WORLD MARITIME NEWS

Petrofin Research: Bank Ship Lending Dwindles

The shipping industry saw USD 42.5 billion removed from the ship lending jar in 2016, according to Petrofin Research's latest report on global bank ship finance.

The fall has been mainly attributed to the removal of Commerzbank and Royal Bank of Scotland, the lower bank portfolios by many banks, as well as a stabilization of exposure by Chinese banks, as a result of the sharp increase of Chinese Leasing.

According to Petrofin, the top 40 banks had a total of USD 355.25 billion exposure to shipping at the end of December 2016.

"Global bank finance now stands at the 2007 levels. Bank sentiment is still affected by loan losses and high provisions, sales of portfolios to financial institutional funds, international and European restrictions and the still not so bright outlook of shipping, which makes shipping banks quite cautious and seeking safety through known and large clients, higher margins and low finance percentages, as well as stringent terms," Petrofin explained.

Furthermore, it has been noted that despite the fact that bank finance is coming down, mainly driven by decline of interest and ability by Western banks to maintain their loan portfolios, the global fleet is expanding.

"This results in a lower average bank finance per vessel, and financing of new vessels via a combination of equity, leasing, funds and private individuals' equity," Petrofin added.

Geographically speaking, banks in Europe have shown consistent decline with Germany, traditionally the biggest lender, falling sharply again this year. Dutch and Scandinavian banks are showing a slowdown as well.

The Far East also shows a small fall, primarily due to the dominance of Chinese Leasing in financing new and second hand vessels.

With respect to the market outlook for 2018 and beyond, having in mind the slow, and often short-lived recovery rate, especially in the tanker sector, LPG and offshore, Petrofin expects the shipping markets across the board not to be supportive to fresh bank lending.

"Loan portfolios of banks have slimmed as a result of vessel sales, write offs, loan sales and normal reductions via repayments. This has been useful for Western banks seeking to contract their lending as a result of capital constraints. The one ray of hope is the US banks who are coming out of the difficult years in a more robust way and whose capital ratios are stronger and which have room to expand," Petrofin said.

What is more, as traditional bank finance has decreased substantially, this has left the medium to small owners relying on own funds and private equity. Nevertheless, some banks are preparing to join ship finance, which seem to cater for the medium to smaller owners, such as Warburg Bank and Maritime and Merchant Bank.

"As a general conclusion, we anticipate that over the next couple of years, global shipfinance may form a base. The departure of the previous big lenders, RBS and Commerzbank and the reduction of HSH Nordbank, plus a lot of retrenchment by others, is expected to complete soon. On the other hand, successful banks with a bigger appetite for shipping, such as Credit Suisse, ING, BNP Paribas, ABN Amro and DVB should assist in the above base being formed.

"Finally, for the banking sector as a whole, a recovery may only be anticipated when public market conditions shall be able to support fresh capital increases via the public markets. Such capital for banks would allow them to grow again and it is expected that their interest in shipfinance shall return especially as the available margins are attractive and the clients and loans involved, of a very high level," the research company said.

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