6 Export Financing

Financing Your Export Sales and Getting Paid

Few would disagree that small businesses should look overseas for profit opportunities. However, to succeed in the international marketplace, small firms must offer their customers competitive payment terms and methods. This chapter discusses how to choose the most appropriate international payment method, how to obtain export financing and, most importantly, how to get paid.

International Payment Methods

A small business exporter's principal concern is to ensure that he or she gets paid in full and on time for each export sale. It does little good to make a sale if the buyer delays payment so long that the financing cost eats up the profit. Foreign buyers have concerns as well, such as ensuring that their orders arrive on time and as requested. Therefore, it is important that the terms of payment be negotiated carefully to meet the needs of both the buyer and seller. The payment method used can significantly affect the financial risk of the buyer and seller in an export sale. In general, the more generous the sales terms are to a foreign buyer, the greater the risk to the exporter. As shown below, the primary methods of payment for international transactions, ranked in order of most secure to least secure for the exporter, include:

1. Payment in advance
2. Letters of credit
3. Documentary collections (drafts)
4. Consignment
5. Open account

Payment in Advance

Requiring payment in advance as a term of sale is not uncommon, but in many cases is too expensive and too risky for foreign buyers. Requiring full payment in advance is an unattractive option for the buyer and can result in lost sales, especially since a competitor (foreign or domestic) may be willing to offer more attractive terms. Before negotiating payment terms, determine whether or not your buyer can obtain a comparable product or service elsewhere and the terms offered. In some cases, such as when the buyer's credit worthiness is unknown or if your manufacturing process is specialized, lengthy or capital-intensive, it may be reasonable to insist upon progress payments or full or partial payment in advance.

Letters of Credit (LC)

Letters of credit are one of the most common and safest payment methods available. An export letter of credit is an internationally recognized instrument issued by a bank on behalf of its client, the buyer. Of course, the buyer pays its bank a fee to render this service. As a result, some buyers will resist LC terms if the competition is offering more lenient or less expensive terms. Keep in mind that various payment methods can be used as marketing tools and therefore should be negotiated carefully by you and the buyer.

An LC is useful if you are unsure of a prospective buyer's credit worthiness, but are satisfied with the credit worthiness of your buyer's bank. Sometimes it is difficult to obtain reliable credit information about a foreign buyer, but it may be less difficult to do so for the buyer's bank. Moreover, this vehicle can be structured to protect the purchaser since no payment obligation arises until the goods have been satisfactorily shipped or delivered as promised.

The terms and conditions required for payment under a LC are spelled out in the LC. When the terms and conditions have been met, as verified through the presentation of all required documents (that is why export letters of credit also are referred to as a *documentary* letters of credit), the purchaser's bank makes the required payment directly to the seller's bank in accordance with the terms of payment. A greater degree of protection is afforded to the seller when the LC that has been issued by the buyer's bank is *confirmed* by a major U.S. bank. In that case, any risk associated with the foreign bank and foreign country is moved to a bank in the United States. LCs may be utilized for one-time transaction, or they can cover multiple shipments, depending on what is agreed to between the parties. Always make sure you can deliver your order according to the terms and conditions of the LC before accepting the LC. However, if all parties agree, it can be amended after it is opened, but at an additional cost. Make sure you review the details of the letter of credit and the required documentation with a bank that has LC experience. In addition, it is advised that you initiate a conversation with an international banker *before* your buyer opens a letter of credit to ensure that proper language and conditions are incorporated into the LC.

