



**LLOYD'S SHIPPING ECONOMIST**  
*SHIPPING FINANCE CONFERENCE*

*14th - 15th November 2000*

**Small Owners in Greece: Raising Finance**

*presented by*

***Ted Petropoulos***

*MD*

***PETROFIN S.A.***



## *Changes in banks' perspectives*

### Long-term factors affecting appetite for shipping

- **Commercial banks needed to build up and subsequently maintain tier 1 capital in the 80's, 90's and today**
- **Switch to non-risk products and services**
- **Shipping has a 100% risk weighing factor for a bank's capital**
- **Long held view that shipping is a high risk industry**
- **Mergers and acquisitions led to rapid bank consolidation on a local, national and international basis**

Small Owners in Greece: Raising Finance



## *Changes in banks' perspectives*

### Long-term factors affecting appetite for shipping

- Credit decisions have been transferred to Head Quarters' Credit Committees as opposed to local branches where there would be direct dealings with clients and an in-depth knowledge of the local market
- Standardisation of credit analysis and decisions
- Increased detachment between borrower-lender
- Shipfinance transactions are increasingly seen as product rather than relationship driven

Small Owners in Greece: Raising Finance



## *Changes in banks' perspectives*

### **Shorter-term factors affecting appetite for shipping and type of shipping client**

- **Flight to credit quality as a result of the 97/98 Far East and shipping slump**
- **Overage vessel values worst affected**
- **Increased international regulation and restrictions affect mostly older vessels**
- **Although most banks proved supportive during the slump, their loan portfolios were stuck with overage vessels or loans that exceeded vessel values**

**Small Owners in Greece: Raising Finance**



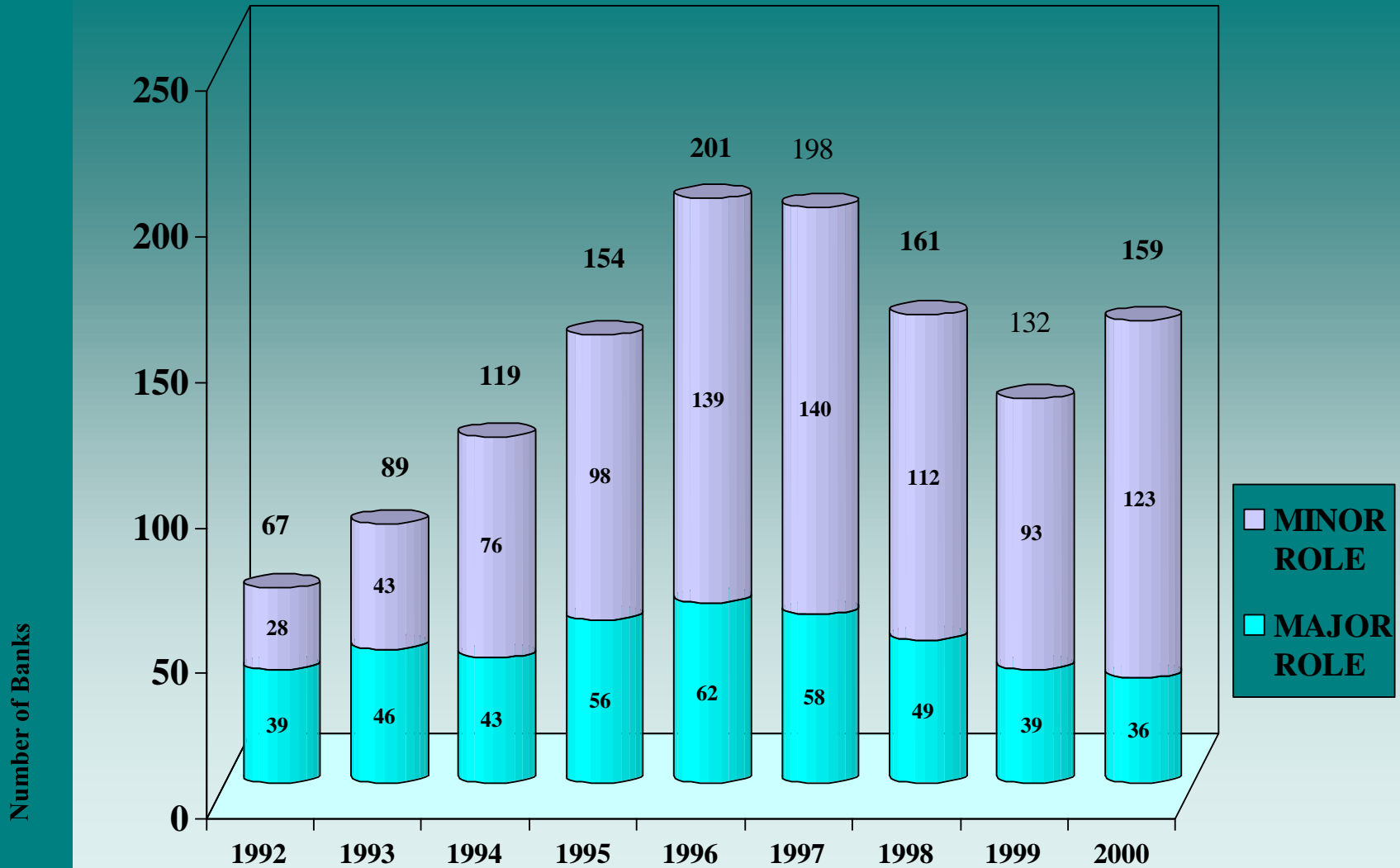
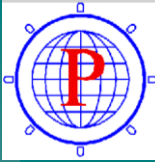
## *Changes in banks' perspectives*

