Analyst hits out over ship debts

by Ian Staples

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A leading finance analyst has hit out at a warning from maritime recovery consultancy Marine Risk Management that ship lenders should call in their debts immediately in the face of mounting debt pressure on shipowners.

Ted Petropoulos, managing director of **Petrofin**, said: "Banks should turn a deaf ear to calls for action. These calls are for arret specialists' own self-interest."

He was responding to comments made by Marine Risk Management's John Dalby last month, that the industry faces a wave of ship repossessions this year in the face of crumbling markets.

"The common enemy of both banks and owners is the bad market," said Mr. Petropoulos.

"Market credit is drying up and disputes and delays with charterers are increasing and the industry has been hit by increased regulation inspections and scrutiny. The last thing that owners need is hostile and aggressive banks that are itching to foreclose."

Some feel that in the current market such comments from debt recovery agents may fuel the problems and do nothing to find a constructive solution.

Nevertheless, while some financial advisers are criticising those who advocate foreclosure a number of major banks are already moving to protect their assets. The collapse of the Lygnos controlled Lygmar and Pronoia ship owning operations indicate that conservative banks such as The Royal Bank of Scotland and Nedship are arresting vessels and going all out for debt recovery and are disinclined to give owners any more room.

Many banks have indicated that the breach of security covenants would get owners to the table "at the very least" and that rescue packages for elderly fleets that are poorly managed will not be forthcoming.

One banker told Lloyd's List: "Why should we throw our shareholders' money into a black hole. Old ships are no good to us and neither are companies that just want to speculate. Shipowners will realise sooner rather than later that those days are gone and we don't 'have' to bail them out."

Mr. Petropoulos countered by claiming foreclosures should be the last resort. "Foreclosure invariably results in enormous losses, since it calls for the liquidation of assets during a shipping slump," he said.

Jeremy Hodgson, head of shipping and aerospace at HSBC Midland Bank said: "HOw you react very much depends on the situation. Of course there are situations where the old bankers' saying that your first loss is your best loss applies. If the situation is irretrievable and there's no cash left you are probably best off foreclosing."

Mr. Hodgson was keen to emphasise the lengths to which banks will go to avoid the situations that Royal Bank of Scotland and others not typically associated with foreclosure have gone.

"Banks will stretch loans and even provide a working capital facility as a last resort. If you have an even chance of coming out with something banks usually consider this option first," he said.

"The cyclicality of shipping is well known and all banks andowners should work together to minimise rather than exacerbate the problems."

While Mr. Petropoulos' sentiments were echoed by Mr. Hodgson - and bankers have seen arrest specialists 'talk up their books' in previous downturns - old dry bulk vessels are not likely to inspire banks into relaxing loan terms.

"In today's dry bulk market you cannot be sure the upswing will be in one year, two years, even three. So a bank may feel that it cannot sustain the owner of old dry bulk tonnage any longer while he waits for the upswing. Some owners might want to concede defeat sooner rather than later. Vessel age is one of key factors," Mr. Hodgson said.

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