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Title XI Loan Guarantee Program

Statement of

The Honorable Kenneth M. Mead

Inspector General

U.S. Department of Transportation

Mr. Chairman, Senator Hollings, and Members of the Committee:

Thank you for the opportunity to share our views with you today on the Maritime Administration's Title XI Loan Guarantee Program (Program). Our comments reflect the findings and recommendations of the audit report we issued this past March. We undertook the audit as a result of the Chairman's request to perform a comprehensive review of the Title XI Program and to assess the impact of the American Classic Voyages Co. (AMCV) bankruptcy filing on it.

Title XI of the Merchant Marine Act of 1936, as amended, established the Federal Ship Financing Guarantee Program to assist private companies in obtaining financing for the construction of ships or the modernization of U.S. shipyards. This Program authorizes the Federal Government to guarantee full payment to the lender of the unpaid principal and interest of a commercial debt obligation, with the Government holding a mortgage on the equipment or facilities financed.

As you are aware, the demand for this audit was driven, in part, by the recent, unsettling increase in defaulted loans in the Program that, while not as severe, seemed to echo the problems of the late 1980s. Between 1985 and 1987, 129 defaults occurred in the Program, and the Maritime Administration (MARAD) paid out approximately $2 billion in guarantees.[1] The Federal Credit Reform Act was enacted in 1990 to improve the performance of Federal credit programs. The Act required more accurate measurements of the costs of credit programs and established budgetary controls on loan programs, including requiring appropriations to cover the estimated credit costs of a project prior to the issuance of any approvals for financing. In the 5 years following implementation of this Act (1993 through 1997), only three MARAD loans defaulted, totaling approximately $12 million.

In the last 5 years (1998 to 2002), however, this improved performance has faltered. Nine MARAD loans have defaulted, six of which have occurred since December 2001, totaling approximately $490 million in payouts and $402 million in net payouts after recoveries. The biggest impact came from the bankruptcy of AMCV. Defaulted loans to AMCV represent 67 percent ($330 million) of the payouts and 78 percent ($313 million) of the net payouts after recoveries. (See Table 1.)

[1] Unless otherwise indicated, all years are Federal fiscal years.

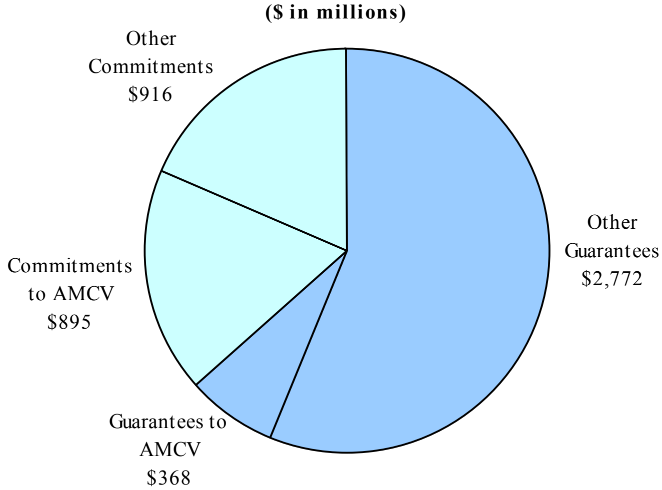
Table 1 – Recent Payouts and Recoveries on Defaulted Loans

Date of Default	Year of Origin	Company	Project/Vessel Name	Guaranteed Amount	Paid-Out Amount[2]	Recovered Amount[3]
2/1998	1996	Surf Express, Inc.	*FastCat* Catamaran	$1,701,000	$1,788,854	$100,000
2/2000	1997	MHI, Inc.	Shipyard Modernization	55,000,000	59,071,658	24,108,619
3/2001	1995	SEAREX, Inc.	4 *Moses*-Class Vessels	77,269,000	78,099,782	25,405,708
12/2001	1999	AMCV	Project America 1 Cruise Ship	185,000,000	187,317,445	7,425,416
12/2001	2000	AMCV	*Cape Cod Light*	38,500,000	40,376,340	8,264,783
12/2001	2000	AMCV	*Cape May Light*	37,900,000	39,769,997	703,947
1/2002	1995	AMCV	*SS Independence*	33,334,000	25,185,531	0
1/2002	2001	AMCV	*Columbia Queen*	35,471,000	37,007,570	0
3/2002	1997	Friede Goldman Offshore	Shipyard Modernization	24,817,000	20,884,647	21,300,000
Source: MARAD			***Totals through January 2003:***	$488,992,000	$489,501,824	$87,308,473

