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90-69 **MAXIMUM RATE OF INTEREST ON SHIP
LOANS AND MORTGAGES**

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HEARING
BEFORE THE
**SUBCOMMITTEE ON
MERCHANT MARINE AND FISHERIES**
OF THE
COMMITTEE ON COMMERCE
UNITED STATES SENATE
NINETIETH CONGRESS

SECOND SESSION

ON

S. 3017

TO CHANGE THE PROVISION WITH RESPECT TO THE MAXI-
MUM RATE OF INTEREST PERMITTED ON LOANS AND MORT-
GAGES INSURED UNDER TITLE XI OF THE MERCHANT
MARINE ACT, 1936

APRIL 30, 1968

Serial No. 90-69

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MAXIMUM RATE OF INTEREST ON SHIP
LOANS AND MORTGAGES

HEARING
BEFORE THE
COMMITTEE ON COMMERCE

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STATEMENT OF CARL C. DAVIS, GENERAL COUNSEL, MARITIME ADMINISTRATION, DEPARTMENT OF COMMERCE, ACCOMPANIED BY JOHN R. TANKARD, ASSISTANT GENERAL COUNSEL, DIVISION OF MORTGAGE AND MARINE INSURANCE, AND ROY H. YOWELL, MARITIME ADMINISTRATION

MAXIMUM RATE OF INTEREST ON SHIP LOANS AND MORTGAGES

TUESDAY, APRIL 30, 1968

U. S. SENATE,
COMMITTEE ON COMMERCE,
SUBCOMMITTEE ON MERCHANT MARINE AND FISHERIES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:13 a.m., in room 5110, New Senate Office Building, the Honorable E. L. Bartlett (chairman of the subcommittee) presiding.

Present: Senator Bartlett.

OPENING STATEMENT BY THE CHAIRMAN

Senator BARTLETT. The committee will be in order.

Today we shall hear testimony on S. 3017, a bill to change the provisions with respect to the maximum rate of interest permitted on loans and mortgages insured under title XI of the Merchant Marine Act, 1936.

Title XI now provides that to be eligible for mortgage insurance a ship mortgage may not secure a loan bearing interest at a rate exceeding 5 percent, except when special circumstances justify 6 percent, nor may a construction loan be insured if the rate of interest exceeds 6 percent.

This bill would substitute for the 5-percent and 6-percent maximums a provision that the interest rate shall not exceed a rate determined by the Secretary of Commerce to be reasonable, taking into account interest rates prevailing in the private market.

It is my understanding that a subcommittee of the House Merchant Marine Committee has held hearings on H.R. 14796, a companion measure to this bill, and has favorably reported that measure to the full committee.

As a matter of interest, I would point out that section 18 of S. 2650, the maritime program bill introduced by Senator Magnuson, Senator Brewster, and myself, upon which we will begin hearings next month, is identical to the provisions of this bill.

The first witness will be Carl Davis, General Counsel of the Maritime Administration, accompanied by associates whom he will identify for the record.

Staff member assigned to this hearing: Stanley H. Barer

STATEMENT OF CARL C. DAVIS, GENERAL COUNSEL, MARITIME ADMINISTRATION, DEPARTMENT OF COMMERCE; ACCOMPANIED BY JOHN R. TANKARD, ASSISTANT GENERAL COUNSEL, DIVISION OF MORTGAGE AND MARINE INSURANCE; AND ROY H. YOWELL, CHIEF, DIVISION OF MORTGAGE INSURANCE CONTRACTS, OFFICE OF GOVERNMENT AID

Mr. DAVIS. Thank you, Mr. Chairman.

I am accompanied by John R. Tankard, assistant general counsel, in the Division of Mortgage and Marine Insurance, and Mr. Roy H. Yowell, chief, division of mortgage insurance contracts, Office of Government Aid.

I appreciate the opportunity to appear before you to present the views of the Maritime Administration and the Department of Commerce with respect to S. 3017.

Section 1104(a)(5) of the Merchant Marine Act, 1936, provides that to be eligible for mortgage insurance a ship mortgage must, among other requirements, secure bonds, notes or other obligations bearing interest—exclusive of premium charges for insurance—at a rate not to exceed 5 per centum per annum on the unpaid principal balance or not to exceed 6 per centum per annum on such balance if the Secretary of Commerce finds that in certain areas or under special circumstances the mortgage or loan market demands it.

By reference to section 1104(a)(5), section 1104(b)(6) places the same requirement on loans with respect to the maximum interest rate if they are to be eligible for insurance. This refers to loans which are made to finance construction of the ship and which precede the mortgage which is placed on the ship after the ship is completed.

The bill would amend section 1104(a)(5) to substitute for the 5 and 6 percent maximums a provision that the interest rate shall not exceed a rate determined by the Secretary of Commerce to be reasonable, taking into account the range of interest rates prevailing in the private market for similar loans and the risks assumed by the Department of Commerce. Under this language, there could be circumstances under which the rate determined by the Secretary to be reasonable would exceed 6 percent.

Since November 1966, the Department has approved interest rates under the terms of the existing law as follows:

Date approved:	Interest rate (percent)
Nov. 17, 1966.....	5.75
Feb. 1, 1967.....	5.10
Mar. 30, 1967.....	5.50
Apr. 21, 1967.....	5.50
May 25, 1967.....	5.40
June 28, 1967.....	6.00
Aug. 10, 1967.....	6.00

Senator BARTLETT. Almost steadily upward?

Mr. DAVIS. Almost steadily upward. That is right, Mr. Chairman.

At the present time we have applications for mortgage and loan insurance totaling \$314,075,100—of which financing of \$35,500,000 has already been arranged—for 70 ships and 691 barges which are to be built by private owners with privately generated funds to upgrade and modernize the American merchant marine. Under existing law, since

the market requires a rate of interest higher than 6 percent, the Department cannot insure these loans and mortgages, and the vessels therefore cannot be built.

A comparison of the yields of various long-term corporate and Government bonds with title XI bonds over a 10-year period shows the following:

(a) Title XI bond interest rates closely approximated the yields of triple-A rated corporate bonds. The spread between said bonds varied from zero to one-fifth of 1 percent, depending on the specific features of the corporate bonds. For example, a triple-A corporate bond with 10-year call protection may yield 6.25 percent whereas a title XI bond may yield about 6.40 percent.

(b) Although not of directly comparable characteristics, title XI bond interest rates have ranged from one-quarter to 1 percent more than comparable long-term U.S. Treasury bonds, depending upon currently prevailing market conditions.

Based on said review, triple-A corporate bond yields constitute the most accurate and consistent indicator of title XI bond interest rates. In fact, in today's market, a title XI bond would sell to yield a rate not less than a triple-A rated corporate bond.

