Global Credit Data
by banks for banks

Shipping Finance
Annual observed recovery rates trends

June 2023

1,956	84%	1.3
Nr of Facilities	**Observed Recovery Rate**	**Time to Peak Recovery**

2023 Outlook

The shipping industry has seen extreme volatility since 2020 as Covid lockdowns and supply chain problems disrupted the movement of goods by sea. Volatility of freight rates and vessel demand continued in 2022 and even now driven by the war in Ukraine (more demand for oil & gas vessels) and inflation driven consumer demand falls (container vessels). Climate change and maritime energy transitions will further impact shipping beyond 2023.

Ship Defaults in the Global Credit Data Loss Database

Bank internal Loss and Recovery Data has been collected from 32 global banks since 2000. Historical observed recovery rates and time to peak recovery are shown here by common risk drivers: Lending Portfolio; Region and Deal Structure.

Recoveries and Losses in Crisis Times

Defaults and recoveries of loans are driven by volatile freight rates. Lower freight rates reduce the borrower's cash flow which can lead to loan default and at the same time they drive a reduced value of the vessel used as collateral for the loan. Banks deal with this volatility by keeping cash cushions and renegotiating loans when required. A large majority of defaults are resolved in rescheduling deals (e.g. offering longer payback schemes or temporary suspension of interest payments) resulting in high recovery rates. Thus, high observed recovery rates are not necessarily aligned to GDP or default rates.

For recent years estimated recoveries of yet unresolved defaults have been included in the graph below providing first insights into the Covid-19 crisis impact. However, they have to be interpreted with care. As it takes up to 5 years or even longer for a defaulted loan to resolve, the high portion of unresolved loans will be exposed to future events which will impact their final outcome.

Note on Terms Used (see Appendix for more details)

Observed Recovery Rate refers to the historical observed nominal average recovery cash flows divided by outstanding amount at default.

Time to Peak Recovery is calculated as the center point of recovered cash flow.
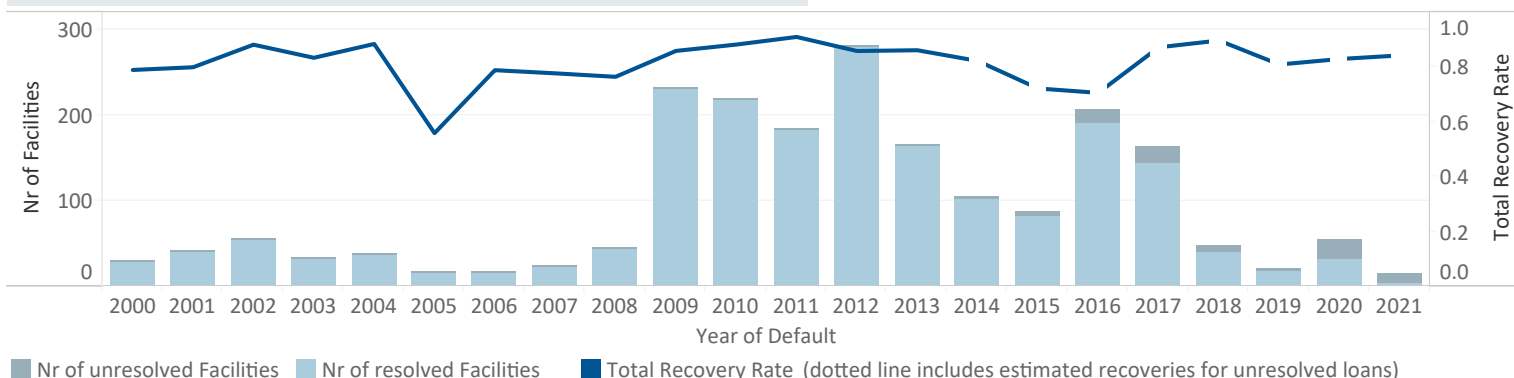
Lending Portfolio

	Nr of Facilities	Observed Recovery Rate	Time to Peak Recovery
Ship Finance SL	1,203	86%	1.4
Large Corporates	430	87%	1.1
SME	270	75%	1.3
Other	53	80%	1.6

Region

Africa & Middle East	109	90%	1.1
Asia & Oceania	177	88%	1.4
Europe	1,407	84%	1.3
Latin America	50	75%	1.2
North America	211	83%	1.2
Unknown	2	96%	0.2

The regional spread reflects the number of defaulted cases in the GCD database not worldwide ship usage.

Deal Structure

Term Loan	1,442	85%	1.3
Revolver/Overdraft	358	83%	1.2
Capital & Operating Lease	62	88%	0.9
ECA Export Finance	4	99%	0.1
Other	90	70%	1.4

Nr of unresolved Facilities — Nr of resolved Facilities — Total Recovery Rate (dotted line includes estimated recoveries for unresolved loans)

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| 1,776	22%	73%
Total Ships	**Observed Haircut**	**Loan-to-Value**

This section explores the collateral dimension on defaulted facilities from the previous page. A single loan can be secured by multiple ships and a single ship can be used as collateral for multiple loans. Therefore, the number of ship collaterals and the number of loans will not be equal. At the same time, where there are shipping industry facilities without a ship collateral then these cases are excluded.
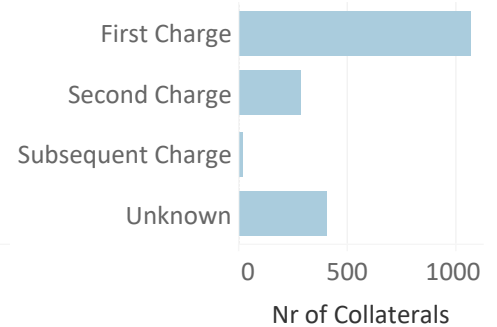
Ship Collateral Characteristics

