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Global Summit



Concurrent Breakout Session 3

Room #1

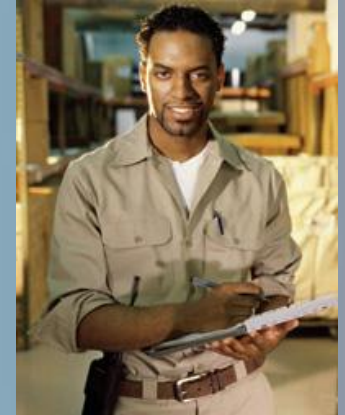
**Export Finance Tools to
Grow Your Export Sales**



U.S. Small Business Administration



Financing Your Exports



Helping you start, grow and succeed.



Ohio Global Summit

Columbus, OH – September 22, 2010



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From the President

- “We need to export more of our goods. Because the more products we make and sell to other countries, the more jobs we support right here in America. So tonight, we set a new goal: We will double our exports over the next five years, an increase that will support two million jobs in America. To help meet this goal, we're launching a National Export Initiative that will help farmers and small businesses increase their exports, and reform export controls consistent with national security.”

President Barack Obama
State of the Union Address
January 27, 2010



National Export Initiative

- Double Exports in five years
- Expand U.S. government's export promotion efforts (Trade Promotion Coordination Committee (TPCC) consisting of 19 agencies)
- Provide access to credit
- Eliminate barriers that prevent open and fair access to foreign markets

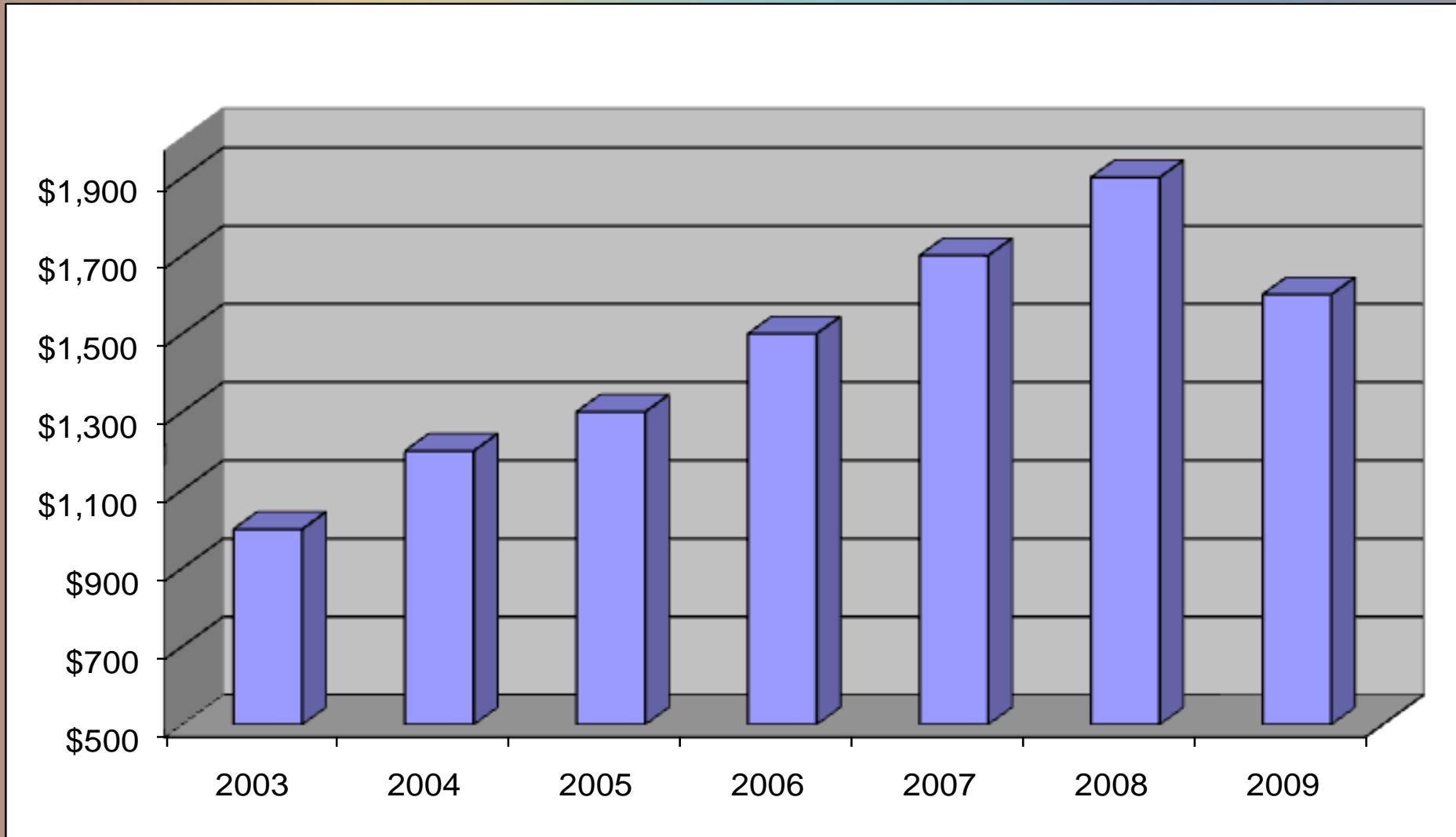


Exporters Perform Better

- Exporters grow 22% faster than non-exporting companies
- Firms engaged in exporting are 20% more productive, 9% less likely to go bankrupt, and experience 20% job growth
- Wages paid by exporting companies are 15% higher, and benefits paid are 11% higher than non-exporting firms.
- One in five manufacturing jobs depends on Exporting

