

Asset values under threat as German banks call in loans

Bank efforts to remove non-performing loans from balance sheets threaten to devastate secondhand prices

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DOZENS of German-financed vessels could face compulsory auction in the months ahead, as accounting practices increase the pressure on lenders to end payment deferrals granted to owners after the financial crisis of September 2008.

Any resultant influx of secondhand tonnage would drive down asset values for ships, ship finance specialists warned today. But avoiding such a depressing scenario will require a large degree of forbearance by the banks, they warned.

As the banks' internal rules stand, loans must be declared non-performing if there have been no repayments for three years. This in turn affects on the banks' all-important capital ratios, which directly govern ability to lend, and thus profitability.

A consortium led by Commerzbank-affiliated Deutsche Schiffsbank earlier this month compelled KG shipping fund HCl Shipping Select 28 to put 1999-built, 147,261 dwt suezmax *Hellespont Trust* up for sale. They have also forced the auctions of tanker *Marnavi Splendor* and boxships *John Mitchell* and *Lily Mitchell*, which all belong to funds.

These sales could prove a harbinger for a deeper bloodbath in the coming months, according to some of those involved in putting German ship finance deals together.

Karl-Georg von Ferber, partner in Hamburg shipping law firm Von Ferber Langer, said: "This is what the market expects in Germany. Until now the banks have been very patient and have been waiting, and of course they are afraid to lose even more money when they go in and force these ships to be sold."

"But these regulations could force the banks to sell the ships, and this might have quite an impact. There could be dozens [of ships affected]."

He pointed out that while there was no legal obligation to call in loans three years



Two single funds financing the tankers *Hellespont Crusader* and *Hellespont Commander* are thought to face imminent restructuring. Dietmar Hasenpusch

from first default, they must at this point be booked as non-performing, and taken onto the balance sheet. In practice, many banks will have tried to use the three-year deferral period to get rid of the loan, although this will not have been easy to achieve.

"Within the course of 2009, dozens German shipowners — my rough guess is a hundred — had to ask their banks for intermission of debt service payments."

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Karl-Georg von Ferber, partner, Von Ferber Langer

said Mr von Ferber. "In most cases, intermissions were granted for two or three years. Many of these shipowners will have to ask for extension if the weakness of the market continues."

Janos Koenig, chief financial officer of ship finance consultancy Eurofin, said that if the market did not improve, borrowers will not be able to meet either existing

payments or rescheduled payments where these have been agreed.

Banks would then have to choose between foreclosure, seeking another buyer, or taking it on the chin and booking the loss. The problem with arranging judicial sale is that the number of cash buyers out there is limited.

"The sensible thing would be to write off or take provisions, and perhaps keep the loan if there is at all a salvageable position. If you go through with the auction, you would create a situation that is highly alarming and will force prices significantly down," he said.

But seen from the capital adequacy point of view, it may still prove better for the banks to get half or even a quarter of their money from a forced auction than accept 100% of the face value onto their balance sheet. That would provide the banks with an incentive to sell.

"There will be a waning group of people who still have cash and will find this an opportunity, but it is not good for the market in general," said Mr Koenig.

In the case of *Hellespont Trust*, Nordic American Tankers last week acquired the suezmax tanker for \$24.8m, a price far below liabilities to banks, which amounted to about \$60m. The purchase price of the vessel topped \$80m.

Clarksons had last week estimated a

ten-year-old suezmax to be worth \$37m, indicating the sale represents a massive knock down to asset values.

Two separate single funds financing the product tankers *Hellespont Crusader* and *Hellespont Commander* are thought to face imminent restructuring.

Michael Axhausen, head of KPMG's German shipping practice, said that banks had so far held back in the expectation that the shipping market was going to recover

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Michael Axhausen, head of KPMG's German shipping practice

in 2011 or 2012, a stance which is increasingly looking unrealistic.

"In the past two years, we have had just a handful of sales that were actually forced. In the last six weeks or so, we have seen more than in the whole of last year. If the situation in the shipping market does not improve, that number will increase." ■

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