



MONDAY 14TH NOVEMBER 2016 – MORNING

SHIPPING FINANCE

Time allowed – three hours

Answer any FIVE questions – all questions carry equal marks

Please read the questions carefully before answering

1. A general shipping company operating through one ship companies, registered in several different jurisdictions, owns and operates bulk cargo carriers built in the 1990s. It also owns several specialist chemical carriers built between 2012 and 2014. The Chief Executive Officer (CEO) of the company wants to raise a loan to purchase new specialist vessels, mainly gas carriers, whilst at the same time raising part of the capital through disposals of existing older vessels. He has approached a ship finance bank for a loan.

In your capacity as Chief Loans Officer at the bank, identify and describe those issues which should be taken into account when appraising the loan application by the company. You may want to discuss, but without being restricted to, the following aspects of the business:

- The age profile of the company, and the borrower's intention to raise part of the finance needed from disposals of existing vessels;
- The legal structure of the company;
- Jurisdictional issues.

2. Answer **BOTH** parts of the question.
 - a) Describe the factors which are taken into account when making a customer analysis for a loan.
 - b) Briefly identify the main elements which make up the pricing of a ship loan.

PLEASE TURN OVER

3. Discuss in detail the factors which are taken into account by a potential lender when making a vessel analysis.

4. Answer **BOTH** parts of the question.
 - a) Compare and contrast legal and equitable mortgages, and the significance of the difference for lenders in terms of security and interest rate payable on loans.
 - b) In the context of arrest following default on a loan, describe the procedural differences between an action *in rem* and an action *in personam*.

5. Identify and discuss in full, in terms of purpose, the main standard clauses and covenants in a typical ship finance loan.

6. Define and discuss **ALL** of the following.
 - a) Amortising term loans
 - b) Revolving credit facilities
 - c) Hunting licences
 - d) Bridging loans

7. Answer **BOTH** parts of the question.
 - a) If a shipping company is described as 'highly leveraged', what does this mean, and how might this be altered through adjustments to the capital structure?
 - b) In a highly volatile interest rate environment, what are the implications for both borrowers and lenders of high leverage?

8. Identify the characteristics, for example in terms of freight rates, of the main phases of the shipping cycle, describing how borrowers, lenders, and equity investors behave at each turning point. If the shipping cycle lags behind the wider economic cycle, what are the consequences of this for each of these groups?