### Shorter-term factors affecting appetite for shipping and type of shipping client

- **Emphasis on newbuildings absorbed a high percentage of shipping loan volume**
- **Large corporate shipping clients targeted for selling banks' increased variety of products and services**
- **Increased association of credit quality with size of the client and the transaction**
- **Intensified bank consolidation has had pronounced impact on number, size and geographical presence of shipfinance banks**

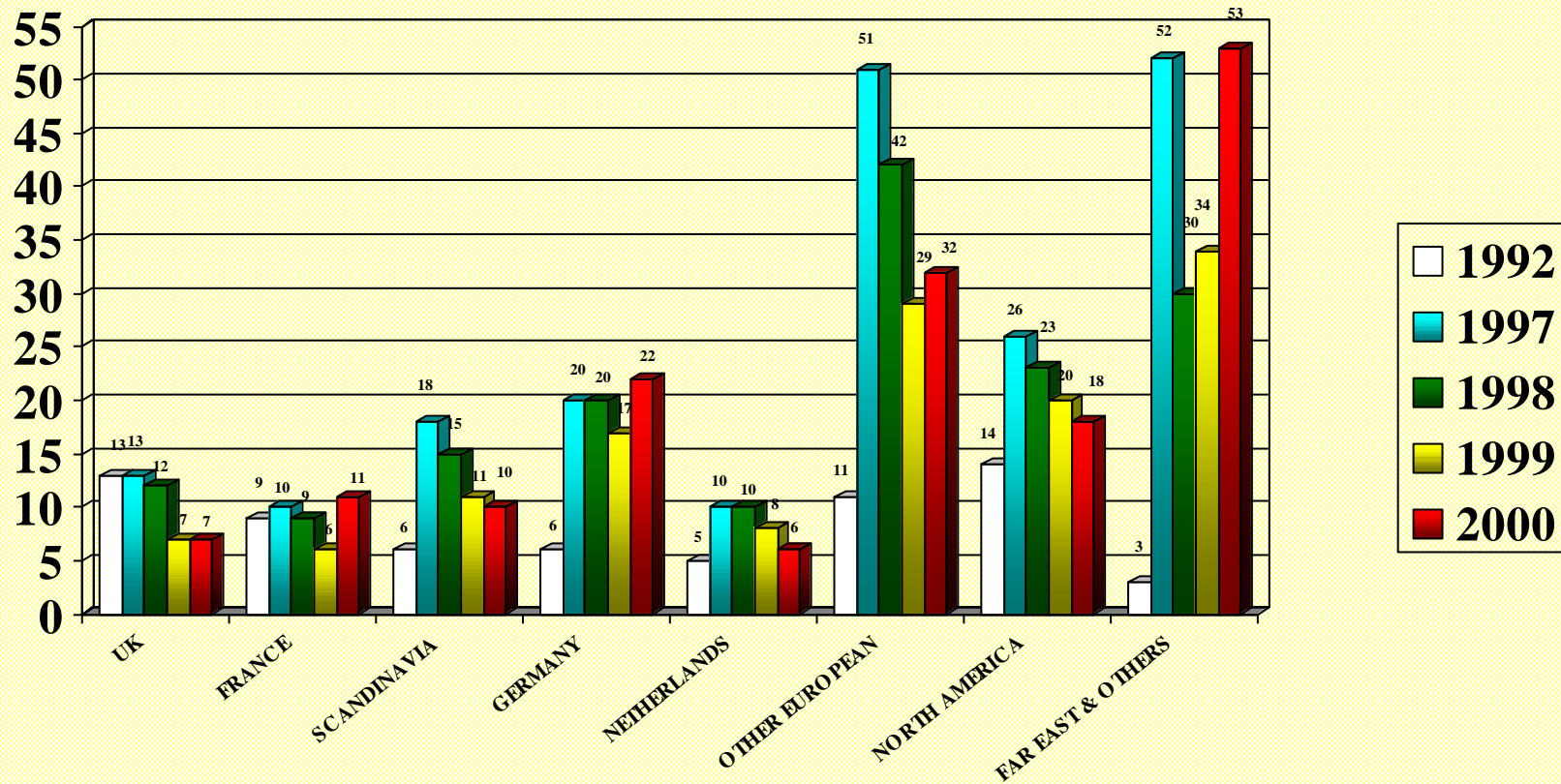
Small Owners in Greece: Raising Finance

# BANKS INVOLVED IN INTERNATIONAL SHIPLENDING 1992 - 2000





# ***BANKS INVOLVED IN INTERNATIONAL SHIPPING FOR 1992, 1997, 1998, 1999 AND 2000***





# *The Greek Shipowning Industry: Composition and Analysis*

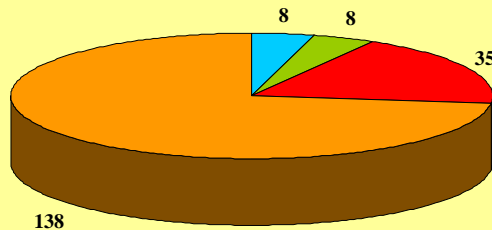
- In the year 2000, small owners with fleets consisting of 1-4 vessels accounted for **67.6%** out of a **835** total of Greek shipowning companies (*Petrofin Research* ©)

