BLOG

U.S. Maritime Administration Makes Government Vessel Financing More Flexible

DECEMBER 14, 2023

On December 14, 2023, the U.S. Maritime Administration issued a Final Rule which makes its “Federal Ship Financing Program,” widely known as “Title XI,” more flexible.

Title XI refers to the title with number in the Merchant Marine Act, 1936 whereby the U.S. Government, as amended in 1972, offered to guarantee the private financing of vessels built in the United States meeting certain conditions. In 2019, MARAD converted the program to a government loan program with the Federal Financing Bank as the lender.

The main advantages of government financing are a favorable interest rate, the potential to cover up to 87.5 percent of the vessel costs, and a potentially long period of loan amortization extending to the life of the vessel. The main disadvantage of the program is the substantial application processing time. MARAD’s website indicates, for example, that ECO Edison, LLC submitted an application that was accepted by MARAD in September 2022 for a Service Operation Vessel that has been approved but has not yet closed.

Title XI acquired particular relevance to the offshore renewable energy industry when MARAD announced as of June 2022 that vessels engaged in the construction, service of, or maintenance of offshore wind facilities would be designated vessels of “national interest.” Such designated vessels are supposed to receive loan processing priority. Since Title XI depends on appropriations to fund MARAD’s loan reserves and those appropriations are limited, such priority can be meaningful.

The recent Final Rule addresses one of the other disadvantages of Title XI, which has been rigid financial qualification criteria. In particular, pre-existing MARAD regulations require borrowers to have no more than a two to one long term debt to equity ratio. MARAD determined that these criteria were not in line with criteria utilized in other federal financing programs and has replaced them with the requirement that a borrower “must demonstrate financial performance that supports a reasonable prospect of repayment taking into account foreseeable negative economic conditions.” Moreover, MARAD would not have had discretion to consider certain subordinated debt as equity whereas now it will have that ability. MARAD believes that this, and other changes, will help “attract a higher volume of high-quality applicants and mitigate risk to the U.S. Government.”

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