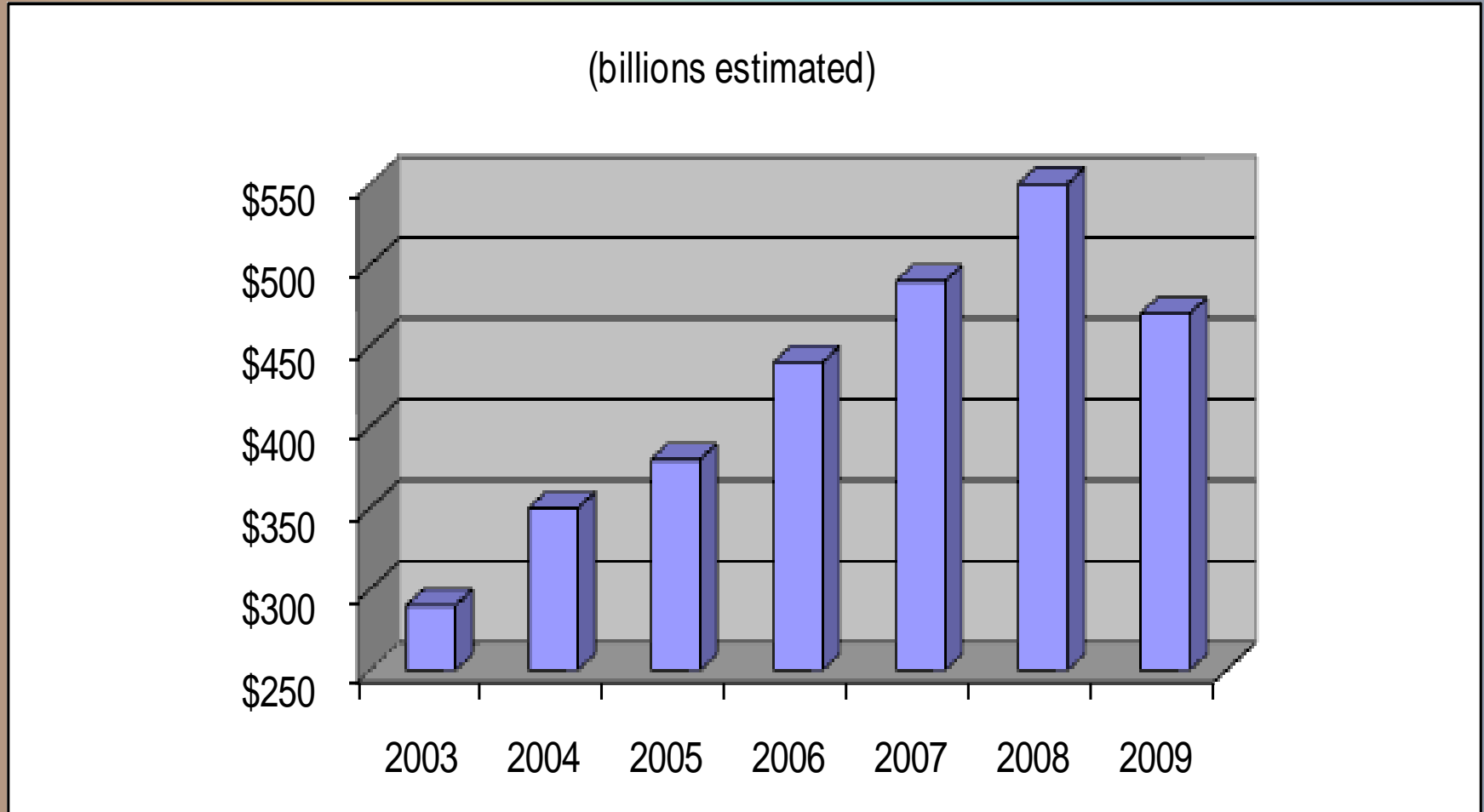


US Exports





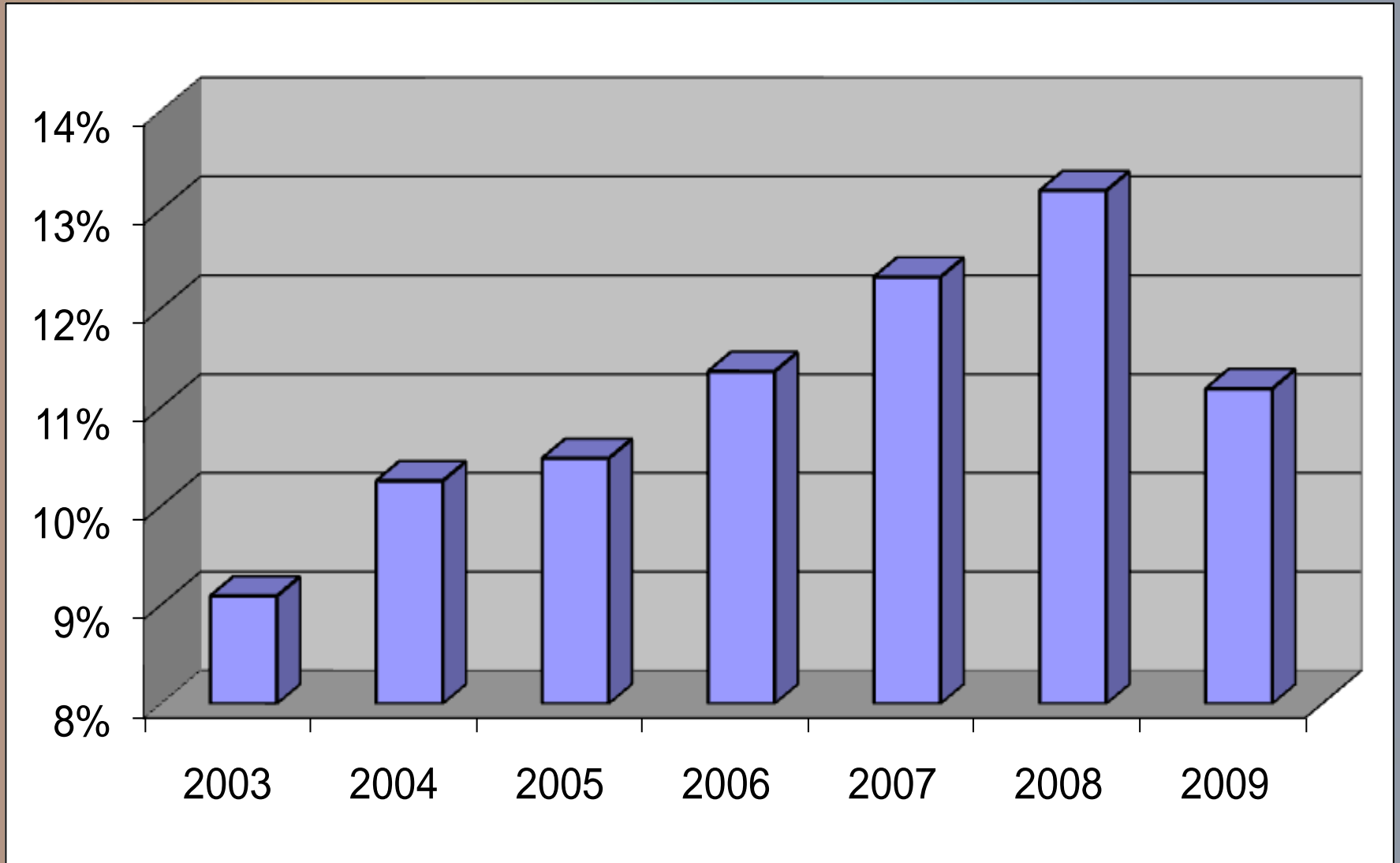
Estimated Small Business Exports*



Bureau of Economic Analysis website, Table 1.1.5 data on GDP. Although the *Profile* indicates 29% of exports are from small businesses, it excludes services. Applying the 29% to the BEA data gives a larger amount of small business exports as compared to the *Profile*. The two agencies methods of counting exports are not strictly comparable, so the figures in this graph are estimates.



