

LENDER'S GUIDE

to the

FOREIGN DEALER INSURANCE POLICY

The purpose of this User's Guide is to provide technical and explanatory information to prospective and current holders of Ex-Im Bank's Foreign Dealer Insurance Policy. The Foreign Dealer Insurance Policy is currently available to financial institutions only; a supplier credit version for exporters is planned for a later date. This is a "single buyer" policy, and, unless a guarantor is involved, the foreign dealer is the primary source of repayment. Please note that the words dealer, borrower and buyer are used interchangeably in this document.

WHY A POLICY FOR DEALERS? Foreign dealerships are a strategic distribution channel for U.S.-manufactured machinery, equipment and spare parts. The Foreign Dealer Insurance Policy is designed to provide flexible, competitive support for financing the capital goods exports of U.S. manufacturers through foreign dealerships. This policy may be particularly helpful to smaller and medium-sized U.S. exporters that need to arrange financing for their overseas dealers.

TYPES OF DEALER FINANCING: The categories of export financing typically associated with foreign dealerships and the corresponding Ex-Im Bank products are as follows:

- **Floor plan/rollover financing:** This consists of short-term financing of the acquisition by the dealer of capital goods intended to serve as inventory for future sales to end-users coupled with the option to refinance (also called "rollover") on either a short- or medium-term basis. The flexibility inherent in this type of financing allows foreign dealers to better match the terms of their financing to the financing terms they extend to their customers. One unique feature of the Foreign Dealer Insurance Policy is its ability to provide coverage for short term financing with the option to extend such financing for a longer term.
- **Short-term financing of dealer purchases of U.S. spare parts, accessories and other non-capital items:** Ex-Im Bank coverage for this type of financing can be obtained as a supplement to coverage of capital goods financing through an endorsement to the Dealer Finance Insurance Policy. Terms and conditions are similar to those offered under other Ex-Im Bank short-term single buyer export credit insurance policies that can also support this type of financing.
- **Medium-term financing of machinery, equipment or other capital goods (1) to be used in the dealer's own operations (such as rental fleets) or (2) to fulfill existing purchase orders placed by the dealer's customers:** These types of transactions are not supported by the Foreign Dealer Insurance Policy, but coverage may be obtained through Ex-Im Bank's standard medium-term products, which include medium-term insurance and loan guarantees.

FLOOR PLAN/ROLLOVER FINANCING: The “floor plan/rollover” feature of the Foreign Dealer Insurance Policy provides coverage for a combination of short- and medium-term financing. Therefore, Ex-Im Bank policies that govern support for medium-term financing apply to this component of the Foreign Dealer Insurance Policy as well. The next section describes the mechanics of coverage for the initial or “original” financing and is followed by a section on the terms and conditions of the policy that govern refinancing.

INITIAL SHORT-TERM FINANCING OR “ORIGINAL” FINANCING: The mechanics of the coverage under the Foreign Dealer Insurance Policy for the initial short-term financing or “original” financing of the dealer’s acquisition of U.S. capital goods as inventory are as follows:

1. The lender will typically execute a loan agreement with the borrower. Under the policy, loans can be either direct buyer credits or reimbursement loans. Prior to any disbursements under the loan, the borrower must execute and deliver to the insured lender a master promissory note. The master note serves to evidence the disbursements made under the loan until such time that the aggregate amount of the disbursements made during a “consolidation period” are consolidated into a “consolidation note”.
2. The exporter ships the products and must send the documents evidencing such shipment to the insured lender. The insured lender either pays the exporter or reimburses the dealer.
3. Every 90 days, beginning 90 days after the commencement of the policy period, all disbursements made during such period must be consolidated and a consolidation note must be issued. The amount due under the consolidation note is subtracted from the master note. The due date on the consolidation note is 180 days from the date of consolidation. In some cases, the term of the original financing may extend up to 270 days from the time of the first disbursement under the initial loan.
4. At maturity, the dealer must either pay the lender or, provided that certain conditions are met, refinance the amount owing on all consolidation notes. In the event of a refinancing, one or more refinancing notes are issued by the dealer.

Consolidations under the policy greatly simplify administration since there can be no more than four (4) consolidation notes during the policy year. Because consolidations are mandatory, the lender should put the appropriate documentation in its loan/credit agreement to comply with the policy.

