Trade Finance Basics

GO GLOBAL
E. Lansing, MI
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John O’Gara
Export Solutions Group
U.S. Small Business Administration
Exporting:

• What are my risks?
<table>
<thead>
<tr>
<th>Slow Payment/Default</th>
<th>Financing Risk</th>
<th>Commercial Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bankruptcy</td>
<td></td>
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</tr>
<tr>
<td>Contract Repudiation</td>
<td></td>
<td>Contract Risk</td>
</tr>
<tr>
<td>Contract Dispute</td>
<td></td>
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<tr>
<td>Abusive Bond Draw</td>
<td></td>
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</tr>
<tr>
<td>Foreign Exchange Control Legislation</td>
<td>Political Risk</td>
<td>Country Risk</td>
</tr>
<tr>
<td>Discharge of Debt Legislation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government Repudiation of Debt</td>
<td></td>
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<tr>
<td>Payment Moratorium</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurrection/Overthrow/Domestic Turmoil</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Payment Due To War</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Currency Inconvertibility</td>
<td>Transfer/Economic Risk</td>
<td></td>
</tr>
<tr>
<td>Currency Fluctuation/Devaluation</td>
<td></td>
<td>FX Risk</td>
</tr>
<tr>
<td>Discrepent/Improper Documentation</td>
<td></td>
<td>Documentation Risk</td>
</tr>
</tbody>
</table>
Methods of Payment

- Cash in Advance
- Letter of Credit
  - Irrevocable vs. Revocable
  - Sight vs. Time
- Documentary Collections
  - Cash Against Documents
  - Documents Against Acceptance
- Open Account

RISK
- Lower
- Higher
Export Finance Needs

• Pre-shipment financing
  – Pay market development costs
  – Acquire/manufacture goods
  – Post bid/performance bonds

• Post-shipment financing
  – Provide supplier credit (open account sale)
  – Post warranty bonds
The Export Finance Wall!
(Cue Pink Floyd)
Export Working Capital Program (EWCP)

• “A business should not lose a viable sale due to a lack of working capital”
EWCP- What is it?

• Credit enhancement tool for Lenders
  – 90% guaranty for the bank
  – NOT a mandate to the bank, it’s their choice
  – Borrower must apply to the bank for a line of credit
Export Working Capital Program

Features

• Supports single transactions or multiple transactions.
• Guaranty fee ¼% of Guaranteed portion
• Max. SBA Exp/Amt. = $4,500,000/$5,000,000
• No minimum U.S. content requirement.
• Can support sales to military buyers.
• Short turnaround time ≤ 10 days.
• Supports pre/post shipment working capital needs
• Supports Standby L/Cs
Use of Proceeds

- Standby Letters of credit for bid bond, advance payment guaranties or performance bonds
- Acquire/produce goods or services for export
- Accounts Receivable of such foreign sales
## Asset Based EWCP

### Maximizing the Borrowing Base

<table>
<thead>
<tr>
<th>Asset-Based Facility</th>
<th>SBA EWCP Guarantee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>% Advance</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td><strong>Exportable Inventory</strong></td>
<td></td>
</tr>
<tr>
<td>Raw Materials</td>
<td>$200,000</td>
</tr>
<tr>
<td>Work-In-Progress</td>
<td>200,000</td>
</tr>
<tr>
<td>Finished Goods</td>
<td>600,000</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>$1,000,000</td>
</tr>
<tr>
<td><strong>Foreign Accounts Receivable</strong></td>
<td></td>
</tr>
<tr>
<td>Open Account</td>
<td>$400,000</td>
</tr>
<tr>
<td>L/C Backed A/R</td>
<td>600,000</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>1,000,000</td>
</tr>
</tbody>
</table>

**Total Borrowing Base**: $2,000,000

**SBA EWCP Guarantee**: $800,000

**Total**: $1,650,000
What Do We Look for?

- Exporter’s ability to perform
- Purchase Order, L/C or signed contract
- Creditworthiness of foreign buyer
- Creditworthiness of exporter
- Terms of sale and method of payment
## INCO Terms

