

Title XI Loan Guarantees

ISSUE: Congress has appropriated \$48 million for Title XI loan guarantees for the construction and reconstruction of vessels and modernization of shipyards. The Bush Administration has never supported the program and has instituted oversight measures in recent years that are viewed as unduly burdensome and deliberately obstructionist by Congressional supporters of the program as well as the public.

ACTION NEEDED: None- For information only

BACKGROUND:

- The Title XI program provides a government guarantee of up to 87.5 percent of the debt incurred by a shipowner to construct or reconstruct a ship in a U.S. shipyard or for the modernization of a U.S. shipyard. The Government guarantee enables a company to lock in an attractive interest rate for a period of up to 25 years.
- An applicant for a loan guarantee has to meet strict statutory and regulatory requirements, including financial tests and a finding of economic soundness for the project. The Government is not a “lender of last resort.”
- After 9/11, there were defaults on passenger vessels financed with Title XI as the cruise industry went into a severe depression. As a result of the defaults and two program audits, OMB directed the Department of Transportation to institute a Credit Council to provide oversight for all the Department credit programs, including Title XI.
- The Credit Council process requires that an independent financial advisor review a Title XI application and that Credit council staff review it as well. This review is in addition to the Maritime Administration’s own review. The Credit Council then recommends to the Maritime Administrator whether or not the application is considered to be financially viable.
- Public perception as well as Congressional perception is that the program is “broken”; the process has become unduly burdensome and time-consuming to the point where the program is not effective.

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