

Shipping Finance

Annual observed recovery rates trends

August 2022



2022 Outlook

The shipping industry has seen widespread disruption since 2020 as Covid lockdowns and supply chain problems have disrupted the movement of goods by sea. Volatility and uncertainty continue, exacerbated by recent events such as the war in Ukraine and resurgence of Covid cases in China. Global shipping costs surged during the pandemic due to port disruptions and fuel price rise. Digital transformation, climate change and maritime energy transitions will impact shipping beyond 2022.

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. Generally, ship-backed loan defaults have higher recoveries than normal corporate loans (see [Corporate Dashboard](#)).

Recoveries and Losses in Crisis Times

Defaults and recoveries of loans backed by commercial shipping 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. Banks less commonly force the sale of ship collateral (see next page). Thus, high observed recovery rates are not necessarily aligned to GDP or default rates. For recent years estimated recoveries for yet unresolved defaults have been included in the graph below (green curve) providing first insights into the Covid-19 crisis impact and confirming continuation of the relatively high recovery rates of shipping finance.

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.

1,897

Nr of Facilities

84%

Observed
Recovery Rate

1.3

Time to
Peak Recovery

Lending Portfolio

	Nr of Facilities	Observed Recovery Rate	Time to Peak Recovery
Ship Finance SL	1,198	86%	1.4
Large Corporates	420	87%	1.0
SME	227	73%	1.2
Other	52	80%	1.6

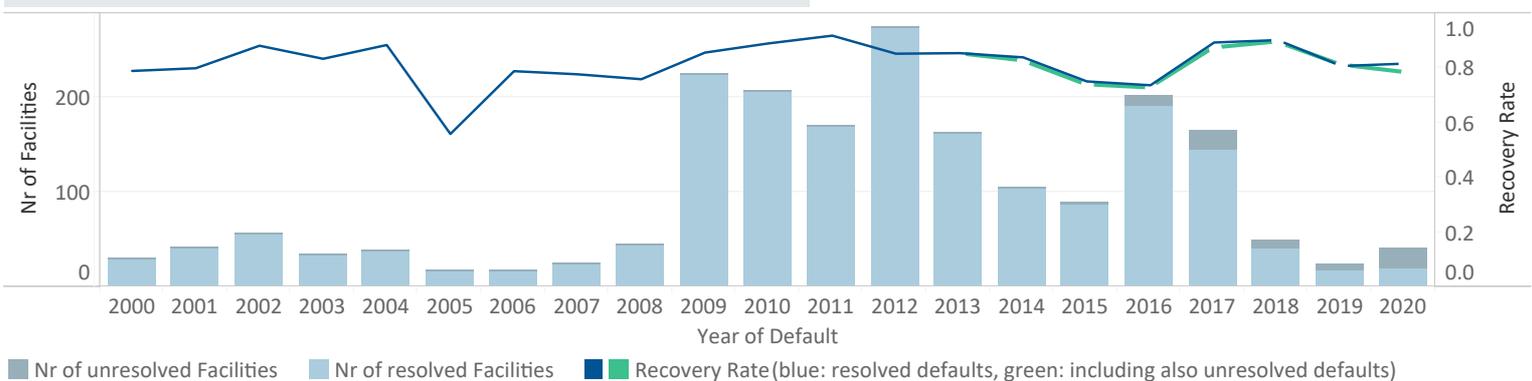
Region

Africa & Middle East	104	92%	1.1
Asia & Oceania	171	88%	1.4
Europe	1,368	84%	1.3
Latin America	42	71%	1.2
North America	212	83%	1.2

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

Deal Structure

Term Loan	1,391	85%	1.3
Revolver/Overdraft	356	83%	1.2
Capital & Operating Lease	56	88%	0.9
ECA Export Finance	4	98%	0.5
Other	90	70%	1.4