Letters of credit can take many forms, but a typical transaction might involve the following steps:

1. The exporter, upon receiving an order for a specified quantity of goods, sends the buyer (importer) a pro forma invoice defining all conditions of the transaction.
2. The importer takes the pro forma invoice to the bank and applies for an LC.
3. After verifying the terms and reaching the appropriate credit decisions, the importer's bank opens the LC and sends it to the exporter's bank.
4. The exporter's bank authenticates the LC, verifying it was issued by a viable bank, and either forwards it to the exporter or keeps the original and sends a copy.
5. The exporter compares the LC with the original pro forma invoice to ensure that agreed upon terms and conditions have been incorporated in the LC and that they can be met.
6. The exporter prepares, usually with the help of a freight forwarder, an invoice and a packing list. These documents must be completed exactly as specified in the LC. The exporter also prepares a shipper's letter of instruction or SLI and any other specialized documents required, e.g., export license and certificate of origin. (Check with a freight forwarder to determine what documents are required in your case.)
7. The freight forwarder receives the goods along with completed paperwork in accordance with the terms of the LC.
8. After the goods are shipped, the forwarder or exporter submits the LC and documents to the exporter's bank.
9. The exporter's bank verifies that all required documents are in compliance with the LC and forwards the documents package with a draft to the importer's bank with wiring (payment) instructions.
10. The importer's bank reviews all documentation and, if the documents meet all requirements, credits the exporter's bank.
11. The importer's bank simultaneously debits its customer's account.
12. The exporter's bank credits the exporter's account.
13. The importer's bank releases documents to its customer. With documents in hand, the importer picks up the shipment.

***Note**: Your banker and freight forwarder will become important resources during a letter of credit transaction. They will help to guide you through these steps.*

The Buyer	The Seller
• agrees to buy products	• agrees to be paid via documentary collection
	• ships goods and submits shipping documents to bank for collection or acceptance
• the documents are released to buyer against payment or acceptance	• seller receives payment at sight or at a time agreed under the acceptance

Documentary Collections

Documentary collections involve the use of a draft, drawn by the seller on the buyer, requiring the buyer to pay the face amount either on sight (sight draft) or on a specified date in the future (time draft). The draft is an unconditional order to make such payment in accordance with its terms. Instructions that accompany the draft specify the documents needed before title to the goods will be passed from seller to buyer.

Because title to the goods does not pass until the draft is paid or accepted, to some degree both the buyer and seller are protected. However, if the buyer defaults on payment of the draft, the seller may have to pursue payment through the courts (or possibly, through arbitration, if such had been agreed upon between the parties). The use of drafts involves a certain level of risk; but drafts are typically less expensive for the purchaser than letters of credit.

Consignment

When goods are sold subject to consignment, no money is received by the exporter until after the goods have been sold by the purchaser. Title to the goods remains with the exporter until such time as all the purchase conditions are satisfied. As a practical matter, consignment is very risky. There is generally no way to predict how long it may take to sell the goods. Moreover, if they are never sold, the exporter would have to pay the costs of recovering them from the foreign consignee.

Open account

An open account transaction means that the goods are manufactured and delivered before payment is required (e.g., payment could be due 30, 60 or 90 days following shipment or delivery). In the United States, sales are likely to be made on an open-account basis if the manufacturer has been dealing with the buyer over a long period of time and has established a trusting relationship. In international business transactions, this method of payment should not be used unless the buyer is credit worthy and the country of destination is politically and economically stable, or unless the receivables are covered by export credit insurance. In certain instances it is possible to discount accounts receivable with a factoring company or other financial institution, referred to below.

Relative Strength and Weakness of Each Payment Method

Method	Usual Time of Payment	Goods Available to Buyer	Exporter Risk	Importer Risk
Cash in Advance	Before shipment	After payment	None, if products are in inventory or production begins after payment is received	Relies upon the exporter to ship goods
Letter of Credit	After shipment when documents complying with the Letter of Credit are presented	After payment	Very little or none, depending on the terms of the Letter of Credit	Relies upon the exporter to ship goods described in documents
Documentary collection sight draft	After shipment, but before documents are released	After payment	If draft unpaid, must dispose of goods	Relies upon the exporter to ship goods described in documents
Documentary collection time draft	On maturity of draft	Before payment	Relies on the buyer to pay draft, no control of goods	Almost none
Consignment	After sale	Before payment	High	Low

Export Financing

In the United States, small businesses typically turn to their local banks for working capital financing. However, most smaller banks do not retain staff with expertise in international trade. This is not to say, however, that such help is unavailable—only that small businesses must be persistent and tenacious in their efforts to find it. For example, if your bank's loan officer will not work with his or her bank's international staff (or the bank is unwilling to work with a correspondent), you should consider establishing a second banking relationship or, if necessary, moving all your accounts to a more aggressive lender with international banking expertise. So do not be afraid to shop around.

