MariCon

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Residual Value Insurance (RVI)

Shipping markets are traditionally highly volatile. Combined with the long life cycles of merchant vessels it has become extremely difficult – if not impossible to predict the future value of a ship over a period of 10 years and more.

The current shipping market crisis has clearly underlined the need to protect against loss due to market fluctuation. Many Owners, Investors and Mortgage Banks are straggling but would have been better of, if only they had protected their assets / loans against market risks via tailored Residual Value Insurance.

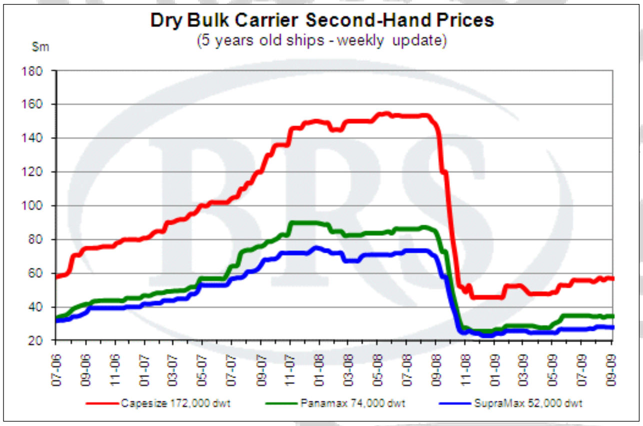
The Residual Value Insurance was shaped to manage the risk of substantial loss due to weak markets etc. at the end of the life cycle of the underlying asset. It provides additional security in the form of downside protection to lenders, shipowners and lessors against the volatility of vessel values.

The borrower may be a shipowner, an investor, a mortgage bank or anyone else with insurable interest in the vessel.

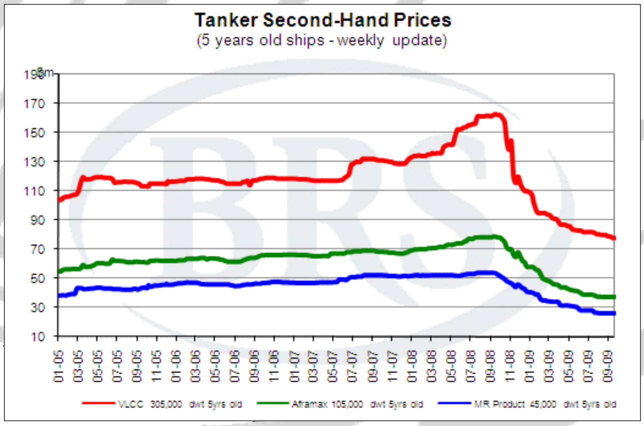
Once any benefit of charter income has fallen away, at the end of the loan term, the borrower and the lender are relying on the value of the vessel to be sufficient to repay any outstanding loan balance (usually a remaining lump-sum, or 'balloon' balance).

By insuring the balloon amount with a residual value insurance policy -

- Both the borrower and the lender have protected themselves against market risk;
- The market risk has been transferred to a rated insurer and any upside in the vessel's value is still there for the borrower's benefit;
- It may be possible to negotiate a lower interest margin for the loan, in return for the additional security provided by the RVI cover;
- The borrower may be able to opt for a higher balloon (the Residual Value) and hereby reduce the frequent annuity payments during the operating phase.



Dry Bulk Carrier Second-Hand Prices
(5 years old ships - weekly update)



Tanker Second-Hand Prices
(5 years old ships - weekly update)

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