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1,581
Total Ships

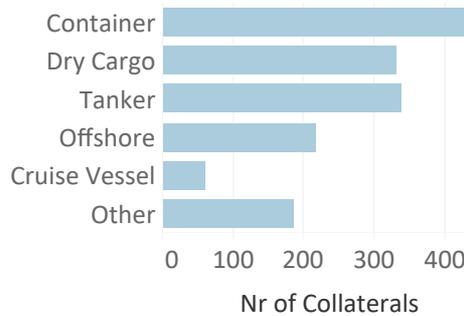
-23%
Observed
Haircut

69%
Loan-to-Value

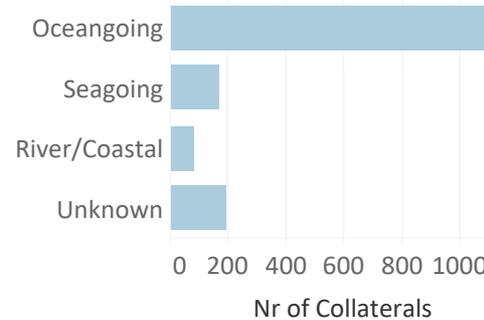
This section explores the collateral dimension on defaulted facilities from the previous page. A single loan can be secured by multiple ships and a single ship can be used as collateral for multiple loans. Therefore, the number of ship collaterals and the number of loans will not be equal. At the same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

Ship Collateral Characteristics

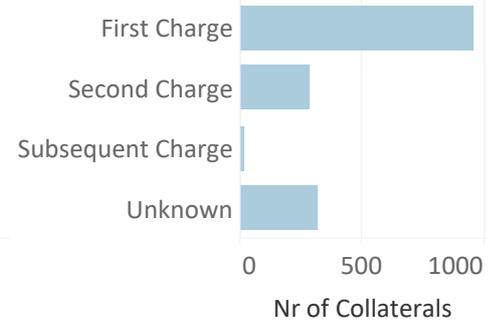
Ship Type



Ship Size



Rank of Security



Haircut and Loan-to-Value

Haircut

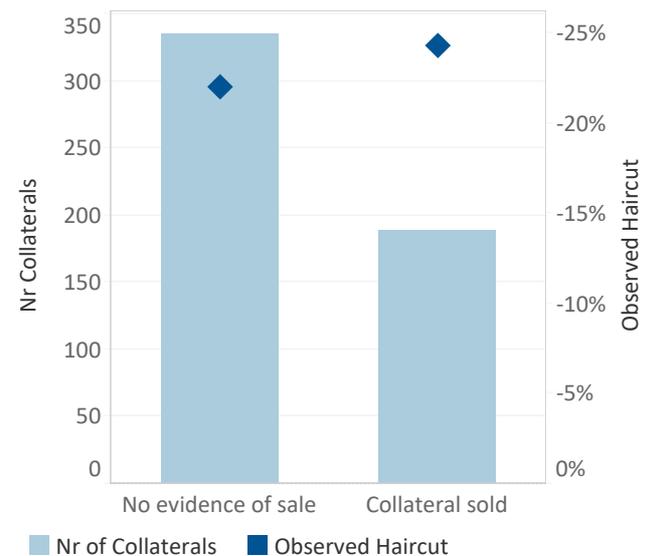
Typically the value of collateral declines during the default and workout process. On average, this decline (haircut) is observed as 23%. When the collateral is not sold, the decline can be interpreted as representing the general market decline for second-hand ships due to age depreciation and market circumstances like changes in the freight rate. 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 balloon payment at the end of the financing period. 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 69% 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 after default (e.g. date of sale or resolution) minus the collateral value prior to default (max.2years 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.

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 dashboard draws on verified information collected from 50+ global or regional banks over 20 years and covers over 300,000 defaulted facilities in total. Find [more information](#) on our website.

[Explore our other dashboards.](#) 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.

GCD has continuously reinforced a framework that is used to measure and monitor [data quality](#) as required by global regulations (BCBS239).

About

Established in 2004 as a non-profit association, GCD's Mission is to help banks understand and model credit risks. Membership has grown to 50+ member banks across Europe, Africa, North America, Asia and Australia. Activities include pool credit loss data, directly from banks' books.

GCD operates pooled databases on a "give to get" basis, meaning that members who supply high quality data and receive detailed data in return. The robustness of GCD's data collection infrastructure helps place the GCD databases as the global standard for credit risk data pooling.

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