

EX-IM BANK MULTI-BUYER EXPORT CREDIT INSURANCE EXTENDING CREDIT UNDER YOUR POLICY

Being able to extend credit terms to foreign buyers gives you an advantage in doing business abroad and is a major benefit of your Ex-Im Bank policy.

The Export-Import Bank of the United States (Ex-Im Bank) offers exporters two types of buyer credit limits:

1. a Discretionary Credit Limit (DCL) which is included in many Ex-Im Bank Multi-Buyer policies, and
2. a Special Buyer Credit Limit (SBCL), for which you need to apply, form EIB92-51, when your policy doesn't include a DCL, when your DCL is too low for a particular buyer, or when your DCL is restricted by Ex-Im Bank's Country Limitation Schedule.

1. YOUR DCL

A DCL is a per-buyer limit included in many Multi-Buyer policies which enables you to extend credit terms, up to specified amounts, without prior Ex-Im Bank approval, provided that you first obtain certain information that justifies the credit amount you're extending.

The **DCL cannot be used** if a special buyer credit limit (SBCL) or issuing bank credit limit (IBCL) is in effect for the buyer even if the amount or term of the SBCL/IBCL is less than that of the DCL.

There are two types of DCLs:

1. A "credit information" DCL requires you to obtain current credit information on the buyer before making shipment.
2. A "ledger experience" DCL authorizes you to extend credit terms to a buyer, or foreign bank issuing letters of credit on your buyer's behalf, based on your past favorable trading experience on similar amounts and similar repayment terms. This allows you to act quickly on customer orders and save time and expenses associated with ordering credit information.

The amount of your "credit information" and "ledger" experience" DCLs and terms for their use are set forth in the policy declarations and DCL endorsement. Please read them carefully.

The "Credit Information" DCL

To use your "credit information" DCL several conditions must be met prior to shipment:

- The transaction must meet the conditions of Ex-Im Bank's Country Limitation Schedule, and
- you must obtain credit information on the buyer dated within 12 months prior to shipment: either a credit agency report or a USDOC "International Company Profile", or alternatively:
 - 1) letters of credit: a minimum debt rating on the issuing bank.
 - 2) other secured terms (CAD, SDDP): an Ex-Im Trade Reference form.
 - 3) unsecured terms (O/A, SDDA, DDDA, promissory notes):
 - a) up to \$10,000, one Trade Reference,
 - b) over \$10,000, two Trade References.
- The credit amount and terms extended may not exceed the amount justified by the credit information, or the per-buyer amount listed in the policy declarations, whichever is less.

Claim Filing on a "Credit Information" DCL

If a claim arises on a "credit information" DCL transaction, you must be able to provide the information you used to establish the creditworthiness of the buyer.

The "Ledger Experience" DCL

To use the "ledger experience" DCL, your payment experience with your buyer, the repayment terms and the credit amount you're extending must meet certain conditions:

- Your customer must have a record of paying you promptly on all shipments made on similar terms during the previous 12 months.
For letters of credit, payment must have been made within 5 days of due date.
For sight draft documents against payment and cash against documents transactions, payment must have been received within 20 days of arrival of the products at the port of importation.
For all other transaction types, payment must have been received within 60 days of the due date.
- Shipments under your "ledger experience" DCL must be made on terms equivalent to those made on shipments within the prior 12 months.
Shipments made on secured terms (such as letter of credit, cash against documents or sight draft documents against payment and excluding cash on delivery) can be used only to justify other secured-term shipments. Prior shipments made on unsecured terms (such as sight draft documents against acceptance, date drafts documents against acceptance or open account terms) must be used to justify "ledger experience" DCL shipments made on unsecured terms.

You can not use sales made on secured terms to justify using your "ledger experience" DCL for unsecured sales.

