EXIM
EXPORT-IMPORT BANK
OF THE UNITED STATES

AN EXPORTER'S GUIDE TO

Working Capital Loan Guarantees

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About EXIM

The Export-Import Bank of the United States (EXIM) is the official export credit agency of the United States. It empowers U.S. companies—large and small—to turn export opportunities into real sales that help to maintain and create U.S. jobs and contribute to a stronger national economy.

EXIM does not compete with the private sector, but rather provides export financing support that fills the gaps in trade financing.

No transaction or firm is too small, 90 percent of EXIM transactions directly serve U.S. small businesses.

Introduction to Working Capital Loan Guarantees

For U.S. businesses, international markets can represent both tremendous opportunities and special challenges. A primary obstacle for exporters is the inability to secure dependable financing.

The risks associated with international business prevent many firms from borrowing against export-related assets and obtaining working capital to fulfill export orders. The Export-Import Bank of the United States' (EXIM) working capital loan guarantee equips exporters underserved by traditional financing to unlock cash flow and take on new business abroad.

EXIM doesn't replace an exporter's bank; it works with their existing lender, providing a loan guarantee that backs the borrower's debt in the event something goes awry. With the certainty of a guarantee in hand, the exporter's bank extends the loan, improving the company's cash flow to grow its international market share.

Exporters can use the loan to cover the costs of labor, materials, overhead, and other inputs required to fulfill a sale. An EXIM loan guarantee can also be used with facilities supporting standby letters of credit serving as bid bonds, performance bonds, and advance payment guarantees—instruments often required by foreign buyers to award international projects.

> *EXIM provides a guarantee that backs the borrower's debt in the event something goes awry.*

EXIM loan guarantees are a powerful tool for U.S. exporters. Firms can borrow more with the same collateral, give their foreign buyers the assurance needed to win international projects, and increase their competitiveness abroad.

The nuts and bolts are simpler than one might imagine. This guide will offer a snapshot of the value, process, and applicability of an EXIM working capital loan guarantee.

The Value of a Working Capital Loan Guarantee

An EXIM working capital loan guarantee is a simple tool with significant benefits. A government-backed loan guarantee can give your business' bank the confidence it needs to make a loan or issue standby letters of credit needed to secure projects abroad—empowering companies to win sales and grow internationally.

Liquidity Through Increased Borrowing Power

Borrowing against inventory and accounts receivable allows businesses to turn assets representing future cash flow into cash flow today. But exporters face obstacles when it comes to asset-based loans. Banks can be hesitant to allow businesses to borrow against export-related assets, making accessing working capital a challenge.

An EXIM working capital loan guarantee can provide exporters with the liquidity they need. A loan guaranteed by EXIM can boost an exporter's liquidity in two ways:

advance rate |ad·vance rate|

noun

The percentage of the value of collateral a lender is willing to extend for a loan.

1. **The ability to include export-related assets into the borrowing base:**
   Banks are often unwilling to lend against export-related assets. They might be uncomfortable with foreign market risk, and if a deal goes sour, it's harder for them to collect. An EXIM working capital loan guarantee allows U.S. businesses to borrow against assets lenders would otherwise be unwilling to include as collateral, including foreign accounts receivable, export-related, and work-in-progress inventory.

2. **Higher advance rates than conventional financing:**
   If a business wants to borrow against accounts receivable valued at $100,000, and the advance rate offered is 75%, the business can borrow ($100,000 x 75%) $75,000. Higher advance rates available through an EXIM working capital loan guarantee mean the same set of collateral generates more cash flow today. With an EXIM guarantee, U.S. businesses can borrow up to 90% of their export accounts receivable.

Example

		Without EXIM Guarantee		With EXIM Guarantee	
Collateral	*Value*	*Advance Rate*	*Borrowing Base*	*Advance Rate*	*Borrowing Base*
Export Inventory					
Raw Materials	$200,000	20%	$40,000	75%	$150,000
Work-in-Progress Inventory	$200,000	0%	$0	75%	$150,000
Finished Goods	$600,000	50%	$300,000	75%	$450,000
Exports Accounts Receivable					
On Open Account	$400,000	0%	$0	90%	$360,000
By Letter of Credit	$600,000	70%	$420,000	90%	$540,000
Total Collateral Value	**$2,000,000**				
Total Borrowing Base			**$760,000**		**$1,650,000**

Source: Trade Finance Guide, U.S. Department of Commerce

The Value of a Working Capital Loan Guarantee

(continued)

Ability to Support Standby Letters of Credit with Reduced Collateral Requirements

In order to make a sale, exporters often find themselves in need of standby letters of credit serving as a bid bond, performance bond, or advance payment guarantee—financial instruments that protect foreign buyers and facilitate deals.

