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Highlights

Highlights of GAO-03-657, a report to the Chairman, Senate Committee on Commerce, Science, and Transportation

MARITIME ADMINISTRATION

Weaknesses Identified in Management of the Title XI Loan Guarantee Program

Why GAO Did This Study

Title XI of the Merchant Marine Act of 1936, as amended, is intended to help promote growth and modernization of the U.S. merchant marine and U.S. shipyards by enabling owners of eligible vessels and shipyards to obtain financing at attractive terms. The program has committed to guarantee more than $5.6 billion in ship construction and shipyard modernization costs since 1993, but it has experienced several large-scale defaults over the past few years. Because of concerns about the scale of recent defaults, GAO was asked to (1) determine whether MARAD complied with key program requirements, (2) describe how MARAD's practices for managing financial risk compare to those of selected private-sector maritime lenders, and (3) assess MARAD's implementation of credit reform.

What GAO Recommends

GAO recommends that Congress consider providing no new funds for new loan guarantees under the Title XI program until certain controls have been instituted and MARAD has updated its default and recovery assumptions to more accurately reflect costs. GAO also recommends that MARAD undertake several reforms to help improve program management. In written comments, the Department of Transportation disagreed with some report findings, however, recognized that program improvements were needed.

www.gao.gov/cgi-bin/getrpt?GAO-03-657.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Tom McCool at (202) 512-8678 or mccoolt@gao.gov.

What GAO Found

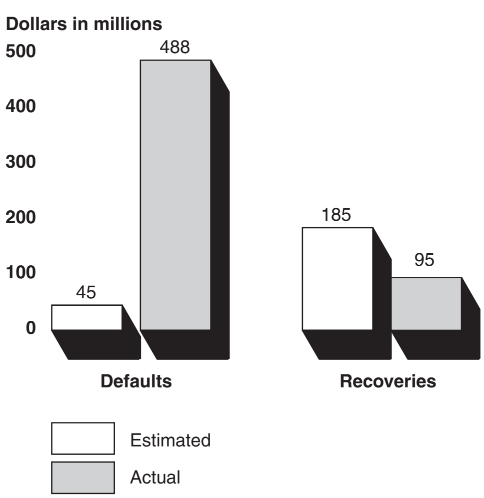
The Maritime Administration (MARAD) has not fully complied with some key Title XI program requirements. While MARAD generally complied with requirements to assess an applicant's economic soundness before issuing loan guarantees, MARAD did not ensure that shipowners and shipyard owners provided required financial statements, and it disbursed funds without sufficient documentation of project progress. Overall, MARAD did not employ procedures that would help it adequately manage the financial risk of the program.

MARAD could benefit from following the practices of selected private sector maritime lenders. These lenders separate key lending functions, offer less flexibility on key lending standards, use a more systematic approach to loan monitoring, and rely on experts to estimate the value of defaulted assets.

With regard to credit reform implementation, MARAD uses a simplistic cash flow model to calculate cost estimates, which have not reflected recent experience. If this pattern of recent experience were to continue, MARAD would have significantly underestimated the cost of the program.

MARAD does not operate the program in a businesslike fashion. Consequently, MARAD cannot maximize the use of its limited resources to achieve its mission, and the program is vulnerable to fraud, waste, abuse, and mismanagement. Also, because MARAD's subsidy estimates are questionable, Congress cannot know the true costs of the program.

Estimated and Actual Defaults and Recoveries to Date for Loans Originated between



Sources: MARAD (data); GAO (presentation).