

Chapter 11

Government-Assisted Foreign Buyer Financing

International sales of high-value capital goods or services and exports to large-scale projects, which require medium- or long-term financing, often pose special challenges to exporters as commercial lenders may be reluctant to lend large sums to foreign buyers, especially those in developing countries, for extended periods. One viable solution to these challenges is foreign buyer financing offered by the Export-Import Bank of the United States (Ex-Im Bank). As the official U.S. export credit agency, Ex-Im Bank supports the purchases of U.S. goods and services by creditworthy foreign buyers who are unable to obtain financing they need through traditional commercial sources. Ex-Im Bank does not compete with commercial lenders but provides products that fill gaps in trade financing by assuming country and credit risks that the private sector is unable or unwilling to accept. With Ex-Im Bank's foreign buyer financing, U.S. exporters can turn their business opportunities into real transactions and get paid cash on delivery and acceptance of the goods or services.

Key Points

- Government-assisted foreign buyer financing helps turn export opportunities, especially in high-risk emerging markets, into real transactions for large U.S. corporations and established medium-sized companies, as well as for their small business suppliers.
- Creditworthy foreign buyers can obtain loans needed for purchases of U.S. goods and services, especially high-value capital goods or services and exports to large-scale projects.
- This type of financing provides direct loans to foreign buyers at a fixed rate or provides guarantees for term financing offered by commercial lenders.
- Financing is available for medium-term (up to 5 years) and long-term (generally up to 10 years) transactions.

Key Common Features of Ex-Im Bank's Loan Guarantees and Direct Loans

Ex-Im Bank assists U.S. exporters by providing direct loans or by guaranteeing commercial loans to creditworthy foreign buyers for purchases of U.S. goods and services. They are generally used to finance the purchase of high-value capital equipment or services or exports to large-scale projects that require medium- or long-term financing. Ex-Im Bank's

CHARACTERISTICS OF GOVERNMENT-ASSISTED FOREIGN BUYER FINANCING

Applicability

Suitable for the export of high-value capital goods or services or large-scale projects that require extended-term financing.

Risk

Risk is transferred to Ex-Im Bank and to the foreign buyer who is required to make a 15 percent down payment to the exporter.

Pros

- Buyer financing as part of an attractive sales package
- Cash payment upon shipment of the goods or services

Cons

- Subject to certain restrictions for U.S. government policy reasons
- Possible lengthy process of approving financing

foreign buyer financing is also used to finance the purchase of refurbished equipment, software, and certain banking and legal fees, as well as some local costs and expenses. There is no minimum or maximum limit to the size of the export sale that may be supported by the bank's foreign buyer financing. Ex-Im Bank requires the foreign buyer to make a cash payment to the exporter equal to at least 15 percent of the U.S. supply contract. Repayment terms of up to five years are available for exports of capital goods and services. Transportation equipment and exports to large-scale projects may be eligible for repayment terms up to 10 years (12 to 15 years for certain sectors). Military items are generally not eligible for Ex-Im Bank financing nor are sales to foreign military entities. In addition, goods must meet the bank's foreign content requirements. Finally, Ex-Im Bank financing may not be available in certain countries and certain terms for U.S. government policy reasons (for more information, see the Country Limitation Schedule posted on the bank's Web site, www.exim.gov, under the "Tools" section).

Key Features of Ex-Im Bank Loan Guarantees

- Loans are made by commercial banks and guaranteed by Ex-Im Bank.
- Loans cover 100 percent principal and interest for 85 percent of the U.S. contract price.
- Interest rates are negotiable, and are usually floating and lower than fixed rates.
- Loans are fully transferable, can be securitized, and are available in certain foreign currencies.
- Loans have a faster documentation process with the assistance of commercial banks.
- Cash payment financing is promoted.
- There are no U.S. vessel shipping regulations for amounts less than \$20 million.

Key Features of Ex-Im Bank Direct Loans

- Fixed-rate loans are provided directly to creditworthy foreign buyers.
- Loans support 85 percent of the U.S. contract price.
- Exporters will be paid in full upon disbursement of a loan to foreign buyers.
- Generally, the goods must be carried exclusively on U.S. vessels.
- Loans are best used when the buyer insists on a fixed rate.

Fees and Ex-Im Bank Contact Information

- Letter of interest—\$100
- Preliminary commitment—0.1 of 1 percent of the financed amount up to \$25,000
- Guarantee commitment—0.125 percent per year on the undisbursed balance of the loan
- Direct loan commitment—0.5 percent per year on the undisbursed balance of the loan
- Exposure fee—varies, depending on tenor, country risk, and buyer credit risk

For more information about loans from the Ex-Im Bank, visit its Web site at www.exim.gov or call 1-800-565-EXIM (3946).