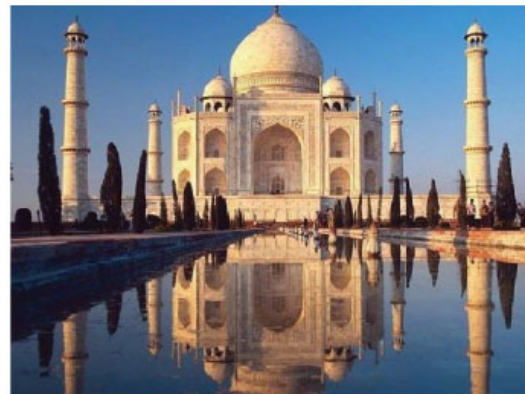


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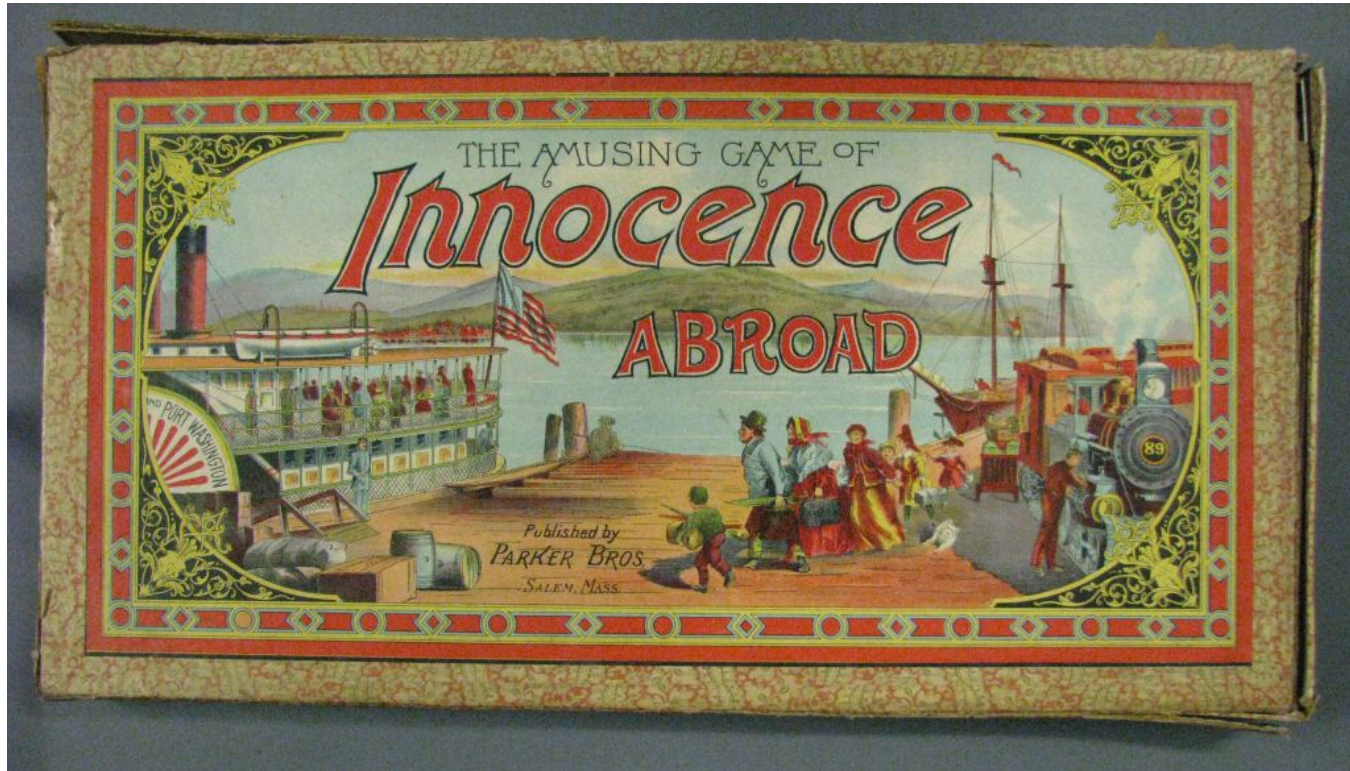
webinars





# Winning the Trade Game with Export Finance

How **SBA** teams up with lenders and exporters



**Jeff Deiss**

Regional Export Finance Manager  
SBA Office of International Trade  
San Francisco, CA



## 2016 Small Business Exporting Survey \*

58% of small businesses have exported.

Small firms account for 98% of US export firms.  
Small firms account for 34% of US export value.



For 47% of small exporters, exports are < 10% of sales.  
For 19% of small exporters, exports are a majority of sales.