Supporting standby letters of credit creates an extra hurdle for exporters in an already challenging global business environment. These bonds require cash collateral, creating an added working capital headache for sellers.

An EXIM working capital loan guarantee can help exporters get a loan from their lender to support their bonding needs and incentivize lenders to issue such bonds with lower collateral requirements. The ability to give foreign buyers the assurance they need through these tools gives the exporter a leg up over the competition.

Growth Through Opportunities Won

The increased borrowing capacity and ability to support bonding needs detailed above both speak to a central point: competitiveness. An EXIM guarantee can help exporters win deals and grow their international business.

Flexible financing unlocked by the program allows U.S. exporters to fulfill large or one-off contracts. Greater borrowing power can further increase international sales and, in turn, gross margin.

How a Working Capital Loan Guarantee Works

1. You have potential sales, but need cash to fulfill the order.
2. You apply for a working capital loan, but your bank is uncomfortable making the loan because your collateral is export-related.
3. Your bank applies for an EXIM working capital loan guarantee on your behalf, and submits the paperwork and financial information needed.
4. EXIM works with your bank and guarantees the loan, promising to cover 90% of the loan.
5. Your bank loans you the money and you use the funds to fulfill your export sale.

The Application Process

An exporter may apply to EXIM for working capital financing in two ways:

Delegated Authority Lender:
A small business exporter may apply through a lender that has been granted delegated authority from EXIM. Most lenders with whom we have established working relationships have been granted discretionary pre-approved credit status (after rigorous screening) known as delegated authority - allowing them to process your working capital loan under established criteria without pre-approval from EXIM.

Preliminary Commitment Application:
A small business exporter may apply to us directly for a preliminary guaranteed loan commitment (PC). A PC is an agreement from EXIM that the borrower's needs generally meet our financing requirements. After a PC is granted, the exporter approaches a lender to secure a loan.

To find a lender or apply for a preliminary commitment, get in touch with one of our export finance specialists located throughout the United States.

http://grow.exim.gov/contact-a-trade-finance-specialist

Case Study: CECA Supply & Services

Learn how an EXIM working capital loan guarantee can equip your business to post performance and bid bonds, improving your global competitiveness.

The Challenge

CECA Supply & Services Inc. is a Texas based supplier of oilfield equipment, whose primary customers are Algerian state-owned enterprises, which presents an export opportunity and a challenge.

The company must secure most of its business through the Algerian public tender system, which requires businesses to secure a bid bond from their lender with every bid and, if they win a contract, a performance bond. Bid and performance bonds require exporters to put cash up front as security, hurting their business' cash flow.

CECA Supply & Services recently secured a $5 million dollar contract to supply ENAFOR—the Algerian National Drilling Company—with materials from Derrick Corporation, a Buffalo, NY based supplier. In order to ship Derrick's corporation's equipment, CECA Supply & Services had to provide ENAFOR with a performance bond at 10 percent of the total contract—in this case, $500,000.

The Solution

In order to avoid tying up its cash flow, CECA Supply & Services used a working capital loan guarantee from the Export-Import Bank of the United States (EXIM) to access working capital financing from its commercial lender, Amegy Bank of Texas.

An EXIM working capital loan guarantee ensures commercial lenders that if CECA Supply & Services defaults on its loan, EXIM will cover 90 percent of the commercial bank's exposure—encouraging the bank to make loans to businesses like CECA Supply & Services that do business abroad.

With an EXIM guarantee in hand, CECA Supply & Services was able to secure financing through its bank using its export-related inventory and accounts receivables, as opposed to being required to put down cash that can be used for its operations and business development. EXIM's guarantee allowed CECA Supply & Services to improve its cash flow and use its foreign receivables as collateral to secure the financing it needed for the performance bond. This allowed CECA Supply & Services to keep its $500,000 to use to secure more sales.

The Results

Using an EXIM working capital loan guarantee CECA Supply & Services Inc. has been able to improve its cash flow and better navigate the public tender system in Algeria. The working capital loan guarantee has permitted CECA Supply & Services to bid for more business and bigger deals, without the fear of not being able to support bid and performance bonds, allowing its business to grow.