At the time of its bankruptcy, AMCV accounted for $1.3 billion (over one-quarter) of MARAD's total $4.9 billion Title XI loan guarantee portfolio. This $4.9 billion consisted of $3.1 billion in executed loan guarantees and $1.8 billion of loan guarantee commitments.[4] Of the $1.3 billion in loan guarantees and commitments to AMCV, $368 million (original amount) was for guarantees, which have since defaulted, and $895 million was for commitments.

Figure 1 - MARAD's Title XI Portfolio

($ in millions)



[2] These amounts include accrued, unpaid interest as well as the outstanding principal.

[3] These amounts include recoveries from escrowed funds (as of January 2003).

[4] Executed loan guarantees are legal obligations (by MARAD) to pay off the debt if an applicant defaults on a loan. Loan guarantee commitments are legal agreements, stated in a commitment letter, stipulating that MARAD will issue a loan guarantee for the project *if the applicant fulfills agreed-upon terms and there are no material changes in circumstances.*

These losses have generated both public and congressional concerns regarding whether the Program is adequately protecting the Government's financial interests. Concerns also exist regarding the potential for additional defaults and losses to the Government, given the uncertain financial status of some of the companies with guaranteed loans. Our audit identified a number of areas where MARAD could improve its Program practices, limit the risk of default, and reduce losses to the Government. We also identified steps that MARAD can take to significantly improve the Program, including the use of compensatory loan provisions to reduce risk, improved loan application review procedures, more rigorous financial oversight of borrowers during the term of loan guarantees, better monitoring and protection of vessels and shipyards while under a guarantee, and more effective stewardship of assets acquired through foreclosures.

MARAD should require a rigorous analysis of the risks that arise from modifying loan approval criteria and, to mitigate those risks, should impose compensating provisions on the loan guarantee such as more collateral or higher equity contributions from the borrower. MARAD routinely modifies financial requirements in order to qualify applicants for loan guarantees. Such modifications increase the risk of the loan guarantee to the Government, and MARAD should impose stricter compensating loan provisions and covenants on borrowers to mitigate those risks. All nine of the loans that have gone into default since 1998 were approved with modifications to some of the financial criteria. For example, the Project America loan guarantee included a waiver of the working capital requirement. MARAD secured a parent company guarantee from AMCV, but it was not backed by any unencumbered assets.

MARAD should establish an external review process as a check on its internal loan application review and as assistance in crafting prudent loan conditions and covenants. MARAD currently assesses loan guarantee applications primarily with its own staff, but it would benefit from the use of an additional external review using contract resources that are fully reimbursed by the borrower. Such reviews would provide additional, credible information for loan guarantee approval or denial and would assist in devising loan packages that reduce the risks to the Government. These external reviews should include at least four elements: an assessment of the borrower's business plan, an evaluation of the borrower's credit risk, an assessment of the value of collateral, and a summary analysis that includes a recommendation on whether to approve the loan guarantee and on what terms. The Export-Import Bank of the United States uses a similar approach in its loan guarantee program.

MARAD should establish a formal process for continuously monitoring the financial condition of borrowers, including requirements for financial reporting over the term of the guarantee as a condition of loan approval. MARAD does not closely monitor the financial health of its borrowers; rather, it tends to be reactive to loan problems after they occur. Yet, firms rarely find themselves forced to default on loans without many preceding quarters of financial results that indicate developing financial distress. For example, AMCV's stock price was on a downward trend for nearly 2 years before its bankruptcy, and its net income declined continuously over 4 years from 1997 to 2000, from a positive $2.4 million to a negative $10.1 million. To become more proactive, MARAD loan guarantees should include stronger financial covenants on its borrowers' required financial performance and condition, and enhanced self-help measures should those covenants be violated. Most importantly, MARAD needs to maintain rigorous financial scrutiny of its borrowers to ensure these covenants are met and vigorous enforcement of its self-help prerogatives if they are not.

