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FINANCING IN SHIPPING INDUSTRY IN GREECE

Bank financing is the traditional form of fund raising for shipping companies. Today, several Greek banks, such as Alpha Bank, Piraeus Bank, Marfin, Agricultural Bank, Emporiki Bank, are involved in the financing of Greek and Greek shipping. In addition to their primary role of covering the capital needs of shipping companies, commercial banks offer many other services to them. They collect fares, pay for shipping (freight, port and fuel costs, agent fees, etc.), handle foreign currency transactions and finally provide financial advice and information [3, p. 533-554].

Financing a shipping company with a loan aims to qualitatively replace existing fleets, expand the existing fleet, enter the shipping industry, retrofit a fleet, increase the offer. capacity (tonnage offered) and therefore the competitiveness of the company. In more detail, the following can be stated about the incentives for a shipping investment [6]:

Qualitative replacement of the fleet

In case the existing ships of the shipping group are old or do not comply with the global ship operating standards.

The expansion of the fleet

This case refers to the purchase of ships by a shipowner or a group in order for these ships to be properly funded or to meet long-term cargo contracts.

The entry to the shipping industry or any sector of it

Newcomers in the shipping industry place new ship orders or purchase secondhand. There are also shipowners who are already active in one of the shipping sectors and wish to invest in another.

Retrofitting existing ships

Many liner investments involve additions or remodeling of vessels owned by the company's fleet, in order for these ships to meet world standards, perform better or even be able to handle other types of cargo.

The increase in the tonnage offered

Replacing a ship, which leads to scrapping, from a newer one, does not affect the tonnage offered. Conversely, when the ship being replaced by a new construction is not dismantled but resold, the capacity offered increases in the long run. In general, bank lending is preferred by shipping companies because it combines many advantages. Bank financing is a flexible way of financing, since repayment of fixed term loans can be done in different ways depending on the needs and profile of each business.

But bank lending also has many disadvantages [1].

- The process is particularly time consuming due to the guarantees and required documents.
- The company applying for a loan must provide guarantees such as on-board mortgages, pledges of shares, personal and corporate guarantees.
- The interest rate is usually fluctuating and may therefore increase during the loan repayment.
- Bank financing does not provide shipowners with tax reliefs and exemptions, such as leasing.
- Loan financing covers 80-90% of the investment.

Another disadvantage of bank financing is the low borrowing rate. This interest rate is determined by two factors:

I. The interbank market (such as LIBOR, the London market) from which banks lend money to finance the client and the price at which they close daily.

II. This company itself (its portfolio, its size, the guarantees it provides, the type and amount of the loan it wants, its relationship with the bank, etc.). The bank determines the margin which together with the LIBOR price constitutes the borrowing rate.

In order to ensure the proper functioning of financial institutions, some general restrictions on bank financing are imposed. Central banks, therefore, set limits on the amount of loan a bank can lend to a client. They also restrict a banking institution from lending to some client or group of clients when the risk is high. Banks should be cautious when issuing maritime loans and should pay great attention to the investment strategy and economic policy of shipowners [3, p. 533-554].

A key objective of a bank when financing a ship's purchase is to increase the bank's profits by collecting high commissions and ensuring that the loan is repaid in the shortest possible time [4, p. 71-94].

The most common way to finance the purchase (or ordering) of a ship is the so-called project financing (financing an investment project). Based on this method, the bank finances a shipping company on the basis of its future annual revenue plan called cash flow.

This method of financing was mainly implemented by the new generation of Greek shipowners (the era of Laimos, Lebanon, Niarchos and Onassis) for the acquisition of affordable time-charter ships. This method was called cash flow financing. Banks have expressed interest in this type of financing because of the stability of the receipts although time chartering is not an asset that can be seized. Still, a fixed charter time charter does not have a stable net return on the shipping business because the operating costs of the ship vary during chartering due to inflation and other price trends.

Also, some other key issues related to cash flow management are the frequency of installments in one year, the existence of equal or unequal installments, the existence or non-grace period, and the duration of the loan repayment [5, p. 125-145].

Advantages of Leasing:

The benefits for the company choosing this form of financing are as follows [8, p. 7-25].

1. Exploitation of hidden surplus value

If the values of the assets listed in the company's books are far below their current market value (which is usually the case in real estate), leasing offers the company liquidity and, at the same time, allows it to display the surplus value in its books, as tax-free reserves, thus significantly improving its balance sheet image.

2. Rationalization of the balance sheet and capital structure of the company

In the event that fixed assets of the company are financed by short-term bank lending, the sale and leasing can repay the short-term bank lending, thus improving the liquidity and debt to equity ratios.

3. The lessee appears to have fewer obligations

As the lessee is not required to present the fixed assets (i.e. ships) in the accounting statements, nor in future payments of leases on the liabilities account, the company appears as not having debts and other financial liabilities.

4. Speed and Cost of Process / Flexibility of Terms

Reducing the cost and time of investment is another advantage. Financing requests are handled flexibly, without time-consuming procedures for the lessee. That is, the contract can be adapted to the specific requirements of each company.

5. Creates liquidity

The company's immediate need for capital pushes it to conclude a financing agreement. This form of financing ensures immediate liquidity to the company, while at the same time allowing it to use its available capital to cover other expenses.

