INSTITUTE OF
CHARTERED
SHIPBROKERS

NOVEMBER 2022 EXAMINATION SESSION
MONDAY 14th NOVEMBER 2022 – MORNING

SHIPPING FINANCE

Time allowed – three hours
Answer any FIVE questions – all questions carry equal marks
Please read the questions carefully before answering

1. Answer **ALL** parts of the question.

A tanker-owning company, has several vessels which it trades in different geographical markets. Its main source of revenue is an oil contract with a financially strong Middle Eastern oil producer. The contract was recently entered into and has ten years to run. To service the contract the company took out a loan with a niche bank: security was provided to the lender in the form of a charge over future cashflows from the contract with the oil producer, and a mortgage over the most modern vessel in the fleet.

The company also has a five-year transportation contract with a West African state-owned oil producer. The producer exports oil to Europe, receiving payment from the European importer, from which it will make payment to under the contract. Although the oil shipment contract will be lucrative, there is a concern at board level at the Company that the West African government is politically unstable and may default on future payments.

The company also offers oil storage facilities for producers in one of its moored vessels. This has proved popular during a recent oil price downturn, but revenues are unstable, short term, and volatile.

The Chief Executive Officer (CEO) has asked you to prepare a briefing report regarding the possibility of using securitisation to raise finance for future acquisitions. Your report should discuss, but without being limited to, the following issues.

i. The qualities required of cashflows before they are suitable for securitising. You should relate this part of your report to the company's present earnings structure.
ii. The nature of the financial product which is usually issued in a typical securitisation.
iii. Possible solutions to reduce the risk of default in contractual payments by the West African oil producer.
iv. Provide a diagram of a typical securitisation

PLEASE TURN OVER

2. Answer **ALL** parts of the question.

   Discuss the type of loan or loans which may be suitable, the typical covenants, and the risks to the lender, in **ALL** the following situations.

   i. A shipowner is trading in a depressed market; asset values are low and revenues barely sufficient to meet operating expenses, but a short-term improvement is expected.

   ii. A shipowner is trading in a market which has reached its peak, but it is expected that revenues will start to decline in the short term as the market cools and moves into a recession.

   iii. A shipowner already has a high level of debt but, due to a downturn in the market, is now no longer able to meet loan repayments. Asset values on which loans have been secured have declined significantly, triggering loan to value covenants.

3. Answer **ALL** parts of the question.

   a) What are the differences between an operating lease and a finance lease?
   b) Describe the main duties of a lessee under a typical ship finance lease.
   c) Describe the main rights of a lessor under a typical ship finance lease.

4. Explain **FOUR** of the following, relating each to shipping finance.

   i. Mezzanine finance
   ii. Sinking funds
   iii. Cumulative preference shares
   iv. Residual value insurance
   v. Force majeure clause
   vi. Shipping as derived demand, and implications of this for asset values as loan security
   vii. Modigliani Miller hypothesis of capital structure (debt-equity) irrelevance.

5. Answer **ALL** parts of the questions.

   a) Describe the main considerations taken into account by a lender when deciding where to register a ship mortgage.
   b) Identify **SIX** duties of a mortgagor under a typical ship mortgage
   c) Discuss the consequences for a class of lenders to a now-insolvent shipowner of their mortgages on its vessels being ranked according to the dates on which they were created.

6. Answer **ALL** parts of the questions.

   a) Explain the factors which are considered by a shipowner borrower when deciding between competing financial institutions as to which one of them it will award a mandate to lead-manage a syndicated bond issue.
   b) What are the usual costs to a borrower when raising finance through a syndicated bond issue?
   c) What are the main reasons for raising finance through a syndication of banks rather than through one institution acting alone?
   d) Provide a diagram of a typical syndicated bond issue

7. Answer **BOTH** parts of the questions.

   a) What are the main reasons for shipowners traditionally holding assets in one-ship companies registered in different jurisdictions?
   b) If you were the Loan Evaluation Officer for a niche bank considering making a loan to the parent of a group of one ship companies, discuss the initial due diligence measures and other investigations you would conduct prior to making a decision regarding the application. What practical steps would you require the parent company to take before any loan will be granted?

8. Answer **BOTH** parts of the questions.

   a) Describe the characteristics of a corporate guarantee provided by a parent holding company in respect of a loan made to one of its subsidiaries in a group structure. In your answer you should discuss the difference between primary liability (indemnity) and secondary liability (guarantee).

   b) Identify **FIVE** terms usually included in a corporate guarantee.