MARAD should establish a formal process for continuously monitoring the physical condition of guaranteed assets over the terms of loan guarantees, and institute an improved process for monitoring the physical condition of foreclosed assets to ensure the Government recovers the maximum amount of funds from their disposal. MARAD does not closely monitor the physical condition of the vessels and property financed with guaranteed loans either during the loan period or after foreclosures. If borrowers experience financial difficulties, they may be inclined to under-maintain assets constructed with loan guarantees. MARAD staff conduct site visits on guaranteed vessels or property only on an episodic basis, usually in response to problems identified by borrowers or third parties. For example, at the time of AMCV's impending bankruptcy, MARAD officials we spoke with were not fully aware of the current condition and status of four of the five vessels whose loans ultimately defaulted. Regular, periodic inspections, particularly of those assets operated by firms in financial difficulty as identified by financial monitoring, would better ensure the value of assets to the Government.

MARAD has acknowledged that it needs to improve administration and oversight in all phases of the Title XI loan process. MARAD agreed with our five recommendations for improving oversight and is working to put these recommendations into practice. Specifically, MARAD has committed to tightening the controls over the approval and monitoring of loan guarantees and to taking more timely action to recover the maximum amount possible from foreclosed assets in the event of loan defaults.

MARAD's response to our audit report indicates that, in a number of instances where defaults have occurred, it has been due to political pressures to approve loan guarantees by overlooking underwriting requirements. Nevertheless, implementation of our recommendations regarding application review, both internal and external, should improve the credibility of MARAD's denial decisions when underwriting requirements are not met. In cases where the application is approved, our recommendations regarding protective covenants, financial monitoring, and asset monitoring should reduce the risk and size of losses to the Government.

The Office of Inspector General must certify that our recommendations have been implemented. Public Law 108-11, *Making Emergency Wartime Supplemental Appropriations for the Fiscal Year Ending September 30, 2003*, appropriated $25 million to MARAD for new loan guarantees. According to MARAD, based on average risk premiums, these funds would likely guarantee loans with a face value of about $400 million and are available for obligation until September 30, 2005. Before these funds can be obligated, the law mandates that MARAD implement the recommendations in our report and that we certify to the Congress that our recommendations have been met.

We are working with MARAD to analyze the new processes that it has proposed putting in place to meet the intent of our recommendations, and we will audit MARAD's compliance with the new processes once they are in use. We think it is important that these processes are not merely plans, but that they are in place, are being observed, and are working before we certify compliance. In this regard, some recommendations, such as those relating to compensating covenants in new guarantees, can only be verified after new loan guarantees are executed. Therefore, we may need to "certify in principle" that these recommendations have been implemented and then follow up with additional verification once the $25 million has been released.

Background

Title XI of the Merchant Marine Act of 1936, as amended, established the Federal Ship Financing Guarantee Program to assist private companies in obtaining financing for the construction of ships or the modernization of U.S. shipyards. This Program authorizes the Federal Government to guarantee full payment to the lender of the unpaid principal and interest of a mortgage in the event of default by a vessel or shipyard owner. Title XI was amended in 1972 to provide Government guarantees to commercial debt obligations, with the Government holding a mortgage on the equipment or facilities financed.

Regulations implementing the Merchant Marine Act of 1936 [Title 46 Code of Federal Regulations (CFR) Section 298] outline the application process for Title XI loan guarantees and require MARAD to assess the economic feasibility and the financial viability of an applicant's project. Upon approval of an application, MARAD agrees to guarantee these obligations with the full faith and credit of the U.S. Government through a commitment letter to the applicant. The applicant must provide at least 12.5 percent to 25 percent (depending on project use) of the project's estimated cost as equity, and a commercial financial institution issues obligations for the remainder.[5]

Applicants generally receive more favorable loan terms than are available in the commercial market without a guarantee. The Program has contributed to preserving a U.S. commercial fleet and modernizing U.S. shipyards. Vessels financed using loan guarantees include double-hull oil tankers, passenger ferries, cruise ships, and offshore drilling rigs. Shipyard modernizations have included capital improvement projects at shipyards located on the east, gulf, and west coasts.

