INSTITUTE OF CHARTERED SHIPBROKERS

MONDAY 13th NOVEMBER – MORNING

SHIPPING FINANCE

Time allowed – three hours

Answer any FIVE questions – all questions carry equal marks

Please read the questions carefully before answering

1. Explain how any **FOUR** of the following affect shipping finance
   i. Shipping as derived demand
   ii. The implications of the lag between the shipping cycle and the wider economic cycle
   iii. The implications of over- leveraging for a shipping company
   iv. Residual value insurance
   v. The consequences of negative equity in asset values for lenders to shipping companies
   vi. Loan to value maintenance clauses

2. Banks should never make loans by reference only to the value of the ship purchase being financed, the personal qualities of persons behind a corporate borrower are of equal importance. Giving your reasons, discuss whether you agree or disagree with this statement.

3. Answer **BOTH** parts of the question.
   a) Discuss the reasons for using syndicated loans in shipping finance (in terms of advantages over a loan from a single financial institution).
   b) Identify the main parties to a syndicated ship finance loan, and the functions of each (Use a diagram to support your answer).

PLEASE TURN OVER

4. Answer **BOTH** parts of the question.
    a) Identify and discuss the powers of a mortgagee in a typical ship mortgage.
    b) Discuss the main issues addressed in the Applicable Law and Jurisdiction clause of a typical ship mortgage.

5. Discuss how the characteristics of a vessel, in terms of the seasonal, geographical, and commodity markets in which it trades, affects both the lender's decision as to whether or not to provide finance for its purchase, and the ability of the borrower to meet interest servicing and principal repayment obligations

6. Describe the different types of equity (shares) a shipping company may offer to investors, and the suitability of each to the different phases of the shipping cycle.

7. Answer **BOTH** parts of the question.
    a) Describe the characteristics of convertible bonds, and the most appropriate time in the shipping cycle when they should be issued.
    b) Discuss the features of a sinking fund, and how, if at all, it provides reassurance to holders of bonds issued by a shipping company.

8. Answer **BOTH** parts of the question.
    a) Discuss the main components which make up the pricing of a ship loan.
    b) Describe the main practical options which may be available to a lender in the event of loan default by a shipping company borrower. How might these options be affected by the phase of the shipping cycle in which the default occurs?