The following is a listing of current quotations of recent triple-A corporate bond, Government bond, and World Bank bond interest rates and yields.

To summarize, Mr. Chairman, we have it running from a yield high of 6.68 to a low of 5.44.

Senator BARTLETT. The entire table will be placed in the record with your statement.

Mr. DAVIS. Thank you.

(The table referred to follows:)

Issue	Coupon interest rate (percent)	Maturity date	Yield (percent)
Houston Light & Power	6 $\frac{1}{4}$	1998	6.65
Kansas City Power & Light	6 $\frac{1}{4}$	1998	6.65
A. T. & T.	6	2000	6.25
Bell Telephone of Pennsylvania	6	2008	6.68
New Jersey Bell Telephone	6 $\frac{1}{8}$	2008	6.58
Pacific Gas & Electric	6 $\frac{1}{8}$	2000	6.65
Philadelphia Electric	6 $\frac{1}{2}$	1993	6.50
Fannie Mae		1971	6.30
Do		1973	6.45
Do		1988	6.45
U.S. Treasury	4 $\frac{1}{4}$	1987-92	5.44
	4 $\frac{1}{4}$	1975-85	5.55
World Bank	4 $\frac{1}{2}$	1982	6.37
Standard Oil of New Jersey	6	1997	6.18
Texaco Oil Co.	5 $\frac{1}{4}$	1997	6.24

Mr. DAVIS. In view of the foregoing, it is our opinion that title XI bonds in today's market would have to bear an interest rate of about 6.50 percent, which is comparable to recent triple-A corporate yields, about 1 percent greater than long-term U.S. Treasury bond yields, and about one-fifth of 1 percent greater than World Bank bond yields.

We recommend enactment of the bill so that we can continue to have private financing of vessel construction.

Thank you, Mr. Chairman.

I will be happy to answer any questions.

Senator BARTLETT. Thank you, Mr. Davis.

Has this conclusion been approved by the Bureau of the Budget?

Mr. DAVIS. It has, Mr. Chairman.

Senator BARTLETT. It represents the official administration position?

Mr. DAVIS. It does.

Senator BARTLETT. Good.

Mr. DAVIS. I might say in addition, Mr. Chairman, this is the first bill I have had the pleasure to testify on in some time in which I know of no opposition—unless it is Mr. May's wife back there. I haven't questioned her yet. [Laughter.]

Senator BARTLETT. Off the record.

(Remarks off the record.)

Senator BARTLETT. Mr. Davis, has the Government made money—

Mr. DAVIS. Yes, they have.

Senator BARTLETT (continuing). On the title XI operations?

Mr. DAVIS. Yes, they have, Mr. Chairman. We have made about \$18 million.

Senator BARTLETT. Over how long a period of time?

Mr. DAVIS. Since 1954.

Senator BARTLETT. Making more or less in recent years than it did for the few years after 1954?

Mr. DAVIS. Oh, it's making more.

Senator BARTLETT. Making more?

Mr. DAVIS. In fact, it is running now an average of about \$4 million a year.

I am corrected to add "before administrative expenses."

Senator BARTLETT. And they amount to what by way of percentage?

Mr. DAVIS. They do not know what the administrative expenses will run.

Senator BARTLETT. Please furnish for the record the administrative costs in percentages relating to the revenues to the Government.

Mr. DAVIS. Thank you. It will have to be an estimated figure, but we will be happy to do so.

(The figures requested follow:)

Administrative costs of Title XI mortgage and loan operators (fiscal year 1967)

Title XI revenues to U.S. Government:

Insurance premiums and fees.....	\$2, 790, 000
Interest and other income.....	1, 459, 000
Gain from sale of U.S. securities.....	37, 000

Total.....	4, 286, 000
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Administrative costs:¹

Payment of interest to Treasury on money borrowed to liquidate defaulted mortgages.....	172, 000
Miscellaneous expenses incident to mortgage default.....	83, 000

Total.....	255, 000
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Percentage: Administrative costs/revenues.....	6
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¹Does not include cost for Maritime Administration staff time directly related to title XI mortgage and loan activities.

Senator BARTLETT. Is it your opinion, Mr. Davis, that more revenue will accrue to the Government if this bill becomes law?

Mr. DAVIS. It certainly is, Mr. Chairman, because it will enable us to cover the additional financing for additional construction, and all that governs additional moneys to the Government.

Senator BARTLETT. No further questions from me, unless Mr. Barer has some.

Mr. BARER. Just one question.

In your statement, the concluding paragraph, you state:

At the present time we have applications for mortgage and loan insurance totaling \$314,075,100 for 70 ships and 691 barges which are to be built by private owners with privately generated funds.

None of that, therefore, is being utilized by any subsidized operators?

Mr. DAVIS. Well, yes, some of it will be utilized by subsidized operators. These applications include both subsidized and unsubsidized operators.

Mr. BARER. So in some instances the title XI is being utilized with a precondition that the Government pay construction subsidy? Is that correct?

Mr. DAVIS. No; this is after subsidy.

Mr. BARER. I have no further questions.

Senator BARTLETT. Thank you, gentlemen.

Mr. BARER. Oh, one other question. What is the breakdown on these applications between the subsidized operators and the non-subsidized?

Mr. DAVIS. Mr. Yowell, I am sure, can furnish you the entire breakdown of all the applications.

Mr. YOWELL. Yes; if you would like, I can read the applications: American Export for three ships, Commercial Steamship for two ships.

Well, let me break it down into subsidized and unsubsidized.

First would be subsidized:

American Export Lines for three ships.

Farrell Lines for five ships.

Lykes Bros. for seven ships.

Oceanic for two ships.

Pacific Far East for six new ships and two nonsubsidized conversions.

Lykes for 266 barges.

Prudential Lines for 425 barges.

The nonsubsidized operators would be:

Commercial Steamship for two ships.

Greene Line for one ship.

Hawaiian Lines for three ships.

Matson for four ships.

TMT Trailer for one ship.

Trans-Marine for 10 tugboats and 22 barges.

South Atlantic and Caribbean Line for one ship.

That's it.

Mr. DAVIS. That's all.

Mr. BARER. Could you explain for my education—I'm sure everybody else in the room understands this clearly but I don't think I do—exactly how the title XI ship mortgage or construction loan insurance relates timewise and in your financing to receipt of your construction subsidy and then use of your tax-free reserve funds?

What is the relation between utilization of the tax-free reserve funds and the title XI?

Mr. DAVIS. Well, what do you mean by timewise?

Mr. BARER. I mean what is the financing sequence?

Mr. DAVIS. Well, the financing sequence is this: The title XI mortgage does not go on the ship during the period of its construction because it isn't a ship. You take out what we will characterize as a commercial loan to finance the construction, because shipyards have to have progress payments.