REFINANCING OF THE “ORIGINAL” FINANCING: Under the policy, upon maturity of the original financing, the dealer has the option to refinance all or a part of the principal amount owing under the note, provided that certain conditions are met. The rules governing whether a particular financing is eligible for refinancing and the refinancing options (if any) available to the dealer depend upon the “refinancing event” giving rise to the refinancing.

When is refinancing not allowed? Refinancing is not available if the dealer sells the capital goods to its customer for cash or on credit with a final repayment term expiring earlier than the original financing maturity date.

When is refinancing allowed? Refinancing is allowed only in the following circumstances:

- (i) If one or more capital goods remain unsold 10 days prior to the expiration of the original financing, and
- (ii) If the dealer has resold one or more capital goods on credit with a final repayment term expiring later than the original financing due date.

Refinancing Categories: There are three refinancing categories:

- **Category A Refinancing:** This is a short-term refinancing, pursuant to which the terms of the loan are extended for an additional 180 days. Principal for a Category A refinancing is due in full 360 days from the applicable “consolidation date”.
- **Category B Refinancing:** This is a medium-term refinancing, pursuant to which the terms of the loan are extended for an additional 1½ years beyond the due date of the original financing (or 2 years from the date of the consolidation loan). Principal for a Category B refinancing is due in six equal quarterly installments. However, since two quarterly installments would normally have been made during the original credit period¹, Ex-Im Bank also requires that one quarter (¼) of the principal outstanding plus all related accrued interest be paid no later than the original financing maturity date.
- **Category C Refinancing:** This is a medium term refinancing, pursuant to which the terms of the loan are extended for an additional 2½ years beyond the due date of the original financing (or 3 years from the date of the consolidation loan). Principal for a Category C refinancing is due in ten equal quarterly installments. However, since two quarterly installments would normally have been made during the original credit period, Ex-Im Bank also requires that one-sixth (1/6th) of the principal outstanding plus all related accrued interest be paid no later than the original financing maturity date.

May longer refinancing terms be extended? Longer refinancing terms may be approved for a policy on an exceptional basis and would be implemented by endorsement.

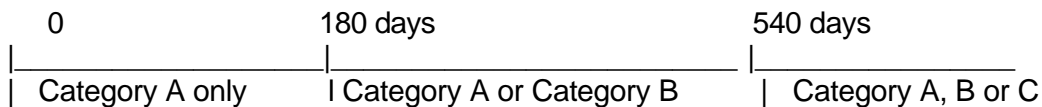
Rules governing available Refinancing Options:

1. Where one or more capital goods remain(s) unsold 10 days prior to the expiration of the original financing term (refinancing event (i) described above) the dealer can choose to refinance:
 - a. on a short-term basis (Category A Refinancing) or

¹ The first and second quarterly installments would normally come due on the 90th and 180th days after the refinancing date.

- b. on a medium-term basis for two years (Category B Refinancing)
2. Where the dealer has resold one or more capital goods on credit with final repayment terms expiring later than the original financing due date (refinancing event (ii) described above), the dealer's options for refinancing depend upon the length of the credit terms it extended to its customer in connection with the resale. Specifically, these options vary based on how far the maturity date of the dealer's credit extends beyond the maturity date of the original financing received by the dealer from the lender according to the following rules:
- a. If the maturity date of the credit extended by the dealer to its customer is up to 180 days later than the maturity date of the original lender financing, then short-term (Category A) refinancing is the dealer's only option;
 - b. If the maturity date of the credit extended by the dealer to its customer is more than 180 days but less than 540 days beyond the maturity date of the original lender financing, then the dealer may choose between either short-term (Category A) or two-year (Category B) refinancing only; and
 - c. If the maturity date of the credit extended by the dealer to its customer extends 540 days or more beyond the maturity date of the original lender financing, then short-term (Category A), two-year (Category B) or three year (Category C) are all available refinancing options.

Example:
Allowable Refinancing Options
Maturity of credit extended by Dealer to End-User*



*(days from the maturity date for the floor plan financing)

Prepayment: The lender must obtain signed documents wherein the dealer promises to prepay to the insured lender any amount it receives from its customer prior to the maturity date specified in the refinancing note upon receipt.

Example 1

U.S. manufactured equipment purchased by a foreign dealer for its inventory having a \$100,000 net contract value with foreign content of less than 15%.

