NOVEMBER 2024 EXAMINATION SESSION
THURSDAY 21st NOVEMBER 2024 – MORNING

SHIPPING FINANCE

Time allowed – three hours
Answer any FIVE questions – all questions carry equal marks
Please read the questions carefully before answering

1. A UK-based oil carrier owner has several long term charterparties with Middle Eastern oil producers to transport oil to Western Europe. It also trades other vessels in the spot market: these earnings are volatile but can be considerable during boom periods. One of its vessels is used to offer storage capacity to an oil producer during times when prices are low, and the oil cannot be sold into the market. The storage contract is long term and stable.

   The company has previously taken out a bank loan which is secured against one of the charterparties. The company needs to raise a further loan for a significant expansion of the fleet, and as the Chief Finance Officer in the company, the Chief Executive Officer has asked you to prepare a report discussing the suitability of securitisation as a technique for raising the funds needed. In your report you should discuss, but without being limited to, the following issues:

   i. Requirements of cashflows before they can be securitised, and which of the company's earnings can be used for this. You should explain whether the various sources of revenue can be used together or 'repackaged' as part of a securitisation programme.
   ii. The methods by which the basis point spread on the bonds which will be issued can be reduced.
   iii. The legal status and location of the special purpose vehicle, bearing in mind that as a UK-based company, any bond payments may be subject to withholding tax.
   iv. The nature of the bonds which would be issued under the arrangement.

   You must provide a diagram to support your answer.

PLEASE TURN OVER

2. Identify and explain the ethical responsibilities and potential conflicts which may arise in **EACH** of the following relationships:

    i. Shipowner borrower and the financial institution which it approaches for finance.
    ii. Shipowner and crew.
    iii. Shipowner and insurance broker.
    iv. Broker and insurance company with which it places a contract on behalf of the shipowner for which it acts.
    v. Shipowner active in the transportation of oil, and the natural environment.

3. With regard to **EACH** of the following forms of security for a ship loan, discuss the procedures and potential risks to lenders in taking them, and the extent to which the relevance of each is affected by the phases of the shipping cycle.
    a) Ship mortgages
    b) Guarantees given by a parent company in respect of a loan made to its subsidiary
    c) Assignment of earnings
    d) Assignment of insurances

4. Discuss the type of loan or loans which may be suitable, the typical covenants, and the risks to the lender, in **ALL** the following situations.

    i. A shipowner is trading in a market in recession; asset values are low and revenues barely sufficient to meet operating expenses, but a short-term improvement is expected.

    ii. A shipowner is trading in a market which has reached its peak (zenith), but it is expected that revenues will start to decline in the short term as the market cools and moves into a recession.

    iii. A shipowner with a high level of debt is unable to meet loan repayments due to a downturn in the market. Asset values on which loans have been secured have declined significantly, triggering loan to value covenants.

    iv. A shipowner is trading in an uncertain market: it may continue to improve or may fall back into recession. The shipowner does not want to take on additional debt because interest rates are high but would like access to loan capital should bargain purchases become available in the near future, but also to meet operating expenses should these become difficult pending an expected upturn.

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

    a) Outline the reasons why shipowners use one-ship corporate structures.
    b) Discuss in detail the methods which may be used by shipowners to legally manipulate group accounts produced for a one-ship corporate structure.
    c) Discuss the loan covenants which would be included by a financial institution in a loan to the parent of a series of one-ship subsidiaries to prevent accounting manipulation.

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

    a) Explain the differences between an operating lease and a finance lease.
    b) Describe the main duties of a lessee under a typical ship finance lease.
    c) Describe the main powers of a lessor under a typical ship finance lease.

7. Discuss the main components in a shipping company's balance sheet to which a lender should pay attention when deciding whether or not to make a loan, identifying weak points and, where possible, how these may be reduced or managed.

8. You are the Marketing Director for an Islamic bank looking to develop its client base in the shipping sector. Prepare a 'marketing pitch' to a Middle East-based oil tanker owner, explaining the principles underpinning your business model, and the specific methods of financing which may be appropriate. Identify the types of investors which may be interested in participating in products issued under such arrangements. Explain the advantages and disadvantages the tanker owner may achieve from doing business with you compared with a non-Islamic bank.