But the minute the vessel is constructed, all the commercial loan has to be paid off. So at that time you put on the title XI mortgage, or you put the mortgage on the ship insured by title XI insurance.

The ship is paid off insofar as the building is concerned, but this obligation substitutes for that obligation and is paid off over a period of years.

Generally you have a trustee setup, and you issue bonds, and these bonds are sold to the general public—for example, pension funds, endowment funds, insurance companies, and State and municipal funds. They are all great purchasers of these bonds.

And as the bonds come due on periodic payment the bonds are paid off. Once the bonds are all paid off, you take the mortgage off the ship.

Mr. BARER. In other words, to pay the bonds off is how you utilize the reserve funds? Is that correct?

Mr. DAVIS. Yes; statutory reserve funds. That's right. In paying off the bonds.

Mr. BARER. Is there a limitation on how much you can guarantee now?

Mr. DAVIS. Well, yes; \$900-and-something million. The overall is a billion dollars but we have transferred part of that to the fishing industry. \$980 million, I am informed.

Mr. BARER. You don't have a problem under title XI like you do under your construction-differential subsidy where there is not enough money to go around—

Mr. DAVIS. Oh, no.

Mr. BARER (continuing). Because of financial obligations?

Mr. DAVIS. No; we have about \$300 million to go.

Senator BARTLETT. You have \$300 million what?

Mr. DAVIS. We have \$300 million of additional loans we can insure. If we should reach that point, we would have to come to the Congress and ask that our billion ceiling be raised.

Mr. BARER. Mr. Davis, under title XI, fishing vessels come within the definition of vessels for purposes of title XI construction loan and mortgage insurance assistance?

Mr. DAVIS. Yes, they do; but that isn't administered by us. That is administered by the Department of Interior.

Mr. BARER. Is there also a fishing-loan guarantee statute in addition to title XI?

Mr. DAVIS. Yes, there is. That is also administered by the Department of Interior.

Mr. BARER. Is there some clear advantage between the two statutes for fishing operators?

Mr. DAVIS. Yes, there is. I would say that an individual going into the fishing business has to meet much more stringent requirements under title XI than he does under the other loan program administered by the Department of Interior.

Senator BARTLETT. I didn't quite hear you. Which is more advantageous?

Mr. DAVIS. Well, the one more advantageous is the other program, which I am sorry I cannot identify by name.

Senator BARTLETT. Not title XI?

Mr. DAVIS. It is not title XI. There the Department of Interior is allowed to make highly speculative loans. They don't have to make commercial feasibility findings that you have to make under title XI.

Mr. BARER. What about the rate of interest?

Mr. DAVIS. Now you have got me. I don't know. I only know about those since one time I was in a job where if there was a default under them I had to sue to try to recover the moneys that were lost. It is entirely administered by the Department of Interior.

Senator BARTLETT. Now, you have nothing to do with the title XI mortgages administered by the Interior Department?

Mr. DAVIS. That is right, Mr. Chairman.

Senator BARTLETT. And does the ceiling which applies to the total amount of mortgages that you can deal with incorporate the Interior Department loans, or is that separate?

Mr. DAVIS. Yes, it does, Mr. Chairman. It is both.

Senator BARTLETT. Both?

Mr. DAVIS. Yes.

Senator BARTLETT. Do you have any notion of how much the Interior Department has committed?

Mr. DAVIS. The overall ceiling is \$1 billion, Mr. Chairman, and we still retain \$980 million.

Senator BARTLETT. They have not made many inroads, substantial inroads, from the Department of Interior with respect to fishing vessels?

Mr. DAVIS. Yes, they have made numerous small loans.

Senator BARTLETT. Small loans, but not——

Mr. DAVIS. Yes, they are small loans.

Senator BARTLETT. But not in terms of total amounts of money?

Mr. DAVIS. Yes.

Senator BARTLETT. We have likewise a report from the Treasury Department favoring this legislation. That report will be placed in the record together with the report from the Department of Commerce supplementing the testimony you have given here and a copy of the bill.

Thank you all.

Mr. DAVIS. Thank you, sir.

(A copy of S. 3017 and agency comments follow:)

[S. 3017, 90th Cong., second sess.]

A BILL To change the provision with respect to the maximum rate of interest permitted on loans and mortgages insured under title XI of the Merchant Marine Act, 1936

Be it enacted the Senate and House of Representatives of the United States of America in Congress assembled, That section 1104(a)(5) of the Merchant Marine Act, 1936, as amended, is amended to read as follows:

“(5) Shall secure bonds, notes, or other obligations bearing interest (exclusive of premium charges for insurance, and service charges, if any) at rates not to exceed such per centum per annum on the principal obligation outstanding as the Secretary of Commerce determines to be reasonable, taking into account the range of interest rates prevailing in the private market for similar loans and the risks assumed by the Department of Commerce.”

DIGEST OF S. 3017—TO CHANGE THE PROVISION WITH RESPECT TO THE MAXIMUM RATE OF INTEREST ON LOANS AND MORTGAGES INSURED UNDER TITLE XI OF THE MERCHANT MARINE ACT, 1936

S. 3017, introduced by Chairman Magnuson at the request of the Secretary of Commerce, would remove the 6% interest ceiling on loans and mortgages insured under Title XI of the Merchant Marine Act of 1936. Title XI now provides that a construction loan or ship mortgage may not involve a rate of interest exceeding 6% and this legislation would substitute for that maximum a provision that the interest rate shall not exceed a rate determined by the Secretary of Commerce to be reasonable taking into account interest rates prevailing in the private market.

The Department of Commerce has requested this change in the law and all segments of the affected industry are in accord with its purposes. It is believed that enactment will allow a much greater flow of private capital into the maritime industry. Further, no additional cost will accrue to the Government, and in fact the Administration witness predicted that the Government would actually enhance their already profitable operation of the Title XI loan insurance fund.

Two purely technical changes should be made in the bill which would not affect the substantive provisions of the measure:

- (1) At Line 5, Page 1, the capital "S" should be in lower case, and
- (2) At Line 2 of Page 2 a semicolon should be substituted for the period.

THE SECRETARY OF COMMERCE,
Washington, D.C., December 20, 1967.

HON. HUBERT H. HUMPHREY,
President of the Senate,
Washington, D.C.

DEAR MR. PRESIDENT: Submitted herewith are four copies of a draft bill "To change the provision with respect to the maximum rate of interest permitted on loans and mortgages insured under title XI of the Merchant Marine Act, 1936." The accompanying statement of purposes and provisions explains the changes the bill would make in existing law and the need for enactment of the bill.

The Bureau of the Budget advises there is no objection to the submission of this legislation to the Congress from the standpoint of the Administration's program.