As of December 31, 2002, MARAD's Title XI portfolio totaled approximately $4.3 billion, consisting of $3.4 billion in executed loan guarantees (formal agreements to issue obligations) and $849 million of loan guarantee commitments (formal offers for guarantees). The $3.4 billion in executed loan guarantees represents 103 projects for 818 vessels and 4 shipyard modernizations. Included in the Title XI portfolio are eight projects totaling about $226 million in commitments that MARAD approved in

[5] These are bonds, notes, debentures or other evidence of indebtedness.

2002. As of December 31, 2002, MARAD had 26 pending applications that requested about $5.7 billion of Title XI financing.

MARAD Could Reduce the Risk of Losses Through Compensatory Loan Provisions Such as More Collateral and Higher Equity Contributions

MARAD currently assesses loan guarantee applications primarily with its own staff using financial criteria in regulations adopted from the Merchant Marine Act of 1936, as amended.[6] Routinely, however, MARAD modifies these financial requirements to allow applicants to qualify for loan guarantees, and these modifications lead to increased risk of loss. All nine of the loans that have gone into default since 1998 were approved with modifications to some of the financial criteria. For example, the Project America loan guarantee included a waiver of the working capital requirement.[7] Other applicants had long-term debt-to-equity ratios of more than the 2 to 1 permitted in the regulations. In fact, one active project, approved for a loan guarantee of over $15 million, had a debt-to-equity ratio of more than 4 to 1.

Although MARAD's regulations permit modifications and they may be appropriate in some cases, MARAD should impose compensating conditions on the borrower to offset

[6] 46 CFR 298.13

[7] Working capital is the difference between a company's short-term assets (such as cash, marketable securities, accounts receivable, and inventories of raw materials and finished goods) and liabilities (accounts payable, short-term loans, and the current portion of long-term debt). Working capital roughly measures a company's potential reservoir of cash to maintain its solvency if unforeseen circumstances arise.

the increased risk to the Government. This is particularly true because vessels under construction may have little or no value if the vessel is incomplete at the time of default. For example, the hull and materials for a vessel being built for Project America, Inc., a subsidiary of AMCV, and guaranteed by MARAD for $185 million, were recently sold by the shipyard, with MARAD recovering only $2 million. This subsidiary had no assets beyond the guaranteed vessel, as in all six of the loans to AMCV subsidiaries.

MARAD often accepts parent company guarantees of loan repayment for a subsidiary that either cannot qualify for a loan guarantee on its own or cannot qualify without modifications to the loan criteria. In 50 percent of the projects we examined (21 of 42), the applicants could not independently qualify for a loan guarantee, had few or no assets to offer as collateral, and provided a parent company guarantee as the sole form of security. When these parent company guarantees are general pledges by the company to honor the loan commitment and do not specifically pledge unencumbered assets as collateral, these guarantees provide no real security if the parent company itself is not creditworthy or has few unencumbered assets, as was the case in six of nine recent defaults.

MARAD can prevent this problem by requiring parent company pledges to be backed by liens on other unencumbered assets, requiring greater amounts of project equity from the applicants, or having a greater portion of the risk assumed by the applicant's lender. This approach should be feasible because many Title XI applicants are subsidiaries of parent companies that have other assets and financial resources. For example, MARAD approved a loan guarantee for over $150 million to a company for an oil-drilling unit without requiring a lien on other assets, yet the company had a number of other unencumbered assets it could have used to secure the guarantee.

MARAD Would Benefit From External Review of Applications

MARAD primarily conducts in-house reviews of applications and does not routinely obtain independent assessments of proposed projects to determine if they are economically and financially sound. MARAD officials have acknowledged a lack of in-house expertise to review projects that employ new technologies, are financially complex, or are high-cost. Independent assessments of such projects would assist MARAD in its internal analysis and reduce the risk of default and loss to the Government. MARAD officials noted that a current application for about $750 million in loan guarantees for two high-speed container vessels is being reviewed by an outside firm due to the ships' cost, the use of new technology, and the start-up nature of the company.

