



Bankers get introspective

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Ted Petropoulos will become known as the man who dared to bring the word 'morality' into the debate over banks; obligations in the current slump.

It is a suggestion many bankers oppose as inappropriate. Morality is not a word that sits happily in banking jargon, creating too many uncomfortable allusions to Shakespeare's *Merchant of Venice*

Petropoulos, md of **Petrofin Financial Services**, paints two main scenarios for loan default. Where default results from a failure within the company, he concedes that banks have "no moral obligation to withhold from enforcing their rights."

The other default scenario Petropoulos terms as "exogenous", in that the factors preventing loan repayment come from outside the company; for example an industry slump. "Legally, the bank's rights are clearly defined, but morally the bank should think carefully."

When the client initially sits down with the bank, says Petropoulos, the terms of the loan are based on the market outlook. And if the bank gets this wrong and the industry enters a slump, the client could be faced with meeting an inappropriate repayment schedule. In this case, repeated rescheduling is a must.

"Morality doesn't really come into it," argues Peter Illingworth of Deutsche VerkehrsBank, who says owners are currently looking for a scapegoat. "At this end of the market [Greece], shipping is a speculative business. For every Onassis, there are a hundred guys crying foul because they hit the wrong end of the cycle."

"No two situations are ever alike," observes Nigel Hill of Berliner Bank. "You have to look at the circumstances in each case." Hill has gained significant experience in problematic shipping portfolios, having worked out Hill Samuel's shipping portfolio in the mid-1980s, inheriting the Berliner position in 1996 and spending the past few years supervising the work-out problem loans and a couple of high profile fraud cases. He says the only hope for the industry lies with banks remaining tough.

"Some banks are too client-driven, and have not paid enough attention to the facts," explains Hill. He will not confirm whether this refers to the German Landesbanks, but he does point out that the Berliner Bank values its portfolio every three months, while some of the Landesbanks reportedly make do with one valuation a year.

He believes that leniency on the part of the bank's shipping department might be a major source of problems. "If you're too lax, you'll lose the trust of the board, and that's when the bank's intensive are unit takes over." These work-out departments are rarely interested in the relationship with the client. "That's when it gets nasty, and the client suddenly finds himself dealing with someone he's not used to," Hill warns. His conclusion is that by keeping a tight reign over the portfolio, clients can be sure they will ever have to face the work-out department.

Even if banks keep a tight reign, however, Hill says it is important to sit down with the clients for extensive discussions. This view would please Petropoulos, who says, "I believe shipping has its stages, and I believe the process should be done gracefully." Petropoulos turns to the analogy of property mortgages, a comparison that grates on the nerves of many bankers. "If you missed a payment, you'd expect your bankers to sit down with you and talk, not throw you straight out on the street."

This brings him to the subject of 'arrest prompting' by asset-recovery firms, a trend, he says, that threatens the industry as a whole. "I'm not criticising the services they offer, only their advising that banks move quickly." Asset-recovery firms after all have a vested interest in encouraging foreclosures. And if banks take this advice, they do so by missing a few links in the process, such as discussion or rescheduling.

Petropoulos likens the process to a dance. "When your partner stumbles, do you hold them up, leave them be, or push them down?" Over the coming year, we will doubtlessly get some insight into the various banks' dancing style. And as long as the shipping industry looks shaky on its feet, most are hoping the banks will be feeling especially sober.

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