Observed Recovery Rates Dashboard
Ship Finance defaults recover 86% on average

As banks actively monitor their portfolios, factoring in the possible risks and impacts of Covid-19 pandemic scenarios, this dashboard dives into GCD's rich and high-quality data set to answer some of the key questions facing institutions with ship-backed loans in their portfolios.

How much do banks typically recover from defaulted ship-backed loans? How long does it take to recover the funds? And what kind of a haircut can you expect on the value of collateral in this sector?

Drawing on verified information – collected from 29 global or regional banks over almost 20 years and covering 1,471 defaulted facilities – the answers to these questions and more are unlocked here through **the power of GCD data**.

Key findings

86% GCD data confirms that **historical bank recoveries for defaulted Shipping Finance loans average 86%**, a higher figure than for general corporate loans which average 76%.

In terms of recovery, ship collateral is the most important driver of high recovery rates and low loss given default (LGD).

New analytics

For the first time, this dashboard provides figures on the observed haircut and loan-to-value of defaulted ship-backed loans. Detailed methodology on how these figures are calculated are available in the appendix.

More so than ever in the current macroeconomic environment, banks must continuously assess and upgrade existing risk models. GCD data offers access to a comprehensive toolbox with which to analyse the effects of previous crises and other macroeconomic events and train and adapt their existing models accordingly.

Find out more

This dashboard builds on the wider LGD Report for Large Corporate Borrowers released in June 2020, which is available here.

Explore our other dashboards, covering Corporate, Bank, Sovereign, Real Estate and Aircraft defaults.

About Global Credit Data

Global Credit Data (GCD) is a non-profit association owned by 50+ member banks.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.

Contact

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

Richard Crecel
Executive Director
richard.crecel@globalcreditdata.org

www.globalcreditdata.org

1,471	86%	1.2
Nr of Facilities	**Observed Recovery Rate**	**Time to Peak Recovery**

Lending Portfolio
Most loans are made through an SPV structure (Ship Finance - Specialised Lending) or direct to a shipyard (Large Corporates). Generally, ship-backed defaults have higher recoveries than normal corporate loans.

Region of Jurisdiction
The regional spread reflects the number of defaulted cases in the GCD database not worldwide ship usage. Ships used as a collateral are not limited by the country of the borrower but the legal system where the ship is based or arrested may affect the workout and recovery.

Deal Structure
The most common deal structures include normal term loans and revolvers/overdrafts. ECA export finance deals are backed by government-supported loan guarantees and the high recovery rate matches expectations.

Recoveries and Losses in Crisis Times
The shipping industry is very volatile and is primarily driven by freight rates. A large majority of shipping loans that default are resolved in rescheduling deals (e.g. offering longer payback schemes or temporary suspension of interest payments) resulting in high recovery rates. The sale of collateral is rather uncommon (see next page). Therefore, fairly high recovery rates that are not necessarily aligned to normal macroeconomy or even default numbers can be expected. Higher numbers of defaults are observed during the financial crisis, starting in 2009. The impact of the current Covid-19 economic crisis is seen to affect cruise ships and ferries more than the cargo sector. The final outcome of defaults will be affected by the course of the virus and the levels of government support.They will ultimately be reported by banks over the next five years.

Note on Terms Used (see Appendix for more details)

Observed Recovery Rate refers to the historically 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	939	87%	1.2
Large Corporates	337	88%	1.0
SME	152	76%	1.3
Other	43	84%	1.2

Region

Africa & Middle East	95	93%	1.2
Asia & Oceania	108	92%	1.3
Europe	1,076	85%	1.1
Latin America	36	75%	1.0
North America	156	85%	1.2

