INSTITUTE OF CHARTERED SHIPBROKERS

MONDAY 13th MAY - MORNING

SHIPPING FINANCE

Time allowed – three hours

Answer any FIVE questions – all questions carry equal marks

Please read the questions carefully before answering.

1. Identify and discuss the types of loans which would be best suited for a shipowner in **ALL** of the following situations.

   In each scenario explain the risks to all parties involved and the typical covenants which would be included by a lender.

   a) An owner is trading vessels during a recession in the shipping market. Although the owner is presently trading its vessels in the spot market, an anticipated upturn in freight rates will result in charterers being willing to enter into medium term charterparties in the near future. The owner is looking to raise a loan to accommodate both its short term weak trading position, and the expected increase in earnings following availability of charterparties for its vessels in the near future.

   b) An owner is trading vessels in a booming spot market which has reached its peak. Earnings are currently high but are expected to weaken as the market cools. The company already has a significant level of fixed interest debt in its capital structure and is looking to refinance this.

   c) An owner is currently struggling to service a high level of floating rate debt in its capital structure at a time when interest rates are expected to begin rising sharply. The company is finding it difficult meeting its operational expenses (OPEX) and there is doubt as to whether it can survive in the short term. However, if the market improves as expected, asset values should begin to increase over the next two years.

PLEASE TURN OVER

2. Describe and explain the main duties of a borrower, and the powers of a lender, under the terms of a typical ship finance mortgage.

3. A general shipping company is a subsidiary of a cash-rich parent which is quoted on the New York Stock Exchange. The shipping company has a fleet of five ships, two of which are newbuilds, the other three are older vessels which have recently been breaking down, resulting in them being off-hire for extended periods of time. The older ships are free of debt, but the new ones are secured with mortgages. The company has medium-term charterparties for the newbuilds with a reliable Middle East-based state oil company. The older vessels are traded in the spot market which is presently booming but expected to enter a downturn within the year. The shipping company holds shares in the parent company.

   The Chief Executive Officer of the shipping company now wants to raise a loan for the company and asks you, as the Chief Finance Officer, to advise on the different types of security the company may be able to offer to potential lenders. Write a briefing report to the CEO.

4. You are the marketing director of a ship finance bank. You have been invited to ‘make a pitch’ to a large shipowner for the mandate to lead-manage a syndicate to raise a substantial bond issue. The Chief Executive Officer of your bank has asked you to prepare a briefing report, addressing the following issues;

   a) The factors which you will include in your pitch to win the mandate.
   b) The costs the bank will charge to the shipowner.
   c) The nature of the relationship between the bank, the management group it will put together if it wins the mandate, and the underwriters. Use a diagram to support your answer.

   In your briefing report, you should also explain the role of the trustee or fiscal agent in the syndicated loan arrangement.

5. Describe and explain any **THREE** of the following:

   a) Mezzanine finance.
   b) Sinking fund.
   c) Loan to value maintenance clauses.
   d) The Modigliani-Miller capital irrelevance theory.
   e) Kommanditgesellschaft or KG financing.
   f) Private placements of shares.

6. Answer **ALL** parts.

a) Discuss the three requirements for cashflows to be securitised. Which cashflows in a shipping company meet these criteria?
b) Using a diagram to support your answer, identify the participants in a typical securitisation, and discuss their roles.
c) If the special purpose vehicle (SPV) in a securitisation is collateralised by the cashflows assigned to it, explain how the basis point spread (the interest rate) payable on the bonds issued may be narrowed or reduced (consider the additional assets which a shipowner may pledge or assign to the SPV).

7. With reference to the shipping cycle, explain with full reasoning the suitability of each of the following types of shares for each stage of the cycle.

Discuss the characteristics of each type, and its potential appeal to investors at each stage;

a) Ordinary shares.
b) Partly paid shares.
c) Rights issues.
d) Cumulative participating preference shares.

8. You are a shipowner operating in the oil transportation business between the Middle East and Europe, and you are preparing a prospectus to have shares listed on the New York Stock Exchange.

Describe and explain the risks and opportunities which would need to be disclosed to potential investors.