**Small Owners in Greece: Raising Finance**



2000

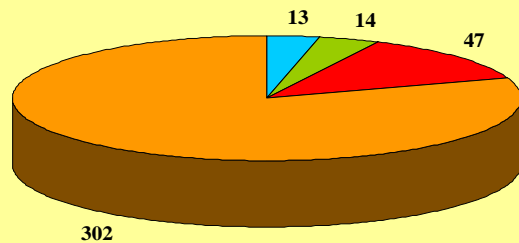
**NUMBER OF GREEK SHIPMANAGEMENT COMPANIES WITH**  
**FLEETS OF 1-2 AND 3-4 VESSELS**  
**IN TERMS OF AGE** out of a total of  
**835 Companies currently operating**



Fleet size : **3 - 4 vessels**

No of companies : **189**

% of total of Greek companies : **22.6%**



Fleet size : **1 -2 vessels**

No of companies : **376**

% of total of Greek companies : **45%**



Vessels 0 - 9 years of age



Vessels 10 - 14 years of age



Vessels 15-19 years of age



Vessels 20+ years of age





# *The Greek Shipowning Industry: Composition and Analysis*

- Smaller owners own older vessels, i.e. over **92.35%** of 1-4 vessel fleets are *15 years old or older*

**Small Owners in Greece: Raising Finance**



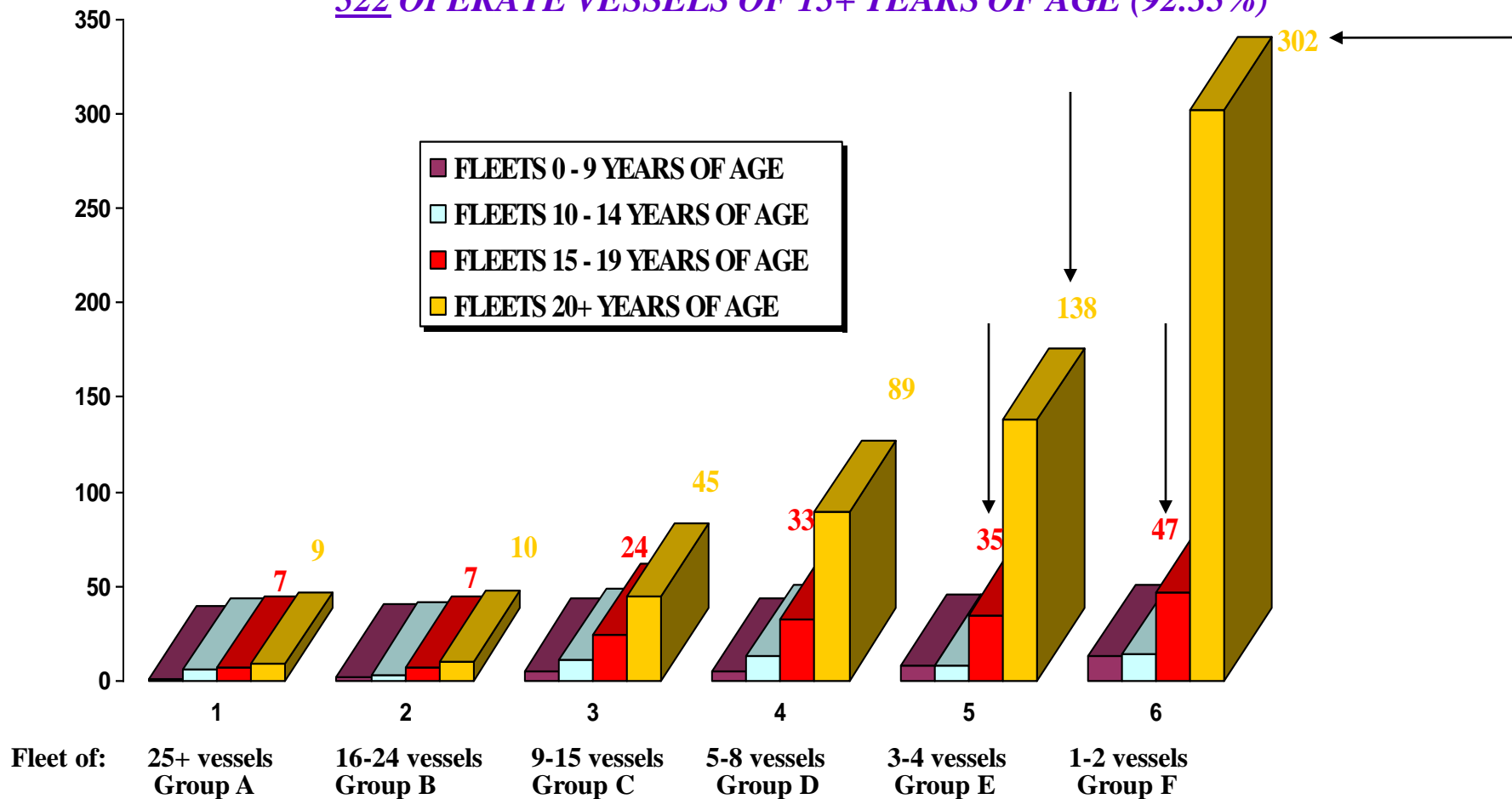
# 2000: TOTAL OF 835 GREEK SHIPMANAGEMENT COMPANIES DISTRIBUTED BY FLEET SIZE AND AGE