Sincerely yours,

ALEXANDER B. TROWBRIDGE,
Secretary of Commerce.

STATEMENT OF THE PURPOSES AND PROVISIONS OF THE BILL TO CHANGE THE PROVISION WITH RESPECT TO THE MAXIMUM RATE OF INTEREST PERMITTED ON LOANS AND MORTGAGES INSURED UNDER TITLE XI OF THE MERCHANT MARINE ACT, 1936

Section 1104(a)(5) of the Merchant Marine Act, 1936, provides that to be eligible for mortgage insurance a ship mortgage must, among other requirements, secure bonds, notes or other obligations bearing interest (exclusive of premium charges for insurance) at a rate not to exceed 5 per centum per annum on the unpaid principal balance or not to exceed 6 per centum per annum on such balance if the Secretary of Commerce finds that in certain areas or under special circumstances the mortgage or leading market demands it.

By reference to section 1104(a)(5), section 1104(b)(6) places the same requirement on loans with respect to the maximum interest rate if they are to be eligible for insurance. This refers to loans which are made to finance construction of the ship and which precede the mortgage which is placed on the ship after the ship is completed.

The bill would amend section 1104(a)(5) to substitute for the 5 and 6 percent maximums a provision that the interest rate shall not exceed a rate determined by the Secretary of Commerce to be reasonable, taking into account the range of interest rates prevailing in the private market for similar loans and the risks assumed by the Department of Commerce. Under this language, there could be circumstances under which the rate determined by the Secretary to be reasonable would exceed 6 percent.

Since November 1966, the Department has approved interest rates under the terms of the existing law as follows:

Interest rate:	Date approved
5.75 percent	Nov. 17, 1966
5.10 percent	Feb. 1, 1967
5.50 percent	Mar. 20, 1967
5.50 percent	Apr. 21, 1967
5.40 percent	May 25, 1967
6.00 percent	June 28, 1967
6.00 percent	Aug. 10, 1967

At the present time the Department has applications for mortgage and loan insurance totaling \$252,002,000 for 45 ships and 691 barges which are to be built by private owners with privately generated funds to upgrade and modernize the American merchant marine. Under existing law, if the market should require a rate of interest higher than 6 percent, the Department could not insure these loans and mortgages and the vessels therefore could not be built.

Companies with plans to build ships do not want to take the risk that the Department will be unable to provide title XI insurance because of the demand for rates in excess of 6%. If the ceiling were removed, the Department could negotiate freely without the restraint caused by the ceiling and the pressure on the operator, who is willing to pay the price of high rates for assurance that financing will be available when needed.

THE GENERAL COUNSEL OF THE TREASURY,
Washington, D.C., April 3, 1968.

HON. WARREN G. MAGNUSON,
*Chairman, Committee on Commerce,
U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: Reference is made to your request for the views of this Department on S. 3017, "To change the provision with respect to the maximum rate of interest permitted on loans and mortgages insured under title XI of the Merchant Marine Act, 1936."

Under title XI of the Merchant Marine Act, 1936, the Secretary of Commerce is authorized to insure up to \$1 billion outstanding of ship mortgages and loans, and such insurance may be for the benefit of holders of bonds and notes (merchant marine bonds) issued under a trust indenture under which the trustee is the mortgagee or lender. The faith of the United States is pledged to the payment of both interest and principal of insured mortgages and loans. In the event of default, the Secretary is required to make cash payments simply upon the assignment to him of the mortgage or loan. These payments are made from the federal ship mortgage insurance fund, which is a revolving fund consisting of receipts from insurance premiums, other fees, and appropriations made to the fund. If the fund is inadequate to pay claims, the Secretary is authorized to borrow from the Treasury to satisfy claims.

The bill would remove the 6 percent interest rate limit on mortgages insured under the title XI program and provide instead for "rates not to exceed such per centum per annum on the principal obligation outstanding as the Secretary of Commerce determines to be reasonable, taking into account the range of interest rates prevailing in the private market for similar loans and the risks assumed by the Department of Commerce."

Since there is no risk to the private lender under the ship mortgage insurance program, there is a serious question as to whether the program is encouraging private participation of the sort which would eventually lead to the provision of private credit without continued Federal assistance. Merchant marine bonds are rated Aaa (least investment risk) by Moody's which indicates that they are regarded by lenders as obligations of the United States Government rather than obligations of private borrowers. Thus, the Secretary of Commerce cannot rely on the judgment of the lender in determining the soundness of a prospective loan, and is required, in keeping with the provisions of title XI, to review each application as thoroughly as if he were making a direct Federal loan.

The bill incorporates legislation submitted to the Congress by the Secretary of Commerce. We understand that removal of the 6 percent insured loan ceiling is necessary to attract investors to these fully guaranteed merchant marine bonds.

Under the circumstances, the Department has no objection to the bill.

The Department has been advised by the Bureau of the Budget that there is no objection from the standpoint of the Administration's program to the submission of this report to your Committee.

Sincerely yours,

FRED B. SMITH, *General Counsel.*

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D.C., March 19, 1968.

XXXXXXX

Hon. WARREN G. MAGNUSON,
Chairman, Committee on Commerce,
U.S. Senate.

DEAR MR. CHAIRMAN: Your letter of February 26, 1968, requests our comments on S. 3017, a bill to change the provision with respect to the maximum rate of interest permitted on loans and mortgages insured under title XI of the Merchant Marine Act, 1936.

The bill would eliminate the maximum interest rates of 5 and 6 percent presently in effect pursuant to section 1104(a)(5) of title XI of the Merchant Marine Act, 1936, as amended, and give the Secretary of Commerce the authority to approve such interest rates as he determines to be reasonable, taking into account the range of interest rates prevailing in the private market for similar loans and the risks assumed by the Department of Commerce.

In submitting the proposed legislation to the Congress, the Secretary of Commerce stated that the Department, in June and August, 1967, has approved interest rates of 6 percent under the terms of the existing law; that the Department has pending applications for mortgage and loan insurance of over \$250 million for 45 ships and 691 barges which are to be built by private owners with privately generated funds to upgrade and modernize the American merchant marine; and that under the existing law, if the market should require a rate of interest higher than 6 percent, the Department could not insure these loans and mortgages and the vessels therefore could not be built. The Secretary further stated that the companies which propose to build ships do not want to take the risk that the Department will be unable so provide title XI insurance because of the demand for interest rates in excess of 6 percent, and that if the ceiling were removed, the Department could negotiate freely without the restraint caused by the ceiling and the pressure on the operator, who is willing to pay the price of higher rates for assurance that financing will be available when needed.

In addition we note that Standard and Poor's "Bond Guide" shows that bonds issued by private corporations and rated AAA currently yield over 6 percent. Therefore, it would seem clear that the maximum interest rate presently prescribed in section 1104(a)(5) will have to be increased if the purpose of Maritime's Federal ship mortgage insurance program is to be effective in the construction of new vessels.

