

Chapter 7

Government-Guaranteed Export Working Capital Programs

Financing rates offered by commercial banks on export inventory and foreign accounts receivables are not always sufficient to meet the needs of U.S. exporters. In addition, some banks are reluctant to extend credit due to the repayment risk associated with export sales. In such cases, government-guaranteed export working capital facilities can provide the exporter with the liquidity to accept new business, help grow export sales, and compete more effectively in the global marketplace. Two U.S. government agencies—the Export-Import Bank of the United States (Ex-Im Bank) and the U.S. Small Business Administration (SBA)—work together to offer such programs to U.S. firms through participating lenders. By completing one standardized application form, exporters are directed to the agency best able to assist them, with SBA typically handling facilities below \$2 million and Ex-Im Bank processing larger requests. Additionally, SBA financing is limited to small businesses. Through these government-guaranteed export working capital programs (EWCP), U.S. exporters are able to obtain needed facilities from commercial lenders when financing is otherwise not available or when their borrowing capacity needs to be increased.

Key Points

- Fulfill export sales orders by expanding access to export working capital financing.
- Maximize the borrowing base by turning export inventory and accounts receivable into cash.
- Risk mitigation may be needed to offer open account terms confidently in the global market.

Comparison: Commercial Facility vs. Guaranteed Facility

See the table below for examples of how the EWCP can increase your borrowing base against your total collateral value.¹

CHARACTERISTICS OF AN EWCP

Applicability

When commercial financing is otherwise not available or when pre-approved borrowing capacity is not sufficient.

Risk

Without the use of proper risk mitigation measures, the exporter is exposed significantly to the risk of nonpayment.

Pros

- Encourage lenders to make financing to exporters
- Enable lenders to offer generous advance rates

Cons

- Cost of obtaining and maintaining a guaranteed facility
- Risk mitigation may be needed, incurring additional costs

¹ EWCP advance rates may vary depending on the quality of the collateral offered.

Borrow up to \$1.65 million against your collateral value of \$2 million

		Commercial Facility Without an EWCP		Commercial Facility With an EWCP	
COLLATERAL	VALUE	Advance Rate	Borrowing Base	Advance Rate	Borrowing Base
Export Inventory					
Raw Materials	\$200,000	20%	\$40,000	75%	\$150,000
Work-in-Process	\$200,000	0%	\$0	75%	\$150,000
Finished Goods	\$600,000	50%	\$300,000	75%	\$450,000
Export Accounts Receivable					
On Open Account	\$400,000	0%	\$0	90%	\$360,000
By Letter of Credit	\$600,000	70%	\$420,000	90%	\$540,000
Totals	\$2,000,000		\$760,000		\$1,650,000

Key Features of Ex-Im Bank’s Export Working Capital Program

- For U.S. exporters and credit lines of all sizes, usually \$2 million or more.
- Must adhere to the Bank’s requirements for content, non-military uses and country policy.
- Nonrefundable \$100 application fee.
- 1.5 percent upfront facility fee based on the total loan amount and a one-year loan.
- Fees and interest rate charged by the commercial lender are usually negotiable.
- Enhancements are available for minority- or woman-owned, rural and environmental firms.
- For more information, visit www.exim.gov or call **1-800-565-EXIM**.

Key Features of the SBA’s Export Working Capital Program

- For small businesses that meet the SBA’s guidelines and require credit lines up to \$2 million.
- No applications fee and no restrictions regarding foreign content or military sales.²
- 0.25 percent upfront facility fee based on the guaranteed portion and a loan up to 12 months.
- Fees and interest rate charged by the commercial lender are usually negotiable.
- For more information, visit www.sba.gov/OIT or call 1-800-U-ASK-SBA.

Why Risk Mitigation May Be Needed

The EWCP does not make exporters immune to the risk of nonpayment by foreign customers. The use of some forms of risk mitigation may be needed to offer open account terms more confidently in the global market. Possible risk mitigation measures recommended for use in conjunction with open account terms are (1) export credit insurance, (2) export factoring, and (3) forfaiting. More detailed information on each risk mitigation measures is respectively provided in chapters 8, 9, and 10.

² SBA encourages the use of American made products, if feasible. Borrowers must comply with all federal laws regulating military sales.