*out of which*

*565 GREEK SHIPMANAGEMENT COMPANIES WITH 1-4 VESSEL FLEETS*

*out of which*

*522 OPERATE VESSELS OF 15+ YEARS OF AGE (92.35%)*





*An analysis of the Greek shipping loan portfolios  
by banks with or without a local presence*

- Bank lending to Greek shipping companies is estimated at over \$13 billion

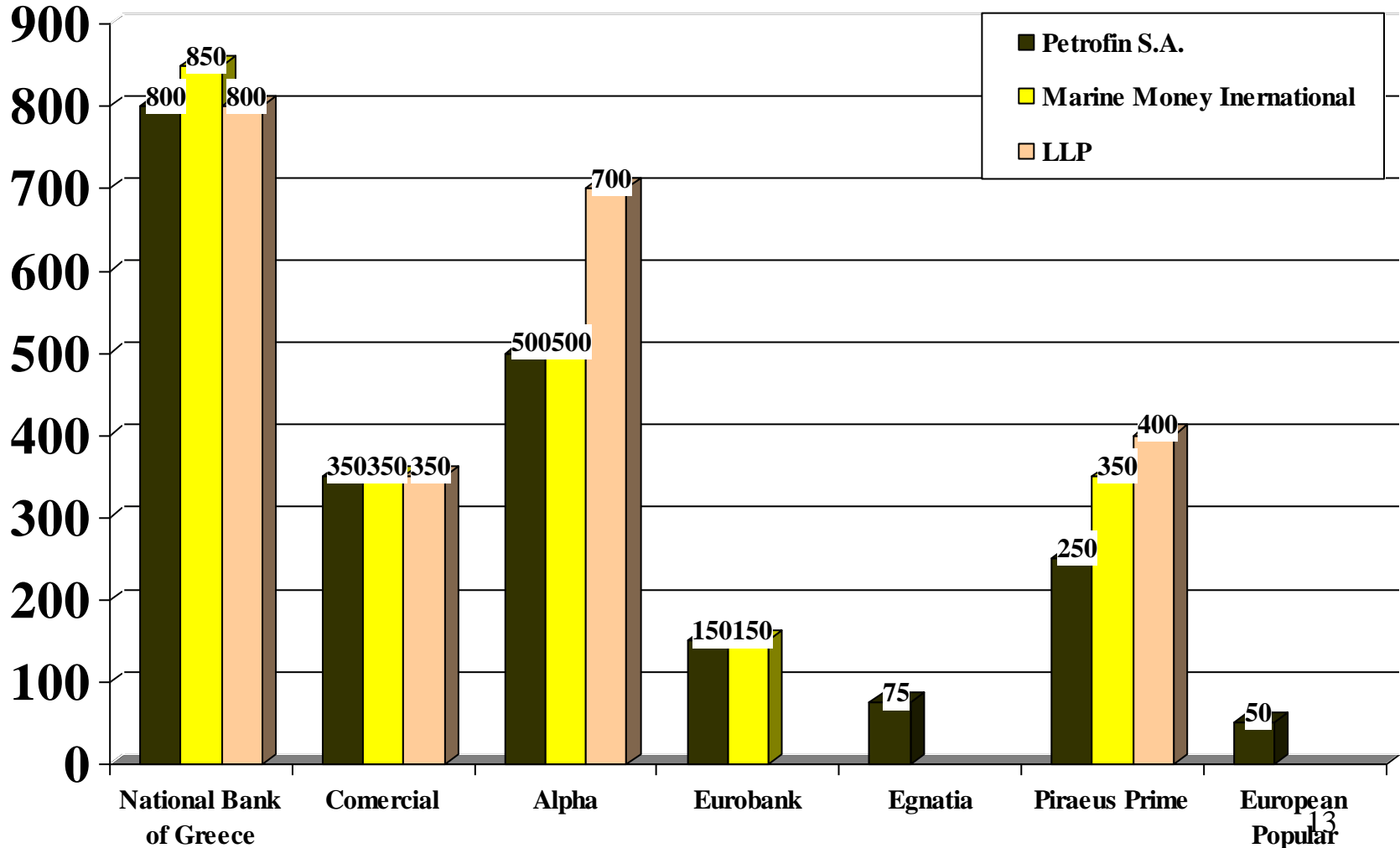
Small Owners in Greece: Raising Finance

# Bank Portfolios available to Greek shipping in millions of US\$ 2000



*A comparison between figures obtained by Petrofin S.A., Marine Money International and LLP*

