

Shipping loans

1. Preamble

According to the previous session attended April 2015, ECSA confirms its statement in respect to the CRM principles, therefore coherently with the outcomes pointed out through the last Consultative Document, ECSA would raise herein the following issues.

2. Basel treatment

Specialized lending Regulation **(EU) No 575/2013** applies to ship loans although these loans have specific characteristics that make these exposures sounder than those generally considered in the SL framework. Ship loans fulfil conditions set in paragraph 50 for real estate exposures. In particular:

- (i) Ship loans are guaranteed by first line shipping mortgages with an **loan-to-value Ratio** (LtV) generally well below 80%;
- (ii) Quality of the guarantees is good. The ship secondary market is sound and liquid. On average every year a percentage between 6% and 10% of the ships in terms of world tonnage is traded on the secondary market;
- (iii) Ship loans are more granular and less volatile than commercial real estate loans;
- (iv) According the Consultative Document, the approach by due diligence is viable for shipping considering this industry is usually audited by relevant specific Authorities/Regulators deputed to apply the International Maritime Organization (IMO) code.

Ship loans guaranteed by first line shipping mortgages should be weighted as Commercial Real Estate exposures (CRE) establishing risk weights according to the LtV (Loan to Value Ratio). Risk weights considered in tables 11 and 12 of the consultation document related to CRE could be applied based on whether the repayment is materially dependent on cash flows generated by property or not and the relevant operational requirements are met (See paragraph 1.5 relating to real estate exposure class).

3. Shipping mortgage

The financing for the construction or purchase of ships is usually assisted by a volunteer mortgage on the same assets.

The mortgage provides a creditor with security for the repayment of a loan by the acquisition of a property interest in the ship. The date of mortgage registration gives priority ranking with respect to other later mortgages.

The ship mortgage is signed on the overall asset; so, all its parts are included. Any rights on other parts of the ship must result from a specific documentation with earlier registration data with respect to those requested for the mortgage.

Shipping Lending is usually ruled by UK Common Law allowing quick execution of guarantees' enforcement.

4. Maritime Asset Liquidity - Size of the Market – Market values Verifiability

The best proxy to identify the wideness of these characteristics is the size of the Secondary Market related to the number and the relevance of transactions vis à vis the existing fleet. It was then proceeded to the verification of such a ratio measured in load capacity units- DWT / Teus (Container) for the three main sectors of maritime transport: Dry Bulk, Tanker, Container.

In the two main sectors (Dry Bulk and Tanker), the secondary market amounts to an average of more than 6% of the existing fleet with peaks that reach and exceed 10% and, therefore, with very high relative levels deriving also from the characteristics of "mobility "of the asset itself. The absolute size is equivalent to more than 6 bn. for each type of sector (Dry Bulk, Tanker) and about 3 bn. for the Container.

Conclusion

Standing above, ECSA reiterates that the different treatment of Shipping Lending Exposures has to be considered, whereas following issues arose through BIS Consultative Session in respect to:

- (i) ECSA asks for an equivalent treatment between the exposures guaranteed by a shipping mortgage and those guaranteed by mortgages on commercial real estate. In particular, in order to define the prudential ratios to apply to these exposures, one could apply values mentioned in tables 11 and 12 of the consultation document related to CRE.
- (ii) There is evidence that shipping and commercial real estate exposures have similar characteristics and the same level of quality. In order to confirm that, ECSA is available to cooperate to carry out – under Committee's supervision – a specific survey to assess LGD and PD values for shipping exposures to be compared with those of Commercial Real Estate exposures (CRE).

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