### Major concerns of exporters:

44%... worry about getting paid

35%... more difficult to finance export vs. domestic operations

11%... can't get financing to offer foreign customers

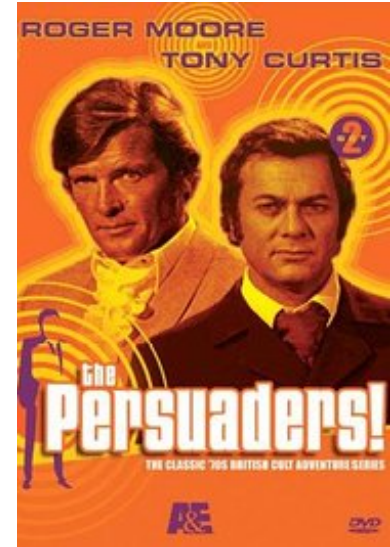
So most small firms don't offer terms to their foreign buyers.

\* <http://www.nsba.biz/?p=11263> (survey of 530 business owners)



# The financing you offer is part of your value proposition

- The **quality** of your product
- + The **cost** of your product
- + The **profit** you need
- + The **delivery** role you undertake (**INCOTERMS**)
- + The **payment terms** you offer (**Terms of Sale**)
- + The **currency terms** you offer (**Currency**)
- + The **risk mitigation measures** you need
- = The **total cost** of the product to the buyer



... and the competitiveness of your product vs. another

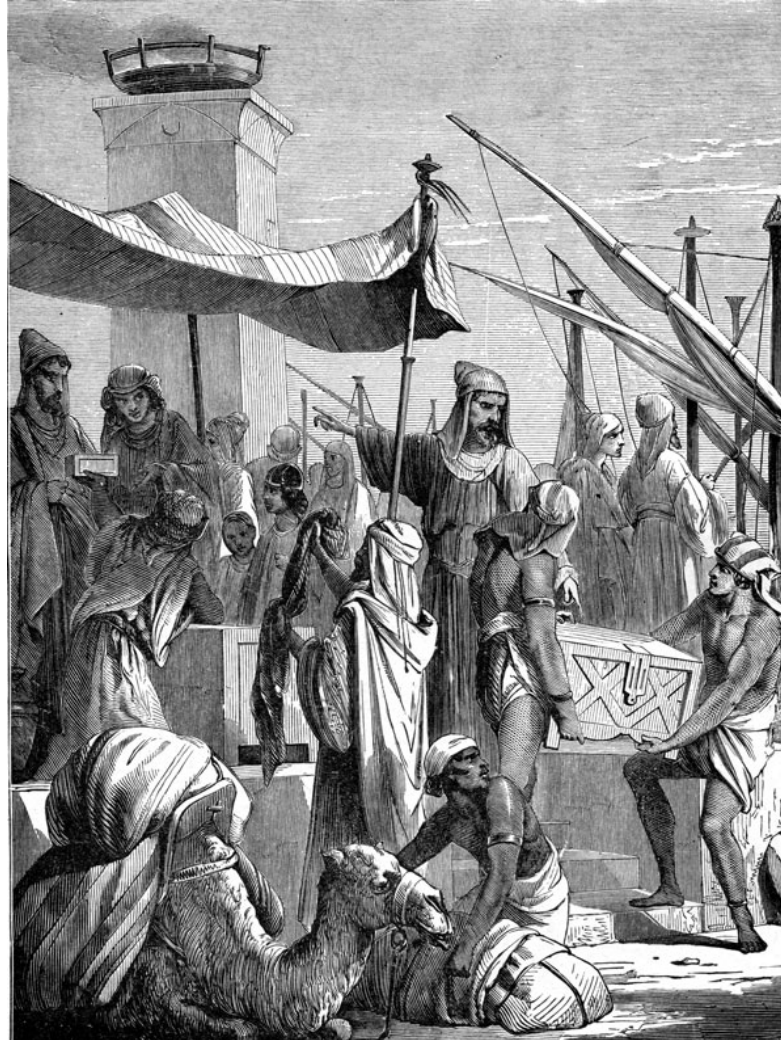
Every exporter needs a range of well-thought-through  
export pricing options to negotiate from





# Financing for **the foreign buyer**

What will it take to get the deal done?



# Export Payment Terms

## Spectrum of Credit Terms for International Sales

- From lowest risk to highest risk for the exporter;
- From highest risk to lowest risk for the foreign buyer:

**1. CASH IN ADVANCE**

**2. LETTER OF CREDIT**

**3. DOCUMENTARY COLLECTION**

**4. OPEN ACCOUNT**

**Download: Trade Finance Guide ([export.gov/tradefinanceguide](https://www.export.gov/tradefinanceguide))**



## Survey #1

**What terms do you primarily use when selling to foreign buyers?**

1. Full payment in advance
2. Full payment prior to shipment
3. Full payment prior to buyer receipt
4. Letter of credit
5. Documentary collection
6. Open account with export credit insurance
7. Open account
8. Other



# Export Payment Terms

## Spectrum of Credit Terms for International Sales

**1. CASH IN ADVANCE**

**2. LETTER OF CREDIT**

**3. DOCUMENTARY COLLECTION**

**4. OPEN ACCOUNT**

– accounts for about 70% of all international transactions

– but only about 15% of US companies use it





# Think about the value of open account to your buyers

- **Open Account?**

- Low US interest rates vs. high foreign interest rates can mean competitive advantage.