Exports as Proportion of the Economy

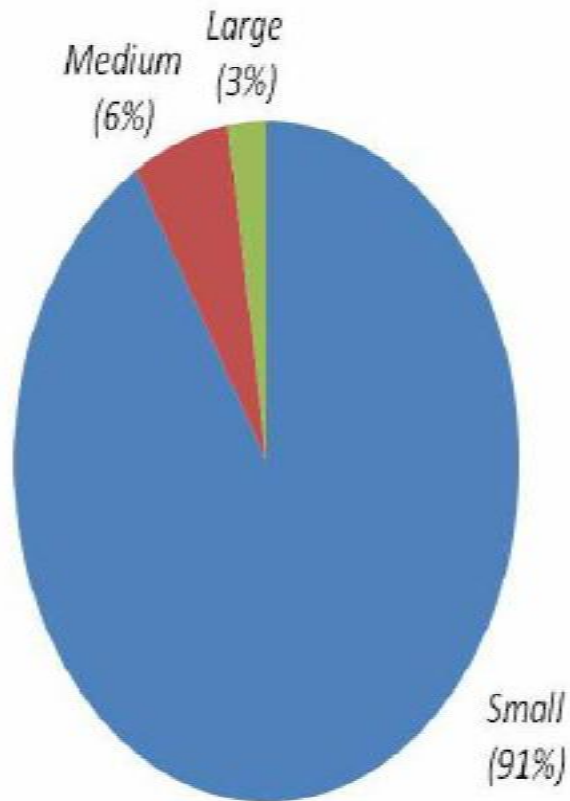


Source: Bureau of Economic Analysis website, Table 1.1.5, GDP

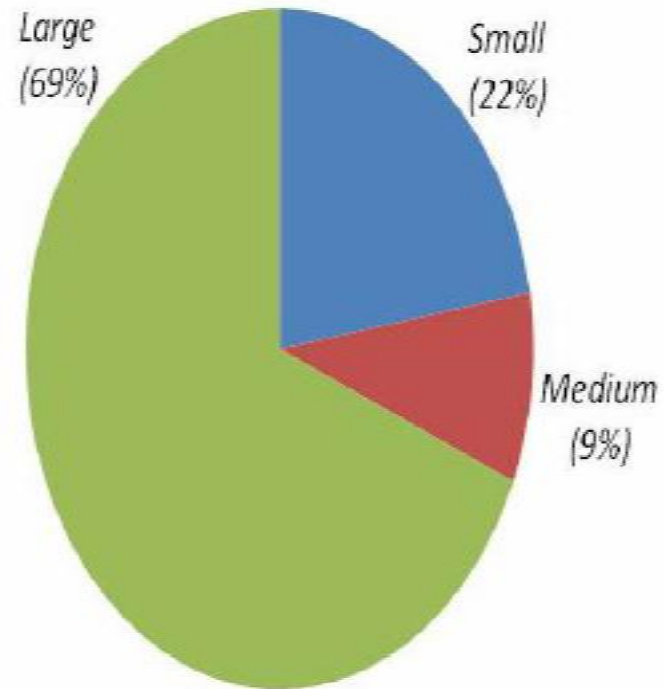


Number and Value of Exports

Number of Exporters, 2008



Value of Exports, 2008





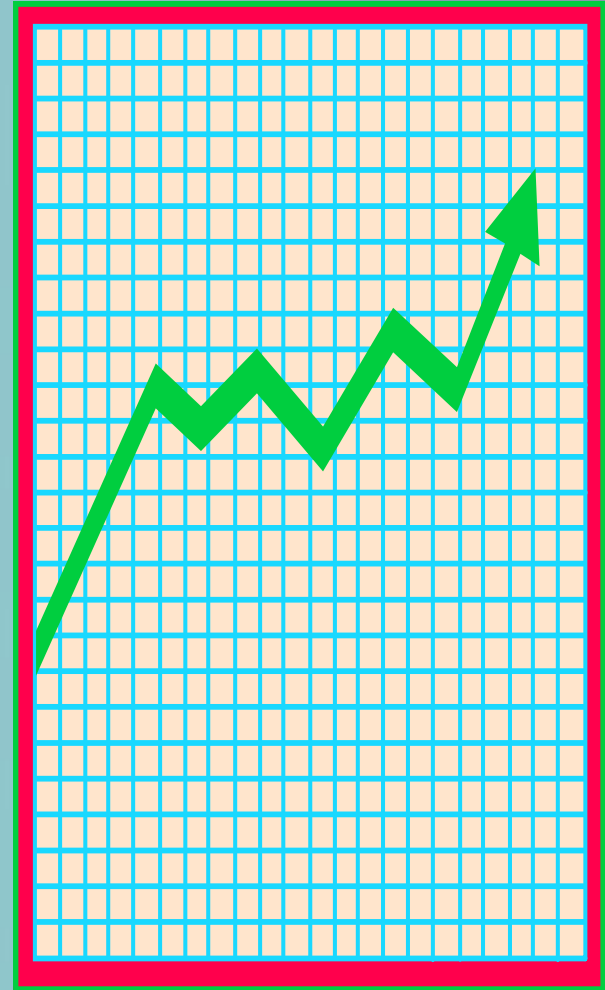
SBA Loan Programs for Exporters

- Export Working Capital Program
- International Trade Loan
- Export Express



EWCP “Philosophy”

“A business should not lose a viable export sale due to a lack of working capital”





