

REVOKES MAO 640-5

NO.

640-5

MANUAL OF ORDERS

dated 6/12/72  
(formerly MO-572)

EFFECTIVE DATE

August 14, 1978

SUBJECT

CONDITION SURVEYS OF SHIPS UNDER PREFERRED MORTGAGE OR  
TITLE XI SHIP FINANCING GUARANTEES

Section 1. Purpose:

This order prescribes the policy, procedure, and responsibilities for conducting and reporting on condition surveys of ships under Title XI ship financing guarantees and ships on which the Maritime Administration holds preferred mortgages.

Section 2. Applicability:

2.01 This order applies to:

- 1 Ships on which the Maritime Administration holds preferred mortgages arising from the sale of such ships under the Merchant Marine Act, 1920, as amended, the Merchant Marine Act, 1936, as amended (other than Title XI thereof), or other statutes. (Preferred Mortgage ships)
- 2 Ships under financing guarantees granted by the Maritime Administration under Title XI, Merchant Marine Act, 1936, as amended. (Title XI ships)

Section 3. General Information:

3.01 Agreements covering Preferred Mortgage and Title XI ships contain covenants which, in effect, provide that:

- 1 The owner of each ship shall, at all times and at own expense, maintain and preserve the ship in good condition, working order and repair; and
- 2 The Maritime Administration shall have the right to inspect each ship, to ascertain that its condition is in accordance with the applicable provisions of the contract and the owner is not in default thereof.

3.02 Reference should be made to the specific provisions of the mortgage and any other pertinent documents relating to the ship in question, when deemed necessary.

Section 4. Survey Requirements:

4.01 It shall be the policy of the Maritime Administration to conduct condition surveys of Preferred Mortgage and Title XI ships, when deemed necessary to protect the government's interest, in accordance with the criteria set forth below.

4.02 General.

- 1 Ships which are under operating-differential subsidy agreements and meet the survey requirements under those agreements, as well as the regulatory bodies and classification society requirements, shall be excluded from any additional survey requirements under preferred mortgage or Title XI financing guarantee agreements.
- 2 No survey shall be conducted of any ship when the Government's equity or contingent liability is less than the ship's scrap value.
- 3 No complete survey (as defined in Section 2 of Maritime Administrative Order 640-3) shall be made of any ship, except as directed or approved by the Director, Office of Domestic Shipping (Division of Ship Management).
- 4 All surveys shall be conducted in accordance with the conditions described by the mortgage or other applicable documents.

4.03 Periodic Surveys.

- 1 For Preferred Mortgage Ships, walk-over surveys shall be made concurrently with the American Bureau of Shipping (ABS) Special Surveys of such ships. Walk-over surveys are cursory in nature but of sufficient scope to determine that the ships are being adequately maintained according to the terms of the mortgages.
- 2 For Title XI Ships, no periodic condition surveys will normally be required.

4.04 Special Surveys of Preferred Mortgage Ships and Title XI Ships shall be made by the Region Director (Region Ship Management Offices) only with the approval or by direction of the Division of Ship Management when deemed necessary in the government's interest (e.g., when there is evidence or knowledge of conditions which indicate substantial noncompliance with contract provisions relating to the condition of the ships or other special circumstances or difficulties of concern to the Maritime Administration).

Section 5. Responsibilities:

5.01 The Office of Ship Financing Guarantees shall:

- 1 Submit to the Office of Domestic Shipping and to the Region Directors a quarterly listing of ships under Title XI ship financing guarantees.
- 2 Initiate requests to the Office of Domestic Shipping for condition surveys of Title XI ships which may be required because of financial difficulties or other special circumstances.

5.02 The Office of Domestic Shipping (Division of Ship Management) shall:

- 1 Provide to the Region Directors reports of changes to the current listing of Preferred Mortgage ships, as they occur.
- 2 Provide guidance to the Regions for the conduct and reporting of condition surveys of Preferred Mortgage and Title XI ships, when required, including instructions as to the scope and type of any condition surveys which may be required under special circumstances in accordance with Section 4.04 above.
- 3 Before requesting the Regions to conduct condition surveys of Title XI ships, consult with the Office of Ship Financing Guarantees as to any other facts which should be considered in determining the nature of the survey required.

5.03 The Region Directors (Region Ship Management Offices) shall be responsible for conducting condition surveys of ships within their geographical areas in accordance with the criteria set forth in this order.

5.04 The Foreign Maritime Representatives shall conduct surveys of ships only when specifically requested or approved, by the Director, Office of Domestic Shipping in accordance with established procedures.

Section 6. Survey Reports:

6.01 The results of the walk-over condition surveys shall be recorded on Form MA-7, Walk-over Survey Report. For other types of surveys which may be directed, other forms shall be used as described in Section 2 of MAO 640-3, when appropriate.

6.02 The survey reports should note any deficiencies of consequence which are uncovered, including any items of poor maintenance, unapproved or previously unreported structural alterations or changes, absence of a certified copy of the mortgage among ship's papers, improper posting of required notices and certificates (such as Notice of Mortgage and U.S. Coast Guard Certificates), and any other conditions not permitted under the mortgage or other applicable documents.

6.03 Survey reports shall be prepared by the attending Marine Surveyors and submitted to the Region Ship Management Office.

Section 7. Items Requiring Corrective Action:

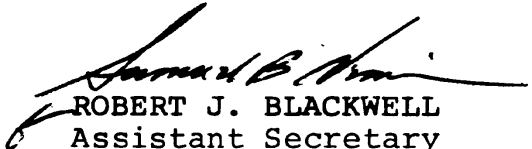
7.01 Whenever it becomes apparent during a condition survey of a ship conducted in accordance with Sections 4-5 above that there are deficiencies or unsatisfactory conditions that should be corrected by the operator in order to conform with the provisions of the mortgage or financing guarantee agreement, the Region Ship Management Office shall:

- 1 Inform the operator of the ship, promptly, of the deficiencies or unsatisfactory conditions uncovered in the survey.
- 2 Negotiate with the operator on correction of the deficiencies or unsatisfactory conditions, and maintain a follow-up on the required corrective measures.
- 3 Inform the Division of Ship Management of deficiencies uncovered and action taken.

7.02 Where there are deficiencies and/or unsatisfactory conditions which are disputed by the operator, or which he refuses to correct within a reasonable time, and the matter cannot be resolved at the Region level, the Region Director shall submit all pertinent information, including copies of correspondence with the operator and a copy of the survey report indicating those items which have been corrected and/or remain to be corrected, together with his recommendation for corrective action, to the Director, Office of Domestic Shipping. For a Title XI ship, a copy of the report shall be forwarded also to the Director, Office of Ship Financing Guarantees.

7.03 The Director, Office of Domestic Shipping shall review the recommendation for corrective action received from the Region; and, for Title XI ships, forward comments to the Director, Office of Ship Financing Guarantees.

7.04 The Director, Office of Domestic Shipping for Preferred Mortgage ships, and the Director, Office of Ship Financing Guarantees for Title XI ships, shall attempt to resolve the differences with the operator and, if a resolution is not reached, shall prepare a recommendation to the Assistant Secretary for Maritime Affairs for appropriate action.



ROBERT J. BLACKWELL  
Assistant Secretary  
for Maritime Affairs