Initial "Original" Financing: \$85,000 financed by the lender with a due date of 180 days from consolidation date (100% insurance cover)

Refinancing Event (i): At the "cut-off" date (10 days prior to maturity of the original financing term), the machinery remains unsold. Dealer can choose short-term (Category A) or medium-term (Category B) refinancing options.

Short-Term Refinancing: If this option is chosen, then at the "original" financing due date, \$85,000 is financed for an additional 180 days (for a total term of 360 days from the applicable consolidation date). No principal is due until maturity.

Medium-Term (2 year) Refinancing: If this option is chosen, then at the "original" financing due date, \$85,000 is refinanced, but $\frac{1}{4}$ (\$21,250 - equal to two quarterly installments) is due immediately. The balance is due in 6 quarterly principal installments (each \$12,125) commencing 90 days from the refinancing date.

Example 2

U.S. manufactured equipment purchased by a foreign dealer for its inventory having a \$100,000 net contract value with foreign content of less than 15%.

Initial "Original" Financing: \$85,000 financed for 180 days from consolidation date (100% insurance cover)

Refinancing Event (ii): Prior to the "cut-off" date (10 days prior to maturity), the dealer resells the machinery to a customer on three year terms with final payment due more than 540 days from the due date of the "original" financing the dealer received. The dealer chooses Category C refinancing.

Medium-Term (3 year) Refinancing: On the "original" financing due date, \$85,000 is refinanced, but $\frac{1}{6}$ th (\$14,167 - equal to two quarterly installments) is due immediately. The balance is due in 10 quarterly principal installments (each, \$7,083) commencing 90 days after the refinancing date.

DOCUMENTARY COVERAGE: When the insured is a financial institution, such as in the case of the Foreign Dealer Insurance Policy, the insured lender will be required to obtain specific documents (such as a signed buyer obligation, transport documents, invoice, Exporter Certificate) that evidence conformity with the policy requirements. This policy protects the insured financial institution against certain cases of fraud by the borrower or the exporter, disputes and other defects in the underlying transaction that is being financed. Additional documentation required by Ex-Im Bank with respect to any refinancings covered under the Foreign Dealer Finance Policy include, among others, the following:

- (a) a refinancing request from the dealer,
- (b) documents that on their face evidence the financing terms offered by the buyer to its customer,
- (c) if one of the refinancing events giving rise to the refinancing request is the sale of capital goods by the buyer, a certification from the buyer (x) covenanting to the insured lender and Ex-Im Bank that upon the resale of such capital goods, the buyer will retain legal and beneficial title in all payments to be received from its customers and (y) representing to the insured and the insurer that the buyer has not sold the capital goods to any affiliates of the buyer.

SECURITY & LIENS: The Foreign Dealer Insurance Policy does not generally require the lender to obtain or maintain a security interest in the capital goods that are being financed. In this sense, the term “floor plan” used in the policy documentation may differ from its common usage in secured inventory finance in the United States.

CREDIT STANDARDS: Ex-Im Bank will evaluate the credit and financial information on dealers proposed as obligors for insurance policies in accordance with Ex-Im Bank’s Medium-Term Credit Standards (EBD-M-39), applying any applicable risk mitigants stated therein.

PREMIUMS: Ex-Im Bank charges a premium for coverage of the initial “original” financing period, as well as an additional premium for coverage of any refinancing term. However, in the case of a refinancing, any additional premium due is calculated after giving full credit for the premium already paid for coverage of the “original” 180-day financing.

The premium rates for the initial 180-day financing and for any short-term refinancing are the 180-day and 360-day single buyer rates, respectively. These rates are published on Ex-Im Bank’s website www.exim.gov (these can be found by clicking on the “Apply” section and then searching for “Exposure Fee Advice”). For a medium-term refinancing, a non-binding indication of the premium rate or “exposure fee” can be found by referring to the Exposure Fee Calculator on Ex-Im Bank’s website--- www.exim.gov.

HOW TO APPLY: To apply, the applicant submits an application on form [EIB03-02](#) and must check the box “Foreign Dealer Insurance Policy” under “Special Features Requested”. The applicant must also provide the supplemental information requested in

Attachment J, which can be found on Ex-Im Bank's web site under "Insurance Forms and Applications (<http://www.exim.gov/tools/appsforms/insurance.html>).

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