Increased competition in shipfinance

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The oft-quoted 1996 figure of 201 banks actively involved in shipping finance has been modified to 198 in 1997.

The drop in figures is in itself not significant, but indicates that the expansive phase from 1992 onwards appears to have drawn to a close.

According to **Ted Petropoulos**, the managing director of finance boutique Petrofin, there are a number of underlying fundamentals that have led to this situation, including the problems of the Far East.

Increased competition among banks for top lending names will continue to result in reduced lending margins and overall profitability, he believes.

Weakness in a number of sectors, most notably dry bulk and containers, has also led to reduced asset values and rapidly declining cash flows which will further detract from shipping's status in the banking market.

The slowing down seems fairly inevitable for the debt market because shipping still remains a fairly small pond in which many big financial fish wish to dwell.

Therefore, the emphasis seems to be on banks chasing the "quality loans", which are widely acknowledged to be in limited supply.

The belief among the finance market analysts seems to be that although larger banks are competing very hard for the top-tier clientele and to a similar extent the second-tier clients, the smaller owners and emerging markets are still not getting the attention or capital that they deserve.

Shipping is a very capital intensive business, therefore many believe that the increase in liquidity provided by the smaller players is not undermining the market, but enhancing it.

One or two dissenting voices have claimed that the shipping banks' vitriol toward new players results from protectionism as opposed to genuine altruism for shipping.

Bankers who are in responsible positions within shipping departments of major lending institutions appear to have very little marine background.

There are many examples of banks taking a holistic approach to pricing deals, whereby fees, derivatives, cash flow management and other add-ons make it possible to price at spreads that would either indicate a serious decline in shipping risk or a total sales package for a loan.

Banks such as Hambros made it clear in 1997 that they saw little encouragement in the mortgage market and steered towards structured and corporate finance.

These approaches seem to be favoured by institutions such as ABN-Amro and Nedship.

Hambros has subsequently been taken over by Societe Generale, putting its shipping portfolio and long-term commitments into serious doubt.

Market fundamentals indicate “old hands” are experiencing a sense of deja vu.

The previous problems in the shipping departments of banks were triggered by marginal deals, liquidity from many angles, inexperienced bankers and eventually the ultimate downfall of dramatic downturn in markets.

These facts are all too familiar as 1998 sees the continuing struggles of both the dry bulk and containers sector which have already led to the demise of a number of mortgages.

Whether a serious downturn occurs is obviously a crystal ball gaze away still, but troubled portfolios, such as Den Norske Bank’s Greek book and the many rumours surrounding the alleged involvement of the Bank of Scotland and dry bulk operator Leond Maritime’s recent demise, indicate problems.

At least a trip to the capital markets may postpone the bloodletting period,, but the debt markets seem to be battering down the hatches for a stormy year ahead.

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