Owners and banks confront their brave new world

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- **Analysis**

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The leading lenders to Greek shipping are changing at a rapid clip

LOYALTY and longevity have always been highly sought-after qualities looked for by Greek shipowners in their lenders.

No-one can say that the Royal Bank of Scotland has not put in a hefty shift in financing the Greek shipping industry, but by the end of last year it was toppled as the leading lender to the country's owners.

In the latest annual survey of Greek ship finance released by Petrofin Bank Research, RBS had been surpassed by Credit Suisse as the largest lender in the sector.

RBS can trace its first business with Greek shipping families to predecessor bank London & County Banking Co more than a century ago. But it is in the throes of downsizing its exposure to international shipping as part of a refocusing on UK business.

In recent months the process appears to have gathered pace, with the aim of whittling down the bank's exposure to a limited number of core clients.

RBS has moved to jettison a number of longstanding clients, it is understood, even in cases where owners were making loan repayments but failed to address breaches of covenants related to falling market valuations, which are rife across the bulker sector in particular.

One case of a kamsarmax vessel arrested in Singapore received a lot of attention earlier this year but is said to be one of many stories that are not dissimilar.

The end of RBS' more than two decades' reign as chief bankroller of the Greek-owned fleet may have been the headline development emerging from the latest league table of banks in Greek shipping. But the ranks of lenders to the industry have chopped and changed over the years more than the market may have wished.

Half of the names among today's top lenders were not in the Top 10 just a decade ago. Relative newcomers to the uppermost tier are DVB, Piraeus Bank, China Eximbank and BNP Paribas, while for Citibank 10th place represents a return to the premier league.

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Harsher lending environment

Once, the rise of a new crop of significant lenders may have been welcomed as evidence of Greek magnates' pulling power. But in today's harsher lending environment, the emphasis naturally falls on the volatility of the lending league.

Drop-outs from the Top 10 of 10 years ago include third-ranked specialist bank Deutsche Schiffsbank, which has been absorbed by Commerzbank, which in turn is exiting the industry altogether. It is now down to 19th position with a $1.5bn loan book.

HSBC's portfolio has only shrunk slightly in the last decade to $2bn, but it has dropped from sixth to 14th place today.

German institution Hypovereinsbank (HVB), ranked eighth at end-2006 with a $1.5bn Greek portfolio, is today part of Italy's Unicredit group. The portfolio is another that has remained static, but it is now ranked 16th.

Alpha Bank of Greece and Calyon of France have also slipped out of the Top 10, to 13th and 23rd respectively.

Look back 20 years and the disparity is unsurprisingly even greater. Then American and British banks were dominant. Aside from RBS, Midland Bank and Barclays both figured prominently, shortly before the majority of the Barclays portfolio was sold to Midland and the Midland name was phased out by parent HSBC. Citibank and Chase Manhattan were both in the Top 5 while another US institution, Bank of New York, was the 11th-largest lender to Greek owners.

Despite the turnover, there have been threads of consistency over the 20-year span. Despite pedalling furiously in the opposite direction, RBS is still there near the top of the tree, and both the National Bank of Greece and DNB have been mainstays of the Top 10.

It is also worth noting that Dutch lender ABN Amro, which figured in the Top 10 of 20 years ago, is currently placed 11th and on the basis purely of drawn loans at end-2015 would be ranked ninth.

As a whole, the Top 10 lenders to Greek shipping cut their exposure to the industry by 8.6%, following a 4% reduction in 2014. International banks with a physical presence in Greece reduced their outstanding loans by 8% in 2015, and the five Greek banks involved in the sector saw their portfolios cut by an aggregate of 15.2%.

But the trends were not entirely negative, Petrofin noted. Undrawn commitments by banks increased by 9.6% last year, prompted by Greek owners' acquisitions and orders. While the Top 10 lenders wobbled on aggregate, the next 10 banks on aggregate increased lending by more than $1bn. Meanwhile, international banks with no presence in Greece increased their portfolios by an average 11%. It's almost as if Greek business were better done at arm's length.

European banks still provided 81% of an aggregate $62.7bn of loans to the industry at end-2015, but that represented a sharp fall from a 90% market share as recently as 2013. Far Eastern banks have increased their share to 11.4% and China Eximbank is now ranked eighth in the Petrofin rankings with a $2.3bn portfolio.

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It is not only the names of Greeks' key banking partners that are in flux, but also it is how lending is being done.

"There is no resemblance to how things used to be," Petrofin managing director and the survey's author, Ted Petropoulos, tells Lloyd's List. "It is so difficult to raise finance and there are so many prerequisites required by the banks that, other than the top 50 owners, you really are struggling to obtain finance.

"There are so many prerequisites, many of them overlapping, that the effort of satisfying everybody on the banks' side is just too much for most people.

"In the end you will only end up getting a loan when you have committed more money than before."

According to Mr Petropoulos, the financing squeeze has created a "schizophrenic" market, prompting some owners to go the alternative route of fronting for funds that may only require a 10% investment from the shipowner. Others reject that model and are buying only with their own cash.

"The banking crisis is certainly affecting people's investment plans," he says. "I really don't see a lot of banks covering the gap left behind by the major banks. We have an ever-diminishing number of banks and [owners] are tying up with partners that they don't know how they will behave in the event that things go wrong."

Right now, however, owners are having their fair share of problems with a better-known tier of financiers. "Banks have stopped treating the problem softly-softly," Mr Petropoulos says. "Now they are coming down hard under enormous pressure from regulators. We have not seen that for a long time. Across the board, companies that can't comply with loan to value are under pressure."

Under the conditions, last year's 2% in loan volumes to Greek shipping was "a surprisingly low rate of decline", although it could accelerate in 2016.

Greek shipowners

According to Anthony Zolotas, chief executive of ship financing specialist Eurofin Group, ship finance has changed for Greek shipowners “in much the same way it has changed for everybody else on the planet”.

While Greeks may have been hit by the phased withdrawal of their main lenders — RBS, HSH Nordbank and Commerzbank — there had been other banks ready to partly fill the gap and increase their own market shares.

“Compared with the Greek market, other markets — such as the German, Italian and Turkish markets — have been much more affected by the crisis,” says Mr Zolotas. “In my view many shipowners in these markets were ill-prepared for the lengthy downturn and have therefore suffered much more than their Greek counterparts who had probably lived through and survived more shipping cycles.”

In an era when bank marketing staff had been reduced and time and funds were at a premium, “there are very few international banks willing to lend to those markets and even then their lending is limited to a handful of names in each case.”

Greek owners had fared better partly due to a more resilient ownership culture in which owners had been able to draw on reserves of flexibility, staff loyalty and an ability to “cut expenses to the bone”.

“With hindsight, reduced availability has not been too bad for many Greek shipowners who were unable to acquire dry cargo tonnage in the last three years. Now that prices have really reached levels which arguably are at an all-time low, the lack of lenders might leave a number of would-be purchasers disappointed.”

It would be interesting to see if that prompts joint ventures or other types of consolidation among owners, comments Mr Zolotas.

On the other hand, major shipowners who have retained liquidity are now “in pole position” to take advantage of these prices, he says.

“They are known to buy modern secondhand tonnage and simply lay it up, awaiting better times and great fortunes,” he says.