

MARAD Updates Title XI Program with Streamlined Process

The U.S. Maritime Administration (MARAD) recently released guidance on its streamlined procedures for securing government-guaranteed ship financing under the Title XI program, now reliant on the Federal Financing Bank (FFB) as the preferred eligible lender. In what should be welcome news to those familiar with the delays generally associated with the Title XI application process, MARAD has established a simplified and streamlined loan process available to certain borrowers with strong financial track records. Consistent with general Title XI requirements, under this new streamlined program, eligible borrowers must be U.S. citizens or business entities, and eligible projects include the construction, reconstruction, or reconditioning of vessels in U.S. shipyards, with the focus on new construction. In effect, MARAD is making financing more accessible for borrowers with strong financial performance and willingness to agree to MARAD's preferred lending terms.

The purpose of the new, streamlined application process is to improve efficiency and respond to findings from federal credit and maritime lending best practices. Under the new fast track process, borrowers will be evaluated on several factors, including strong financials, contribution of at least 20 percent equity in the project (under the Title XI statute borrowers are required to provide a minimum of 12.5 percent equity), a willingness to accept Title XI documents with minimal modifications, and other special circumstances. Strong financials broadly include a debt equity ratio of not more than 2:1, positive working capital, and a minimum net worth. In effect, a strong financial position and a willingness to conform to MARAD's term preferences may provide borrowers with a faster and less onerous borrowing process. In addition, applicants declined under the streamlined application review process may still have access to the standard Title XI borrowing process.

MARAD's guidance describes the streamlined process as occurring in four phases that would take approximately five to nine months to complete from application intake to loan closing, which would reduce the current Title XI application process by more than a year. The new Phase One includes a partial application submission and a preliminary review of credit quality, while Phase Two includes full application submission, a check for completeness, underwriting, and term negotiation. Phase Three includes project approval and guarantee fee calculation, and Phase Four consists of document production and execution. Fees associated with the streamlined process include the application fee, the cost of third-party expert analysis, and investigation and guarantee fees.

The streamlined application process places emphasis on certain portions of the broader application, including the scope of the project, its economic soundness and anticipated revenue, and the costs of construction. Applications must also include financial summaries of when funds will be needed and expended and what types of guarantees will be provided by the applicant, in addition to providing MARAD with security in the vessel or project itself. While the streamlined process is likely to improve the speed of financing for certain prospective borrowers or projects, borrowers must still meet MARAD's standards in terms of financial position and flexibility with loan terms.

To participate in the streamlined process, the initial steps include requesting a pre-application meeting from the director of the Office of Marine Financing and completing the application. Given the historically low rates that Title XI has been offering recently with FFB backing (as low as 1.225 percent) and the ability to finance projects for up to 25 years, this streamlined program should be extremely attractive for well-qualified applicants looking to construct, reconstruct, or recondition vessels in U.S. shipyards.



Jeff R. Vogel

**Co-Chair,
Government
Contracts**

jvogel@cozen.com
Phone: (202) 304-1453
Fax: (202) 861-1905



Kathryn Sobotta

Associate

ksobotta@cozen.com
Phone: (202) 463-2528
Fax: (202) 861-1905

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