Given the difficulty most small businesses encounter when looking for export financing, it is imperative that any financial arrangements be made well in advance. To find a lender willing to consider your request, you must ensure that the purpose of the loan makes sense for the business, that the request is for a reasonable amount, and that you can demonstrate clearly how the loan will be repaid. Prospective borrowers also should understand some key distinctions before beginning discussions with a lender.

Venture Capital

Before approaching a bank for financial assistance, you should understand the distinction between venture capitalists and lenders. Venture capitalists invest in a business with the expectation that as the business grows, their equity in the business will grow exponentially. On the other hand, lenders are not in the venture capital business—they make their money on the difference between the rate at which they borrow money and the rate at which they lend to their customers.

International Trade Services

Small exporters also should understand the distinction between international trade *services* and *lending* for export transactions. Although many banks offer international trade services, such as advising, negotiating and confirming letters of credit, many banks' international divisions are not authorized to lend. Other banks have the authority to make loans as well as provide related services. You should verify that the bank officer with whom you are dealing has the authority to lend for an export transaction or can work with the small business or commercial division of the bank to finance your export sales.

Working Capital Financing and Trade Financing

It also is important to be aware of the difference between permanent working capital and trade financing. Permanent working capital is the amount of money needed to pay short-term liabilities that remain steady over a period of several years, for example, the non-fluctuating level of accounts receivable that a business maintains. A firm's ability to qualify for permanent working capital financing depends on, among other things, its prospects for generating sufficient net profits over the life of a loan to repay it. Trade finance, on the other hand, generally refers to financing the fluctuating working capital needs of a business resulting from specific export transactions. Trade finance loans can be self-liquidating. If so, the lending bank will place a lien on the export inventory and accounts receivable of the exporter and require that all sales proceeds financed by the loan be applied to pay down the loan first before the remainder is credited to the account of the borrower.

The self-liquidating feature of trade finance is critical to many small, undercapitalized businesses. Lenders who otherwise may have reached their lending limits for such businesses may nevertheless finance individual export sales, if the lenders are assured that the loan proceeds will be used solely for pre-export production. Any export sale proceeds will first be collected by them before the balance is passed on to the exporter. Given the extent of control lenders can exercise over such transactions and the existence of guaranteed payment mechanisms unique to—or established for—international trade, trade finance can be less risky for lenders than general working capital loans.

Pre-export, Accounts Receivable and Market Development Financing

Exporters should understand the distinctions between the various types of trade finance. Most small businesses need pre-export financing to help with the expense of gearing up for a particular export sale. Loan proceeds are commonly used to pay for labor and materials or to acquire inventory for export sales. Other exporters may be interested in foreign accounts receivable financing. In that case, exporters can borrow from their banks an amount based on the volume and quality of such accounts receivable. Although banks rarely lend 100 percent of the value of the accounts receivable, many will advance up to 80 percent of the value of qualified accounts. Foreign credit insurance (available from the Export-Import Bank and private insurance companies) is often required to enhance the quality of such accounts.

Financing for foreign market development activities, such as participation in overseas trade missions or trade shows, is often difficult for small businesses to arrange. Most banks are reluctant to finance such activities because, for many small firms, their ability to repay such loans depends on their success in consummating sales while on a mission—prospects that in many cases are speculative. Although difficult for many small firms to do, the most common source for financing such activities is through the working capital of the firm or, in certain cases, through the use of personal credit cards.

Finally, take time to make sure your banker understands your business and products. Have a detailed export plan ready and, most importantly, be able to clearly show how and when a loan will be repaid.