Deal Structure

Term Loan	1,035	87%	1.2
Revolver/Overdraft	300	84%	1.1
Capital & Operating Lease	52	91%	0.8
ECA Export Finance	12	99%	2.6
Other	72	75%	1.6
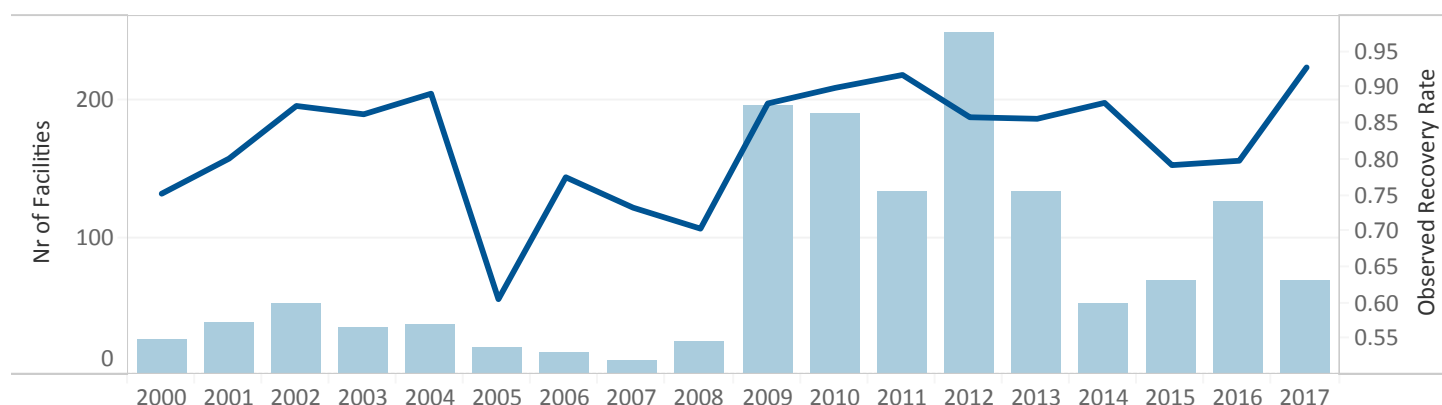
Ship

| 1,199	-23%	67%
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.
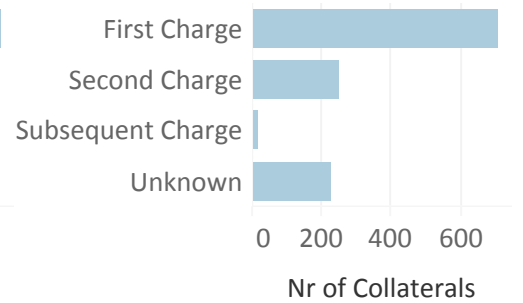
Ship Collateral Characteristics

Ship Types

Nr of Collaterals

Ship Size

Nr of Collaterals
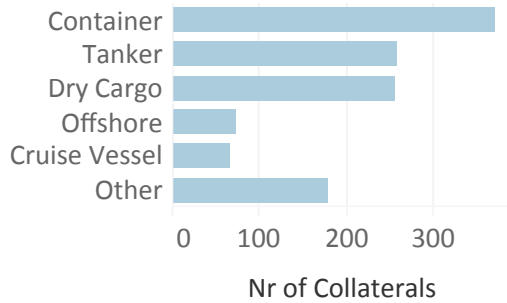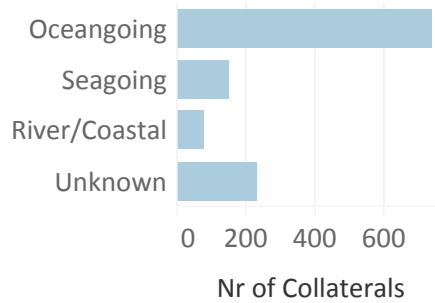
Rank of Security

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 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 70% loan-to-value.

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

Collateral Haircut
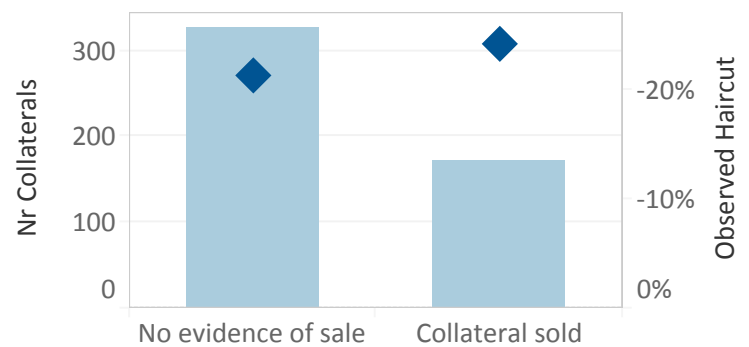
Measure Names
Nr of Collaterals   Observed Haircut

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. 2 years prior) divided by the collateral value after 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.