A PICTURE IS WORTH MORE THAN A 1,000 WORDS…
THE STRUCTURED FINANCE DEALS OF THE YEAR

By George Weltman

**WEST**
Transaction: MS Hella Schiffahrtsgesellschaft – $20 million Follow-on Mezzanine Bond
Winner: Deutsche Bank

**EAST**
Transaction: SK Shipping $90 million Term Loan Facility
Winner: Korea Ship Finance

Benefitting from youth, greater financial skills and an open mind, the shipping industry is on a constant quest to find new sources of capital. Capital markets have provided multiple forms of debt and equity, while leasing proved you did not need to own the asset. As you flip through these pages you will see the many roads taken by borrowers to obtain needed capital.

A structured finance transaction is not simply funding. Realizing that capital itself, and conventional financing techniques are not always the answer, it attempts to solve problems by tailoring financing techniques to the special needs or constraints of issuers or investors. These two category winning transactions raise structuring to a new level at least as far as shipping is concerned. Unfortunately, charged with explaining them, we were at a loss for words. The good news is that the supplied diagrams suit that purpose remarkably well and we will simply provide some color.

In the winning transaction from the West, Deutsche Bank re-leveraged an existing traditional loan financing structure through mezzanine notes to free up equity. In effect, this transaction involves the securitization of the existing time charter to Mitsui OSK Lines.

With the consent and support of the senior lender, MS Hella mbH & Co KG, an SPV affiliated with Peter Dohle Schiffsahrts KG, issued $20 million of seven year subordinated tradeable mezzanine notes, thereby expanding the capital structure. The notes have a weighted average life of four years and pay Mid-Swaps+550 bps. The notes benefit from structural credit enhancements including a 2nd mortgage over the ship, 2nd assignments, a cash reserve and an operator guarantee for certain cash flow risks. The inter-creditor agreement defines the relationship between the senior and junior lender, with the former’s documents establishing the covenants and undertakings for the junior loan. By adding a layer of complexity, made possible by the existing time charter, Peter Dohle was able to successfully free up equity from the original deal.

Asia’s winning transaction involved a loan funded by Korean equity investors. Employment, again was the focal point in this transaction and, in this instance, consisted of two eighteen year consecutive voyage contracts with an AAA rated Korean state-owned power generation company. With these contracts in place, SK Shipping ordered two 150,000 DWT Capesize bulk carriers from Sungdong to
perform the CVCs for $46 million each. Given the longevity of the contracts, SK Shipping was looking for a longer term financing than the seven to ten years the traditional banks could offer. With a group of long-term Korean institutional equity investors, with access to long-term U.S. dollar funding in place, Korea Ship Finance was able to arrange through the Ship Investment Company (shipping fund) scheme a $90 million (in excess of 95% of the contract price) term loan to two SPCs which would bareboat charter the vessels to SK Shipping. The 22-year loan, inclusive of the construction period, would fully amortize on an annuity basis and bear interest at less than 6% per annum. The security package includes a mortgage over the vessels, assignments of the refund guarantee, BBC, CVC and insurances along with the other customary securities under mortgage-backed ship financings. Lastly and most important was the CVC Charterer’s undertaking to continue the CVCs in case of the bareboat charterer’s default. By finding the ideal long-term investors and carefully structuring the transaction, KSF was able to tailor the ideal loan, high leverage, long tenor and low interest, for its client making full use of the long-term employment from a strong credit.