Private Sector Export Financing Resources

Commercial Banks

International trade transactions traditionally have been financed by commercial banks. Commercial banks can make loans for pre-export activities. They also can also help process letters of credit, drafts and other methods of payment discussed in this chapter. Banks also have become increasingly involved in making export loans backed by United States government loan guarantees.

Many larger banks have international departments, which can help with your company's particular export finance needs. If your bank does not have an international department, it probably has a correspondent relationship with a larger bank that can assist you.

Private Export Finance Companies

Private trade finance companies are becoming increasingly more commonplace. They utilize a variety of financing techniques in return for fees, commissions, participation in the transactions or combinations thereof. International trade associations, or any U.S. Export Assistance Center, can assist you in locating a private trade finance company in your area.

Export Trading and Export Management Companies (ETCs and EMCs)

Both EMCs and ETCs provide varying ranges of export services, including international market research and overseas marketing, insurance, legal assistance, product design, transportation, foreign order processing, warehousing, overseas distribution, foreign exchange and even taking title to a supplier's goods. All of these services can leverage the limited resources of small business exporters.

Factoring Houses

Factoring houses, also called "factors," purchase export receivables on a discounted basis. Using factors can enable the exporter to receive immediate payment for goods while at the same time alleviating the delay associated with overseas collections. Factors purchase export receivables for a percentage fee below invoice value, depending on the market and type of buyer. The percentage rate will depend on whether the factor purchases the receivables on a recourse or non-recourse basis. In the case of a non-recourse purchase, the exporter is not bound to repay the factoring house if the foreign buyer defaults or other collection problems arise. Therefore, the percentage charge will be greater with non-recourse purchases.

Forfaiting Houses

While similar to factoring, forfaiting generally involves transactions or projects requiring payment over periods from six months to several years. A promissory note is issued by the buyer to a third party and the account is purchased without recourse to the exporter; the debt typically is guaranteed by a bank or a sovereign entity. This is one way that a small business can arrange financing for its overseas buyer, while at the same time receiving full payment at, or close to, the time of shipment.

Government Export Financing Resources

Because private sector financing providers will only assume limited risk regarding foreign transactions, the U.S. government provides export financing assistance. U.S. government export financing assistance comes in the form of guarantees made to U.S. commercial banks, which in turn make loans available to exporters. Federal agencies, as well as certain state governments, have their own particular programs as noted below.

U.S. Small Business Administration (SBA)

The SBA provides financial and business development assistance to help small businesses sell overseas. SBA's export loans are available under SBA's guarantee program. As a prospective applicant, you can request that your lender seek SBA participation if the lender is unable or unwilling to make a direct loan. The financing staff of each

SBA district and branch office administers the agency's term loan programs locally, while SBA personnel based in U.S. Export Assistance Centers (USEACs) around the country administer the specialized trade finance/export working capital loan program. You can contact the finance division of your nearest SBA or USEAC office for a list of participating lenders. The USEAC staff also can provide counseling on how to structure requests for export financing from a lender.

SBA Export*Express*

The SBA Export*Express* loan program combines the SBA's small business lending assistance and technical assistance programs to help small businesses that have traditionally had difficulty in obtaining adequate export financing. Applicants must have been in business for at least one year, although not necessarily involved in exporting, and demonstrate that they will be entering a new foreign market, or expanding in an existing foreign market, to qualify for this loan program. Loan proceeds may be used to finance export development activities business expansion costs due to increasing exports, or specific export transactions. These include such things as:

1. Participation in foreign trade shows or trade missions,
2. Translation of product brochures or catalogues for use in overseas markets,
3. General lines of credit for export purposes,
4. Completing service contracts from buyers located outside the United States,
5. Transaction-specific financing associated with completing actual export orders,
6. Expenses related to the development of foreign markets by the borrower, including by export trading companies and export management companies,
7. Acquiring, constructing, renovating, modernizing, improving or expanding productive facilities or equipment to be used in the United States in the production of goods or services for export.

