


A stylized world map in a light blue color, centered on the Atlantic Ocean, serving as a background for the text.

# Growth Through International Sales

## Primer on Trade Finance and the Export-Import Bank of the United States

Presentation to  
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As technology makes the world a  
smaller place, few companies  
limit themselves to domestic  
markets...  
the world is their marketplace

# Overview

A stylized world map in a light blue color is centered on a dark blue background. The map shows the outlines of continents and is positioned behind the main text of the slide.

- Risks inherent to international business
- International methods of payment
- Tools for getting paid
- The Export-Import Bank of the United States
- Tools to grow international sales
- **SONORANBANK**, N.A.

# Risks in International Business



1. **Political** – ruling party's control and management
2. **Economic** – a country's ability to pay
3. **Regulatory/legal** - tariffs, import quotas, distributorship agreements, other legal matters
4. **Commercial** – a business ability to compete
5. **Foreign Exchange** – local currency fluctuations
6. **Logistical** – delivering the products
7. **Financial** – seller's ability to perform and buyer's ability to pay
8. **Cultural** – understanding and embracing cultural differences
9. **Reputation** – know your customer (KYC)

## Resources:

Int'l banks; US Commercial Service; Customs Brokers; Freight Forwarders

# International Methods of Payment



1. Cash in Advance—wire transfer/foreign bank dollar draft/credit card
2. Commercial Letters of Credit
3. Documentary Collection  
--documents against cash  
--documents against acceptance
4. Open account

# Who sets the method of payment?

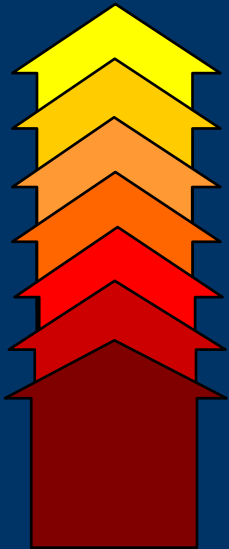
- Competitive pressures
- Customer relations
- Regional preferences and, sometimes,
- Regulations

**Method of payment will determine the financing needed for the transaction**

# Payment Risk Spectrum

## Seller Risk

High



Low

## Payment Terms

Open Account

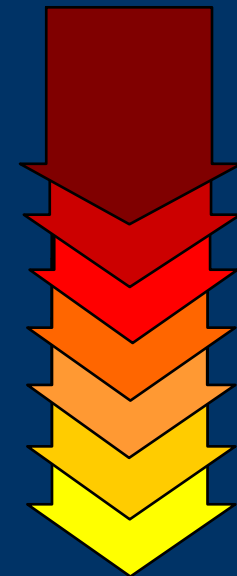
Cash Against Documents

Sight Letters of Credit

Payment in Advance

## Buyer Risk

Low



High



# Trade Finance

...the tools for getting paid

A faint, light blue world map is visible in the background of the slide, centered behind the text.

# Int'l Division of Banks

## Tools

- Wire transfers
- Foreign exchange
- Collections
- Letters of credit

## Benefits

- Minimize risks in getting paid

# Financial Challenges in Exporting



In addition to the risks, exporters face three major financial challenges...

- Obtaining working capital financing
- Extending credit to foreign buyers, and
- Financing capital goods and services

Ex-Im Bank's financial products enables exporters of all sizes to...

- Increase their sales
- Protect against the risks of international trade
- Export with confidence

# The Export-Import Bank of the US

Ex-Im Bank is an independent agency of the US

- Established in 1934
- Headquartered in Washington, DC
- 6 regional offices; AZ serviced by western regional office in CA

Mission: Support the financing of US exports in order to create and sustain US jobs (“jobs through exports”)

Why is Ex-Im Bank important?

- Ex-Im Bank exists to take financial risks that commercial lenders will not take

# Export-Import Bank of the U.S.



## Tools

- Export Credit Insurance
- Loan Guarantees

## Benefits

- Minimize risks
- Increase Export Sales
- Supplement commercial financing

# Eligibility Criteria

## No Defense Articles or Services, or Military Buyers

- Exceptions may be made for humanitarian purposes, drug interdiction

## US Content

- 51% for ST transactions
- 85% for MT transactions
- Services must be performed by US-based personnel, either here or in the “host” country

## Country Eligibility

- Support available in over 155 countries
- Restrictions may apply for political or economic reasons
- Refer to the Country Limitation Schedule (CLS) at [www.exim.gov](http://www.exim.gov)

## Credit Standards (S-T & M-T)

- Reasonable assurance of repayment

# Financing Support

**Pre-Export  
Financing**

**Post-Export  
Financing**



**Working  
Capital  
Guarantee**

**Insurance  
Guarantees  
Direct Loans**

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# Pre-Export Financing

..... When Seller Needs Financing

# Ex-Im Bank's Working Capital Guaranty ("WCG")

- Assists small and mid-size US companies in obtaining short-term loans for export funding needs
- Loans can be used to purchase inventory, pay for labor, overhead and/or provide services designed for export
- Advance rates are up to 90% against export accounts receivable and up to 75% against exportable inventory (including work in progress)
- Export-related inventory and accounts receivable are used as collateral
- May be set up as "transaction-specific" or a "revolving" line of credit
  - Disbursements are made against firm Export Orders
- No minimum or maximum amounts

