

## **PROMISSORY NOTE**

The promissory note is the instrument by which the borrower promises to repay the loan. It is also the document on which the First Preferred Mortgage is based.

The note must be properly executed by the borrower and conform to all state lending rules concerning rate of interest.

## PROMISSORY NOTE

For value received, I promise to pay to \_\_\_\_\_, the principal sum of \$ \_\_\_\_\_ with interest at the rate of % \_\_\_\_\_ per annum.

1. INTEREST. I will be charged interest on the principal balance that is unpaid. Interest will begin on the date I sign this agreement.
2. PAYMENTS. I will pay the principal and interest as follows: \$ \_\_\_\_\_ on the \_\_\_\_\_ day of each month beginning upon the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, and continuing until the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.
3. PREPAYMENTS. I may prepay this loan in full or in part at any time. If I prepay a portion of this loan, the prepayment will be applied as a credit to the installment payments next due under this loan. I will notify the holder of this note if the prepayment is to be applied differently.

## SECURITY AGREEMENT

4. SECURITY. As an inducement for the lender to make this loan, I agree to place the title to the Motor Vessel \_\_\_\_\_, Official Number \_\_\_\_\_ in mortgage with the lender.
  - A. I agree to maintain the property in good condition and repair, except wear and tear caused from ordinary use. I agree, at my expense to have the vessel surveyed annually or more frequently if required by the charter agreement, and to repair and operate the vessel in accordance with the recommendations of the surveyor. I understand that the surveyor will be chosen by the Mortgagee and any objection I have to said surveyor must be made in writing within ten (10) days of notice of election of surveyor.
  - B. In addition, the Mortgagee has the right to inspect the vessel at any time with or without notice.
  - C. I will maintain insurance on the vessel including Hull & Machinery in amount equal to the outstanding balance on this note. Said policy of insurance must also contain a Breach of Warrant clause for the protection of the holder of this note. Also, I will maintain Liability insurance in amount of not less than one million dollars (\$1,000,000.00). I shall maintain coverage for protection and indemnity risks, tower's liability risks if the vessel performs towage, employees' compensation and any other risks and liabilities that from time to time may be required by my operation of the vessel.
1. All insurance shall be taken out in my name and shall name the Mortgagee and/or Holder of this note as the loss payee.

2. I will provide the Mortgagee with copies of all insurance policies.
  - D. I will advise the Holder of this note of any change in my address where I live or where the vessel is docked.
  - E. I will pay when due all taxes, assessments, government charges, fines and penalties lawfully imposed and promptly discharge any and all liens whatsoever upon the vessel.
  - F. I will not remove the vessel from the waters of the United States of America without securing written permission of the Trustee.
  - G. I will not use and will not permit anyone to use the vessel for any unlawful purpose, or for any use which would result in excessive or unusual depreciation, or not permitted under the terms of the insurance policies insuring the vessel.
  - H. I will not abandon or lose possession of the property.
  - I. I will keep the property free of all claims, liens and seizures by any civilian or governmental authority.
  - J. I will not lend, sell, transfer or charter the vessel to any other party without written permission of the Trustee.
  - K. I agree to appear in and defend at my expense any action affecting my interest or the Holder of this note's interest in the vessel.
  - N. I confirm that I am a citizen of the United States and will remain a citizen of the United States during the period of this note.

### **DEFAULT**

3. I may be declared in default if any one of the following events occurs:
  - A. Default in the punctual payment of the principal of the note or default in any provision contained herein or in the First Preferred Mortgage that I have executed regarding this vessel.
  - B. Commission of any act of bankruptcy or approval by any court of a petition or request for reorganization, arrangement, extension or other relief under any bankruptcy law; or by appointment of a receiver.
4. Then in case of said default, the Holder of this Note may:
  - A. Declare the principal of said note and all accrued interest thereon to be and

they shall become due and payable forthwith.

- B. Recover judgment for and collect out of any property I may own any amount due and collect all earned charter hire and freight monies relating to services performed by the vessel.
- C. Take possession of the vessel without legal action being required.
  - 1. I shall have fifteen days (15) from notice of default in which to pay the note in full and redeem the vessel.
  - 2. If I do not redeem the vessel and continue in default for more than 15 days after written notice of default, I will immediately and without any other authority being required, deliver possession of the vessel to the mortgagee, or his designated agent at the nearest port. I will notify the mortgagee immediately upon receipt of a Notice of Default of the exact location of the vessel.
- D. If because of my default, the Mortgagee or Holder of this Note voluntarily or involuntarily takes possession of the vessel and the vessel is re-sold, the net proceeds of any judicial or other sale, and any charter, management, operation or other use of the vessel by Trustee or Holder of this note shall be applied as follows:
  - 1. To the payment of all attorney's fees, court costs and any other expenses, losses, charges, damages incurred or advances made by the Trustee or Holder of this note in the protection of its rights or caused by my default hereunder with interest on all such amount at the rate of 10% per annum.
  - 2. To the payment of all interest, to date of payment, on this note and any or all other sums secured hereby and as to any balance of such proceeds, to the payment next of any or all matured installments of principal and then of any or all un-matured installments of principal in the inverse order of their maturity.
  - 3. The holder of this note will be entitled to collect any deficiency from me. I will be entitled to any surplus subject to set off in favor of any other indebtedness I may owe.
  - 4. I shall receive credit for any sum received in the nature of a resale of the vessel by the Trustee or Holder of this note and said credit shall reduce any amount of financial liability I may have under the terms of this note.
- 6. In case of a dispute between the maker of this note and Mortgage or Holder of this note, the matter shall be resolved by binding arbitration at the office nearest to the

port where the vessel was berthed at the time of the signing of the charter for the vessel.

Signed at: \_\_\_\_\_

This the \_\_\_\_ day of \_\_\_\_\_, 20 \_\_\_\_.

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Borrower

NOTARY ATTACHED

**(Required if Borrower is a Corporation)**

**CORPORATE ACKNOWLEDGMENT**

I, \_\_\_\_\_, as secretary of the  
\_\_\_\_\_ Corporation do hereby certify that  
\_\_\_\_\_ is a duly elected officer of the Corporation and has  
been authorized by vote of the Board of Directors to execute the foregoing Promissory Note  
on behalf of said Corporation verification thereof, I do hereby affix my signature and  
corporate seal, this the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

\_\_\_\_\_  
Authorized Officer

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