



NOVEMBER 2021 EXAMINATION SESSION
THURSDAY 25th NOVEMBER 2021– AFTERNOON

SHIPPING FINANCE

Time allowed – three hours

Answer any FIVE questions – all questions carry equal marks

Please read the questions carefully before answering

1. Answer **BOTH** parts of the question.
 - a) Explain the advantages and disadvantages to a shipowner of operating a vessel under a lease with a third party such as a bank, instead of owning it outright.
 - b) Briefly comment upon **THREE** obligations imposed upon a shipowner under a typical ship leasing arrangement.

2. 'A shipping loan agreement represents a compromise between the need of the shipowner to keep capital expenses to a minimum and vessel trading freedom to a maximum, and the needs of the lender to be secure, fully informed, and with maximum rights following a default or borrower insolvency'.

With reference to specific terms and covenants in a typical ship loan, discuss the extent to which you agree or disagree with this statement.

3. Describe any **FOUR** of the following:
 - i. Mezzanine Finance
 - ii. Partly paid shares
 - iii. Cumulative preference shares
 - iv. Liability under the Sarbanes-Oxley Act of the Chief Finance Officer of a shipowning company for statements made in a initial public offering prospectus
 - v. Private placements
 - vi. Gearing ratio

PLEASE TURN OVER

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

In each of the following scenarios and with full reasoning, identify which type of loan or loans would be appropriate for a shipowner which wants to make purchases to expand its fleet. In each answer you should also identify the risks to the lender, and how, if at all, these can be reduced through appropriate loan covenants.

- i. A shipowner is trading its vessels during a recession in which revenues are insufficient to meet both capital expenses (CAPEX) and operating expenses (OPEX). The shipowner holds each of its vessels in one-ship companies registered in different jurisdictions.
- ii. A shipowner is trading its vessels during a boom in which revenues exceed OPEX by three times. It has existing high interest debt which was raised during the recovery period leading up to the present market situation. How should the shipowner make budgetary provision to meet the imminent downturn in the cycle.
- iii. During a recession a shipowner wants to make acquisitions of underpriced tonnage in the sale and purchase market.
- iv. A shipowner is trading its vessels during a period of gradual market recovery. Revenues are presently low but are expected to increase considerably during the short term as the market recovers.

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

- a) Discuss the main covenants in a typical ship mortgage.
- b) Explain the main powers of the mortgagee, and the duties of the mortgagor, in a typical ship mortgage.
- c) Why would a mortgagee be hesitant or reluctant to enforce its powers, even if the mortgagor has been in breach of the mortgage terms

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

- a) Explain the roles of the participants in a syndicated loan agreement.
- b) Briefly comment on the fees which are charged in a syndicated loan agreement.
- c) If you were a shipowner looking to appoint a financial institution to lead-manage a syndicated loan issue, which factors would you consider when deciding between banks competing for the appointment?

7. 'The amount of debt a shipowner takes on is irrelevant. Leverage is irrelevant. All that matters is the ability of the company to service its obligations'.

To what extent do you agree with this statement? In your answer you may want to refer to shipping companies which have failed because of flaws in the debt-equity strategy.

8. You are the Loan Application Officer at a niche ship finance bank. Recently you received a loan application from a Bahamas-registered privately-owned shipowner. The company has the following structure.
- i. It operates through a series of one-ship companies registered in several different jurisdictions, some of which you recognise as being efficient and effective, others being renowned for taking a lenient attitude to enforcement of international conventions regarding crew safety and environmental protection.
 - ii. It took out a loan several years ago with another bank: this contained a covenant prohibiting the future raising of debt of senior ranking, and a limitation on the value of future subordinate debt relative to the value of the fleet.
 - iii. One of the vessels is deployed in the spot market but is old, and essential repairs are now urgent.
 - iv. Several vessels are leased in on long leases from another shipowner on terms which were negotiated during a previous cyclical boom in which rates were particularly high.
 - v. The company board comprises of members of the Chief Executive's family, and no non-executive directors have been appointed.

Your Head of Department has asked you, as Loan Application Officer, to evaluate this application, focusing on the facts disclosed by the potential borrower. In your report you should also identify steps, if any, which you would require the owner to take as a prerequisite to being granted a loan.