



US Government Finance Programs to Help Expand Your Export Sales



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The Export Process

Starts With:

- Evaluating Export Capacity

And Ends With:

- Identifying Other Market Entry Strategies

With the Purpose Of:

“AVOIDING IMPROVISATION”



The Export Process

- Evaluate Export Capacity
- Identify Potential Markets
- Determine Market Entry Strategies For Foreign Markets
- Negotiate Sales



The Export Process

- Select Methods Of Payment
- Determine How To Finance The International Transaction
- Logistics
- Identify Alternative Market Entry Strategies Such As Strategic Alliances, Joint Ventures, and Overseas Manufacturing



Risks Associated With Financial Transactions

- Credit Risk
- Political Risk
- FX Risk



Factors Affecting Method of Payment Selection

- Market Goals
- The Buyer
- Country Risk
- Company Risk Tolerance
- Industry Standard MOP
- Company Characteristics



Financing Needs

- Pre-Export Financing
 - when working capital is required
- Post Export Financing
 - financing receivables / improving competitiveness
- Market Development Financing
 - when all else fails...



US Government Finance Programs for Exporters

1. SBA's Export Express—to \$500,000
2. SBA International Trade Loan—to \$5 million
3. Export Working Capital
 - SBA to \$5 million
 - Eximbank, no upper limit
4. Eximbank's Credit Insurance
5. Eximbank Medium- and Long-Term Loan Guarantees
6. Overseas Private Investment Corporation (foreign investment only)



SBA Loan Programs for Exporters

1. SBA's Export Express

- to \$350,000 with 90% guaranty
- \$500,000 with 75% guaranty
- Processed by lenders under the SBA *Express* program
- Working capital: 7 years; Fix assets: up to 25 years

Required:

- In business for at least 12 months
- Expanding in foreign market



Requirements for Export Express

Four Questions, Four “Yes” Answers

1. in business for at least one year
2. entering a new or expanding in an existing foreign market
3. not financing offshore operations
4. not selling to a prohibited country

Add: Anticipated annual export sales for the first year—enter on SBA Form 1920C.



Export Express: Use of Proceeds

Proceeds may be used for any of the following:

- Export development expenses, such as brochure translation or participation in a trade show
- transaction-specific financing of export deals, including standby letters of credit
- general lines of credit for export purposes
- term loans for permanent working capital, machinery and equipment, or real estate



SBA Loans for Exporters

- 2. International Trade Loan (ITL)**—up to \$5,000,000
- either: a) expanding because of exports, or
b) adversely impacted by imports
 - maximum guaranty: \$4.5 million, 90% (permanent)
 - a combination of fixed assets/term loan with W/C
 - * maximum Working Capital: \$4,000,000
 - maximum term: 25 years; 7 years for working capital
 - refinancing is allowed
 - can be process by PLP lenders



International Methods of Payments: Their Impact on Financing Needs

1. Cash in Advance—wire transfers, credit cards
2. Documentary Letters of Credit
 - Applicant—buyer
 - Beneficiary—seller
 - Advising/confirming banks
3. Documentary Collections
 - documents against cash
 - documents against acceptance
4. (Insured) Open Account Terms



International Methods of Payments: Their Impact on Financing Needs

1. Who sets the method of payment?
2. Competitive pressures, customer relations, regional preferences and, sometimes, regulations
3. **Method of payment will determine the financing needed for a transaction**



Export Working Capital: Financing Export Transactions

Pre-shipment

PERFORMANCE RISK

Production costs

Material

Labor

Inventory

SBA/Eximbank

Performance or

Bid Bonds

SBA/Eximbank

Shipment

Post-Shipment

FINANCIAL RISK

Receivables financing

SBA/Eximbank

Buyer financing

Eximbank



US Government Loans for Exporters

3. **Export Working Capital Loan—90% guaranty**

--SBA: loans to \$5 million

--Eximbank: no upper limit

– SBA: No minimum ratios; Eximbank has several RMA minimum ratios

Transaction-Based Financing (Purchase order financing)

- Single Order or Revolving Line

- Most supplier and production costs through collections

Or, Asset-Based Line-of-Credit

- Working Capital for pre-shipment, post-shipment or both requirements

- Borrowing Base: inventory, WIP, (insured) A/R



Export Working Capital Eligibility

- SBA's 7(a) size and ownership standards apply based on NAICs--Manufacturing: under 500 employees; can go as high at 1,500 employees
- Or, Tangible Net Worth under \$15 million and Net Income over last 2 years averages less than \$5 million
- Eximbank: no size standard—recent \$250 million to Ford
- Product shipped from U.S.A. or services provided and invoiced by U.S. entity
- 12 months of operating history or proven expertise
- Transaction- or asset-based loans