Ship Type

Nr of Collaterals

Ship Size

Nr of Collaterals
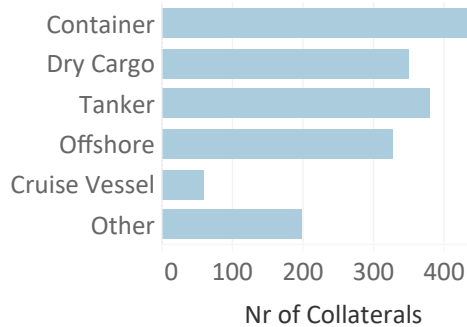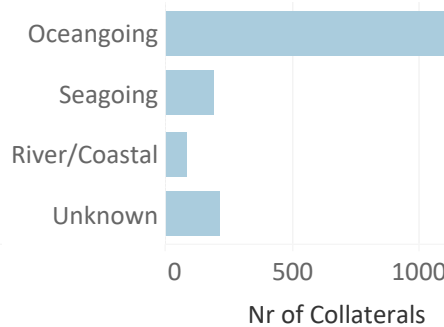
Rank of Security

Nr of Collaterals

Haircut and Loan-to-Value

Haircut
Typically the value of collateral declines during the default and workout process. On average, this decline (haircut) is observed as 22%. When the ship is not sold, this decline is seen in lower valuations after default representing the general market decline for second-hand ships due to age depreciation and market circumstances e.g. downturn. The low number of sold collaterals indicates that a sale is not the most likely workout scenario. Banks tend to not sell the collateral at the bottom of the market but wait for better market conditions.

Loan-to-Value
A typical ship financing case involves a long-term loan which amortizes as the value of the ship financed declines with depreciation and a final balloon payment. The data indicates that cases with high loan-to-value prior to default produce higher LGD. Ships are recognized as high quality collateral with a liquid second hand market despite some volatility. For lenders, this results in generally high recovery rates after default even when lending at approximately 73% loan-to-value.

GCD members receive detailed data enabling them to create loan-to-value and haircut-based ship financing models.

Collateral Haircut

■ Nr of Collaterals ◆ Observed Haircut
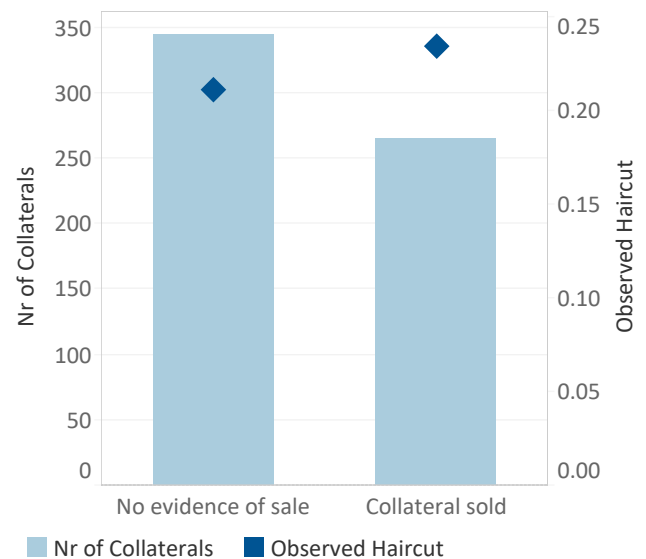
Note on Terms Used (see Appendix for more details)

Observed Haircut is the collateral value prior to default (max. 2 years prior) minus the collateral value after default (e.g. date of sale or resolution) divided by the collateral value prior to default.

Loan-to-Value (LTV) refers to the ratio of the outstanding amount of a loan to the value of the collateral at the default date.

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Global Credit Data maintains the world's highest quality, most exhaustive member-bank contributed data source for credit risk.

More from Global Credit Data

This report draws on verified information collected from 50+ global or regional banks over 20 years and covers over 300,000 defaulted facilities in total.

Explore our other reports. They provide an instant insight into observed Recovery Rates and other key benchmarks for various exposure classes, industry sectors and collateral types:
Corporates, Banks and Financial Institutions, Sovereigns, Real Estate Finance, Shipping Finance, Aircraft Finance.

To meet the standards set by global regulations like BCBS239, GCD has established a robust framework to continuously measure, monitor and improve data quality.

About

At GCD, our mission since 2004 has been to empower banks and the financial industry with a deep understanding of credit risk through a unique data source. As a non-profit organisation owned by 50+ member banks, we collect valuable data directly from banks' books.

GCD's activities revolve around pooling credit loss data, particularly from low default portfolios. Beyond data pooling we foster knowledge exchange, facilitate research and information sharing services, creating a dynamic environment for insights and collaboration.

Join our community to access exclusive data insights gain market understanding, and benchmark your performance against industry peers.

www.globalcreditdata.org

Contact

Nina Brumma
Head of Analytics and Research
nina.brumma@globalcreditdata.org

Membership Inquiries

secretary@globalcreditdata.org