Global Credit Data
by banks for banks

# Shipping Finance

## Annual observed recovery rates trends

June 2024

### 2024 Outlook

Defaulted loan recovery rates in the shipping industry reflect the volatility in the industry overall. In 2020 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 2024.

### Ship Defaults in the Global Credit Data Loss Database

Bank internal Loss and Recovery Data has been collected from 33 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 shipping 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. Recovery Rates are on average higher than similar sized Corporate and CRE loans.

For recent years estimated recoveries of yet unresolved defaults have been included in the graph below. However, they should be interpreted with care, as it takes up to 5 years or longer for a defaulted loan to resolve. The 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.

| 2.109 | 84% | 1,4 |
|---|---|---|
| **Nr of Facilities** | **Observed Recovery Rate** | **Time to Peak Recovery** |

### Lending Portfolio

| | Number of Facilities | Observed Recovery Rate | Time to Peak Recovery |
|---|---|---|---|
| Ship Finance SL | 1.316 | 85% | 1,4 |
| Large Corporates | 456 | 87% | 1,2 |
| SME | 283 | 74% | 1,3 |
| Other | 54 | 80% | 1,5 |

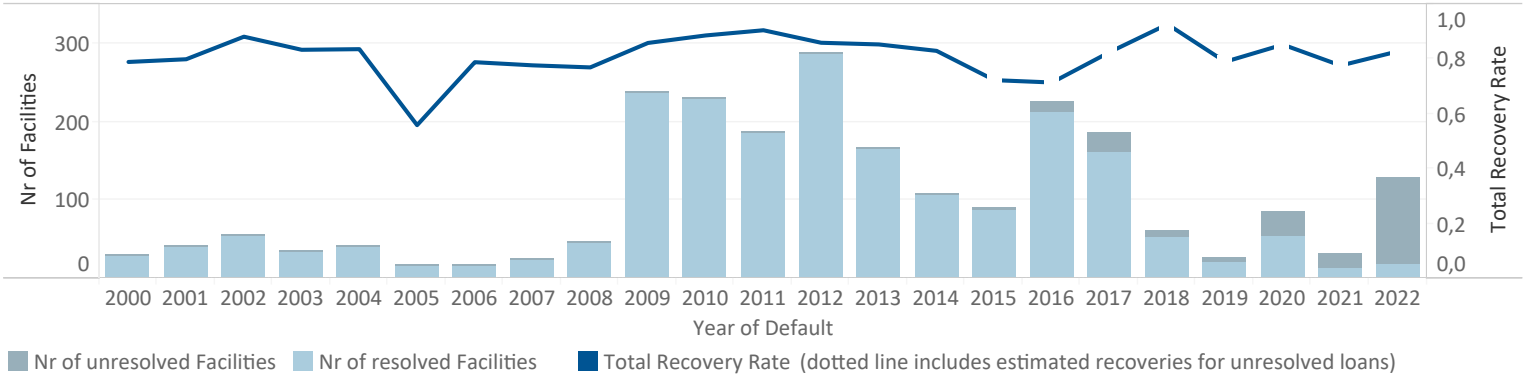
### Region

| | | | |
|---|---|---|---|
| Africa & Middle East | 112 | 91% | 1,1 |
| Asia & Oceania | 198 | 88% | 1,6 |
| Europe | 1.518 | 84% | 1,4 |
| Latin America | 50 | 75% | 1,2 |
| North America | 227 | 84% | 1,2 |
| Unknown | 4 | 71% | 0,2 |

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

### Deal Structure

| | | | |
|---|---|---|---|
| Term Loan | 1.563 | 85% | 1,4 |
| Revolver/Overdraft | 384 | 83% | 1,2 |
| Capital & Operating Lease | 63 | 88% | 0,9 |
| ECA Export Finance | 7 | 99% | 1,8 |
| Other | 92 | 71% | 1,4 |



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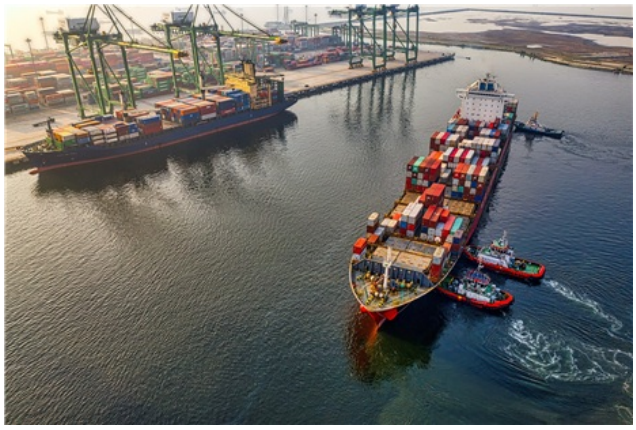
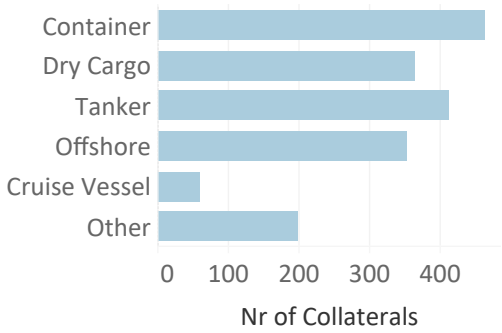