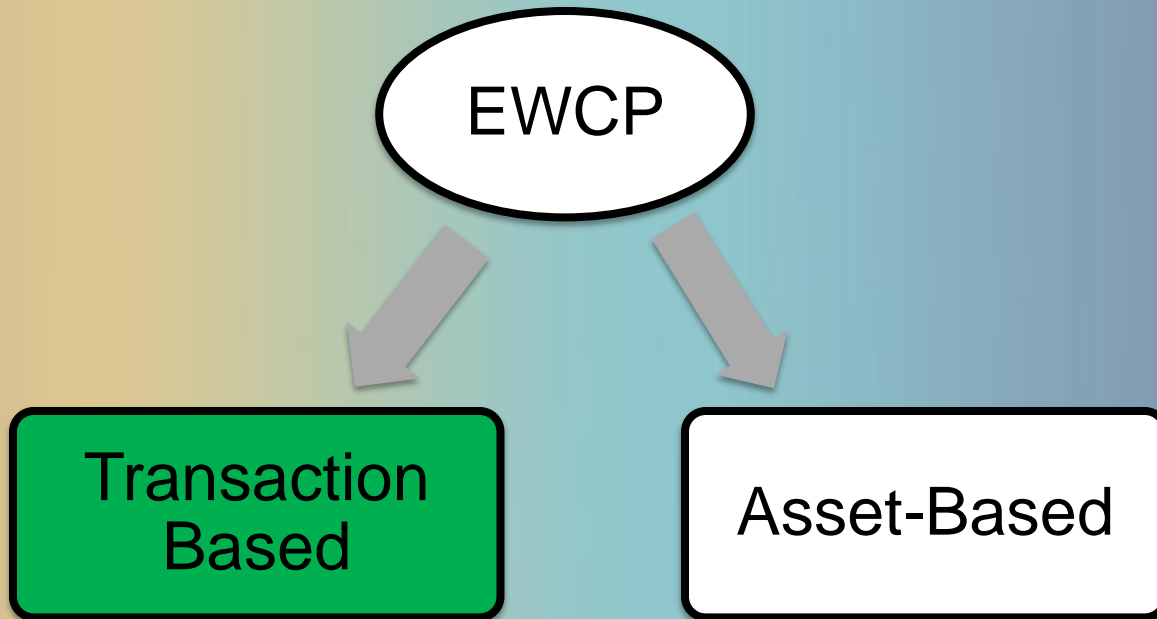
Export Working Capital Program



- 90% Guarantee
- \$1.5 Million is maximum SBA guaranteed portion
- SBA-Ex-Im Co-guarantee allows loans up to \$2 Million
- Asset based or transaction based financing
- No pre-determined minimum ratios
- Single Project or Revolver
- Quick turnaround time
- PLP Processing Available

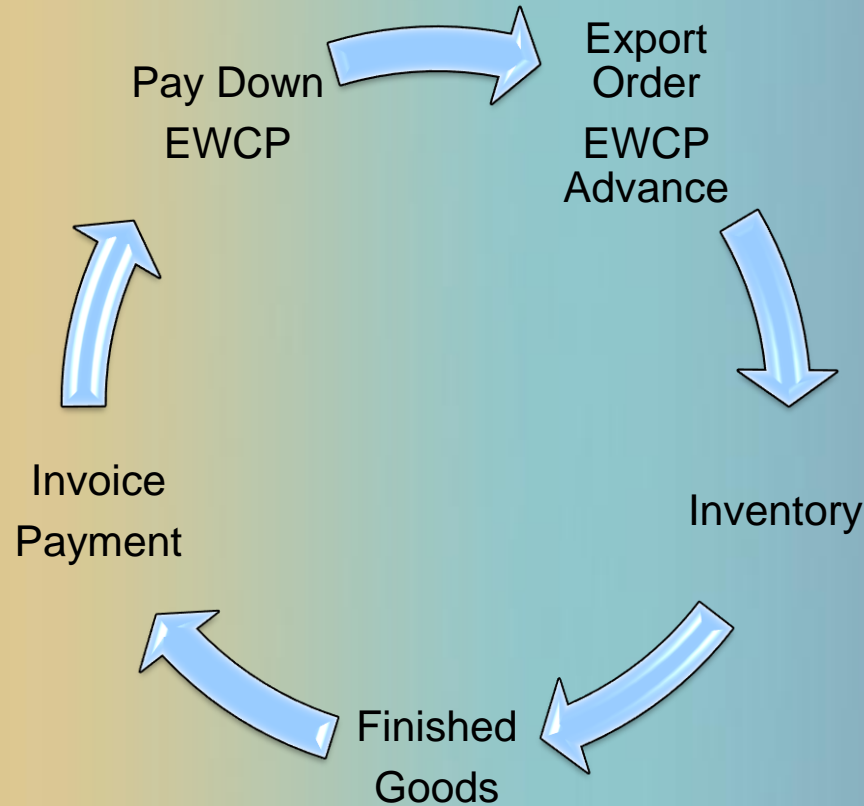


Two Types of EWCP Loans





Transaction Based EWCP Self Liquidating Line of Credit



Transaction Based EWCPs can be utilized for single export orders or multiple orders on a revolving basis. No funds are disbursed until there is an export order in place. Funds are used by the borrower to produce goods for a specific export order. SBA requires secure payment method from foreign buyer which will be directed to pay down the EWCP



Transaction Based EWCP

Use of Proceeds

- Loan proceeds to acquire/produce goods or services for export. EWCP funds can be used to finance up to 100% of exporter's direct cost associated with a specific export transaction, not to exceed 90% of the overall export sale amount.

Example - Small business exporter lands a \$1 Million export sale. The production costs for the exported item is \$700,000 – bank can therefore advance the entire \$700,000 under the EWCP program.



EWCP Use of Proceeds

Portions of the EWCP Line of Credit may be up to fund standby Letters of Credit when required as:

- Bid Bond
- Performance Bond



Transaction Based EWCP

Payment methods

Transaction evidenced by Purchase Order, L/C or signed contract

Acceptable payment by foreign buyer

- Cash in Advance
- Letter of Credit
- Documentary Collections
- Open Account (insured)
- Open Account (no insurance)



Discounted Credit Insurance

- The Export-Import Bank of the United States (Ex-Im Bank) and the SBA have joined together to provide SBA export loan recipients with a 25% discount on export credit insurance premiums.
- Ex-Im Bank's export credit insurance protects against nonpayment and enables exporters to sell on competitive "open account" terms. Exporters can enter new markets and increase sales in existing markets and have the ability to match the credit terms offered by their foreign competitors.
- Ex-Im Bank provides up to 95% coverage for both commercial risks (i.e. buyer insolvency and default) and political risks (i.e. war, revolution and the cancellation of an export or import license).

