United States Department of Agriculture

Foreign Agricultural Service

FACT SHEET

March 2007

Export Credit Guarantee Program

The U.S. Department of Agriculture's Export Credit Guarantee Program (GSM-102) helps ensure that credit is available to finance commercial exports of U.S. agricultural products, while providing competitive credit terms to buyers. By reducing financial risk to lenders, credit guarantees encourage exports to buyers in countries—mainly developing countries—where credit is necessary to maintain or increase U.S. sales, but where financing may not be available without such guarantees.

The GSM-102 program underwrites credit extended by the private banking sector in the United States (or, less commonly, by the U.S. exporter) to approved foreign banks using dollar-denominated, irrevocable letters of credit for purchases of U.S. food and agricultural products by foreign buyers. USDA's Foreign Agricultural Service (FAS) administers the program on behalf of the Commodity Credit Corporation (CCC), which issues the credit guarantees. GSM-102 covers credit terms of up to three years.

The CCC guarantees payments due from approved foreign banks to exporters or financial institutions in the United States. However, the financing must be obtained through normal commercial sources. Typically, 98 percent of principal and a portion of interest are covered by a guarantee. Because payment is guaranteed, financial institutions in the United States can offer competitive credit terms to the foreign banks, usually with interest rates based on the London Inter-Bank Offered Rate, or LIBOR. Any follow-on credit arrangements between the foreign bank and the importer are negotiated separately and are not covered by the CCC guarantee. Program announcements issued by FAS provide information on specific country and commodity allocations, length of credit periods, and other program information and requirements.

Eligible Countries or Regions

Interested parties, including U.S. exporters, foreign buyers, and banks, may request that the CCC establish a GSM-102 program for a country or region. Prior to announcing the availability of guarantees, the CCC evaluates the ability of each country and foreign bank to service CCC-guaranteed debt. New banks may be added or levels of approval for others increased or decreased as information becomes available.

Eligible Commodities

The CCC selects agricultural commodities and products according to market potential and eligibility based on applicable legislative and regulatory requirements.

Participation

The CCC must qualify exporters for participation before accepting guarantee applications. An exporter must have a business office in the United States and must not be debarred or suspended any U.S. government program. Financial institutions must meet established criteria and be approved by the CCC. The CCC sets limits and advises each approved foreign bank on the maximum amount the CCC can guarantee for that bank.

The exporter negotiates terms of the export credit sale with the importer. The exporter usually wishes to be paid at the time of shipment, so the exporter must work closely during negotiations with the eligible U.S. financial institution to ensure that arrangements are firmly in place for the U.S. financial institution to pay the exporter and to extend credit to the foreign bank.

Once a firm sale exists, the qualified U.S. exporter must apply for a payment guarantee before the export date. The exporter pays a fee calculated on the dollar amount guaranteed, based on a rate schedule.

Fee rates are based on the country risk that the CCC is undertaking, as well as the repayment term (tenor) and repayment frequency (annual or semi-annual) under the guarantee. The new structure is in response to rulings by the World Trade Organization (WTO) that export credit programs must be risk based and that fees must cover long-term program operating costs and losses.

Financing

The CCC-approved foreign bank issues a dollar-denominated, irrevocable letter of credit in favor of the U.S. exporter, ordinarily advised or confirmed by the financial institution in the United States agreeing to extend credit to the foreign bank. The U.S. exporter may negotiate an arrangement to be paid as exports occur by assigning to the U.S. financial institution the right to proceeds that may become payable under the CCC's guarantee. Under this arrangement, the exporter would also provide transaction-related documents required by the financial institution, including a copy of the export report, which must also be submitted to the CCC.

Defaults/Claims

If the foreign bank fails to make any payment as agreed under the GSM-102 guarantee, the exporter or assignee must submit a notice of default to the CCC. A claim for loss also may be filed, and the CCC will promptly pay claims found to be in good order.

For CCC audit purposes, the U.S. exporter must obtain documentation to show that the commodity arrived in the eligible country, and must maintain all transaction documents for five years from the date of completion of all payments.

Additional Information

For more information, contact: Director, Credit Programs Division, Office of Trade programs, FAS/USDA, Stop 1025, 1400 Independence Ave. SW, Washington, DC 20250-1035; tel.: (202) 720-6211; fax: (202) 720-2495. For program participation, contact: Operations Division, Export Credits; tel.: (202) 720-6211; fax: (202) 720-2949.

Export credit guarantee program information, such as risk-based fee schedules and country ratings, and commodities eligible for coverage, is available on the FAS Web site: http://www.fas.usda.gov/excredits/ecgp.asp

FAS announcements of GSM-102 allocations are posted at: http://www.fas.usda.gov/excredits/exp-cred-guar.asp

General information about FAS programs, resources, and services can be found at: http://www.fas.usda.gov