## A. GREEK BANKS

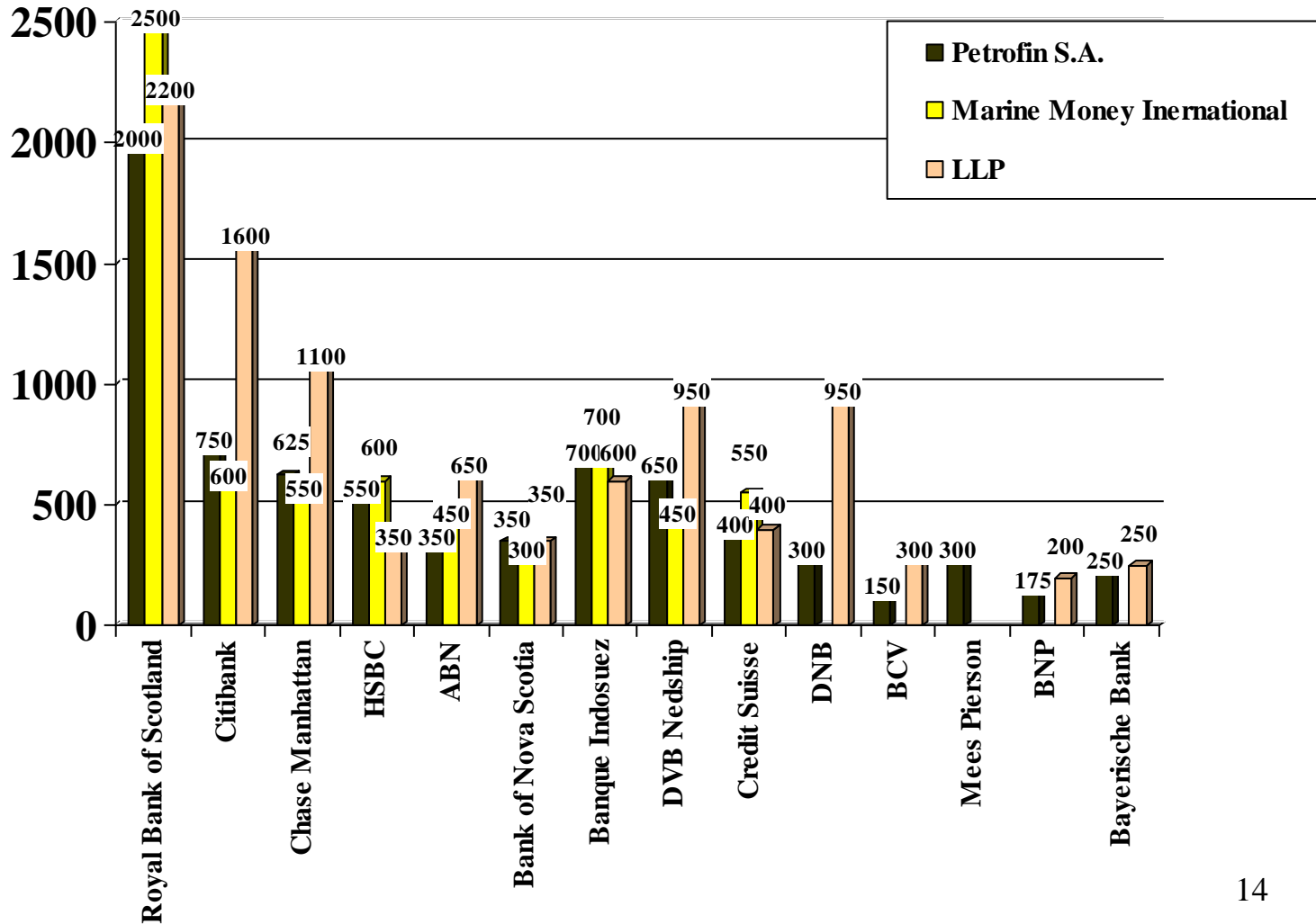


# Bank Portfolios available to Greek shipping in millions of US\$ 2000



*A comparison between figures obtained by Petrofin S.A., Marine Money International and LLP*