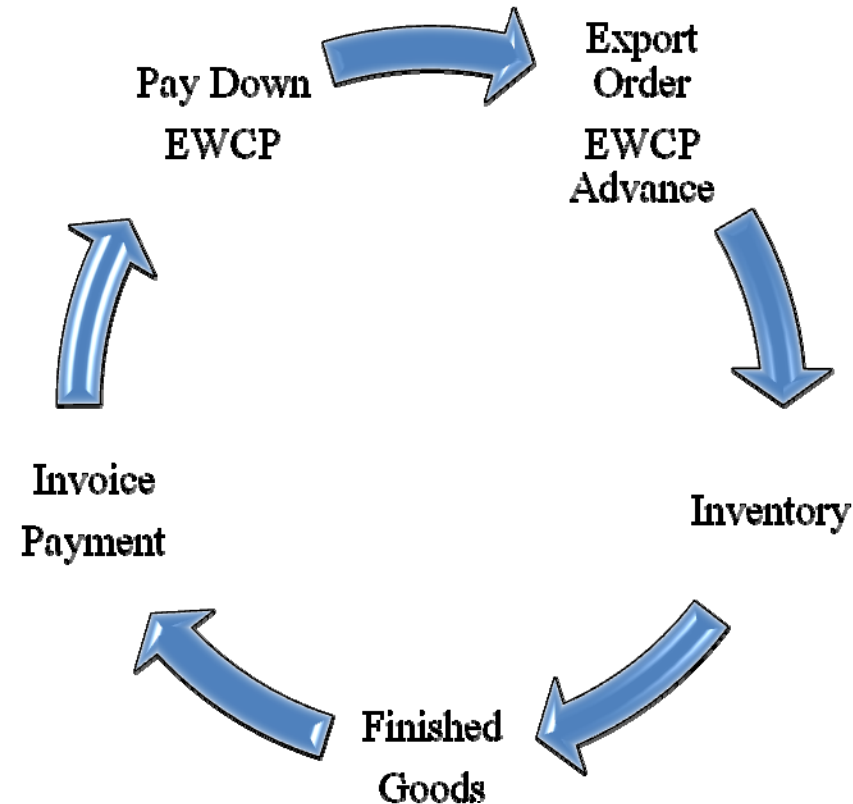


Export Working Capital Eligibility

- Disbursed against specific transactions and/or resulting (insured) receivables
- Eximbank's country limitation schedule (CLS) applies. See: www.exim.gov
- SBA has no requirements on U.S. content or military sales
- Eximbank has a 51% U.S. content requirement and prohibition against military sales



Transaction-Based/Self-Liquidating EWCP



- Transaction-Based EWCPs can be utilized for single export orders or multiple orders on a revolving basis. No funds are disbursed until there is an export order. Funds are used by the borrower to produce goods for a specific export order. SBA requires a secure payment method from foreign buyer which will be directed to pay down the EWCP loan.

EWCP: Advance Rates

Typical Advance Rates:

- 75% against inventory, WIP
- 85-90% against insured, foreign A/R
- 90% against Letter of Credit



EWCP: Collateral

1. Inventory and work-in-process
2. Resulting foreign A/R
3. Assignment of proceeds under:
 - documentary letters of credit
 - credit insurance policies
4. Other assets as required by the lender
5. Personal guarantees of 20% or more owners



SBA EWCP Fees and Analysis

Guaranty fee:

- SBA: 1/4% of guaranteed amount if 12 months or less
- Eximbank: 1.5% of the loan amount for 12 months
- Lender Pays (on all SBA loans).55% on outstanding amount calculated on monthly basis
- Borrower and lender negotiate Interest Rate and fees; lender is required to disclose this information to SBA

Analysis:

1. is the deal structured correctly?
2. can the borrower perform as agreed?
3. can we get paid, i.e. how secure is the method of payment?



Eximbank: Mitigating Buyer Risk

4. Export Credit Insurance

- a. *multi-buyer policy* (on worldwide buyers)
- b. *small business policy*: SB with \$7.5 mm or less in average export credit sales for 3 years, 95% commercial and political risk
--cost: ~55 cents/\$100, payable 30 days after invoice
- c. *single buyer policy* —90% coverage
- d. *medium term policy* —up to 5 years



Eximbank: Mitigating Buyer Risk

e. Benefits

- allows exporter to offer competitive payment terms—marketing tool
- allows exporter to borrow against A/R—financing tool
- allows the exporter to sleep at night—health aid

f. Lender takes an assignment of proceeds as collateral, allowing A/R to be added to borrowing base



Eximbank Loans for Foreign Buyers of U.S. Goods and Services

5. Loan Guarantees for Buyers of U.S. Exports

- for capital goods and services
- for structured and project financing
- 15% down-payment required
- 100% guaranty on the 85% financed portion
- generally 3-10 years
- renewable energy: up to 18 years
- OECD rate limits apply



Combining SBA's EWCP with Eximbank's Medium-Term Credit

Order from Cameroon

- \$500k ice-making plant

Transaction:

- 15% down payment
- 5-Year loan from Texas bank for 85%, triggered by final shipment
- 100% Exim cover to lender under medium-term insurance policy

Working Capital Needed:

- \$250K to complete order, 3 months
- Paid off by buyer's loan on shipment



Overseas Private Investment Corporation

Active in 150 developing countries

1. Investment financing

a. Loans & Loan Guarantees:

- typically up to 50% of project
- minimum: 25% U.S. equity
- direct loans from \$100k to \$10 million for SMEs
- Loan guarantees up to \$250 million (exceptions to \$400 million in oil and gas sectors)



Overseas Private Investment Corporation

b) OPIC-supported investment funds

- regionally focused
- industry sector focused

2. Political Risk Insurance

- Currency inconvertibility
- Expropriation
- Political violence, war, revolution

3. Investment Missions

- OPIC: (202) 336-8400
- OPIC InfoLine: (202) 336- 8799;
- <http://www.opic.gov>



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- Eximbank Credit Insurance
- Eximbank Medium- and Long-Term Loan Guarantees for Foreign Buyers of US Goods and Services
- OPIC for Foreign Direct Investment projects



Please Use Them!