknesses*
9. *Financial structuring weaknesses*
10. *Liquidity weaknesses*
11. *Financial performing weaknesses*





KEY CRITERIA

- ***Organizational***
 - **Reputation as a bank**
 - **Reputation as a shipping bank**
 - **Experience of shipping personnel**
 - **Attitude to problems / client difficulties**
 - **Propensity to overact**
 - **Litigiousness**
 - **Structure of shipping department**
 - **Authority / knowledge of shipping personnel dealing with owner**



KEY CRITERIA

- ***Organizational (cont.)***
 - **Local presence**
 - **Relationship or deal driven**
 - **Knowledge of bank's key personnel in depth**
 - **Efficiency of operations**
 - **Efficiency / promptness of responses**
 - **Client service orientation**
 - **Variety of products and services**



KEY CRITERIA

B. Credit related

- **Swiftness of decision**
- **Clarity of credit approval process**
- **Knowledge of bank's credit / informational requirements**
- **Ability to anticipate credit response**
- **Swiftness of offering outline terms**
- **Flexibility of response / assessment**
- **Pricing of loans and products / services**
- **Repayment period**



KEY CRITERIA

B. Credit related (cont.)

- **Key covenants / terms**
- **Guarantees**
- **Conditions precedent**
- **Clarity of offered terms**
- **Willingness to adjust terms, if required**
- **Ability to commit**
- **Confidence in predictability / logic of credit response**
- **Consistency of response / assessment**
- **Attitude**



KEY CRITERIA

C. Implementation criteria

- **Choice of / or imposition of bank's lawyers**
- **Flexibility as to applicable law and flag**
- **Willingness to discuss legal issues**
- **Swiftness of preparation of legal documents**
- **Attitude of bank's staff towards problems / issues**
- **Implementation by marketing or administrative staff**
- **Co-operation prior to and at the closing**
- **Flexibility in closing the transaction**
- **Cost of lawyers, opinions, closing, etc.**

Selection of suitable banks – owner's view



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KEY CRITERIA

D. Post-drawdown criteria

- **Frequency of contact / visits**
- **Interest in client's affairs**
- **Willingness to address issues**
- **Information requirements**
- **Effective use of information provided / feedback**
- **Willingness to listen / assist / advise**
- **Attitude**
- **Suggestions / helpfulness / advise**
- **Maintaining information flow about the bank, its progress, attitudes, personnel and credit changes, view of the market, etc.**



B - Shipfinance – The bankers' view

- **Formulate a clear bank shipfinance strategy**
- **Select clients that fit in the bank's shipfinance strategy on the basis of:**
 - a) *Credit criteria and loan terms*
 - b) *Profitability criteria*
 - c) *“Character” criteria*
 - d) *Size*
 - e) *Clients' shipfinance strategy*
 - f) *Clients' investment, financial and business strategies*
 - g) *Historic performance, especially during crises*

B - Shipfinance – The bankers' view



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- **Identifying client's strengths and weaknesses**
- **Focus on client's weaknesses, discuss these with client and determine client's intentions and attitude**
- **Determine bank's policy in respect of each specific client in terms of financial reporting, contact and general information flow requirements.**
- **Develop bank-client contacts at various levels**

B - Shipfinance – The bankers' view



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- **Set out clearly to the client what is required from him by the bank to ensure a smooth bank-client relationship**
- **Address client non-performance (credit or otherwise) at an early stage in a serious but also understanding manner**
- **Cultivate trust**

B - Shipfinance – The bankers' view



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An ideal client for a bank

- 1. Is always timely with payment of his obligations*
- 2. Utilizes the maximum number of bank services and procedures*
- 3. Provides timely financial and other information in a full and succinct manner*
- 4. Never surprises*
- 5. Trusts the bank and its officers*
- 6. Addresses problems early, provides solutions and fulfils promises*
- 7. Adheres with agreed terms and conditions and this occupies banks' officers as little as possible with negative issues and / or problems*



C - Procedures to handle complaints

Nature of complaints, issues and disputes

- 1) *Interpretation of agreement and / or terms*
- 2) *Challenge of bank's decisions*
- 3) *challenge of bank's charging*
- 4) *Challenge of banks' use of discretion, where such is allowed under the respective bank-client agreement*

Examples

- **Vessel valuations and asset to value loan covenants**
- **Vessel physical maintenance clauses**
- **Bank's right to approve insurance terms and underwriters**
- **Additional costs claimed by banks (increasingly important given Basel II)**
- **Bank's interpretation of client's intended default**

C - Procedures to handle complaints



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Examples cont.