**Most used by small and mid-size companies**

# WCG Increases Borrowing Power

		Your Working Capital Facility <b>without</b> Ex-Im Bank		Your Working Capital Facility <b>with</b> Ex-Im Bank	
		<u>Advance Rate</u>	<u>Borrowing Base</u>	<u>Advance Rate</u>	<u>Borrowing Base</u>
<b>Collateral (Inventory)</b>	<b><u>Amount</u></b>				
<i>Export Inventory</i>					
Raw Materials	\$200,000	20%	\$ 40,000	75%	\$ 150,000
WIP	200,000	0%	0	75%	150,000
Finished Goods	600,000	50%	300,000	75%	450,000
<i>Export/Foreign Accounts Receivable</i>					
Open Account/Foreign Account Receivable	\$400,000	0%	0	90%	\$ 360,000
L/C Backed A/R	600,000	70%	<u>420,000</u>	90%	<u>540,000</u>
<b>Total Borrowing Base</b>			<b><u>\$760,000</u></b>	<b>vs.</b>	<b><u>\$ 1,650,000</u></b>

# WCG Requirements

- Asset-Based: fully collateralized
  - Personal guarantees are required of owner(s)
  - Borrowing Base Certificates required
- Exporter Eligibility
  - Minimum one-full year operating history
  - Positive tangible net-worth
- Cost:
  - \$100 application fee
  - Up to 1.5% facility fee
  - Interest rate is determined by the lender

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# Post-Export Financing

... When Foreign Buyer Needs Financing

...When Exporter Needs Liquidity

# Financing Options

- Short-Term Insurance
  - Applies to sales with credit terms of up to 180 days / 360 for approved agricultural commodities
- Medium-Term Insurance / Guarantee
  - Applies to sales of capital equipment only with credit terms of up to 5-years

**Allows exporter to provide credit terms to international buyers that can increase sales**

# Export Credit Insurance - Benefits

- **Risk Protection**
  - ✓ Insures you against non-payment by your foreign buyers due to commercial and political risks
- **Become More Competitive in the Global Economy**
  - ✓ Eliminating the need for expensive letters of credit or “cash in advance” requirements will increase your global competitiveness
- **Grow Sales and Develop New Markets**
  - ✓ Increase sales to your existing or potential customers by offering open account payment terms

# Export Credit Insurance – Benefits (Cont.)

- **Boost Borrowing Base**
  - ✓ Assign your Ex-Im Bank insured receivables to your lender as collateral on your line of credit borrowing base
- **Improve Liquidity**
  - ✓ Discount your Ex-Im Bank insured receivables at competitive rates
- **Stabilize Cash Flow**
  - ✓ Budget premium costs and avoid catastrophic bad debt expense

# Short-Term Export Credit Insurance

- **Single-Buyer Policy**
  - For companies wishing to insure single or multiple sales to one buyer (90%C&P)
- **Standard Multi-Buyer Policy**
  - For companies not defined as a small business, or that have export credit sales of more than \$5 million (95%C&P)
- **Small Business Multi-Buyer Policy**
  - For companies with annual export credit sales of less than \$5 million and meet the SBA “small business” qualification (95%C&P)

Coverage in over 150 countries (refer to Country Limitation Schedule)

# Short-Term Insurance - How to Apply



- Exporter can apply directly to Ex-Im Bank On-Line
  - ✓ Role of brokers
- Limited buyer credit info required:
  - ✓ Up to \$100M: trade reference or credit report
  - ✓ > \$100M to \$300M: A credit report & 2 trade references
  - ✓ > \$300M: Same as above, plus buyer's F/S for last 3 years
- Costs are based on repayment terms

# Medium-Term Insurance and Loan Guarantees



## WHAT IS IT?

- Unsecured loan to your buyer with a 2 to 5 yr repayment term
- 100% coverage on both principal and interest
- Capital equipment (new or used) and related services
- Insurance:
  - Up to \$10 million per Borrower
  - Lender or Exporter can apply (not buyer)
- Loan Guarantee:
  - No limitation on amounts
  - Only Lender can apply

# Medium-Term Financing Support

- Finance up to 85% of U.S. content
- Loan Repayment Terms:
  - Less than \$80,000 2 years
  - \$80,000 –less than \$175,000 3 years
  - \$175,000 – less than\$350,000 4 years
  - \$350,000 or more 5 years
- Semi-annual installments of principal and interest

Insurance or Guarantees for transactions up to \$10 MM  
Guarantees only for > \$10MM

# Medium-Term Financing Structure

Sales Contract Amount:	US \$400,000
<u>Less</u> : 15% Downpayment:	<u>60,000</u>
Financed Portion:	340,000
<u>Plus</u> : Ex-Im Premium (1.80%):	<u>6,120</u>
<b>FINANCED AMOUNT:</b>	<b>US \$346,120</b>

- *Payable in 10 equal semi-annual principal payments of \$34,612 plus interest*
- *First payment due 6 months from shipment date*

# Long-Term Financing Support



- Generally used for buyer financing in amounts over \$10 million and 7-12 year repayment terms
- 15% down payment / 85% financed amount
  - Loan Guarantees
  - Direct Loans
- Two approaches:
  - Structured Trade Finance
  - Limited Recourse Project Finance

# When to Approach Ex-Im Bank?

- When exporter needs financing
- When foreign buyer needs financing
- When exporter losing foreign sales
- When exporter facing pressure to sell on open account terms
- When exporter wants to mitigate risk of non-payment

**Over 85% of Ex-Im Bank transactions supported small business exporters.**

**No transaction is too small!**



The Business Owners Bank



The Business Owners Bank

- Federally chartered bank established in 2005
- Commercial, trade and private banking services
- Our clients are
  - Small and mid-size AZ businesses
  - Foreign buyers of US products and services
  - Foreign businesses looking to established AZ presence
- Aim to be positioned as the premier community bank addressing the banking needs of a growing Hispanic business market
- Locally owned and managed



The Business Owners Bank

- Commercial Mortgages
- Consumer Loans
- Asset Based Loans
- Structured Trade Finance (pre- and post-export financing)
- International Risk Management
- Demand and Time Deposits
- Treasury Management
- Online Banking



# Thank You

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