



Trade Finance Basics



GO GLOBAL

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Exporting:

- What are my risks?



Slow Payment/Default	Financing Risk	Commercial Risk
Bankruptcy		
Contract Repudiation	Contract Risk	
Contract Dispute		
Abusive Bond Draw		
Foreign Exchange Control Legislation	Political Risk	Country Risk
Discharge of Debt Legislation		
Government Repudiation of Debt		
Payment Moratorium		
Insurrection/Overthrow/Domestic Turmoil		
Non-Payment Due To War		
Currency Inconvertibility	Transfer/Economic Risk	
Currency Fluctuation/Devaluation	FX Risk	
Discrepant/Improper Documentation	Documentation Risk	

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



RISK
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)



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*Export
Nirvana*

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 $\frac{1}{4}\%$ 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

	ASSET-BASED FACILITY			SBA EWCP GUARANTEE	
	Amount	% Advance	Collateral	% Advance	Collateral
<u>Exportable Inventory</u>					
Raw Materials	\$200,000	40	\$80,000	75	\$150,000
Work-In-Progress	200,000	0	0	75	150,000
Finished Goods	600,000	50	300,000	75	450,000
Subtotal	<u>\$1,000,000</u>		<u>\$380,000</u>		<u>\$750,000</u>
<u>Foreign Accounts Receivable</u>					
Open Account	\$400,000	0	\$0	90	\$360,000
L/C Backed A/R	600,000	70	420,000	90	540,000
Subtotal	<u>1,000,000</u>		<u>420,000</u>		<u>900,000</u>
Total Borrowing Base	<u>\$2,000,000</u>		<u>\$800,000</u>		<u>\$1,650,000</u>

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

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



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



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