- **Breach of financial and informational responsibilities**
- **Deviation of hires**
- **Payment of unauthorized dividends**
- **Provision of unauthorized guarantees**
- **Material change in financial circumstances**
- **Issues over ‘unfulfilled’ bank promises to provide additional credit or change in repayment terms**
- **Insistence by bank on strict adherence of terms in the midst of a crisis**
- **Technical breaches of loan agreements, e.g. collection of insurance proceeds in the event of total loss or CTL, etc.**



Procedures to handle client complaints

- **There are effectively no formal and pre-agreed procedures in place for handling client complaints**
- **Clients within the European Union have protection via the European community courts if bank's action is in contravention to EU rules**
- **All banks must adhere to fair practices legislation**
- **In practice, the number of cases brought up to the EU courts is negligible**
- **In certain countries with a clearly established written legal code, e.g. Germany, there are specific provisions which provide a degree of protection to clients if the loan agreement is in accordance to such law.**

Procedures to handle client complaints



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HOWEVER,

- **Banks usually seriously hear and do respond to a well presented and argued client complaint**
- **Banks too have their reputation to protect**
- **At times, bank's and client's lawyers provide a compromise solution if the issue is primarily a legal one**
- **Where clients are ignored, bank's officers react defensively and negatively should clients approach the heads of shipping departments or board members**
- **If differences are not addressed at shipping department level, dispute tends to grow and adversely affect the bank-client relationship**
- **At times, personal disputes lead an otherwise satisfactory credit to become a problem loan**



Suggestions

- 1. Provide an arbitration clause in loan agreements, in order to avoid**
 - a) long and costly legal disputes*
 - b) adverse publicity*
 - c) deterioration of loans due to a dispute*

- 2. In fact, banks could provide a complaints handling procedure that shall be made known to all their clients and / or be addressed in the loan documentation**



D - Suggestions for the enhancement of a bank-client relationship

- **Mutual transparency**
- **Provide timely, clear and sufficient information**
- **Anticipate problems / issues / requirements**
- **Be willing to discuss openly all problems and be ready with alternative solutions**
- **Maintain regular personal contact**
- **Arrange at least annually a meeting at senior level to discuss performance, strategy and prospects and a thorough review of the relationship and its prospects**
- **Cultivate personal links at all levels**



D - Suggestions for the enhancement of a bank-client relationship

- **Inspire confidence and dependability**
- **Clients to avoid speculative prospects**
- **Avoid legal disputes, diffuse situations through compromise**
- **Clients not to change banks too often and banks not to change shipfinance strategy too often**
- **Clients to provide existing banks with first refusal on new transactions and correspondingly banks to offer terms, if possible, to clients requests**



D - Suggestions for the enhancement of a bank-client relationship

- **Clients to avoid significant capital withdrawals, especially for non-shipping purposes**
- **Clients to build up liquidity reserves and develop risk mitigation strategies**
- **Clients to treat all banks consistently and banks to do likewise**
- **Clients to avoid over-leveraging and banks to over lend**



Some thoughts

- **A banker's view of a perfect client is one who never worries him, remains loyal, open and supportive and happily uses and pays for all the bank's services**
- **An owner's view of a perfect owner's bank is one that lends him 100%, is not in a rush to be repaid and finds ways to approve every proposal he puts forward**
- **A lawyer's view of a perfect bank is one that is an owner's bank and lends to the wrong owners.**