The website for more details on SBA Export*Express* is: http://www.sba.gov/services/financialassistance/SpecialPurposeLoans/exportexpress/index.html.

Regular Business Loan Program

Small businesses that need money for fixed assets and working capital may be eligible for the SBA's regular 7(a) business loan guarantee program. Loan guarantees for fixed-asset acquisition have a maximum maturity of 25 years. Guarantees for general-purpose working capital loans have a maximum maturity of seven years. Export trading companies (ETCs) and export management companies (EMCs) also may qualify for the SBA's business loan guarantee program.

To be eligible, the applicant's business generally must be operated for profit and fall within size standards set by SBA. The standards vary by industry and are determined by either the number of employees or the volume of annual receipts. Check with your local SBA district office to determine if your company falls within the small business size standards. Loans cannot be made to businesses engaged in speculation or investment in rental real estate.

The SBA can guarantee up to 85 percent of a bank loan up to $150,000 and 75 percent of a loan over $150,000, with the maximum SBA exposure not to exceed $1.5 million and a loan maximum of $2 million. The lender may charge a maximum interest rate of 2.75 percentage points above the lowest reported Wall Street Journal prime, or 2.25 percentage points above the lowest reported Wall Street Journal prime if the maturity is less than seven years.

Export Working Capital Program

The Export Working Capital Program (EWCP) (www.sba.gov/services/financialassistance/SpecialPurposeLoans/ewcp/index.html) was designed to provide short-term working capital to exporters. The program supports export financing to small businesses when that financing is not otherwise available at reasonable terms. The program encourages lenders to offer export working capital loans by guaranteeing repayment of up to $1.5 million or 90 percent of a loan amount, whichever is less. A loan can support a single transaction or multiple sales on a revolving basis.

The EWCP is a combined effort of the SBA and the Export-Import Bank (Ex-Im Bank). The two agencies have joined their working capital programs to offer a unified approach to the government's support of export financing. The EWCP uses a six-page application form and streamlined documentation with a turnaround time usually 10 days or less. A letter of pre-qualification is also available from the SBA. SBA, on its own, can guarantee EWCP loan requests up to $1.5 million, or up to $2.0 million under a co-guaranty agreement with the Export-Import Bank. Loan requests greater than $2.0 million should be submitted directly to the Export-Import Bank. When an EWCP loan is combined with an international trade loan, the SBA's exposure can go up to $1.75 million. In addition to the eligibility standards listed on the website, an applicant must have been in business for a full year (not necessarily in exporting) at the time of application. SBA may waive this requirement if the applicant has sufficient export trade experience. Export management companies or export trading companies may use this program; however, title must be taken in the goods being exported to be eligible.

While most small businesses are eligible for SBA loans, some types of businesses are ineligible and a case-by-case determination must be made by the agency. Eligibility is generally determined by business type, use of proceeds, size of business and availability of funds from other sources.

The proceeds of an EWCP loan must be used to finance the working capital needs associated with single or multiple export transactions. Proceeds may not be used to finance professional export marketing advice or services, foreign business travel, participating in trade shows, or to support staff overseas, except to the extent it relates directly to the transaction being financed. In addition, proceeds may not be used to make payments to owners, to pay delinquent withholding taxes, or to pay existing debt.

If the loan is for a single transaction, the maturity should correspond to the length of the transaction cycle with a maximum maturity of 18 months. If the loan is for a revolving line of credit, the maturity is typically 12 months, with annual re-issuances allowed.

Asset Based Loans (ABL) are revolving lines of credit supported by a monthly Borrowing Base Certificate which reports levels of assets, normally accounts receivable and inventory, supporting the loan amount. ABLs are generally committed for 12 months and re-issued annually, however ABLs can have up to a 36 month maturity with annual renewals. When annual reviews are required (loans in excess of 12 months), the Lender will be required to supply updated financial statements on the borrower to SBA with a request to grant the renewal.