Eligibility, Regulations, and Fees

While EXIM can do business in most markets, there are some basic requirements governing whether exports are eligible for support. Below is an overview of factors affecting exporter eligibility.

Eligibility for EXIM Support

Businesses meet basic eligibility requirements to receive EXIM support if they:

- Have been in business for at least one year
- Have at least one person working in the firm full-time
- Have a positive net worth
- Export products and/or services that have more than 50% U.S. content based on all direct and indirect costs (e.g. labor, materials, administrative costs)

EXIM Does *Not* Support:

- Imports
- Grants
- Early stage start-ups
- Crude oil
- Direct investment
- Personal loans
- The purchase of land

Additional Requirements and Restrictions

Goods and services must be exported from the U.S.
EXIM does not provide support for content shipped from foreign ports.

Export destinations must not be restricted countries.
EXIM can support exports to most markets. There are some export destinations, however, that are not eligible for support. The EXIM Country Limitation Schedule* provides an up-to-date listing of approved countries.

Exports must be non-military in nature.
EXIM is prohibited from financing the export of defense articles and services. There are exceptions for "dual use" items (that is, items used for both military and commercial or civilian applications). More details are available at exim.gov.

Fees Charged by EXIM

The following fees come with an EXIM working capital loan guarantee:

- **Application Processing Fee**
  $100 for a final commitment.
- **Up-front Facility Fee**
  One-year loans: 1.75% of the total loan amount.
  Those meeting certain criteria may qualify for a lower 1.25% Facility Fee.

  Up to six months: 0.875% of the total loan amount.
- Interest rate and other application fees are charged by the commercial lender.

Disclaimer: This explanation is meant to provide a general overview of the program at EXIM. The information provided is not comprehensive or complete, nor does it reflect all eligibility requirements or process details. For specific details on the product, please contact the Export-Import Bank of Unites States directly.

*www.exim.gov/tools/countrylimitationschedule/index.cfm

Call EXIM Today

EXIM has experienced export finance professionals located throughout the United States.

1-800-565-EXIM (3946)

Request a Free Consultation

An EXIM Trade Finance Specialist can help you determine whether you qualify and get started on your path to growing your business abroad!

grow.exim.gov/contact-a-trade-finance-specialist

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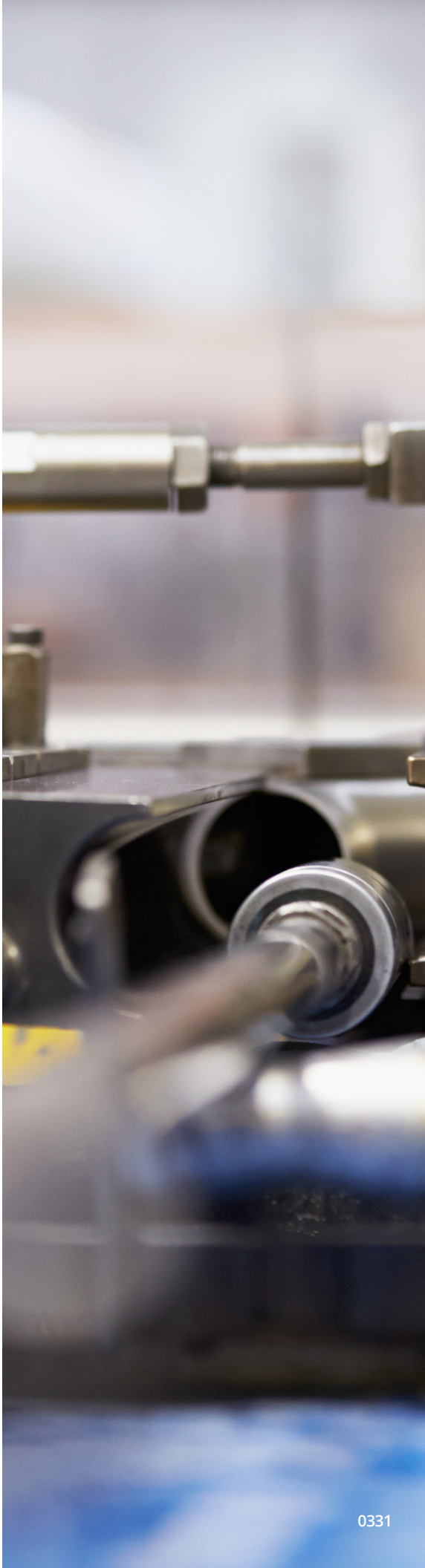
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