<table>
<thead>
<tr>
<th>TERM</th>
<th>Cost of Goods Factory Door</th>
<th>Transport to Dock</th>
<th>Loading Onto Vessel</th>
<th>Ocean or Air Freight Charges</th>
<th>Shipping Insurance</th>
<th>Unloading Charges</th>
</tr>
</thead>
<tbody>
<tr>
<td>EX-WORKS (EXW)</td>
<td></td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FREE ALONG SIDE (FAS)</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FREE ON BOARD (FOB/FCA)</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>COST + FREIGHT (CFR/CPT)</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>COST + INS+ FREIGHT (CIF/CIP)</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>EX-QUAY (DAT/DAP/ DDU/DDP)</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>
Trade Finance Success

- **Firm:** Metal Plating, Inc.
- **Product:** Anodizing and phosphating lines
- **Situation:** 2 Contract(s) for $3MM with Egypt. Down payment of 30% for both ($900M) requiring Standby L/C’s.
- **Solution:** A $1MM EWCP to support issuance of Standby L/C’s.
Trade Finance Success

- **Firm**: Thumb Tool & Die
- **Product**: Plastics processing machinery and strand pelletizing equipment.
- **Situation**: Order from China $3.7M.
- **Need**: Pre-shipment working capital to support standby L/C and manufacture of equipment.
- **Solution**: 2 loans:
  - A $500K EWCP to support Standby L/C - 18 months
  - A $1.5M EWCP Co-Guaranteed by Eximbank - 1 year
Trade Finance Success

- **Firm:** Military Vehicles, Inc
- **Product:** Armored vehicles for defense/law enforcement end-users
- **Situation:** Order from Kuwait $6.8 MM.
- **Need:** Pre-shipment working capital to support standby L/C, and WC to provide vehicle training.
- **Solution:** 2 loans:
  - A $680K EWCP to support Standby L/C - 15 months
  - A $540K EWCP for working capital needs - 12 mos.
- **Future deals:** $40 MM sale to same buyer
EXPORT EXPRESS

• Fast turnaround
• Streamlined application
• Lender uses own forms
• 90% guaranty up to $350,000
• 75% guaranty to max of $500,000
• Use of proceeds supports export activity
SBA Export Express

Use of Proceeds

• Export development activities such as marketing and trade shows

• Transaction specific financing such as production cost of labor, materials and overhead

• Revolving lines of credit for export purposes
SBA Export Express

Use of Proceeds

- Facilities or equipment to be used in the U.S. to produce goods or services for export
- Loan proceeds may not be used to finance overseas operations
- Lender must review Eximbank CLS to verify eligibility
International Trade Loan (ITL)

- Jobs Act changes: The maximum loan is $5 million with a maximum SBA guarantee portion of $4.5 million. Lender gets a 90% guaranty.
  - The loan proceeds will significantly expand an existing export market or develop new export markets; or
  - The applicant business has been adversely affected by import competition
AND
  - Upgrading facilities or equipment will improve the applicant’s competitive position OR
  - Applicant is bringing mfg. of goods back to US (insourcing)
International Trade Loans (ITL)

• Use of Proceeds :
  – Facilities
  – Equipment
  – Working Capital
  – Debt refinancing is allowed.

• Business plan/application must document eligibility requirements (i.e. export projections or evidence of adverse impact).

• Bringing mfg. back to the U.S. (Sourcing from U.S.)

• ITL can be combined with a separate EWCP loan. Maximum working capital allowed is $4 million
Contact Info:

John R. O’Gara
Regional Manager
Office of International Trade
U.S. Small Business Administration
U.S. Export Assistance Center
440 Burroughs, Suite 315
Detroit, MI  48202
John.O’Gara@trade.gov
(313) 872-6793