The Borrower is required to submit (to the Lender) an export related borrowing base certificate as frequently as the Lender customarily requires from its Borrowers but at least prior to each disbursement and no less than once per month. The borrowing base certificate must be in a form satisfactory to the Lender, so that the Lender may reconcile the borrowing base and the loan balance to insure the loan has adequate eligible collateral and is not over-disbursed. Also, a schedule of inventory; a listing of disbursements and payments on the loan must be supplied (SBA will provide a form which the Borrower is to complete and attach to a computer printout showing the disbursements and payments and is due semi-annually and is signed by Lender and Borrower). Additional financial statements or reports that Lender may require can also be required. The Accounts Receivable and Inventory balances represented on such export-related borrowing base certificate must be reconciled with the Borrower's general ledger, accounts receivable aging, and inventory schedule for that month end.

In instances where the loan has no outstanding principal balance nor any outstanding letters of credit, the Borrower will not be required to submit an export-related borrowing base certificate until such time as it requires either a disbursement or the issuance of a letter of credit.

For the Asset Based Lines of Credit, at notice shall the portion of the principal balance of the loan that is supported by export-related inventory exceed 60% of the sum of the outstanding disbursements plus the aggregate undrawn face value of all outstanding letters of credit. If. at any time, the applicable export-related borrowing base is less that the sum of (i) the aggregate outstanding amount of disbursements, (ii) 25% of the aggregate amount set aside for standby letters of credit, the borrower shall immediately either pay the Lender an amount equal to the difference between such sum (as described above) and the export-related borrowing base, or provide the Lender with additionally collateral sufficient to cover such difference.

Over-advances—defined as the lender intentionally exceeding the advance rates above the percentages of the export base formula—are only permitted with prior written approval by SBA.

For Asset Based Revolving Loans, the following advance rate ranges apply:

Inventory:	Up to 75%
Contracts/Purchase Orders supported by a Letter of Credit:	Up to 90%
Insured Receivables (or supported by Letters of Credit):	Up to 90%
Open Account Receivables:	Up to 80%

Advance rates in excess of those listed above may be approved by the SBA provided that the participant Lender provides suitable justification.

Five unique requirements of the EWCP loan include the following:

1. Because of the transactional nature of the financing, more information that normal is needed on the buyer, the production cycle, the ability of the exporter to perform, and the method of payment used for the transaction.
2. SBA does not prescribe the lender's fees or the interest rate that may be charged under this program; both are negotiable between the lender and borrower.
3. SBA guarantees up to 90% (rather than the more normal 75-85%) of an EWCP loan on amounts up to $1.67 million ($2.0 million under the joint SBA/Eximbank guaranty program).
4. Collateral is normally limited to the transactional collateral; export inventory, work-in-process, resulting foreign receivables, and assignments of proceeds for contracts, letters of credit and credit insurance policies. Personal guarantees are required of all owners holding 20% or more of a company for any SBA loan.
5. Because most loans have a term of 12 months or less, the SBA guarantee fee is only ¼ of 1% of the guaranteed amount on such short-term loans.

SBA considers several factors in reviewing an EWCP application. These questions include the following:

1. Is there a transaction and is it viable?
2. How reliable is the repayment source?
3. Can the exporter perform under the terms of the deal?

The EWCP offers several advantages for both the exporter and the lender, including a simplified application form and a quicker turnaround time on SBA's review and commitment. Under the program, small businesses also can apply directly to the SBA for a preliminary commitment for a guaranty. With SBA's preliminary commitment in hand, an exporter can look for a lender willing to extend the credit. The lender must apply to SBA for the final commitment.

The International Trade Loan Program

The most fundamental reason to export is to improve your company's bottom line, but to compete and expand abroad can require additional resources domestically. The SBA's International Trade Loan Program (ITL) can assist your small business in financing machinery and equipment, financing real estate and improving a competitive position that has been adversely affected by import competition.

The applicant must demonstrate either that a) the loan will help the firm to expand or develop an export market; or b) because the firm has been adversely impacted by imports, the loan will help the firm upgrade equipment or retool to improve its competitive position. A business plan should be included in either case.