S. 3017 is in accordance with the language recommended by the Bureau of the Budget in Circular No. A-70 for legislation on Federal credit programs. Accordingly, we recommend the enactment of S. 3017.

Sincerely yours,

FRANK H. WEITZEL,
Assistant Comptroller General of the United States.

Senator BARTLETT. The next witness is Albert E. May, assistant executive director, Committee of American Steamship Lines.

And I understand that Mr. May is representing, together with the gentlemen appearing at the table, the entire industry. Is this correct, Mr. May?

**STATEMENT OF ALBERT E. MAY, ASSISTANT EXECUTIVE DIRECTOR,
COMMITTEE OF AMERICAN STEAMSHIP LINES; ACCOMPANIED BY
HOWARD ADAMS, PACIFIC FAR EAST LINE, AND MARVIN J. COLES,
COLES & GOERTNER, WASHINGTON, D.C.**

Mr. MAY. Remarkably enough, it is, Mr. Chairman. We have in my statement a list of a very broad group of the industry, labor, shipbuilders, shipowners of all types, tankers, tramps, subsidized

liners, unsubsidized liners. And it is really quite a unique circumstance, I believe to see the whole industry together.

Senator BARTLETT. I agree.

Perhaps while we are sitting here in a unified frame of mind we can endorse the broad maritime program.

Mr. MAY. I think that would be excellent. I might be shot later. [Laughter.]

Senator BARTLETT. You are accompanied, Mr. May, by whom?

Mr. MAY. By Mr. Howard Adams of Pacific Far East Line, and Mr. Marvin Coles of Coles & Goertner.

Senator BARTLETT. Mr. Adams, I note in the papers that Pacific Far East is going to acquire several additional ships. Will title XI mortgages be involved?

Mr. ADAMS. Yes, sir. We have two ships which are C-4 conversions which will require an expenditure of roughly \$10 million for the two ships, between \$4.5 million and \$5 million for each.

Senator BARTLETT. Those will run from where to where?

Mr. ADAMS. They will run from the west coast to Guam in an unsubsidized service off of Pacific Far East Line.

Senator BARTLETT. And they turn around from Guam?

Mr. ADAMS. Yes, sir; turnaround from Guam and return to the west coast.

Senator BARTLETT. They don't serve the trust territories?

Mr. ADAMS. They serve as a feeder for the trust territories up from Guam to Saipan and Kwajalein. They do stop at Kwajalein on the way out, stop at Wake on the way out or on the way back. But principally it is U.S. west coast to Guam service as a marshaling or distribution point for the trust territories.

Senator BARTLETT. How many ships in the fleet?

Mr. ADAMS. At the present time we have a total of five C-2's and AP-3 Victory vessels. There will be a total of seven when these two ships go into service.

Senator BARTLETT. Thank you.

You may proceed with your prepared statement, Mr. May, if you so desire.

Mr. MAY. Thank you, Mr. Chairman.

This legislation, to remove the ceiling on the rate of interest permitted on loans and mortgages insured under title XI of the Merchant Marine Act of 1936, is supported, as far as I am aware, by all segments of the maritime industry, both management and labor. A great many witnesses were prepared to appear before you to express their companies', unions', or associations' support for this important bill. However, your counsel, Mr. Barer, recognizing the universal support and lack of controversy over this legislation, and being aware of the heavy schedule of the committee, requested that industry representatives agree upon a single statement.

This has been done, and it is my privilege to present this statement on behalf of the following associations, companies, and unions.

As you can see, Mr. Chairman, this is a very long list, and I don't think it is necessary to read it, unless you wish me to do so.

Senator BARTLETT. No, indeed. It will be placed in the record.

(The list referred to follows:)

American Maritime Association.
 American Merchant Marine Institute.
 American Tramp Ship Owners Association, Inc.
 Committee of American Steamship Lines.
 Committee of American Tanker Owners.
 Industrial Union of Marine and Shipbuilding Workers of America.
 International Brotherhood of Boilermakers, Iron Shipbuilders, Blacksmiths,
 Forgers and Helpers.
 Labor-Management Maritime Committee.
 Maritime Trades Department, AFL-CIO.
 Matson Navigation Co.
 Pacific American Steamship Association.
 Shipbuilders Council of America.

Mr. MAY. It does represent the largest group of a broad segment of the industry that to my knowledge has ever supported a single bill in recent years.

Senator BARTLETT. To mine too.

Mr. MAY. The companies represented in this group own and operate the vast majority of ships flying the U.S. flag.

S. 3017 was introduced at the request of the Secretary of Commerce and has been approved by the Bureau of the Budget and the Comptroller General. This widespread support underscores the critical need for prompt amendment of the totally unrealistic ceiling of 6 percent on loans and mortgages insured under title XI of the 1936 act.

Title XI authorizes the Secretary of Commerce to pledge the full faith and credit of the United States to guarantee loans and mortgages made by U.S. shipowners, both subsidized and unsubsidized, for the construction of new vessels and conversion of existing vessels. Historically shipping has been and remains today a highly cyclical business enterprise. Long periods of depressed earnings were commonplace, and, as a result, it has often been difficult for shipowners to secure financing.

Title XI has been highly effective in solving this problem as witnessed by the fact that virtually all commercial ships built in the United States since World War II were financed under it, usually at quite favorable interest rates.

The entire operation of this vital section of the 1936 act may well be frustrated unless the 6-percent ceiling on insured loans and mortgages is raised because during the past 6 months, interest rates have risen to all-time record highs for this century. The rates for Government-insured loans are presently in excess of 6 percent, and, thus, title XI insurance is now not available to American shipowners.

If the instant legislation is not enacted, orders for new construction of merchant ships will be sharply curtailed with severe damage to our merchant fleet capability.

Testimony presented before this committee last year clearly demonstrated that no one is better aware than the members of this committee of the bloc obsolescence facing large segments of our merchant fleet. During many hearings over the past 2 years, you have documented this situation in exhaustive detail and demonstrated the urgent, in fact critical, need for major new shipbuilding programs to be undertaken immediately.

We are confident that as a result of the recent authorization hearings on Maritime Administration appropriations for fiscal year 1969 that you will recommend and the Senate will authorize a substantial increase in construction-differential subsidy funds.

If these new funds are finally approved by the Congress, and if they are made available for expenditure by the Administration, the title XI problem will still remain critical because subsidized steamship companies who are presently receiving all of the available construction-differential subsidy funds finance a large share of their own portion of new construction costs through title XI. Operators who must build without the assistance of shipyard subsidies are even more dependent on title XI financing.