- The credit amount must not exceed 200% of the highest amount owed and paid promptly, as defined above, by the buyer or issuing bank at any one time within the 12-month period prior to shipment.
- For example, let's assume that your policy has a "credit information" DCL of \$20,000 and a maximum "ledger experience" DCL of \$50,000. Based on written credit information you obtained in accordance with your policy, you shipped a \$20,000 order to a buyer who paid you promptly. Under your "ledger experience", DCL, you are now able to increase the credit limit for that buyer to \$40,000 (\$20,000 x 200%), You then ship a \$40,000 order to the buyer on similar terms, and the buyer again pays the full amount promptly. Now you can increase the credit for that buyer to the maximum \$50,000.

Claim Filing on a "Ledger Experience" Transaction

If a claim arises on a "ledger experience" DCL transaction, you must be able to substantiate your favorable trading experience with the buyer or the bank issuing the letter of credit. To avoid claim denials, make sure that your "ledger experience" DCL is properly monitored and calculated for each buyer or issuing bank.

2. YOUR SBCL

An SBCL establishes a revolving credit limit and is used in place of a DCL for a particular buyer. You must apply for an SBCL when:

- your policy doesn't include a DCL, or
- your DCL is too low for a particular buyer, or
- your DCL is restricted in a particular market by the Country Limitation Schedule.

Eximbank Coverage Under an SBCL

With an SBCL in effect, Ex-Im Bank will cover shipments to that buyer up to the SBCL amount provided the conditions of the SBCL and the policy are met. If you need a higher credit amount for the buyer, you may either request an increase in the SBCL or hold shipment until the buyer pays the outstanding amount.

Each SBCL indicates a final shipment date that limits the length of time Ex-Im Bank coverage is in effect for a buyer. Renewal of a policy does not automatically extend or renew the SBCLs. You may request an SBCL renewal by submitting an application.

Applying for an SBCL

To apply for an SBCL do the following:

- Complete an SBCL application form, EIB92-51. These are included in your policy documents folder and may also be obtained from your broker or Ex-Im Bank.
- On the application, complete all items, including the credit limit and payment terms you're requesting and a summary of your credit experience with the buyer during the current year and the past two years, including uninsured experience. The credit experience summary must include any amounts past due from the buyer with maturity dates and an explanation.
- Ex-Im Bank has published its Short Term Credit Standards, EIB99-09, for buyers which may be consulted to determine the likelihood of approval.

Helpful Hints for Expediting SBCL Processing

With your help, an SBCL application can usually be processed within five business days. To assist us you can:

- Make certain you complete all items on the application.
- Provide all necessary credit and financial information on the buyer. You are responsible for putting credit procedures in place so that you can provide us with the required information. On an occasional basis, if you need to expedite a rush order, you may check with Ex-Im Bank to see if it has any of the required credit information already on file. You may have to supplement this information.
- Check the latest country limitation schedule for special conditions that may affect information requirements in a particular market. For example, the schedule may specify that short-term transactions can only be insured with a commercial bank as obligor, guarantor or as issuer of a letter-of-credit. In that case, you should be sure that you can obtain a bank for the credit.
- Review the credit information being provided, such as financial statements, credit reports, bank and Trade References, to be sure they support the amount of the credit request.

- Set up a reminder system to alert you three to four months before the limit expires to renew it. This will give you sufficient time to order the necessary credit information for the renewal. Your broker may be able to assist you with this. Ex-Im Bank generally sets the expiry dates of SBCLs at up to a maximum of 12 months from the approval date, or for a shorter period coinciding with the availability of new information, such as current financial statements on the buyer. Some SBCLs may have two year expiry dates.

Shipments in Excess of Insured Amounts

Insureds are required to pay premium on all “reportable transactions”. If you decide to ship an amount in excess of the DCL, SBCL or IBCL amount, you must pay premium on the entire amount. Note, however, that the insured amount remains the same and you are at risk for any loss in excess of the insured amount. Failure to pay premium on the entire amount shipped is reason for claim denial.

MORE INFORMATION

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