The SBA can provide guarantees to commercial lenders up to $1.75 million in combined working capital and fixed asset loan under this program, including any other current, outstanding SBA loan guarantees (as long as the combined, gross loan amount does not exceed $2 million). While the fixed asset part of the loan would carry a 75% SBA guaranty, a companion working capital loan with a 90% guaranty also could be made under the SBA's Export Working Capital loan program guidelines.

The SBA offers the competitive rates and terms small businesses need to compete globally. Note:

1. Rates for loans with maturities under 7 years may not exceed 2.25 percent over the prime rate.
2. Rates for loans with maturities of 7 years or more may not exceed 2.75 percent over the prime rate.
3. Maturities can be up to 25 years for real estate, up to 15 years for equipment, and/or up to 10 years for working capital.

The SBA requires the lender to take a first lien position on fixed assets financed under the ITL, or other acceptable assests of the borrower. Personal guarantees usually are required to support the credit. Only collateral located in the United States, its territories and possessions is acceptable for a loan made under this program.

Small Business Investment Company (SBIC) Financing

The Small Business Investment Company (SBIC) program is part of the U.S. SBA. It was created in 1958 to fill the gap between the availability of venture capital and the needs of small businesses in start-up and growth situations. SBIC website: www.sba.gov/aboutsba/sbaprograms/inv/index.html

Export-Import Bank of the United States (Ex-Im Bank)

Ex-Im Bank (www.exim.gov/) is an independent U.S. government agency that supports the financing of U.S. goods and services, turning export opportunities into real transactions and maintaining and creating more U.S. jobs. It assumes the credit and country risks that the private sector is unable or unwilling to accept. It does not compete with private sector lenders but provides export-financing products that fill gaps in trade financing. It also helps to level the playing field for U.S. exporters by matching the financing that other governments provide to their exporters. Ex-Im Bank provides working capital guarantees (pre-export financing); export credit insurance (post-export financing); and loan guarantees and direct loans (buyer financing). On average, 85 percent of its transactions directly benefit U.S. small businesses. With more than 70 years of experience, Ex-Im Bank has supported more than $400 billion of U.S. exports, primarily to developing markets worldwide.

Export Credit Insurance Programs

Ex-Im Bank's export credit insurance allows you to increase your export sales, while limiting your international risk, by offering credit terms to your international buyers. The insurance:

1. Reduces nonpayment risk,
2. Enables you to extend competitive credit terms to buyers,
3. Helps you export to new markets with more confidence, and
4. Increases cash flow.

Ex-Im Bank's insurance covers buyer nonpayment for commercial risks (e.g., bankruptcy and protracted default) and certain political risks (e.g., war or the inconvertibility of currency). This product can replace cash-in-advance, letters of credit and other documentary sales. These policies also allow you to provide qualifying international buyers with advantageous terms of credit. In today's competitive global marketplace, you may be able to increase sales by providing this "open account" financing feature.

This insurance also enhances the quality of your balance sheet by transforming export-related accounts receivable into receivables insured by the U.S. government. With this insurance in place, lenders are more likely to advance against these receivables to increase your working capital cash flow. Ex-Im Bank can do business in most markets. However, it may be limited or unable to offer financing in certain countries under certain circumstances.

***Note**: All applications for short-term and medium-term insurance are subject to an objective credit criteria. To ensure consistent and transparent credit analysis, Ex-Im Bank has developed credit standards to facilitate timely application processing.*

Small Business Initiative

The Small Business Initiative is committed to supporting small business exporters. Small businesses can access all Ex-Im Bank financing products, including specialized small business financing tools such as our working capital guarantee and export credit insurance.