| 1.848 | 23% | 71% |
|---|---|---|
| **Total Ships** | **Observed Haircut** | **Loan-to-Value** |

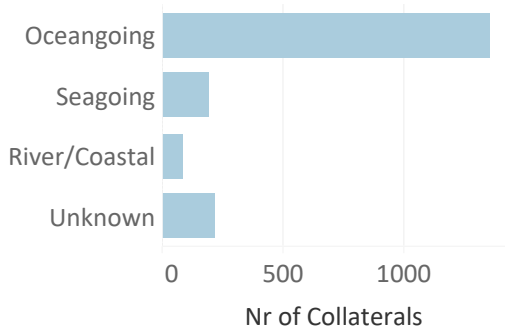
This section explores the collateral dimension on defaulted facilities from the previous page. A single loan can be secured by multiple ships and a single ship can be used as collateral for multiple loans. Therefore, the number of ship collaterals and the number of loans will not be equal. At the same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

## Ship Collateral Characteristics

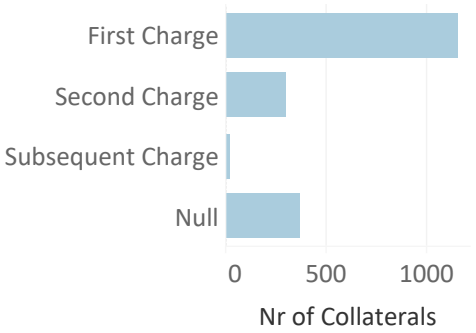
### Ship Type




### Ship Size




### Rank of Security




## Haircut and Loan-to-Value

### Haircut

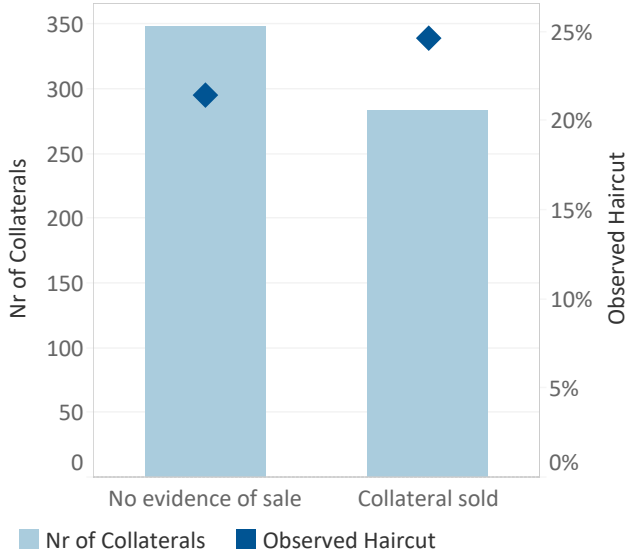
Typically the value of collateral declines during the default and workout process. On average, this decline (haircut) is observed as 23%. When the ship is not sold, this decline is seen in lower valuations after default representing the general market decline for second-hand ships due to age depreciation 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 71% loan-to-value.

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

### Collateral Haircut




**Note on Terms Used** (see Appendix for more details)

**Observed Haircut** is the collateral value prior to default (e.g. date of sale or resolution) minus the collateral value after default (max. 2 years prior) 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 most exhaustive and high quality, 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 or RDARR GCD has established a robust framework to continously measure, monitor and improve data quality.

## About

At GCD we pool credit loss data directly from banks' books, providing vital insights into the financial industry since 2004. As a non-profit organization owned by over 50 member banks we focus on collecting detailed credit risk data, particularly for low default porftolios.

Beyond data pooling we offer a platform to exchange knowledge and foster research. We are actively engaged in understanding and assessing climate risk, demonstrating our commitment to addressing contemporary and future financial challenges.

Joining GCD grants you access to an exclusive community of banks and deep data insights. Gain market understanding and benchmark your performance.

www.globalcreditdata.org

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