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Highlights

Highlights of GAO-03-728T, a testimony before the Committee on Commerce, Science, and Transportation, U.S. Senate

June 5, 2003

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 guaranteed 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. One borrower, American Classic Voyages, defaulted on five loan guarantees in amounts totaling $330 million, the largest of which was for the construction of Project America cruise ships. Because of concerns about the scale of recent defaults, GAO was asked to (1) determine whether the Maritime Administration (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.

GAO is currently considering a number of recommendations to reform the Title XI program. Because of the fundamental flaws identified, GAO questions whether MARAD should approve new loan guarantees without first addressing these program weaknesses.

www.gao.gov/cgi-bin/getrpt?GAO-03-728T.

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

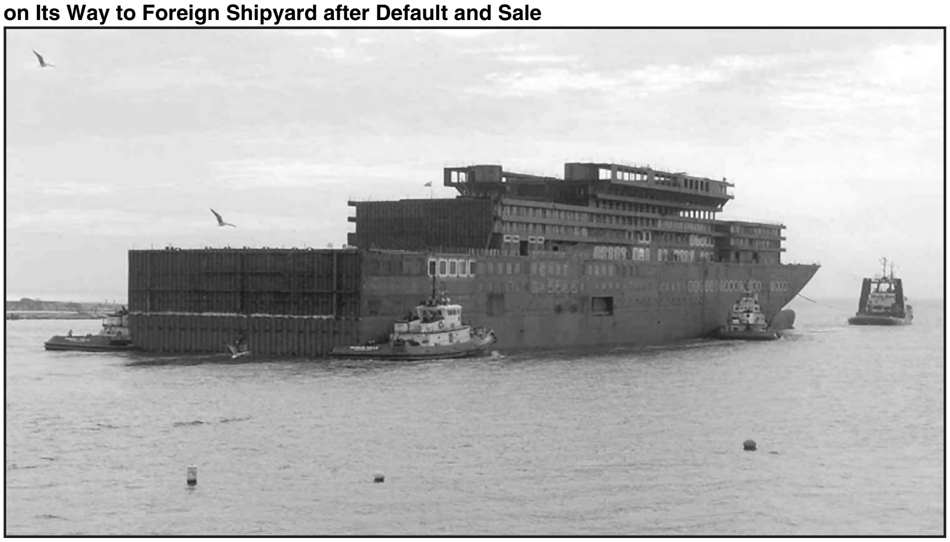
MARAD has not fully complied with some key Title XI program requirements. While MARAD generally complied with requirements to assess an applicant's economic soundness before issuing loan guarantees, MARAD did not ensure that shipowners and shipyard owners provided required financial statements, and it 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.

Partially Completed Project America Cruise Ship Financed under Title XI Program on Its Way to Foreign Shipyard after Default and Sale



Source: Northrop Grumman Corporation Ship Systems Ingalls Operations.