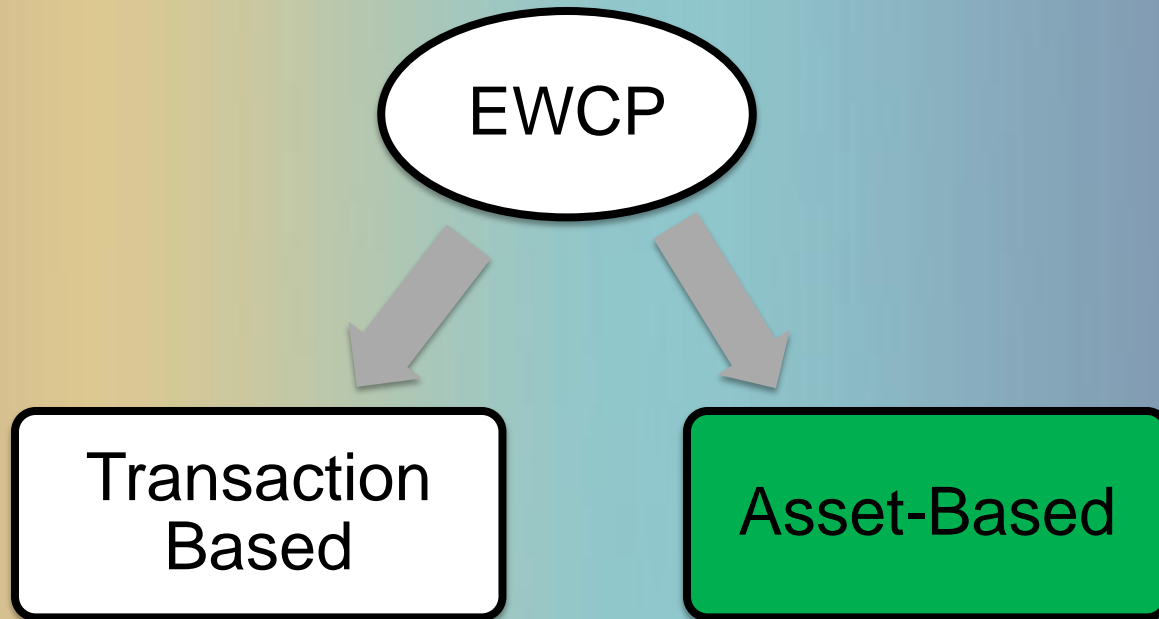


EWCP - Collateral

- Self-liquidating loan
- First lien on all assets being financed
 - Typically inventory, WIP and A/R
- Personal guarantees of all owners of 20% or more.
- Other collateral on a case-by-case basis



Two Types of EWCP Loans





Asset Based EWCP

MAXIMIZING THE BORROWING BASE

ASSET-BASED FACILITY

SBA/EX-IM 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	<u>600,000</u>	50	<u>300,000</u>	75	<u>450,000</u>
• Subtotal	\$1,000,000		\$380,000		\$750,000
• <u>Foreign Accounts Receivable</u>					
• Open Account	\$400,000	0	\$ 0	90	\$360,000
• L/C Backed A/R	<u>600,000</u>	70	<u>420,000</u>	90	<u>540,000</u>
• 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>

– *Line Increases from \$800,000 to \$1,650,000 (+106%)*



EWCP Fees

- One time guaranty fee of $\frac{1}{4}$ of 1% of the guaranteed portion for loans with a 12 month or less maturity. The American Recovery and Reinvestment Act of 2009/Department of Defense Appropriations Act eliminated the guaranty fee on loans with a 12 - 36 month maturity (previously between 2% and 3.5%)
- Deals initially booked for 12 months or less can be “re-issued” for $\frac{1}{4}$ of 1% the following year
- 55 basis point on-going fee paid by lender
- Business and lender negotiate Interest rate and fees (there is no restriction on the fees), lender is required to disclose this information to SBA

SBA EWCP - How to Apply

- Apply with a commercial loan officer at your existing bank. The Bank will forward your application to SBA for approval if SBA support is needed for the transaction.





SBA Loan Programs for Exporters

- Export Working Capital Program
- International Trade Loan
- Export Express



International Trade Loan (ITL)

- The SBA guarantee portion can go as high as \$1.75 Million for IT loan customers. A separate working capital loan must be made in order to reach \$1.75 million maximum:
 - 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



International Trade Loans

- Use of Proceeds is limited to:
 - Facilities
 - Equipment
 - Debt refinancing is allowed (if the original debt qualified for ITL financing).
- Business plan/application must document eligibility requirements (i.e. export projections or evidence of adverse impact).
- Working capital is an acceptable use of proceeds under a separate SBA loan.



