



INSTITUTE OF
CHARTERED
SHIPBROKERS

MAY 2024 EXAMINATION SESSION
TUESDAY 21st MAY 2024 – AFTERNOON

SHIPPING FINANCE

Time allowed – three hours

Answer any FIVE questions – all questions carry equal marks

Please read the questions carefully before answering

1. With reference to the usual forms of security taken by financial institutions when making loans to shipowners, discuss how the stages of the shipping cycle affect value, risks, and covenants applicable in each context. In your answer you may discuss, but without being limited to, the following:
 - i. Increases and decreases in asset values across the cycle.
 - ii. Stability of earnings.
 - iii. Maintenance and upkeep of assets.
 - iv. Capability to manage operational expenses across the cycle.

2. Discuss any **FOUR** of the following and their relevance to shipping finance.
 - a) Mezzanine finance.
 - b) Residual value insurance.
 - c) Balloon payment on maturity of a bond issue.
 - d) Loan to value covenants and consequences of a breach.
 - e) Non-disclosure of material facts to an insurer from the perspective of a lender taking security over the asset insured.
 - f) Information covenants, and the range of information required by lenders.

3. 'Shipping finance has nothing to do with ethics, and everything to do with economics.' Discuss this from the perspectives of borrowers, lenders, and intermediaries such as brokers.

PLEASE TURN OVER

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

Discuss the types of loans which would be suitable in **ALL** of the following scenarios, and the covenants and risks which are associated with each of them.

- i. A shipowner with cash reserves is considering making vessel acquisitions soon but may need additional outside financial assistance. It does not want to take out a loan for the time being since this will incur costs for capital which may not be used. Instead, it would prefer to have access to cash, as and when needed.
- ii. A shipowner is trading in a booming market but already has a significant amount of debt raised during a previous cyclical downturn. It realises that as the market begins to decline it will become increasingly difficult to maintain payments on this prior debt.
- iii. A shipowner is struggling to meet operational expenses during a market recession. It has a high level of existing debt, but it is becoming increasingly difficult to meet interest payments.
- iv. A shipowner is looking to raise finance at an interest rate below prevailing rates, and during a cyclical downturn. It is anticipated that the market will have recovered by the time the loan matures, enabling assets to be disposed of at a high price.

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

- a) Describe the characteristics of convertible bonds which distinguish them from plain vanilla bonds, providing examples of types of convertibles. Your answer should relate these characteristics to the specific risks and opportunities (volatility) of the shipping sector.
- b) Discuss the advantages and disadvantages of convertibles from the perspectives of issuers and investors.

6. Answer **ALL** parts of the question.
- a) Identify the duties of the borrower provided in a typical ship mortgage.
 - b) Identify the powers of the lender provided in a typical ship mortgage.
 - c) Discuss the issues which should be considered by a lender before providing a loan to an international shipowner, secured by a ship mortgage.
7. Answer **ALL** parts of the question.
- a) Explain why shipowners use one ship company structures.
 - b) Discuss the risks to a lender when making a loan to a shipowning company which holds its vessels in a multi-jurisdictional corporate structure.
 - c) Identify the ways in which a corporate structure comprising one ship companies can be used to manipulate reported earnings and profits, assets acquisitions and disposals, across the group.
8. A shipowner is looking to raise capital for vessel purchases. The Chief Executive Officer has asked you to explain how a syndicated loan could meet this need. The CEO has informed you that although their stated intention will be to use finance raised for purchases, they may use part of this to pay off previously raised high interest-bearing debt. The CEO has informed you that this is not to be disclosed in the prospectus to be issued to potential investors. They also plan to make a further bond issue, with subsequent investors being given priority over investors in the present syndication. The CEO has asked you, as Chief Finance Officer, to describe the structure of a typical syndication. Use a diagram to support your answer.

You must also advise on the following to support your answer:

- i. The fees associated with a typical syndication.
- ii. Factors taken into consideration when deciding between competing financial institutions as to which should be appointed as lead manager.
- iii. The role of underwriters in the issue.

If the terms of the syndication contain a negative pledge clause, how will this affect your advice regarding the CEO's intention to raise future higher-ranking debt?

What will be the consequences of the CEO's intention to lie to investors in the prospectus regarding the use of funds to pay off prior debt, assuming the issue is to be made on the New York Stock Exchange?