Shipping finance conditions to improve as 2010 progresses says head of Petrofin Bank

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With activity in ship acquisitions picking up since late February and more new building orders being poured in shipyards around the globe, shipping finance is expected to play a crucial role for the renewal of the global fleet. As Mr. Ted Petropoulos, founder and joint managing director of Petrofin SA points out, in an interview with Hellenic Shipping News Worldwide, the annual loan runoff (via repayments and prepayments) of the total Hellenic shipfinance loan book is approx. 12% - 15% per annum i.e. approx. $8.0 - $10 bn. He goes on to state that the banks' general policy towards the maritime industry has and will continue to be strong.

How is the shipping finance market shaping up so far this year, given the large numbers of ships traded (bought and sold), especially since late February and until today?

According to latest data by N. Cotzias, the total number of dry cargo and tanker vessels confirmed as bought by Greeks amounted to 98 vessels a d involved approx. $2.638 bn. Should this amount be annualized and adding an additional small amount for other types of vessels, the total for 2010 rises to approx. $8.5bn. Assuming 50% finance, the to nance required to support Greek vessel purchases for 2010 wo d be to the order of $4.25bn. However, as is outlined later, the estimated new finan e actually would be raised is substantially lower.
According to the latest Petrofin Bank Research ©, the total Greek related ship finance bank loan exposure, as of 01.01.2010, amounted to $67.020 bn. As h, barring newbuilding related additional finance and / or loan refinance, the above total additional requirement amounts to about 6.4% of total Greek ship finance.
It should be pointed out that it is estimated that the annual loan runoff (via repayments and prepayments) of the total Greek shipfinance loan book is approx. 12% - 15% per annum i.e. approx. $8.0 - $10 bn.
As such, provided banks would be prepared to use their shipping loan portfolio runoff to finance Greek purchases, there should be no problem.
However, new bank lending remains scarce and it is evident that most banks are holding back from relending their loan runoffs. Hence, only the largest and financially strongest Greek owner (including publicly quoted clients) have been able to raise finance, leaving small to medium clients largely without finance.
Consequently, a large number of vessel purchases are being concluded without bank fina ce or involve extremely low loan amounts.
It is expected that the above tight new finance conditions shall begin to ease off as the year progresses and effectively from 2011 onwards, provided that both glob nking and the shipping market shall continue to recover.

In your opinion, how does the current crisis in Greece affect the Greek banks shipping loan portfolios and general policies towards the maritime industry?

There is no doubt that in the light of the Greek crisis and the negative economic prospects for Greece, Greek banks have suffered. This has gone beyond their reported profita ity and has affected their liquidity, as foreign banks have been unwilling to maintain / increase Greek risk and there has been a modest run off of deposits.
As such, the capacity to lend has evaporated, as Greek banks are utilizing the repayment of their shipping loan portfolios for liquidity building purposes.
However, in the light of the EU / IMF support and specific support for the Greek banking system, there is a widespread belief that bank liquidity shall return, as eek banks have adequate capital adequacy and remain well managed.
The general policy towards the maritime industry has and will continue to be strong. Greek banks have been leading protagonists of the cooperative approach with their clients and have earned respect for their supportive approach. Consequently, the special bond between Greek banks and Greek shipping is expected to continue.

Do you think that Greek shipowners will be negatively impacted by the local economy's adversities, when it comes to securing financing from foreign banks?

Shipping is an international industry and Greek shipping has little or no link with Greece. The assets are invariably owned via non Greek companies, trade outside Greece, carry n n Greek cargoes and are crewed, increasingly, by non Greeks.
Only the management offices are often located in Greece but this does not subject Greek shipping to any additional specific Greek risk.
International shipping banks are fully aware of the separation between Greek and Intern tional risk. Consequently, on a corporate basis, the Greek crisis has had little direct effect on Greek shipping.

Lately, we've witnessed the rise of Chinese banks in providing finance towards Greek shipowners, provided that the ships financed are built in Chinese shipyards. Do you think that this trend will be maintained and if so, will Chinese banks move even more aggressively in the market in the future?

Chinese banks have provided finance to Greek owners, in support of Chinese shipyards. This, however, has been for top Greek names.
Lately, Chinese banks have also considered lending to Greek publicly quoted companies. However, the lending criterion continues to be "China first", whereby the loan must be seen to be in support of China's interests, which would include long-term time charters with Chinese charterers or Chinese end uses.
The limited capacity and appetite towards shipping ris y European banks has allowed Chinese banks to increase their international lending.
China's Exim bank has recently reported that it has a $8 bn shipping exposure and that it also has numerous non Chinese clients. The high loan margins and good terms offered by shipping will, no doubt, attract greater interest from cash rich Chinese banks, lso to diversify their business. However, the process shall be a gradual one, as from 2011 onwards we anticipate the gradual return to shiplending by European banks.

Despite the recent global recession, we saw very few cases of shipping companies actually not surviving. In many ways this was thanks to the support they received from the creditors, mainly through waivers. Moving forward, do you believe that banks will keep supporting the industry, despite fears of a tonnage oversupply?

Banks have seen that the cooperative approach has been a winning strategy. As vessel values and freight rates have risen and overall confidence in shipping has recovered, banks have been rewarded for their patience and supportive approach. At the same time, banks have exploited asset cover breach to increase their margins, and increase the yield of their overall loan portfolios even when smooth repayment of loans have been resumed. Additionally, banks have often imposed fresh restrictions to their clients' movement of funds and / or development.
It is in the continuing interest of banks to support their clients and avoid / mitigate losses. This is the case, provided there is an adequate cash flow to service the loan.
In case the servicing of the loan is disrupted and the shipping outlook shall be poor then it is possible, at that time, that banks may be compelled to reconsider their continuing support of their clients. It is of comfort, however, that the 2009 / 2010 shipping recovery has allowed clients to reduce their indebtedness and improve their liquidity, which shall serve them well, in case of a market fall, in the future.

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