

Forced sales not the only alternative for banks

Creative solutions on offer when loans default



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THERE are no publicly available statistics to prove the point, and the names involved are always confidential.

But while hearsay suggests that repossession of vessels in default is gradually becoming more common as the shipping downturn drags on, the widely predicted surge in these cases has yet to materialise.

True, some bankers have talked tough on this issue. DVB director Dagfinn Lunde told a room full of journalists earlier this year: "We don't mind taking a ship back at all. If a loan risks going underwater, I say, 'Please give me the key!'"

But in general, lenders appear to have held off to a degree that has surprised many, and this is unlikely to be the result of sincere solicitude for the plight of poor hard-done-by shipowners.

As bankers will admit in private conversation, the truth is that they have run away from the prospect of taking on loss-making vessels themselves, and have instead preferred to extend forbearance, in the hope that something – hopefully, world trade – will turn up.

So far, this Micawberish expectation has not panned out, and

it could now be that crunch time is rapidly approaching. Banks, whether state-owned or still in private hands, cannot extend and pretend indefinitely.

In many cases, either their internal rules or the applicable accounting standards dictate that loans must be declared non-performing if there have been no repayments for three years.

Write-offs will bear directly on the all-important capital ratios that are already under pressure from the European Banking Authority and Basel III, which in turn directly govern ability to lend, and hence profitability.

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Even on the old principle that half a loaf is better than none, the temptation will be there to repossess and then try to find some way of somehow getting some money back.

There are now companies expressly in business to provide a solution in such circumstances. Among them is New York-based Karatzas Marine Advisors, whose



Cardiff's Graig Group has teamed up with Global Maritime Investments to bring together shipmanagement and trading.

Graig

principal Basil Karatzas specialises in acting for banks that have loans in arrears or in default and are looking to bring in a partner to inject equity in the project, or to arrange structured or mezzanine finance.

Where banks do decide that repossession is the way to go, most shipmanagers are ready to operate vessels on their behalf.

A source at one major shipmanagement outfit, who asked not to be named, said: "It's like a phoney war at the moment. If we are anything to go by, there is more business around and there is an expectation that this will grow."

"It's difficult to give a global figure, but I think it would be in the region of single percentage point increases month by month, a slow steady increase as banks are being forced more and more into taking action."

Another approach is the recently launched collaboration between Cardiff's Graig Group and Global Maritime Investments, which claims to offer bespoke solutions for problematic shipping exposures.

Working together, the two groups

will provide lenders with workout solutions, safe havens and exit routes for distressed assets and underperforming shipping portfolios.

The idea is to bring together Graig's capacities in the field of technical shipmanagement with GMI's ability to trade the ships.

According to GMI managing partner Steve Rodley, his company's

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Steve Rodley, GMI

large physical portfolio and robust freight management systems provide a low-risk pool for tonnage, making it a good bet as a charterer for risk-aware counterparties.

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The GMI Group is one of the largest privately-owned freight trading groups in the world in terms of both size of fleet operated and turnover, typically operating 60 to 80 dry bulk vessels. GMI is financed by major institutional shareholders.

Graig describes itself as a broad-based international shipping services provider, with active shipmanagement divisions in Cardiff and Shanghai and close links with significant shipping banks, to whom it provides regular inspection services and technical support.

It provides technical and commercial management and crewing for a mixed fleet of vessels on behalf of a number of owners and banks, and has supervised more than 100 newbuildings for itself and major shipowners. ■

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