Nonsubsidized U.S.-flag operators presently have on file with the Maritime Administration title XI applications for over \$140 million and subsidized operators have on file applications for \$100,304,000, for a total of over \$240 million of private capital which would, if approved, become eligible for the implementation of ship construction programs during the current year. These totals, of course, do not include any construction-differential subsidy funds.

Mr. Chairman, I'd like to interrupt the statement to point out these numbers are low, and the Maritime Administration total figure of \$314 million broken down between various subsidized and unsubsidized companies is more current and certainly more correct than these numbers.

Much of the urgently needed new ship construction represented by these applications would be delayed, if not entirely frustrated, unless S. 3017 is enacted into law.

At the time it was enacted, the 6-percent ceiling was a reasonable provision in a new and untested law, to prevent the shipowner from paying, and the Government from insuring, uneconomically high interest charges. Today it is nothing more than an artificial and outdated restraint on new ship construction.

As the Secretary of Commerce pointed out in his statement in support of this legislation, title XI interest rates at the ceiling of 6 percent were approved as long ago as June 1967. Since that time, the general trend has been upward because of continuing pressure on the dollar and high borrowings by both Government and industry. All indications are that the interest rate today on title XI mortgages and similar securities is well above 6 percent.

Attached to my statement is an article reproduced from the New York Times of Wednesday, March 27, 1968, which states:

The Federal National Mortgage Association (Fannie Mae) sold an issue of 20-year participation certificates yesterday—the next best thing to a Treasury bond—at a yield of 6.45%, the highest return on a new long-term Government issue in more than a century.

The interest rate on title XI insured loans and mortgages has generally ranged very close to the rate on Federal National Mortgage Association certificates.

As the Comptroller General pointed out in commenting upon this legislation, Standard & Poor's "Bond Guide" shows that bonds issued by private corporations and rated AAA currently yield over 6 percent. In fact, as the New York Times article points out:

In the corporate bond market, another milestone was passed yesterday: A double-A bond issue with 5 years of call protection was offered with a 7 percent interest coupon for the first time.

Let me give you a specific example with regard to title XI. For over 3 months, one steamship company, Pacific Far East Line, Inc., has been working with several of the largest investment and commercial banks in the United States to secure title XI financing for

its new *Lash*-type barge carriers. The cheapest interest rate which they could negotiate during this period was between 6.15 percent and 6.2 percent. In early April they were advised that the rate was a minimum of 6.45 percent. Since that time the discount rate has been raised by $\frac{1}{2}$ percent, so it is reasonable to assume that today the rate would be still higher. Pacific Far East Line holds an operating-differential subsidy contract with the Government and, thus, is able to secure one of the lowest title XI interest rates available to U.S. shipowners.

Historically, tankers and other nonsubsidized carriers have had to pay about one-half of 1 percent more for their title XI financing than have the subsidized companies. Thus, a nonsubsidized company today would probably have to pay almost 7 percent interest on an insured loan.

Let me assure you, gentlemen, that no steamship operator wants to pay higher interest rates. Every company makes strenuous and continuing efforts to hold financing costs down to an absolute minimum, for even a fraction of a percent increase in the cost of financing expensive flights of ships over long periods of time can amount to hundreds of thousands of dollars.

However, we are willing to pay higher interest rates in order to secure the ships needed to replace our aging fleets and to meet foreign competition.

We hope you will give us the opportunity by permitting the Secretary of Commerce, in his discretion, to authorize rates which are in accord with the market at the time that financing is undertaken.

Giving such authority to the Secretary would, in effect, be continuing the procedure that has been in use since World War II.

Until the last several years, interest rates on Government-insured loans and mortgages were generally far below 6 percent. For example, in June 1966, States Steamship Co. secured title XI financing at an interest rate of 5.1 percent. Their financing prior to that time was at 4.25 percent and 5.0 percent. During these years, all loans and interest rates, even though well below 6 percent, had to be approved by the Secretary of Commerce as fair and reasonable.

And I might add the statute also requires that the Secretary find that the entire venture is, in his opinion, sound and economical.

The Secretary's wisdom in approving loans and the soundness of the title XI concept are testified to by the fact that the program has been a profitable one to the Government, because defaults have been so few that the 0.5-percent insurance charge paid by the subsidized operator and the 0.75 percent paid by the unsubsidized operator has more than covered losses and resulted in a profit to the Government.

Again, I would like to thank you for this opportunity to appear before this committee to urge prompt passage of S. 3017.

Senator BARTLETT. Thank you, Mr. May.

Your Times article will be included as part of your statement.

Mr. MAY. Thank you, sir.

(The article from the New York Times referred to follows:)

[From the New York Times, Mar. 27, 1968]

FANNIE MAE SALE MARKS RATE RISE—CORPORATE BONDS AUCTIONED TO CARRY A 7-PERCENT COUPON

(By John H. Allan)

The Federal National Mortgage Association sold an issue of 20-year participation certificates yesterday—the next best thing to a Treasury bond—at a yield of 6.45 per cent, the highest return on a new long-term Government issue in more than a century.

The financing provided the most dramatic example of rising interest rates, pushed up recently chiefly by the failure of Congress to enact a tax increase at a time of gigantic Federal budget deficits.

In the corporate bond market, another milestone was passed yesterday: A double-A bond issue with five years of call protection was offered with a 7 per cent interest coupon for the first time. It was priced to yield 6.80 per cent, equaling two other issues offered late last year.

INVESTORS HESITATE

New tax-exempt bond issues were priced to yield slightly less than similar bonds marketed last week, but investors hesitated to buy them. Of the five largest issues, a total of \$58.75-million of bonds, about 65 per cent remained unsold late in the afternoon.

In the Fanny Mae P.C. sale, \$730-million were sold to the public and \$270-million were sold directly to Government investment accounts.

The participation certificates were offered by an underwriting syndicate headed by the First Boston Corporation; the Morgan Guaranty Trust Company; Merrill Lynch, Pierce, Fenner & Smith, Inc., and Salomon Brothers & Hutzler.

The \$730-million offered to the public was made up of three issues: \$200-million due April 8, 1971, priced to yield 6.30 per cent; \$330-million due April 9, 1973, priced to yield 6.45 per cent, and \$200-million due April 8, 1988, also priced to yield 6.45 per cent.

The participation certificates were completely sold, with corporations and banks purchasing most of the two shorter maturities and pension funds taking the 20-year issue. Individuals also purchased some of the P.C.s, but the sale appeared to be timed to lessen any tendency to switch out of savings accounts. The grace period for first quarter savings dividends and interest begins today.

The 6.45 per cent yield on the 20-year P.C.'s, which are noncallable, is 5 basis points higher than a similar issue marketed Nov. 28.