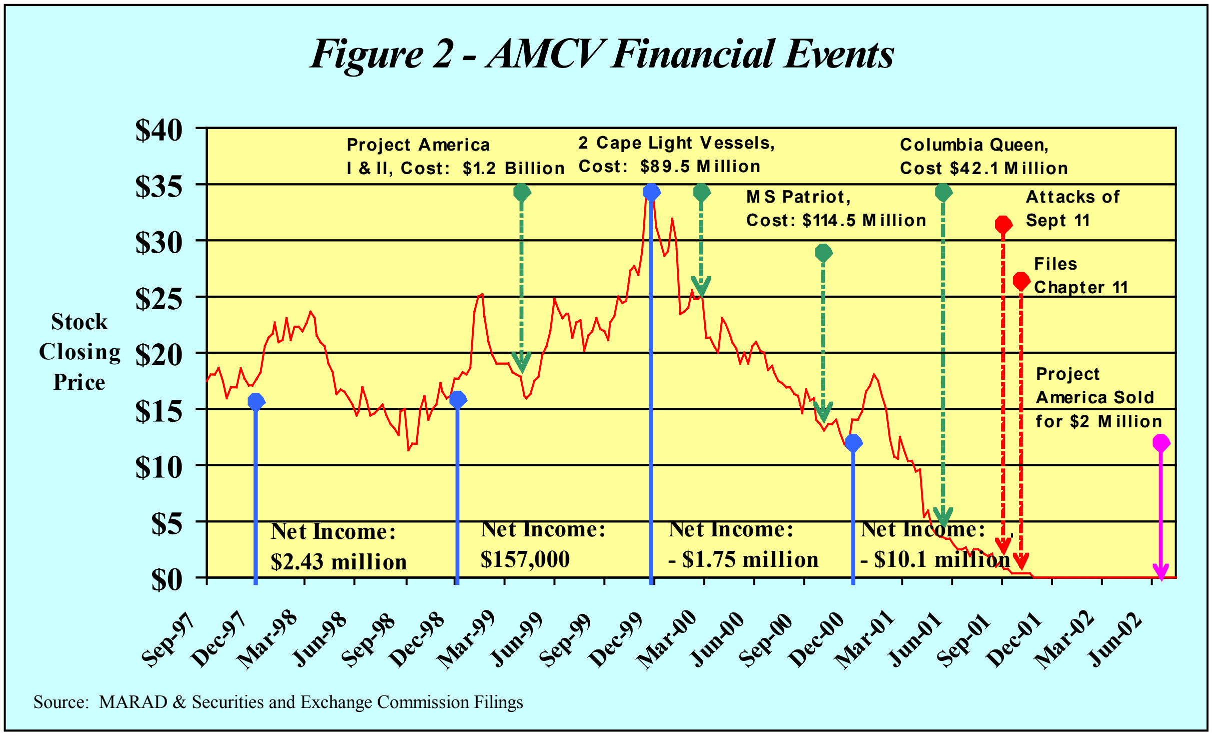
Independent external reviews should be paid for by borrowers and should encompass four elements: an assessment of the borrower's business plan; an evaluation of its credit risk; an independent assessor's analysis of the current market value of collateral and any encumbrances; and an independent summary analysis of the loan guarantee application that includes a recommendation on whether to approve the loan and on what terms.

The Export-Import Bank of the United States (Bank), which operates a loan guarantee program, uses such external review. For projects with financial transactions that exceed $30 million, the Bank hires outside independent financial, legal, and technical advisors. After the Bank selects the advisor, the applicant is required to pay an evaluation fee and execute a contract with the advisor. The Bank uses the advisor's report as part of the evaluation package to determine if a loan guarantee will be made.

MARAD Could Better Protect Its Interests Through Improved Oversight of Borrowers Over the Duration of Their Loans

MARAD does not closely monitor the financial health of its borrowers over the term of its loan guarantees. Currently, borrowers submit annual audited financial statements to MARAD as well as selected financial information on a semi-annual basis. Although MARAD has the authority to require additional financial information, examine and audit the books and records pertaining to a project, and assess vessels, MARAD typically does not take these additional steps. MARAD does record loan payments, obtain documentation of insurance coverage, and monitor the portfolio for delinquent accounts. Although MARAD maintains communications with lenders, insurance companies, and loan guarantee recipients, MARAD has no established procedures or policies to perform periodic reviews of a company's financial well-being once a loan guarantee is approved.