## **B. FOREIGN BANKS WITH A GREEK PRESENCE**

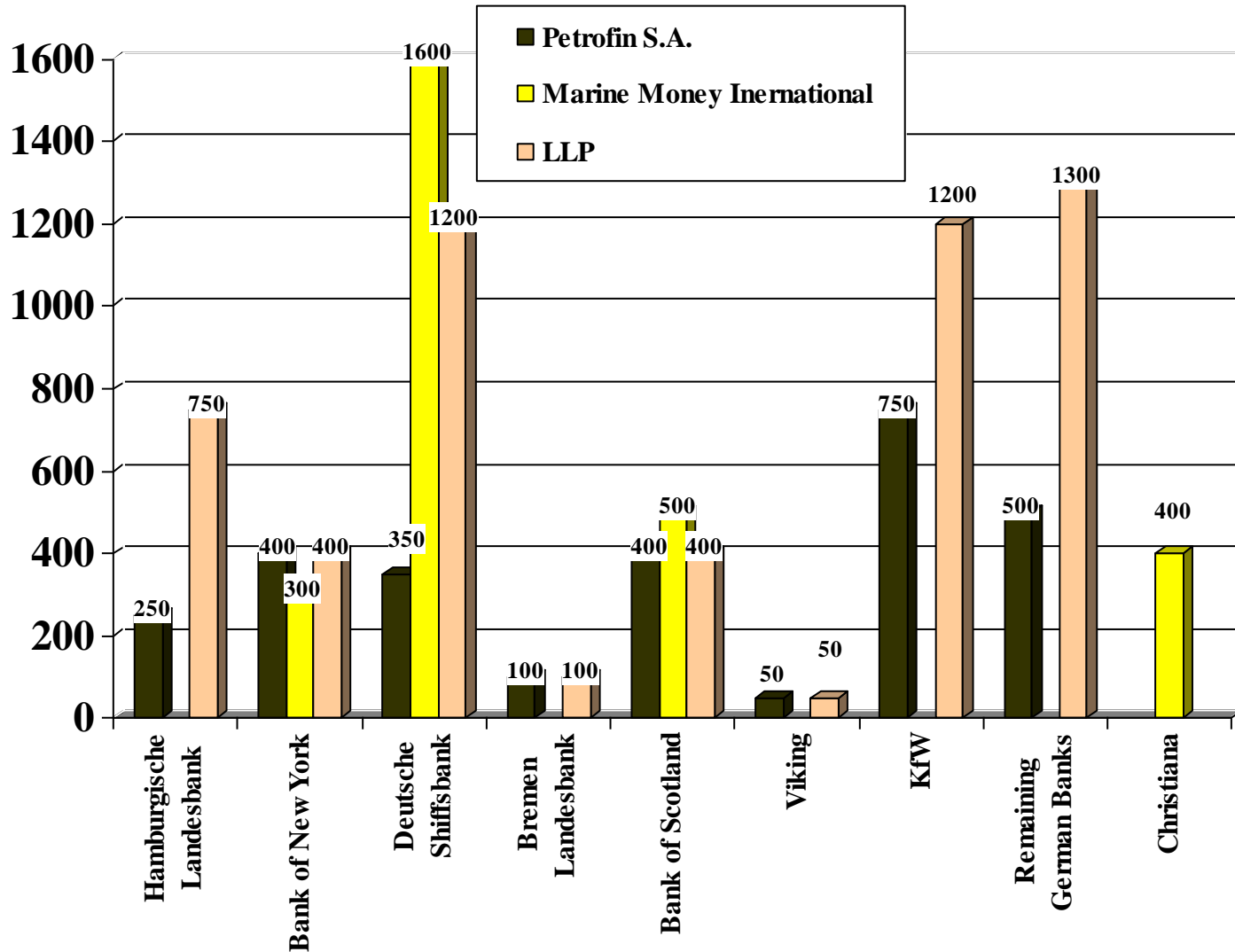


# Bank Portfolios available to Greek shipping in millions of US\$ 2000



*A comparison between figures obtained by Petrofin S.A., Marine Money International and LLP*

## C. FOREIGN BANKS WITHOUT A GREEK PRESENCE





## *An analysis of the Greek shipping loan portfolios by banks with or without a local presence*

- **Greek banks have developed a more active presence and currently account for approx. 18% of the loan totals**
- **Foreign banks with a Greek presence account for an average of approx. 60%**
- **Banks without a local presence account for an average of about 22%. Their share is seen to slowly decline overtime**

**Small Owners in Greece: Raising Finance**





## *Rapid consolidation and reduction of shipfinance banks to the Greek shipping industry*

- **Over the last few years the following banks have withdrawn from Greek shipping:**
  - **Barclays**
  - **National Westminster**
  - **ANZ Grindlays**
  - **Hambros**
  - **Guinness Mahon**
  - **Societe General**
  - **Paribas**
  - **CIT**
  - **RZB**
  - **Henry Aschbacher**
  - **Dorian Bank**
  - **Hill Samuel**
  - **Scotia Bank**
  - **First National Bank of Maryland**

**Small Owners in Greece: Raising Finance**



## *Rapid consolidation and reduction of shipfinance banks to the Greek shipping industry*

- *Reduced numbers*
- *Reduced variety*
- *Reduced competition*
- *Reduced appetite*



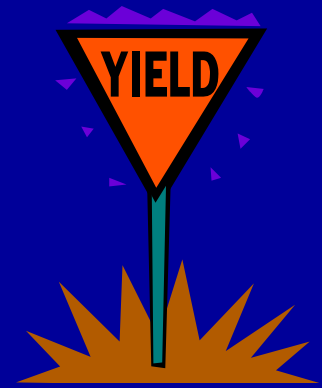
Small Owners in Greece: Raising Finance



## *How the Banks view the small owner*

### *Pros*

- **More favourable loan terms and yields**
- **Higher loyalty**
- **More intimate relationships**
- **Smaller individual client exposures of interest to smaller banks**

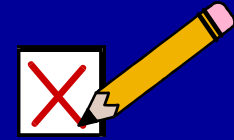


Small Owners in Greece: Raising Finance



## *How the Banks view the small owner*

### *Cons*



- **Higher operating risk due to smaller fleet**
- **Higher management risk due to slimmer management**
- **Higher financial risk due to lower liquidity, greater financial dependency per vessel**
- **Higher crewing risk due to lower quality of crews attracted to smaller owners and lack of crewing pool**
- **Higher maintenance cost risk due to reduced economies of scale**

Small Owners in Greece: Raising Finance



## *How the Banks view the small owner*

### *Cons*

- **Higher insurance costs and poorer terms / coverage**
- **Higher preliminary costs of supplies, provisions, spares and stores**
- **Reduced ability to develop long-term chartering relationships and contracts of affreightment**
- **Higher probability of port state control inspections**