6. Tax relief

Another advantage is tax savings because of the recognition of leases as operating expenses and their deduction from the taxable income of the company.

Disadvantages of leasing:

1. High Apparent Costs

The cost of selling and leasing is higher than the interest rate on bank lending and this is because the investor is taking a higher risk. But tax reliefs mitigate the initial impression, creating an advantageous situation.

2. The leased fixed asset is not a guarantee for the company to lend

Despite the positive equity relationship, there is often reluctance on the part of the bank to further finance the company, especially when the equipment is based on the leasing method. In this way, lessees face greater difficulty in obtaining a loan.

3. Predetermined leasing time

The leasing of the ships cannot expire earlier than the agreed time.

Interim financing is an interesting - if not widespread, not only in Greece but also worldwide - way of financing businesses.

This method of financing is as follows:

Independent investment companies undertake the financing of a business against the acquisition of the company's shares, that is, the acquisition of partial ownership of the borrowing company.

A major disadvantage of interim financing is that it requires the transfer of part of the existing business ownership, which explains the reluctance of businesses - and so-called 'family businesses' - to even consider using interim financing. Most interim financing is withdrawn either through the resale to the original owner of the frozen capital or through the recapitalization of the business. The usual duration of this transaction is five to eight years, with the possibility of early exit [7, p. 89-99].

Conditions for granting shipping loans

Generally, it should be noted that in order to grant loans in shipping the basic properties of the shipowner are examined and five basic requirements (also known as 5Cs) should be provided [4, p. 71-94].

- Character
- Capacity
- Capital

- Collateral
- Conditions

Of course, other factors may also be added to the above, which relate to specific characteristics of the loan applicant. After all, each bank sets its own financing criteria according to its policy.

In more detail, it is worth mentioning the following for the above conditions:

1. Character

The character and reputation of the shipowner, the so-called “name lending” plays a major role in shipping financing.

2. Capacity

The ability of the management to generate income from the financial flows of a ship that is financed is particularly important, since it naturally affects the repayment of the loan.

3. Capital

This criterion relates to the shipping company’s own participation in financing the investment and in general to its financial capabilities as determined by indicators.

4. Collateral

There are three ways for a bank to secure the shipping loan it grants:

I. Through the Funded Investment Program (of the ship)

II. Mortgage of the ship to be financed (immediate collateral)

III. From the additional (indirect) collateral received.

Collateral in shipping loans are divided into the following categories:

Maritime mortgage

After signing the loan agreement, the bank draws up the mortgage agreement of the ships that secure the loan. This is followed by the signature of this contract and its registration in the registry of the country in which the ship is registered. Maritime law stipulates that by registering a preferred maritime mortgage, the bank has the right in principle to manage and operate the ship and in addition to sell it either voluntarily or through public auction.

Apart from the first mortgage, it is possible to register a second, third, etc. mortgage on an already mortgaged ship, provided that the first mortgage lender agrees.

- *Concession of revenue*

The concession of the revenue of the mortgaged ship can be either general or specific. Upon general concession, the shipowner reserves the right to collect the ship’s revenue. However, this right expires if an event renders the loan overdue [2].

Special concession of revenue is made when there is a time charter agreement. The charterers undertake to channel the fares through a specific lender’s bank branch in order to cover the loan installments and the operating expenses of the ship.

▪ *Concession of insurance policies*

This form of insurance provides that the insurance compensation in case of damage or loss of the ship will be provided by the insurers in accordance with the instructions received from the lending bank.

The main maritime insurances are:

✓ Ship and machinery or marine hazards: This relates to providing compensation to the bank in case of damage or loss of the ship.

✓ Loss of rent or income: Insurance against the termination of the cash that covers the loan.

✓ Insurance of the interest of the mortgage lender: This kind of insurance protects the bank in case the underwriters that do not pay the required compensation in case of damage or loss of the ship.

✓ Insurance in a Protection and Indemnity Club (P&Is): Third party liability, accepted by the Bank. P&I Clubs undertake risk insurance that is not covered by insurance companies or for insurance that requires excessive premiums.

✓ War risks: This insurance covers the risk of loss and damage of the ship or its equipment or revenue that is due to various events (war, revolution, terrorist attack, etc.).

✓ Provision of personal guarantees: These guarantees are provided by the shipowner or the main shareholder of the company and undertake to cover the obligations of the lender to the bank, up to the rate or amount for which it is guaranteed, if the lender cannot meet his obligations.

✓ Provision of corporate guarantees: This kind of guarantee is provided either by the holding company of the group, or by a related one-ship company, when the lender is an offshore, or by the managing company. In this case, the bank either obliges the client to maintain a certain amount of deposits by depositing a lump sum or obliges him to make deposits to this account on a monthly basis.

✓ Securities / stock pledging: The shipowner makes the company's shares available to the bank for a specified period or until the loan expires.

- *Conditions*

The overall economic, social and political environment affects the shipping industry and freight rates, thereby creating a corresponding investment climate. The current situation in the world economy, the shipping market and the market for any commodity moving by sea should therefore be examined. The shipping company that is interested in financing should also be considered, as well as the value of the ships, and the maritime circle.

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