With the working capital guarantee and insurance products, small businesses can increase sales by entering new markets, expanding their borrowing base and offering buyers financing while carrying less risk. Often, small sized exporters do not have adequate cash flow or cannot get a loan to fulfill an export sales order. The Ex-Im Bank working capital guarantee assumes 90 percent of the lender's risk so exporters can access the necessary funds to purchase raw materials or supplies. The Ex-Im Bank participates with the SBA in making working capital loans to small businesses for amounts between $1.67 million and $2 million

Ex-Im Bank's insurance policies protect exporters from foreign buyer default and allow exporters to extend credit to their foreign buyers. For qualifying small businesses, enhanced coverage is offered. To qualify as a small business, the U.S. exporter (together with affiliates) must simply meet the U.S. Small Business Administration's definition of a small business and have export credit sales of less than $5 million. Features of this small business policy include no first-loss deductible, simplified premium-rate schedule, and enhanced assignment (for qualified exporters)—an attractive financing feature that allows your lender to advance on the insured receivables with limited risk.

Ex-Im Bank works with small businesses at the local level through its five regional offices and a nationwide network of nearly 40 City/State Partners. Distribution channels also include 120 delegated authority lenders in 28 states that can directly commit Ex-Im Bank's guarantee on working capital loans. And insurance brokers in every state can assist with Ex-Im Bank's export credit insurance applications. In addition, Ex-Im Bank participates in approximately 20 trade shows and sponsors more than 20 exporter seminars every year, including events involving small exporters as well as exporters of environmentally beneficial goods and services.

Pre-Export Finance Program

The Ex-Im Bank's Working Capital Program (www.exim.gov/products/work_cap.html) enables U.S. exporters to obtain loans to produce or buy goods or services for export. These working capital loans, made by commercial lenders and backed by an Ex-Im Bank guarantee, provide you with the liquidity to accept new business, grow international sales and compete more effectively in the international marketplace. This program helps fulfill export sales orders, turn export-related inventory and accounts receivable into cash and expand access to financing. Eligible exporters must be located in the United States, have at least a one-year operating history, and have a positive net worth.

Exporters may use the guaranteed financing to:

1. Purchase finished products for export,

2. Pay for raw materials, equipment, supplies, labor and overhead to produce goods and/or provide services for export,
3. Cover standby letters of credit serving as bid bonds, performance bonds or payment guarantees, and
4. Finance foreign receivables.

There is no minimum or maximum transaction amount. Ex-Im Bank assumes 90 percent of the bank loan, including principal and interest. For qualified loans to minority, woman-owned or rural businesses, Ex-Im Bank can increase its guarantee coverage to 100 percent. Our pre-qualified commercial lender partners, working under Ex-Im Bank's delegated authority, can expedite the loan process by committing our guarantee without prior Ex-Im Bank approval. Most of Ex-Im Bank's working capital guarantees are provided through these lenders.

Typically, loan terms are for one year but can be up to three years. The loan can be either transaction-specific or revolving. These guaranteed working capital loans are secured by export-related accounts receivable and inventory (including work-on-process) tied to an export order. For standby letters of credit issued under the guaranteed loan, Ex-Im Bank requires collateral for 25 percent of the value of the letter of credit.

Direct Loan

Ex-Im Bank assists exporters by providing fixed-rate loans to creditworthy international buyers, in both the private and public sector, for purchases of U.S. goods and services. Ex-Im Bank loans to international buyers generally are used to finance the purchase of U.S. capital equipment or services for large-scale projects. These funds also can be used for refurbished equipment, software, and certain banking and legal fees, as well as some local costs and expenses. Military or defense items generally are not eligible nor are sales to military buyers (certain exceptions exist).

Guarantee Program

Ex-Im Bank also assists exporters by guaranteeing term financing to creditworthy international buyers, in both the private and public sector, for purchases of U.S. goods and services. This is generally used for financing purchases of U.S. capital equipment and services, which must be shipped from the United States to an international buyer. Ex-Im Bank can do business in most markets. However, it may be limited or unable to offer financing in certain countries and under certain terms.

Commodity Credit Corporation (CCC)

The Commodity Credit Corporation, U.S. Department of Agriculture, administers export credit guarantee programs (http://www.fas.usda.gov/excredits/exp-cred-guar-new.asp) for commercial financing of U.S. agricultural exports. The programs encourage exports