Small Owners in Greece: Raising Finance



# *How the Banks view the small owner*

## *In Conclusion*

- **Higher risk**
- **Higher operating costs**
- **Lower fleet income**
- **Reduced versatility, fewer alternatives**
- **Reduced efficiency**
- **Time/labour intensive**

Small Owners in Greece: Raising Finance



# *How the Banks view the small owner*

## *In Conclusion*



- **Higher dependency on a single bank**
- **Tend to own overage vessels, which first feel the impact of a shipping slump through reduced cashflows and values**
- **Due to overage fleets, reduced ability to overcome problems over time**
- **Reduced appetite/interest in banks' non risk products and services**

Small Owners in Greece: Raising Finance



## *Options available to the small owner*

*Hara-Kiri*



*Hunger Strike*

*Jumping off Cliffs*



*Hanging*

# Small Owners in Greece: Raising Finance

PETROFIN S.A. NOVEMBER 2000





## *Options available to the small owner*

**OR**

- **Leave the industry**
- **Engage in cash only transactions**
- **Merge with other small industries**
- **Contact a reputable financial consultancy firm**



# Small Owners in Greece: Raising Finance

*PETROFIN S.A. NOVEMBER 2000*



## *Options available to the small owner*

### **A. ATTRACTING SHIPFINANCE**

*In order to enhance the probabilities of obtaining shipfinance, what will undoubtedly assist the small owner is to*

- **Prepare a comprehensive and honest presentation of the shipping firm**
- **Provide full background of the principals, their experience, track record, abilities and performance over the years for all ventures and activities**
- **Provide a full credit history**

Small Owners in Greece: Raising Finance

PETROFIN S.A. NOVEMBER 2000



## *Options available to the small owner*

### **A. ATTRACTING SHIPFINANCE**

- **Provide a comprehensive net worth statement designed to show commitment and financial ability to support the new purchase in particular and the shipping firm in general**
- **Provide a detailed organisation diagram and short CVs of the managers**
- **Provide full details of the proposed vessel(s) including recent surveys, valuations and earning ability**



## *Options available to the small owner*

### **A. ATTRACTING SHIPFINANCE**

- **Provide a detailed operating budget and comparison to other vessels of the fleet or similar vessels (now or in the past)**
- **Analyse in depth the intended employment strategy of the vessel(s)**
- **Provide a full list of all suppliers, insurance brokers, chartering brokers, agents, repair firms, yards, etc**



## *Options available to the small owner*

### **A. ATTRACTING SHIPFINANCE**

- **Provide a character reference list of prominent and respected people/firms**
- **Prepare a cashflow analysis including a sensitivity analysis**
- **Show the existing fleet's loss/claim record and off-hire analysis over the years**
- **Show latest market estimations/forecasts on the vessel(s)'s sector, including demand, supply and key events**



## *Options available to the small owner*

### **A. ATTRACTING SHIPFINANCE**

- **Analyse the specific reasons underlying the purchase**
- **Offer to provide corporate and personal guarantees, as well as additional collateral if available**
- **Choose vessels that are as young as possible and do not have repairs, s/s or d/d due immediately**



## *Options available to the small owner*

### **A. ATTRACTING SHIPFINANCE**

- **Choose standard vessel designs, i.e. avoid specialised designs with obvious flaws in length, draught, gear, configuration, engine type and make, auxiliaries and/or involving yards with poor reputation**
- **Avoid vessels below 10-15,000 DWT, which are considered too small by most banks' standards**
- **Identify likely banks and set-up operating bank accounts and develop a sound operating account relationship**

**Small Owners in Greece: Raising Finance**

*PETROFIN S.A. NOVEMBER 2000*



## *Options available to the small owner*

### **A. ATTRACTING SHIPFINANCE**

- **Invite the bank's shipping team to visit your offices and make a full presentation**
- **Invite bank to send inspectors to inspect other vessels of the fleet or provide them with other bank's surveyors' inspection reports**
- **Discuss with other small owners who recently purchased similar age/type of vessels of which bank financed their purchases**
- **Request your lawyer to review recent ship registry mortgages and ascertain the bank's involvement and offered terms**

**Small Owners in Greece: Raising Finance**

*PETROFIN S.A. NOVEMBER 2000*





## *Options available to the small owner*

### **A. ATTRACTING SHIPFINANCE**

- **Do not request a high percentage of finance**
- **Try to involve more than one vessel per bank/loan package in order to reduce individual vessel risk to bank**
- **Show to interested banks the management information reports that are available**
- **Provide copies of financial reports normally provided to existing lending banks and their timeliness and comprehensiveness**

**Small Owners in Greece: Raising Finance**

*PETROFIN S.A. NOVEMBER 2000*



## *Options available to the small owner*

### **A. ATTRACTING SHIPFINANCE**

- **Work within bank's responses even though they may be negative/reluctant by positively addressing their areas of concern**
- **Offer to visit the bank's headquarters and make presentation**
- **Express your interest to utilise a bank's other products and services**
- **Ask other bank clients to speak on your behalf**