FANNIE MAE SECURITIES BACKED BY FULL FAITH

If you accept the Attorney General's opinion dated Sept. 30, 1966, the Fannie Mae guarantee "brings into being a general obligation of the United States backed by its full faith and credit."

Not since July, 1861, has the Government sold a new issue of long-term securities yielding more than the new 6.45 per cent P.C.'s. At that time, the Treasury sold a \$50-million 6 per cent loan redeemable in 1881 at a price of 89¼ to yield 6.70 per cent. During the Civil War, Government issues traded at prices to yield more. And short-term Treasury issues traded at prices to yield more than 6.45 per cent during the tight-money period of 1920.

Between the November P.C. sale and yesterday's, Fanny Mae also sold \$1.25-billion on Jan. 16, a time when interest rates had been pushed downward largely by a heightened feeling that peace in Vietnam might develop. The total included 20-year P.C.'s priced to yield 6.084 per cent.

In the corporate bond market, the Union Electric Company auctioned \$50-million of double-A bonds that may not be refunded for five years. The Missouri utility awarded the issue to a syndicate managed by Halsey, Stuart & Co., Inc., and Merrill Lynch, Pierce, Fenner & Smith, Inc.

The winning group bid 101.151 for the bonds, specifying the pace-setting 7 per cent interest rate. It repriced the bonds at 102.545 to produce their 6.80 per cent yield to maturity in April, 1968.

By late afternoon, the issue, which will be offered formally today, was 75 to 80 per cent spoken for, a canvass of the underwriters disclosed.

Senator BARTLETT. With reference, if you know, to the bonds which have been sold at an interest rate of 6 percent, what is their experience in the market? That is to say, are they commanding par, below par, or above par?

Mr. MAY. I have not looked at any of the specific prices on the title XI bonds, sir. They are not widely traded because they are usually bought up in blocks by institutions such as insurance companies or college trust funds, so they are not widely traded.

But I did look at the general bond market about 2 weeks ago, with this hearing in mind, and bonds with an interest rate of 6 percent were generally selling at a discount. They were selling below par.

As Mr. Adams points out, they have been selling to yield whatever the market rate is. So if we assume the market rate is 7 percent now, the bonds would be selling considerably below par.

Senator BARTLETT. You are informing the committee, as I gather, that if this bill does not become law the steamship companies simply won't be able to secure the financing for new vessels?

Mr. MAY. In very many cases that would be exactly the result. Yes, sir.

Senator BARTLETT. What would be the upper limit, in your opinion, of interest which an operator could accommodate himself to in building a new vessel or vessels? By this I mean if the Secretary of Commerce were advised to lift the ceiling in a year and a half from now to 10 percent because the market had moved at extraordinary level, would the operator be able, looking toward the future, to accept any such interest rate?

Mr. MAY. I think this would be a circumstance that would vary from case to case.

In my own mind, I would not think that anyone would build at a 10-percent rate of interest.

It is important to remember that the Secretary even at the present time, and even when the rates were well below 5 percent, looked into the soundness of the entire venture, and exercised a great deal of interest and even coercion at times, in forcing companies who came in and said they had such and such a rate of interest that they had secured commercially—he would make them go back sometimes repeatedly to try to get a lower rate.

So the Secretary has had a downward effect on the market.

I would think that rates much beyond 7 percent would probably not be attractive for new ship construction, because when you begin to look at a 25-year life and 7-percent interest on a \$10, \$20, \$30, or even a \$100 million investment when you are building a fleet of ships, you are eating a tremendous hole in your profits, and you are making that commitment against your profits for a very long period in the future.

Mr. Coles represents some nonsubsidized companies, and he might have a view on that.

Mr. COLES. It is impossible to say what the upward rate would be. I suppose one of the great deterrents to all capital expenditures is high money rates. In other words, it is quite conceivable to me that if the entire money market goes up beyond 7 percent, shipowners will build. In other words, I think you have got to take your money rate into consideration along with the other factors of what the potential profits are and also what the inflation factor is.

In other words, a 7-percent rate of return with a 5-percent inflation factor may in the long run be substantially less than a 4-percent interest with no inflation factor.

Senator BARTLETT. You have to have a vision that no man can possibly possess?

Mr. COLES. I don't think, as a personal opinion right now, it takes much vision to see inflation. What the rate will be, I, of course, can't tell.

Senator BARTLETT. You think there is going to be continued inflation?

Mr. COLES. Senator, I think I could ask you that, because I think it is largely a political decision rather than an economic decision.

Senator BARTLETT. You ask me, and I will say probably so.

To reverse this would, as you all know, create some agonies too.

Mr. COLES. It is a serious problem. It is a difficult fence to straddle. I don't know what the answer is.

Senator BARTLETT. You know much more about economics than I do, so I will leave that alone.

Now, Mr. May, tell us a bit more, if you will, about shipbuilding on the part of the subsidized lines who rely, despite the construction subsidies, as you relate, for financing a large share of their own cost through title XI.

Mr. MAY. Yes, sir. The general procedure is that the company will make a downpayment on the ship from its reserve funds or from the sale of a ship that is being replaced if the ship is sold at that time. The company then through the period of construction will make progress payments to the shipyard for the full foreign cost of the vessel, and the Government pays, as you know, a subsidy of around 50 percent directly to the shipyard.

During this period some of the subsidized lines who over the years have accumulated large reserve funds can make all of their payments directly from those funds. In some cases when the ship was delivered to them they have not had to put a mortgage on it. In fact, they have paid cash for it. In this event there is no title XI effect because there is no mortgage or bonds to insure.

Other companies, who have not been so fortunate in being able to accumulate a substantial reserve fund, have had to make a commercial loan during the period of building of the ship in order to make progress payments to the yard, and then when the ship is delivered to them they put on a mortgage which is insured.

The important factor here and the importance to the subsidized companies, as well as everyone else, is that it enables a company to undertake programs that would otherwise be impossible or uneconomic. Shipbuilding is a risky business and, therefore, the rate charged by the commercial lending companies is high without Government assistance. The shipowner would probably have to pay 1 percent more without the Government insurance—perhaps in some circumstances considerably more than that.

One percent on an investment such as the new *Lash* ships would involve probably \$12 million, because the ships have a total cost of \$240 million. They are going to be financed, I believe, for 25 years. Isn't that right, Howard?

Mr. ADAMS. Yes.

Mr. MAY. So you begin to look at 1 percent of \$240 million for 25 years, and you realize you are dealing with millions of dollars in savings because of the effect of title XI and the lower interest rate that it makes possible.

Many people don't appreciate how much this means to the subsidized companies, as well as others.

I might put it in perspective by noting that the best figures we have—and all of the annual reports aren't in yet—show that the subsidized companies as a group made about 4 percent on their owners' equity last year, and they made 2.6 percent on their total assets.