Firms rarely enter into bankruptcy or default on guaranteed loans without many preceding quarters or years of financial results that indicate developing financial distress. For example, AMCV's stock price fell from $35.00 a share in December 1999 to less than $0.50 before its bankruptcy filing in October 2001, as shown in Figure 2.



Furthermore, AMCV's filings with the Securities and Exchange Commission show a marked decrease in net income from December 1997 to December 2000. In spite of AMCV's declining net income and stock valuation, MARAD continued to approve loan guarantees to AMCV for $76 million for the two Cape Light ships, and over $35 million for the *Columbia Queen*. Just prior to AMCV's bankruptcy filing, MARAD was considering a disbursement from AMCV's Project America I escrow account to fund further construction of this vessel.

Increased financial monitoring is only useful if MARAD also includes stronger financial covenants in its loan guarantee commitments. These covenants should prescribe the required financial performance and condition of its borrowers as well as enhanced self-help measures to which MARAD is entitled should those provisions be violated. Performance targets could include higher minimum working capital levels, cash flow requirements, minimum financial ratios, future capital spending constraints, and timely financial reporting. Self-help measures might include the ability to require additional reserves or collateral, declare defaults, take possession of existing collateral, and repossess the guaranteed asset. By having the right to invoke these measures earlier, when firms begin to experience financial distress, MARAD may be able to limit its losses by avoiding additional commitments and acquiring existing assets before they are dissipated by a failing firm.

MARAD Could Improve Its Return on Foreclosed Assets Through Better Tracking of the Vessels and Property Constructed With Loan Guarantees

MARAD does not closely monitor the physical condition of the assets produced with the guaranteed loans over the term of its loan guarantees. MARAD relies on annual Coast Guard inspections and third-party notices such as those from insurance underwriters. MARAD's field offices conducted site visits on guaranteed vessels or property only in response to problems or notices of potential problems from third parties or from borrowers. Third-party notices do not necessarily ensure that the value of the asset is maintained at a level commensurate with the remaining loan balance.

MARAD also does not adequately monitor and protect assets after loan defaults occur. At the time of AMCV's impending bankruptcy, MARAD officials we spoke with were not fully aware of the current condition and status of several vessels whose loans ultimately defaulted (totaling about $330 million). Furthermore, MARAD does not adequately manage assets acquired from foreclosure. There are no set timeframes or procedures to maximize recovery of funds from defaulted loans. Thus, vessels and equipment may deteriorate due to exposure, vandalism, and neglect, diminishing their value and potential return.

For example, in 1998, MARAD paid out approximately $1.8 million for a default on a vessel owned by Surf Express. The initial appraisal valued the 3-year-old vessel at only $793,000, and MARAD advertised it for sale several times, but rejected the bids in an attempt to recover more money. Meanwhile, MARAD stored the vessel in a wet-berth where it was exposed to the elements, including Hurricane Georges. When MARAD finally found a prospective buyer, the bidder rejected the vessel because of seized up engines and general deterioration due to exposure to tropical weather and the hurricane. As a result, MARAD recovered only $100,000 from the sale.

To better protect the Government's interest in the assets that are collateral for its loan guarantees, MARAD needs to periodically inspect such assets, particularly those operated by firms that MARAD's financial monitoring identifies as experiencing financial difficulties. Likewise, when MARAD forecloses on assets after loan default, it could increase the return to the Government on them by better managing these assets to ensure they are maintained in good condition.

AMCV's Bankruptcy Significantly Affected the Title XI Program but Does Not Threaten Its Solvency

AMCV's bankruptcy affected over one-quarter of the value of MARAD's Title XI portfolio. With MARAD's approval of the last (sixth) guarantee application in May 2001, for the vessel *Columbia Queen*, AMCV had received loan commitments of about \$1.3 billion covering seven vessels—potentially the largest amount of loan guarantees issued to an affiliated group of entities in the history of the Program. However, only \$391 million in guarantees had actually been signed when AMCV filed for bankruptcy protection and ceased operations on October 19, 2001. AMCV defaulted on five loans and cost the Government almost \$330 million in guaranteed payouts. See Table 2 for a description of the AMCV loan guarantees.

