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Draft overview for a future Home Shipbuilding Credit Guarantee Scheme (HSCGS)

Introduction/Rationale:

- The Department for Business, Energy and Industrial Strategy (BEIS) intends to relaunch a Home Shipbuilding Credit Guarantee Scheme (HSCGS). The scheme would provide government-backed loan guarantees at a market-oriented price in respect of banks lending to UK shipowners buying from UK yards. It would help address a gap in the market for access to finance for shipbuilding in the UK that currently puts UK companies at a disadvantage when bidding against overseas competition.

- Ship buyers (and some yards) report that access to additional (financial) support would enable them to expand and /or increase their output. Some ship buyers have also suggested that access to available finance would enable them to invest in 'green' vessel builds.

- Specifically, the HSCGS would provide loan guarantees at a market-oriented price for the purpose of financing the construction, completion, (radical) alteration and refit /repair of ships and mobile offshore installations (MOIs) **in UK yards.**

- BEIS is aware the HSCGS will not rejuvenate the UK shipbuilding industry alone, but view it as a possible critical component to level the playing field and to allow UK yards to compete with overseas yards effectively - given the domestic instruments that other nations provide to the sector, e.g. France, the Netherlands.

- This document sets out the current proposals for the scope, design and eligibility for the scheme. These details may change as the policy is developed.

Proposed scope and eligibility:

- To be available for **UK based ship buyers.** For example, this would be likely to include a person who is an individual resident in, or a body corporate incorporated under the law of any part of, the United Kingdom.

- **No minimum vessel gross tonnage**. Interest is likely to come from owners of tonnage vessels in the range of 15 to 250 tonnes. These are high speed, light weight, relatively high value vessels and are likely to benefit from the support offered by such a scheme.

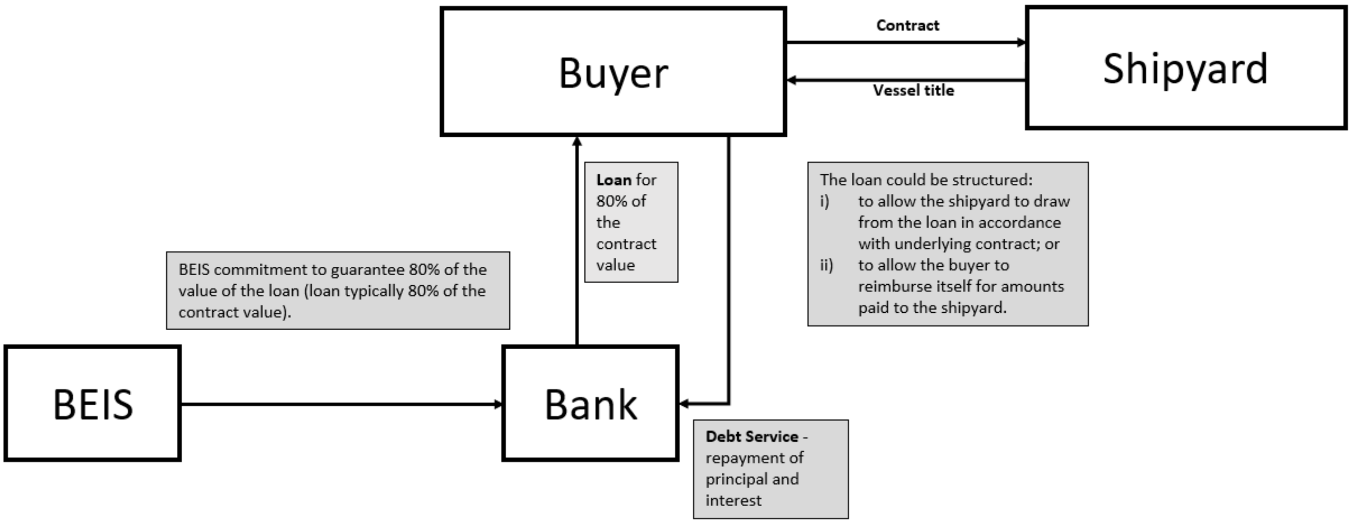
- The lending bank must meet acceptable standards of compliance, operational capability and credit-worthiness to be eligible to participate in this scheme.

- The UK based ship buyer must meet minimum credit risk criteria.

Mechanism - proportion of loan or contract price guaranteed and options under consideration:

- The scheme involves BEIS providing partial guarantees to eligible banks in support of UK ship buyers. This mitigates the risk of the failure of the ship buyer to repay a loan provided by a lender for the purchase of a vessel(s) or potentially for its refit and repair

- The following diagram shows an overview of the scheme:



- The proposal contemplates that BEIS would guarantee 80% of the value of the loan to the ship buyer at a market-oriented price. The lending bank would be required to take 20% of the loan on an uncovered basis. It is anticipated that the loan would be up to 80% of the ship purchase contract value.

Proposed Scheme Design:

- A lender would identify a transaction that may be suitable for the HSCGS and complete an application form with relevant details of the borrower, contract and loan. A borrower may raise the prospect of HSCGS application when applying for a loan.

- A credit assessment would be conducted on the prospective buyer. **This would include reviewing the last three years' worth of accounts** and taking a view on whether additional credit enhancements would be required in the form of parental guarantees or security. **In most scenarios BEIS would expect there to be a first priority mortgage over the vessel, and this would be considered as a potential credit risk mitigant alongside the strength of the buyer and their balance sheet**.

- All borrowers would have to be sufficiently credit-worthy, and the scheme will not be open to borrowers in financial distress.

- Borrowers will be subject to due diligence processes. They may also be subject to an **assessment of environmental, social and human rights** (ESHR) risk and impacts in respect of the ship purchase, in addition to assessing the impact on climate change.

- Cover would be provided on a risk share basis with the lender and any losses would be shared on equal footing. In the event of a default, the guarantee agreement will set out the steps that the bank will be expected to take to recover the loan and if unsuccessful, the terms and process under which BEIS would pay the lender and any interest due.

- The guarantees will be linked specifically to a transaction of a UK ship, will be for a fixed maximum amount and be limited in time. The guarantees could cover loans with a repayment period of up to 12 years.

Interest rates, fees & guarantee premium:

Option 1

- A premium would be payable by the borrower at the point the guarantee is issued. This premium amount would be calculated on a market-oriented price basis and would cover BEIS' expected loss and contribute to the administration costs of the scheme.
- The borrower would pay interest to the lender at a rate agreed between the lender and the borrower at the outset. BEIS would not share in this interest margin.

Option 2

- BEIS would receive a market-oriented price guarantee fee that is a proportion of the interest margin paid by the borrower to the lender. The lender would share the risk margin being charged to the borrower with BEIS pro rata (e.g. 80% of the risk margin would be paid to BEIS) less a 10% skim that the lender would retain to reflect the administrative burden. The guarantee fee would be paid in instalments as it is received by the lender [typically quarterly in arrears/advance].