International Trade Loans - How to Apply

- Apply directly with a commercial loan officer at your existing bank of account. Application must include projections that will demonstrate increased export sales and activity as a result of the loan.





SBA Loan Programs for Exporters

- Export Working Capital Program
- International Trade Loan
- **Export Express**

SBA Export Express

- Loans and Lines of Credit under \$250,000.
- All Express Lenders are authorized to process Export Express.
- Approved banks make their own credit decision, use their own forms and receive a 90% (ARRA) or 75/85% guarantee from the SBA.



Export Express

- The maximum loan amount under SBA Export Express is \$250,000.
- Processed using the existing SBAExpress processing procedures
- Eligibility:
 - applicant in business for at least 12 months
 - proceeds are to be used to develop or expand their export markets
 - Borrower can provide estimate of exports for next 12 months.



Export Express

- Proceeds may be used for any of the following purposes:
 - transaction-specific financing of export deals, including standby letters of credit
 - general lines of credit for export purposes
 - export development activities such as brochure translation or participation in a trade mission
 - term loans for permanent working capital, machinery and equipment, or real estate
 - Standby Letters of Credit used for export purposes



Export Express Loans - How to Apply

- Apply directly with a Business Banking or Commercial Loan Officer at an SBA approved Express Lender. Application must include documentation on how the loan proceeds will increase export sales and an estimate of export sales for the next 12 months.



SBA

U.S. Small Business Administration

SBA

Your Small Business Resource

www.sba.gov/oit



THE EXPORT IMPORT BANK OF THE U.S.

***3rd Annual Ohio Global Summit
“Ex-Im Bank Programs”***

Columbus, OH

Wednesday, September 22, 2010

Who We Are

- Official U.S. Export Credit Agency (“ECA”)
- Founded 1934
- Independent self sustaining agency
- Purpose: To facilitate the financing of U.S. exports of goods and services
- No minimum or maximum transaction size
- Do not compete with the private market

The Rules we follow

OECD

- Sovereign Fees
- 85% cover
- Repayment terms

CONGRESS

- Reasonable Assurance of Repayment
- Adverse Economic Impact
- MARAD (using US flag vessels)
- Additionality

INTERNAL

OUR BASIC REQUIREMENTS:

- **A creditworthy buyer**
- **“On cover” in the buyers country**
- **Goods must have U.S. content (labor and material) of at least 50%**
- **Goods must be shipped from the U.S.**

OUR MAIN PRODUCTS

- **Short term export credit insurance covering extended payment terms out to 180 (exceptionally 360) days**
- **Medium and long term programs covering exports of capital equipment on extended payment terms out to five years or longer**
- **Working capital guarantee for pre-shipment finance**

OTHER PROGRAMS

PRE-SHIPMENT INSURANCE

DEALER FINANCE

BANK LETTER OF CREDIT

DIRECT LOANS

LEASING

PROJECT FINANCE

MEDICAL EQUIPMENT

ENVIRONMENTAL PROGRAMS

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3rd Annual Global Summit
The Role of the Broker
Export Credit Insurance

Why consider insuring A/R?

- Usually the only uninsured account on your balance sheet
- Trade receivables typically consist of 40% of a company's assets
- Difficult to predict which clients may fail to pay trade debts
- Account concentration



What are the benefits?

- ☞ Safely expand sales to existing and/or new customers
- ☞ Ability to obtain additional borrowing capacity and better financing terms
- ☞ Ongoing account monitoring provides early warning of potential credit risks
- ☞ Aids in credit control and risk management



How is it accessed?

- Independent broker
- Agent of specific insurer
- Direct contact via Internet
- Trade group
- Banker
- General P&C business agent



Who offers credit insurance?

☞ Government

- Export – Import Bank of U.S. (export only)

☞ Private

- Atradius
- Chartis
- Coface
- Euler Hermes ACI
- Exporters
- FCIA Management
- HCC (Houston Casualty)
- QBE



Insurance Brokers' Standards of Service

- ☞ Remain knowledgeable and current on all programs – public and private
- ☞ Educate clients on policy parameters, benefits, proper usage, and alternatives
- ☞ Serve as primary contact and advocate for exporting clients



Standards of Service - continued

- Find most comprehensive and economic coverage to fit clients' business, goals and objectives
- Review all applications for accuracy, completeness and reasonableness
- Review and explain policy quotes, premiums, and clients' responsibilities



Standards of Service - continued

- ☞ Assist in clients' compliance with the policy
- ☞ Report policy cancellations
- ☞ Assist in claim filing preparation and process
- ☞ Provide as much assistance as possible to clients in order to maximize benefits of the policy



Additional Activities

- ☞ Serve as single source for obtaining risk mitigation and non- and limited-recourse financing
- ☞ Prepare MT financing packages
 - ◆ obtain and spread financial statements
 - ◆ complete application and exhibits
 - ◆ obtain references from suppliers and banks
 - ◆ anticipate questions and issues from insurer
 - ◆ arrange for a lender, if needed



Additional Activities - continued

- Obtain credit agency reports
- Provide policy administration services
- Access and arrange pre-export working capital financing
 - ◆ SBA, Ex-Im Bank
 - ◆ structure post export insurance coverage to ensure access to pre-export credit line
- Provide documentation for financing



About TAG, Ltd.

