

**DEPARTMENT OF TRANSPORTATION**  
**STATEMENT OF MARITIME ADMINISTRATOR**  
**SEAN T. CONNAUGHTON**  
**BEFORE THE**  
**SUBCOMMITTEE ON SEAPOWER AND EXPEDITIONARY FORCES**  
**OF THE**  
**COMMITTEE ON ARMED SERVICES**  
**UNITED STATES HOUSE OF REPRESENTATIVES**  
**ON THE**  
**TITLE XI PROGRAM**  
**MARCH 15, 2007**

Good morning, Mr. Chairman and Members of the Committee. It is indeed a pleasure to be here today to discuss the Title XI program, which is administered by the Maritime Administration (MARAD).

As most of you know, the Title XI program provides for a full faith and credit loan guarantee by the federal government of private sector debt incurred for the construction or reconstruction of ships in United States shipyards. Loan guarantees can also be issued for the modernization of American yards to make them more competitive. The Government can provide a guarantee up to 87 ½ percent, depending on the type of project. Companies must provide equity for the remainder and security to the Government. The company has to meet strict financial requirements and the project has to be economically sound.

The Title XI program was created to promote the growth and modernization of the U.S. merchant marine and U.S. shipyards by enabling eligible companies to obtain long-term financing on terms that would otherwise be available only to the most creditworthy concerns. The term of a Title XI loan guarantee can extend to 25 years and the Government backing of the financing makes it possible for a company to lock in an attractive interest rate for this period.

At this time, the Administration does not request funding for Title XI because it believes this program is a form of corporate subsidy, and that shipowners and shipyards should rely on their own creditworthiness to obtain financing in the

private sector. Further, the taxpayers should not bear the risk of default by private companies.

However, I want to emphasize at this point that our position on the Title XI program should in no way be misconstrued as a lack of support for the U.S. shipbuilding industry or U.S. shipowners. This Administration is on record as staunchly championing the Jones Act in order to protect their interests. We simply believe that Title XI is an unwarranted intervention in the credit market.

Although the Administration has not requested funding for new loan guarantees since 2001, Congress has periodically appropriated money for this purpose. In implementing Congressional direction, we have used these funds to finance projects that we believe will yield the greatest benefits to our economic and national security. The most recent project we approved was two passenger and vehicle fast ferries for Hawaii SuperFerry. The total cost was \$180 million for both with Title XI guarantees at \$140 million. The ferries are under construction at Austal Shipyard in Mobile, Alabama. The first will be delivered at the end of this month and the second in February of 2009. We financed a similar vessel, which began operating in 2004 across Lake Michigan.

These ferries are state of the art and highly suitable for use on America's Marine Highway system. In choosing to finance the ferries, MARAD is promoting a vessel type that can be used to relieve highway congestion by providing an attractive marine transportation alternative. The ferries are also militarily useful and TRANSCOM has expressed an interest in them. The Hawaii SuperFerry vessels will be offered for enrollment in the Voluntary Intermodal Sealift Agreement, or VISA, program.

At present, we have an outstanding portfolio of \$2.9 billion in loan guarantees covering the modernization of American shipyards as well as a wide variety of vessels: ferries, tankers, drill rigs, passenger vessels, dredges, supply vessels, tugs, RO/ROs, containerships, tugs and all kinds of barges. Title XI is represented in just about every market segment in the maritime industry.

We are very proud of the fact that we have notably improved our management of the Title XI program since audit reports were issued in 2003 and 2004 by the General Accounting Office, now the Government Accountability Office, and the Department of Transportation's Office of the Inspector General. MARAD has taken the steps we believe are necessary to address the audit recommendations. Let me highlight some of the major areas of improvement:

We have established requirements for an independent outside application review when necessary;

We have instituted a formal financial monitoring process with a credit watch report for regular financial monitoring of Title XI borrowers;

We have developed a regular physical condition report system for Title XI vessels;

We have revised our credit risk methodology;

We have tightened our fund disbursement procedures; and

We are in the process of implementing an electronic financial monitoring system, which will significantly enhance management of the existing portfolio and future financing activities in the Title XI program.

In addition to the steps MARAD itself has taken, the Department of Transportation has instituted a Credit Council to provide financial oversight for all of the Department's credit programs, including Title XI. This has provided another valuable avenue of review for loan guarantee applications, significant financial transactions with existing borrowers, and portfolio monitoring.

We are very pleased to report that our program improvements have been recognized. In his November 15, 2005 report on the top management challenges facing the Department of Transportation, the DOT Inspector General stated that the "Title XI loan guarantee program is functioning effectively." He went on to note that MARAD now systematically monitors its loan portfolio and that creditworthiness overall has improved.

In addition, the Title XI program went through a PART assessment last year, as mandated by the Office of Management and Budget. PART stands for Program Assessment Rating Tool, and is a stringent diagnostic process that OMB uses to assess the performance of Federal programs. Title XI received a final PART score from OMB that indicates that the program is considered to be moderately effective.

In conclusion, the DOT Inspector General's comments and the PART score clearly demonstrate MARAD's diligence in implementing recommendations for improved program management. Moreover, I am confident that MARAD is now positioned to continue to administer the program in such a way as to maximize the benefit to our national and economic security while protecting the Government's financial interest.

I want to thank the Members of this Committee and Chairman Taylor for holding this hearing today. I will be happy to answer any questions you might have.

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