Table 2 – MARAD's Liability for AMCV Vessels as of December 2002

Date of Origin	Date of Default	Applicant	Parent Company[8]	Project or Vessel Name	Cost of Vessel to Owner	Guaranteed Amount	Paid-Out Amount	Disposition/ Recovery[9]
May 2001	January 2002	Great Pacific NW Cruise Line, L.L.C.	Delta Queen Steamboat Co.	*Columbia Queen*	$42,140,568	$35,471,000	$37,007,570	Maintained by MARAD
March 2000	December 2001	Coastal Queen West, L.L.C.	Delta Queen Coastal Voyages, L.L.C.	*Cape May Light*	44,950,728	37,900,000	39,769,997	Maintained by MARAD
March 2000	December 2001	Coastal Queen East, L.L.C.	Delta Queen Coastal Voyages, L.L.C.	*Cape Cod Light*	44,582,720	38,500,000	40,376,340	Maintained by MARAD
April 1999	December 2001	Project America Ship I, Inc.	Project America, Inc.	Project America Vessel I	610,797,578	185,000,000	187,317,445	Recovered $2 million
April 1999	n/a	Project America Ship II, Inc.	Project America, Inc.	Project America Vessel II	622,946,837	0	0	Part of the $2 million recovery above
November 1995	January 2002	Great Independence Ship Co.	Great Hawaiian Cruise Lines, Inc.	*S.S. Independence*	44,774,271	33,334,000	25,185,531	Maintained by MARAD
July 1995	n/a	Great American Queen Steamboat, L.L.C.	Delta Queen Steamboat Co.	*American Queen*	69,424,647	60,746,000	0	Full recovery-refinanced to new owner
					Totals:	**$390,951,000**	**$329,656,883**	

Source: MARAD

The circumstances surrounding AMCV's loan approvals and defaults illustrate the problems identified above. Specifically, modifications to loan approval criteria were made without compensating collateral, and parent company guarantees were accepted without liens on specific assets of the parent companies. Close financial monitoring of AMCV did not occur over the terms of the loans before default, and neither did close monitoring of the foreclosed assets. Had our recommended Program revisions and

[8] AMCV is the parent company to Delta Queen Steamboat Co. and AMCV Holdings, Inc. Delta Queen Steamboat Co., in turn, is the parent company of Delta Queen Coastal Voyages, L.L.C. AMCV Holdings, Inc., is the parent company of Project America, Inc., and Great Hawaiian Cruise Lines, Inc. Applicants are subsidiaries of Delta Queen Steamboat Co.; Delta Queen Coastal Voyages, L.L.C.; Project America, Inc.; and Great Hawaiian Cruise Lines, Inc.

[9] These amounts do not include recoveries from escrowed funds.

protections been in place at the time of AMCV's loan application, the losses to the Government would likely have been much less.

For each of the six loan approvals, MARAD cited the Secretary of Transportation's authority to waive or modify the financial terms or requirements otherwise applicable, upon determining that there was adequate security for the Title XI guarantees. However, prudent financial analysis of AMCV as a whole would have highlighted the great risk of default and should have prompted MARAD to require more collateral or stricter covenants to protect the Government's interest. Of the 10 vessels owned and operated by, or under construction by, the AMCV group, 7 vessels were supported by loan guarantees. The other three vessels were encumbered with debt from commercial banking facilities. Thus the only collateral available to secure each vessel was the first mortgage from AMCV's subsidiary on the vessel itself.

On their own, only one of the AMCV subsidiaries would have met all of the qualification requirements for a loan guarantee. By modifying the financial requirements for each of AMCV's consecutive loans, MARAD approved guarantees beyond AMCV's ability to service the debts, thereby creating a potential default situation—one that could not be cured with collateral. One practice that MARAD did employ effectively to limit losses was the use of incremental payments to control the disbursement of loan proceeds. This allowed MARAD to release funds to the borrower incrementally as construction on the project progressed, rather than releasing the entire loan proceeds up front.

