

Module Ship Financing

Ship financing ratings, worldwide



Overview

The module Ship Financing has been designed for the risk assessment of object finance transactions in the area of ship financing. It can be used worldwide. A differentiated modeling approach allows to take into account the specifics of each vessel type and funding method.

The simulation-based rating algorithm generates a multitude of scenarios projecting the potential development of cash flows from and the value of the financed ship. In

addition, qualitative factors are taken into account. The main results produced by the rating model are: one-year probability of default (PD), loss given default (LGD), and expected loss (EL).

The module Ship Financing has been included in the annual validation cycle since 2005 and has been approved for the IRB Approach in Germany since early 2007.

Scope

The scope of the module *Ship Financing* covers exposures to companies (usually SPVs) established specifically to finance, own or operate single ships or entire fleets. The value and repayment capacity of such a company depend to a great extent on the cash flows resulting from the use or operation of that ship or fleet.

Ships are classified into the main categories container, bulker, tanker and other. Possible funding methods include regular ship mortgage loans, additional construction financing, equity contributions, and equity based interim financing.

Limitations

Diversified companies must be rated using the Corporates module.

Rating Process



Macroeconomic Model, Ship Market Model and Cash Flow Model

The module uses Monte Carlo simulations to generate a multitude of scenarios showing possible developments of the economy in general. Based on these scenarios, the ship market model generates projections of market developments for each type of ship including, for example, changes in charter rates. Finally, the future cash flows and ship values are simulated for the financing in question, taking into account segment-specific factors (e.g. volatilities and correlations). For the risk assessment, the simulated cash flows and ship values are set against the debt service obligations.

Qualitative Factors

The cash flow rating is complemented by qualitative aspects. To ensure a consistent approach, the appropriate assessments must be selected from a predefined answer catalog.

Overrides and Warning Signals

If, at the previous stages, exceptional risk-relevant factors have not been sufficiently taken into account, an adjustment of the rating may be necessary. For this purpose the system provides an override option and the possibility to release warning signals.

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