WATSON FARLEY & WILLIAMS



Current landscape

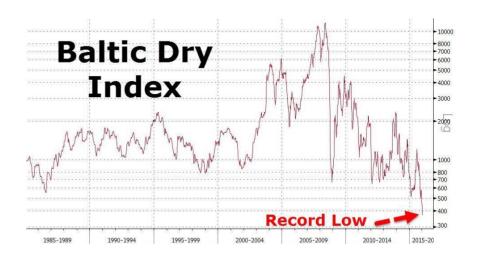
- Depressed shipping markets
- Depleting cash reserves
- Traditional ship mortgage banks exiting or deleveraging
- Lack of finance
- Funds buying distressed loans/portfolios
- Owners buying back loans
- Charterer insolvencies



Triggers for a restructuring

- Insufficient cash flow may result in creation of liens to trade creditors
- Decrease in value of mortgaged vessel(s) leading to asset cover breach
- Breach of financial or other covenants
- Weakening of overall group and need for support from performing assets
- Swaps "out of the money"





What are the dynamics in a restructuring negotiation?

- Ship finance traditionally viewed as a relationship banking business
- What are the available options/alternatives?
 - Value/location of security
 - Employment position of ship(s)
 - Cash position
- Who is your counterpart?
 - Bilateral lender or a syndicate?
 - Original lender or has debt been sold?
 - Traditional owner or joint venture with private equity (or other) fund?
 - Recourse or non-recourse?
 - Increasing use of advisers



What are the dynamics in a restructuring negotiation?

- Commonly used "sticks"
 - "Take the keys" is there a warehousing option?
 - Threat of insolvency Chapter 11; Schemes of arrangements
 - Threat to enforce mortgage and other security
 - Risk of cross-default
 - Risk to free/unencumbered cash



- Influence of other stakeholders equal treatment, "most favoured nation" provisions
- Regulatory pressure on banks
- Transparency is key
- Be proactive, not reactive
- Trust and communication important





Restructuring – typical examples

- Consensual
 - Simple covenant waivers
 - Additional security (over unencumbered fleet vessels or fleet vessels with equity)
 - Principal payment deferrals with cash sweep
 - Extension of maturities
 - Upfront prepayments or raising of fresh equity to "buy" a payment holiday of anything between (commonly) 1 and 2 years with waivers of covenant (for a longer period) being given in consideration of the prepayment/fresh equity



Restructuring – typical examples

- "Semi-consensual"
 - Transfer of mortgaged vessel(s) and loan to a stronger client or sale of mortgaged vessel(s) in exchange for a release
- Non-consensual
 - Enforcement of security option of last resort and usually costly and time-consuming
 - Insolvency filing



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