Better monitoring of the shipbuilding and financial operations of the AMCV subsidiaries would likely have alerted MARAD to AMCV's growing financial problems, allowing it to take action prior to the defaults. With the guarantee approval for the *Columbia Queen*, MARAD allowed AMCV's annual debt service to increase by $3 million even though the company's financial statements indicated a net loss for the previous year of over $10 million. AMCV's cumulative debt service was estimated to be $12 million every 6 months, yet no part of the approval package indicates MARAD reviewed the impact of this growing debt service on AMCV's ability to guarantee or pay its subsidiaries' debts.

MARAD's loan guarantees with the AMCV subsidiaries had no established agreements, protocols, or requirements on how to secure and maintain the vessels after default. The loan guarantees did not specify which party in the guarantee security agreement was responsible for specific actions and the timeframes in which protective actions needed to be taken. Security of the onboard inventory from theft and pilferage was minimal for all the vessels MARAD acquired through the AMCV default. It was only after our audit inquiries that MARAD took action to ensure the security and the manner of laying-up the vessels.

Mr. Chairman, this concludes my prepared statement. I would be happy to answer any questions you may have.

Figure 1. MARAD's Title XI Portfolio ($ in millions)

Figure 2. AMCV Financial Events

Date	Stock Price	Date	Stock Price	Date	Stock Price	Date	Stock Price
Sep-97	$17.50	Dec-98	$16.00	Mar-00	$24.88	Jun-01	$3.50
Dec-97	$18.75	Dec-98	$16.25	Mar-00	$24.88	Jun-01	$3.50
Dec-97	$17.75	Dec-98	$17.63	Mar-00	$25.19	Sep-01	$2.00
Dec-97	$17.13	Mar-99	$21.00	Jun-00	$19.13	Sep-01	$2.03
Dec-97	$17.19	Mar-99	$19.88	Jun-00	$20.00	Sep-01	$0.91
Dec-97	$17.75	Mar-99	$19.00	Jun-00	$19.13	Sep-01	$1.36
Mar-98	$21.25	Mar-99	$19.00	Jun-00	$20.63	Oct-01	$0.45
Mar-98	$22.25	Mar-99	$19.00	Sep-00	$16.88	Oct-01	$0.45
Mar-98	$22.38	Jun-99	$19.88	Sep-00	$16.44	Dec-01	$0.05
Mar-98	$21.88	Jun-99	$20.63	Sep-00	$16.06	Dec-01	$0.02
Mar-98	$22.75	Jun-99	$21.88	Sep-00	$14.63	Dec-01	$0.02
Jun-98	$16.81	Jun-99	$24.88	Dec-00	$12.94	Dec-01	$0.02
Jun-98	$16.50	Sep-99	$22.00	Dec-00	$12.00	Dec-01	$0.03
Jun-98	$15.88	Sep-99	$23.06	Dec-00	$11.56	Mar-02	$0.02
Jun-98	$15.38	Sep-99	$22.19	Dec-00	$14.00	Mar-02	$0.00
Jun-98	$14.50	Sep-99	$22.00	Mar-01	$12.25	Mar-02	$0.02
Sep-98	$13.25	Dec-99	$29.06	Mar-01	$10.81	Mar-02	$0.02
Sep-98	$12.75	Dec-99	$34.19	Mar-01	$10.50	Jun-02	$0.00
Sep-98	$14.88	Dec-99	$34.75	Mar-01	$12.50	Jun-02	$0.00
Sep-98	$15.00	Dec-99	$35.00	Jun-01	$3.66	Jun-02	$0.00
Dec-98	$16.63	Mar-00	$25.50	Jun-01	$3.70	Jun-02	$0.00

Note: In December 1997, AMCV's Net Income was $2.43 million.
Note: In December 1998, AMCV's Net Income was $157,000.
Note: In April 1999, Project America I & II, Cost: $1.2 billion.
Note: In December 1999, AMCV's Net Income was -$1.75 million.
Note: In March 2000, Cape Light Vessels, Cost: $89.5 million.
Note: In October 2000, MS Patriot, Cost: $114.5 million.
Note: In December 2000, AMCV's Net Income was -$10.1 million.
Note: In May 2001, Columbia Queen, Cost: $42.1 million.
Note: In September 2001, attacks of September 11.
Note: In October 2001, AMCV files Chapter 11.
Note: In November 2001, Project America sold for $2 million.