<http://www.global-rates.com/interest-rates/central-banks/central-banks.aspx>

- The base interest rate in the **US = 1.25%** vs. ....

**China = 4.35%**

**Brazil = 9.25%**

**Mexico = 7.00%**

**India = 6.00%**



## Scenario 1: The value of offering terms to your buyer

**US exporter** gets a **\$100,000** order for a Mexican distributor.

US exporter requires 100% cash in advance, which the Mexicans in turn must borrow from their lender. The going interest rate for a working capital loan in Mexico is **10%+**.

It will take the US exporter two months to produce and deliver the order to Mexico.

It will take the Mexican distributor two more months to sell the units.

Most of their buyers pay slow – on average two months after delivery.

How much extra does the US exporter's prepayment policy cost the Mexican buyer?

What are some alternatives the US exporter might consider in doing business with Mexican buyers?



## Scenario 1: The value of offering terms to your buyer

**Mexican buyer's cost of borrowing at 10%:**

$$\begin{aligned} \$100,000 \times 10\% \text{ per annum} &= \$10,000 \text{ per year interest cost} \\ &= \$ 833 \text{ per month interest cost} \end{aligned}$$

$$\text{Time for delivery to arrive:} \quad 2 \text{ mos} \times \$833 \quad = \$ 1,660$$

$$\text{Finalize sales with buyers:} \quad 2 \text{ mos} \times \$833 \quad = \$ 1,660$$

$$\text{Collect from local buyers:} \quad 2 \text{ mos} \times \$833 \quad = \underline{\$ 1,660}$$

$$\begin{aligned} \text{Total Interest Cost to Mexican buyer} &= \$ 4,980 \\ &\text{(i.e., 5\% cost premium)} \end{aligned}$$

**Potential for re-pricing or increased sales volume!**



# But what about the risk of nonpayment?





# Export Credit Insurance

- Insurance providers

1. **Export-Import Bank (Ex-Im Bank)**

- Federal government agency
- Will do small policies (no minimum); has small business “mission”
- Will insure most countries; has promote-US-exports “mission”
- Requires majority US content; limited on military-related exports

<http://www.exim.gov/products/insurance/>



2. **Private insurers – Euler Hermes, Atradius, Coface, etc.**

- Fast, flexible service for larger scale exporters
- Private policies become cost competitive around \$3+ million in A/R as it costs about **\$15,000** to sign up.



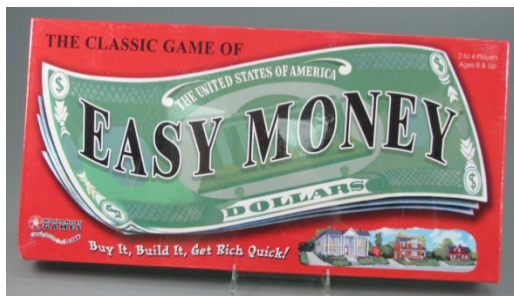
# Example of Export Credit Insurance from Ex-Im Bank



- **Ex-Im Bank's "Express Insurance"**

- Multi-buyer policy for small exporters ( $\leq$  \$7.5 MM export A/R annually)
- 95% against political risk (foreign government action)
- 95% against commercial risk (buyer action)
- Cost = **\$0.65/\$100 of insured A/R ( $\leq$  60 day A/R terms)**
- Ex-Im does in-house underwriting on buyers  $\leq$  \$100,000
- Up to 10 foreign buyers can be insured
- \$500 application deposit – applied against first premiums





# Let's make a deal

Terms of Sale	Exporter risk	Competitive	Source of Working Capital
Prepayment	Very low	Not very	Foreign buyer's cash
Letter of Credit *	Low	Low-Moderate	Exporter's cash, export loan, or discount the L/C *
Documentary Collection *	Low-Moderate	Moderate	Exporter's cash or export loan *
Open Account	Moderate-High	Very competitive	Exporter's cash or export loan *
Open Account + credit insurance	Low	Very competitive	Exporter's cash or export loan *
Prepayment + advance payment guarantee *	Low	Moderate	Foreign buyer's cash + exporter's standby letter of credit *

