



THURSDAY 14th APRIL 2016 – AFTERNOON

SHIPPING FINANCE

Time allowed – three hours

Answer any **FIVE** questions – all questions carry equal marks

Please read the questions carefully before answering

1. Gerda Shipping is a general shipping company which owns several bulk cargo carriers. The owner, Mr. Delius, intends expanding the business but since it is already highly indebted, wants to raise finance through equity instead. Within the next year he anticipates that he will be awarded a lucrative charter party by a commodities company in Brazil, and this will significantly increase the overall profitability of the business. The market also anticipates rising freight rates after a further period of retrenchment and market pessimism.

Mr Delius has considerable private wealth which he is willing to invest in the business to help it expand, at least in the short term following which he will want repayment. He asks you, as Chief Finance Officer, to prepare a briefing report setting out the equity financing options which may be available to him personally, and also to the company. In your report you may wish to discuss, but without being restricted to, the issues of owner equity, private equity, rules governing public equity, and the types of shares which could be issued, bearing in mind the future prospects for both the company and the wider market in which it operates.

2. Answer **BOTH** parts of the question.
 - a) Discuss the main differences between junior debt and mezzanine debt.
 - b) Explain the various types of loans available at the different phases of the shipping cycle.
3. Answer **ALL** parts of the question.
 - a) Discuss the characteristics of a legal mortgage and an equitable mortgage, and the relevance of Admiralty jurisdiction in each context;
 - b) List and describe the purposes of the main covenants in a typical ship mortgage;
 - c) Discuss the main differences between an action *in personam* and an action *in rem* in terms of right of arrest of a vessel in respect of a loan on which there has been a default.

PLEASE TURN OVER

4. Answer **BOTH** parts of the question.

You are a loan officer with a London-based bank. You have recently received a loan application from a Russia-registered company which owns several ageing oil carriers which were built in the mid 1990's. The shareholders are based in several European countries. The company has the prospect of buying further similar vessels which it hopes to trade in European Union waters. It wants to secure the loan through a series of mortgages on its existing vessels.

- a) Discuss the issues which you will consider when making a formal customer analysis.
- b) Discuss the company's intention to trade its vessels in EU waters, and the possible obstacle to this plan.

5. Describe the main forms of security, other than a mortgage, which may be taken by a bank from both a company and its owners in their personal capacities, in respect of a ship loan. In the case of each, discuss the risks to lenders, and the continuing obligations, if any, on the borrower.

6. Explain **ALL** of the following forms of leasing.

- a) Tax leasing
- b) Shipping funds/leasing companies
- c) Islamic leasing

7. Discuss the factors which you will take into account when making a loan analysis for a vessel.

8. Discuss the purpose and main provisions of **ALL** of the following clauses in a typical ship loan agreement.

- a) ship covenants
- b) events of default
- c) security cover
- d) illegality