Well, when you are making this sort of money, the savings that are possible because of the workings of title XI are extremely important.

I think this is even more true for the nonsubsidized companies. Marvin?

Mr. COLES. I am not certain I agree, because, in addition to paying the interest rate of 6 percent or 7 percent, as Mr. May has noted, a subsidized line must pay an extra one-half percent for insurance premium, and an unsubsidized line or tanker owner must pay three-fourths of 1 percent.

So, using his rationale of 7 percent, the net effective rate is 7.5 percent, which is expensive money.

On the cost of the \$240 million, I figured this out, and if my mathematics are correct it would mean with a 1-percent increase \$17.5 million more in interest cost, which is a very substantial saving if you can keep the rate down.

Now, as far as title XI being necessary, that goes by company. My recollection is, subject to correction, that Lykes Bros. previously has financed its own ships out of its own pocket. A client of mine in the last year has financed a good many ships with many millions of dollars without title XI. But it's a matter of personal preference and ability to obtain credit.

I would agree, though, that the interest rate is a very important factor.

Senator BARTLETT. Mr. May, would you say that the majority of the subsidized lines, building new ships in terms of numbers of companies or in terms of the total amounts committed additionally, rely upon title XI mortgages?

Mr. MAY. Yes, sir. The majority do.

Senator BARTLETT. Do these bonds have a time limit? May the company issue them for whatever period it desires? Or does title XI say the limit is 20, 25, or whatever number of years?

Mr. MAY. I believe they are serial up to the length of time of the mortgage, so that they are paid off periodically.

Mr. Adams is probably more familiar with that.

Mr. ADAMS. They are serially issued, but there are provisions in the bonds for acceleration of retirement of the bonds, and some operators have accelerated the retirement of the bonds.

Senator BARTLETT. Thank you.

Mr. MAY. Mr. Coles just pointed out that the total term would be keyed to the ship—that for a subsidized liner it might be 25 years; a tanker, which has a shorter life, might be geared to 20 years; and in the case of reconversions it might be 10 years because that is all the effective life that is left in the ship. The mortgages are serial to each one of these time periods.

Senator BARTLETT. Are the shipping interests which you represent, Mr. Coles, the tankers and other nonsubsidized carriers, required at any point to face competition from the subsidized group?

Mr. COLES. Yes, very severe competition in two principal fields: The unsubsidized ships rely largely on what I call Government reserve cargo, and in the foreign trades I will divide that down into two parts—to the 50/50 cargo and the MSTS cargo.

Now, in the 50/50 cargo we face competition from the subsidized ships. In the MSTS cargo we face dual competition. No. 1, a good deal of berth cargo is taken at berth terms from MSTS. But also a number of subsidized vessels are time-chartered to MSTS today.

Now, when they are under time charter there is no operating subsidy, but they still have the benefits of the construction subsidy.

In other words, if an unsubsidized owner offered a ship and a subsidized owner a similar ship, roughly speaking, the capital cost of the subsidized vessel would be half that of the unsubsidized.

There is a great deal of competition.

Senator BARTLETT. And the group that you appear for pay more money for the ships before they are ever put into the seas?

Mr. COLES. Yes. In other words, the unsubsidized pays 100 percent of the American cost.

Senator BARTLETT. And more interest?

Mr. COLES. Well, if you increase the principal, you increase the total interest. For example, let's take a hypothetical situation that a subsidized line wished to build a \$10 million ship and an unsubsidized line wished to build a similar ship. The subsidized line would pay \$5 million. The unsubsidized would pay \$10 million.

Now, the mortgage on a \$5 million ship would be \$3,750,000, and the net investment would be \$1,250,000. On a \$10 million ship the investment would be the same \$1,250,000, but the mortgage would be \$8,750,000. So the unsubsidized would be paying additional interest on an additional \$5 million and would also have to pay off that additional \$5 million.

So it becomes a tremendous burden.

I don't think that is in issue here.

Senator BARTLETT. I understand that it isn't in point here at all. I just brought it up because Mr. May had declared in his statement that these shippers had to pay about one-half of 1 percent more for their title XI financing than the others.

Mr. MAY. This, Mr. Chairman, correctly reflects the confidence that comes from the long-term subsidy contract and the security it gives an operator.

As Mr. Adams points out, it reflects the problems of the other segments and the fact that all of the defaults under title XI that have occurred have occurred in the nonsubsidized area.

I would just like to make two comments on this. We hope to be invited to appear before you next month when many of these questions will come up. The CASL companies are advocating, as we have for 4 years, that operating and construction subsidies be made available to all segments of the American merchant marine.

Senator BARTLETT. Yes.

Mr. MAY. I think this is the ultimate solution to the problem. We don't operate any tankers, and there are some fine new tankers that have been built since the war, so our companies don't compete with the tanker.

With regard to the other ships outside of the subsidized area, there are no ships built for the foreign-liner trade since World War II. You simply can't do it without a subsidy. And all the ships that were built during World War II were sold under the Ship Sales Act at approximately a 50-percent discount, so they are all subsidized vessels, every one of them, as to construction cost.

I think it is important to remember that there is no such thing as a nonsubsidized liner, as far as construction-differential subsidy goes, in our ocean trade.

Mr. COLES. Mr. Chairman, I don't want to break up unanimity here, and I'm not going to, but I think there is a fallacy in one respect.

What Mr. May has said about most of the unsubsidized vessels having been purchased from the Government is completely correct. But I think that what has not been put forward is in many cases a vessel has been purchased from the Government at let us say a half a million cost merely to utilize its engine, and then owners, unsubsidized owners, have built as much as \$6 million apiece in American yards on each of those ships.

So that there is a substantial number of unsubsidized ships today having a higher capital cost than the brandnew ships have to the subsidized line owner.

So I think that the statement that Mr. May has given must be elaborated upon in that manner.

Senator BARTLETT. We will accept your statement. We will now switch and return to the bill itself. And I will ask Mr. Barer if he has any questions.

Mr. BARER. I assume you have no objection to two technical changes in the bill, one at line 5 to change that capital "S" to a small "s," and to change the period at the end to a semicolon.

Mr. MAY. No.

Mr. BARER. That is the only question I have.

Senator BARTLETT. Thank you, gentlemen.

We hope the subcommittee will take up this bill at a very early date and that likewise the full committee may consider it soon.

I think that you and Mr. Davis and his associates have made a powerful case. These changes, in my judgment, are absolutely necessary, and I shall so recommend to the subcommittee and to the full committee.

Thank you very much.

Mr. MAY. Thank you very much.

Mr. ADAMS. Thank you, sir.

Mr. COLES. Thank you.

(Whereupon, at 11:07 a.m., the subcommittee adjourned subject to the call of the Chair.)

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