## *Options available to the small owner*

### **B. BAREBOAT HIRE PURCHASE**

- **Not a widely used method in the Greek market**
- **B/b entails:**
  - ✓ **«Leasing out» of a vessel normally by a large/sophisticated corporate shipping company, who thoroughly vets the proposed b/b charterer**
  - ✓ **Obligation to buy at the end of the bareboat period**
  - ✓ **Bareboat hire is paid out in monthly in advance and it includes interest at predetermined rates**
  - ✓ **A residual amount is normally left at the end of the bareboat period, which is well short of the vessel's residual trading life**

**Small Owners in Greece: Raising Finance**

*PETROFIN S.A. NOVEMBER 2000*



## *Options available to the small owner*

### **B. BAREBOAT HIRE PURCHASE**

- ✓ **The b/b manager manages the vessel taking full responsibility for its performance**
- ✓ **Owner has right to inspect vessel throughout the b/b period and ensure proper maintenance**
- ✓ **Insurance terms and quality specifically set/approved by owner at cost of b/b charterer**
- ✓ **Vessel price normally higher than market value by 5-10%**

**Small Owners in Greece: Raising Finance**

*PETROFIN S.A. NOVEMBER 2000*



## *Options available to the small owner*

### **B. BAREBOAT HIRE PURCHASE**

- ✓ **The bareboat charterers will incorporate the interest in the whole amount which needs to be worked out as there is a tendency to inflate it. There have been cases where the interest was calculated at 15% p.a.**
- ✓ **Down payment is normally less than the equivalent requested for bank finance, i.e. 15-20% of vessel's underlying price**
- ✓ **Documentation is based normally on a Barecon A or Bareboat agreements adjusted to reflect the individuality of the transaction**







## *Options available to the small owner*

### **B. BAREBOAT HIRE PURCHASE**

#### **Important!**

- a. The option to purchase at any point during the bareboat term can be negotiated. This means that the vessel can be bought off at any suitable moment.**
- b. As bareboat schemes increase the fleet and vessels thus acquired tend to be of younger and more bank-acceptable age, there is the possibility that the owner may be rendered financeable and, thus, obtain bank finance in due course in order to repay the residual. The ability to manage the vessel will have already been proven to the Bank**



## *Options available to the small owner*

### **B. BAREBOAT HIRE PURCHASE**

#### **Important!**

**c. Bbhp's are more likely during periods of market slackness when sellers cannot achieve their sales at prices they have selected.**

**d. Bbhp has been often used by banks seeking to recover their loan exposure after foreclosure whilst keeping "ownership" of the vessel(s)**

**Small Owners in Greece: Raising Finance**

*PETROFIN S.A. NOVEMBER 2000*





## *Options available to the small owner*

### **C. LOAN TRANSFER**

- **This involves the substitution of one owner for another utilising the same bank.**
- **It does, however, still call for new loan documentation and credit approval**



## *Options available to the small owner*



### **C. LOAN TRANSFER**

#### *Advantages*

- **Facilitates a vessel's sale by a seller and its purchase by a buyer**
- **Since it does not involve an increase in loan exposure, bank approval can be easier to obtain**
- **There is often a loan reduction as a bank sweetener**



## *Options available to the small owner*



### **C. LOAN TRANSFER**

#### *Disadvantages*

- **Full documentation cost which may be prohibitively high for a small loan residual transaction**
- **Tends to be short-term and thus onerous for new owners**
- **Seller may request a premium**
- **Some banks require the continuance of personal guarantees of the sellers**

**Small Owners in Greece: Raising Finance**

*PETROFIN S.A. NOVEMBER 2000*



## *Options available to the small owner*

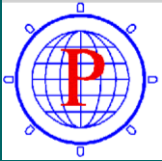
### **D. DEVELOPING A GOOD RELATIONSHIP WITH A BANK**

*(How flexible is inflexible?)*

- **Banks tend to have a two tier approach, especially regarding their clients**
- **Although officially the client may not fulfil the criteria, unofficially a particular case may be considered and processed**
- **Smaller owners' deals are being done but not let out as this would constitute negative marketing**

**Small Owners in Greece: Raising Finance**

*PETROFIN S.A. NOVEMBER 2000*



## *Options available to the small owner*

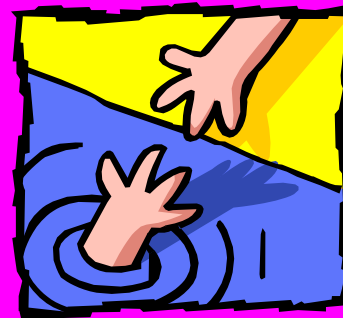
### **D. DEVELOPING A GOOD RELATIONSHIP WITH A BANK**

*(How flexible is inflexible?)*

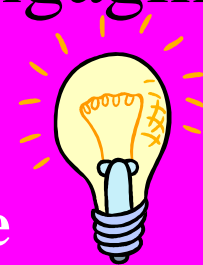
- **The rise in scrap prices has helped**
- **The client should differentiate himself from other small owners by showing quality rather than quantity**

# *Conclusion*

- Small owner financing still widely done but quietly and selectively



- The chances to obtain bank finance for small owners can be enhanced by engaging a reputable financial consultant



**Small Owners in Greece: Raising Finance**

*PETROFIN S.A. NOVEMBER 2000*



# *Conclusion*

- Small owners should consider alternative forms of finance, where these are available. An active search is essential
- The search for shipfinance should become a small owner's key target and a suitable strategy and long-term commitment is required

