

Is Germany's 'bad bank' the solution to warehousing troubled debt?

A 'bad bank' set up to wind down a loan portfolio linked to more than 250 vessels is making headway

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Portfoliomanagement has slimmed down its shipping loan portfolio to around 177 vessels and is poised to record its first positive result.

So says Ulrike Helfer, managing director of the state-owned "bad bank" created to deal with non-performing loans on a fleet of 253 vessels that were financed by the former HSH Nordbank.

Portfoliomanagement, which has dropped the HSH prefix to its name, was established by the federal states of Schleswig-Holstein and Hamburg in December 2015.

That saw it acquire a €4.2bn (\$4.78bn) portfolio of non-performing loans from HSH Nordbank, which has since been renamed Hamburg Commercial Bank, that the state-owned entity purchased for €2.4bn.

Fleet rundown

Helfer's task since then has been to return as much as can be returned to the state coffers through the gradual rundown of the fleet.

"We are hoping for first time a positive operating result for 2018," says Helfer, who previously spent several years in Athens as head of DVB's Greek banking desk.



Ulrike Helfer suggests that Portfoliomanagement could do more warehousing business if it were called upon to do so Photo: Ian Lewis

A positive result would bolster the argument of those pushing for a state-backed “warehousing solution” — holding onto ships and selling them when the time is right — as the best way to deal with Germany’s bad shipping debt.

And Helfer suggests that Portfoliomanagement could do more warehousing business if it were called upon to do so.

Timing of the essence

To make a success of the scheme, timing has been of the essence, says Eik Schuppan, head of restructuring management.

“When we started 2016, most of the markets, including bulkers and containers, were in trouble”

Eik Schuppan

“We tried to get the market right,” he says. “When we started 2016, most of the markets, including bulkers and containers, were in trouble.”

“We didn’t sell too many ships at that time. We started to try to get the owners to sell ships in 2017 and 2018 when the markets were improving.”

Reducing the portfolio is done in conjunction with owners or insolvency administrators, who arrange the sale of a vessel or refinancing of loans.

Schuppan admits that having “the backing of the state to allow you to wait for two years” has been crucial to the success of the scheme.

Market slump

The task of disposing of ships has not been made easier by low shipping markets in recent months.

But Portfoliomanagement has 10 years to dispose of the vessels, so the management are prepared to wait in expectation that values will rise.

Around 70% of the non-performing loans are in the containership sector, 15% are for bulkers and tankers. The bank is understood to have taken advantage of a short upturn in the container market in the first half of 2018 to help it turn in a positive operating result.

Taking on the non-performing loans proved costly for Portfoliomanagement in its first two years, when it recorded a net loss of €44.4m in 2017 and €505.3m in 2016.

Part of that is believed to be attributed to the non-performing loans that HSH Nordbank used to finance part of the container fleet of Norddeutsche Reederei H Schuldt.

But the timely offloading of loans linked to 70 ships in the past two years has netted a return that matches the price paid for the debt, largely by using the short market upturn to cash in on higher vessel values.

Cashing in

Schuppan notes that when the bank was established in 2016, a 1,700-teu Wenchong-type containership might have been worth \$6.5m. In 2018, they were being sold for \$14m.

In the bulker segment, a capesize that was worth \$16m two years ago could be sold for \$28m last year.



Eik Schuppan, Portfoliomanagement's head of restructuring management, says timing has been of the essence in making the scheme a success Photo: Ian Lewis

“That’s the sort of wave that we should try to ride,” says Schuppan.

“The mandate is to wind down the portfolio and get as much money as we can”

Ulrike Helfer

Portfoliomanagement does not see its function as keeping ships in Germany.

“The mandate is to wind down the portfolio and get as much money as we can,” says Helfer.

She acknowledges, however, that since the portfolio is mainly German, “it comes with some expectations”.