- Partner owned firm since 1996
- 75 years of in depth trade finance experience among the principals
- Well established, excellent working relationship with Ex-Im Bank and private trade credit underwriters
- **Small Business Broker of the Year** awarded by Ex-Im Bank in 2002 and 2008



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Growing Your Business Financing Your Exports

3rd Annual Global Summit
September 22, 2010

Chris Pilkington
Vice President
Manager International Banking Business
Development
FirstMerit Bank, NA



Global Trade Update

Trade Prospects 2010

- 2010 – World Exports forecast to grow by 9.5%
 - Assumes global GDP growth of 2.9%
 - Industrialized Countries estimated to grow by 7.5%
 - Emerging / developing estimated to grow by **11.5%**
 - Risks
 - Impact of PIIG's, effect on Euro, over reaction
 - Availability of trade related credit & liquidity
 - Recent Global Bank Survey – 80% see “Emerging Asia” (includes China and India) as improving
 - By comparison only 44% see industrialized countries

So What does it mean for you?

Opportunities for growth will be better in emerging markets

Classification of Countries

Industrialized
Countries
30 Countries



Emerging
Countries
200 Countries

Definitional Differences

Industrialized Countries

- **Mature Diversified Economies**
- **Freely Convertible Currencies**
- **Access to Capital Markets & Finance**
- **Relatively Stable Interest Rates**
- Stable Political Systems
- Higher Per Capita Standard of Living
- Low Perceived Political and Economic Risks

Emerging Countries

- **Newer More Fragile Economies**
- **Restricted or Non-convertible Currencies**
- **Limited Access to Finance & US Dollars**
- **Unpredictable Interest Rate Changes**
- Political Uncertainties
- Lower Per Capita Standard of Living
- High Perceived Political and Economic Risk

General Patterns of Trade

Industrialized Countries

- **Market Determines Exchange Rates**
- **Invoice in Local Currencies**
- **Credit Terms “Relaxed”**
- **Open Account Sales Prevalent**
- **Inter-company / Dealer Sales**
- **Credit Insurance Considered**
- **Buyer Creditworthiness is Key – “Buyer Limits”**

Emerging Countries

- **Fixed Exchange Rates**
- **Invoice in Dollars**
- **Credit Terms “Tight”**
- **Risk Mitigated Sales – Letters of Credit**
- **Direct Sales to Buyer**
- **Credit Insurance Strategy**
- **Country Creditworthiness is Key - “Country Limits”**

Payment Methods

- Cash in Advance

- Letter of Credit

- Documentary Collection

- Open Account

**Terms
Favor
Seller**

**Terms
Favor
Buyer**

Benefit / Issue of Payment Method

<u>Payment Method</u>	<u>Cash Flow</u>	<u>Cash Forecast</u>	<u>Payment Risk</u>	<u>Finance Cost</u>	<u>Performance Risk</u>	<u>DSO / DPO</u>
Cash in Advance	Good / Bad	Good / Good	Low / High	Low / High	Low / High	Low / Low
Documentary Collection	Bad / Good	Bad / Good	High / Low	High / High	High / Low	High / Low
Advised Sight Letter of Credit	Good / Bad	Bad / Good	Low / Low	Low / High	Low / Low	Low / Low
ConfTime Letter of Credit	Good / Good	Good / Good	Low / Low	Low / Low	Low / Low	Low / High
Open Account	Bad / Good	Bad / Good	High / Low	High / Low	High / High	High / Low

For Seller / For Buyer

Letters of Credit

■ Definition:

- *An undertaking issued by a bank for the account of the applicant (buyer) to pay to the beneficiary (seller) the value of the letter of credit, provided that the terms and conditions, evidenced by documents presented, are complied with.*

■ In other words:

- A letter of credit substitutes a bank's creditworthiness, which is generally well known or easily ascertainable, for that of its customer, which may not be as well known.

Letters of Credit

- Two Common Types
 - Documentary / Commercial
 - Active payment instrument
 - Active financing tool
 - Understand “Confirmation”
 - Standby
 - Passive payment instrument
 - Passive financing tool
 - Performance
 - Financial
 - Trade-Related

Confirmed Letters of Credit

- Benefits
 - Risk Mitigation
 - Buyer Risk
 - Foreign Bank
 - Foreign Country
 - Payment (Trade Cycle) Efficiency (DSO & DPO)
 - Forecast / Knowledge
 - Ability to Finance
 - Order Cancellation Insurance

Summary - Conclusions

- What do buyers in Emerging Markets Need?
 - Answer is Time!
 - Access to credit / finance is scarce to non-existent
 - Access to US Dollars may be restricted or prioritized (“pecking order”)
 - Their Trade Cycle may be prolonged (lack of finance)
- What Should My Terms Be – Emerging Countries?
 - Sell in US Dollars
 - Give Buyers Time
 - Confirmed Letter of Credit with Time Draft
 - Buyer / Applicant Pays all Fees Including Discount

Thank you for your attention

Questions & Answers

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