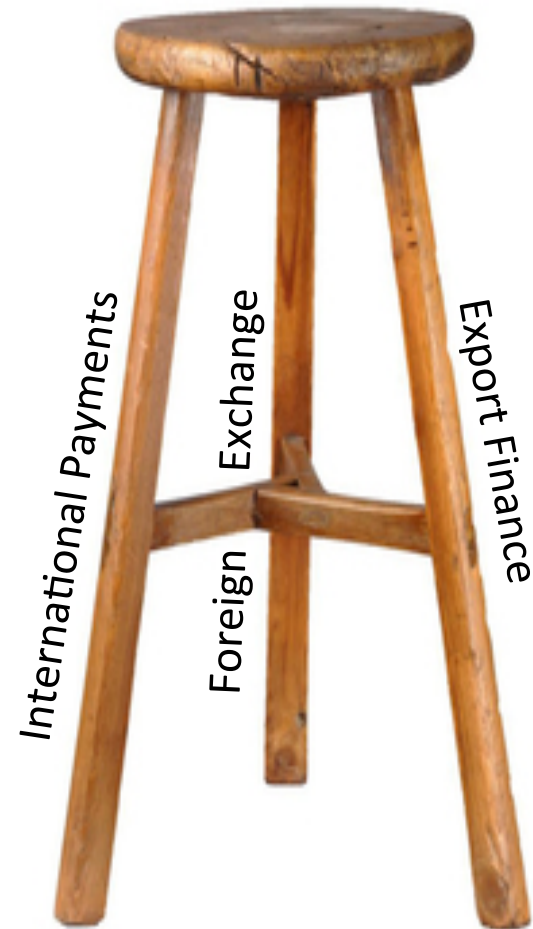
\* You'll need a supportive banking partner



# A good international banking partner

- A bank that offers:
  - International Payment Methods
    - Collections
    - Commercial letters of credit
    - Standby letters of credit
  - Foreign Exchange
    - FX Receipts
    - FX Payments
    - Hedging
  - Export Working Capital Loans
    - SBA EWCP or Export Express lender
    - ExIm Delegated Authority

## International Banking





## Survey #2

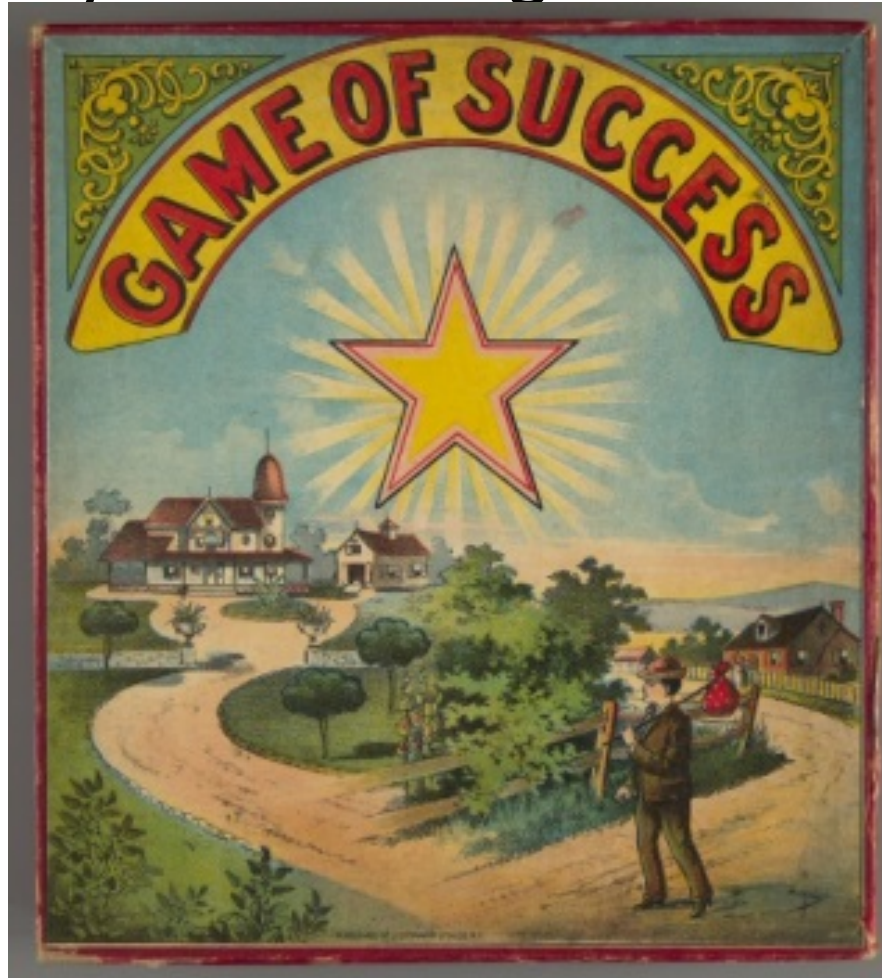
**How helpful is your lender to your exporting business?**

1. Very helpful
2. Helpful but could be better
3. Not helpful
4. What lender?

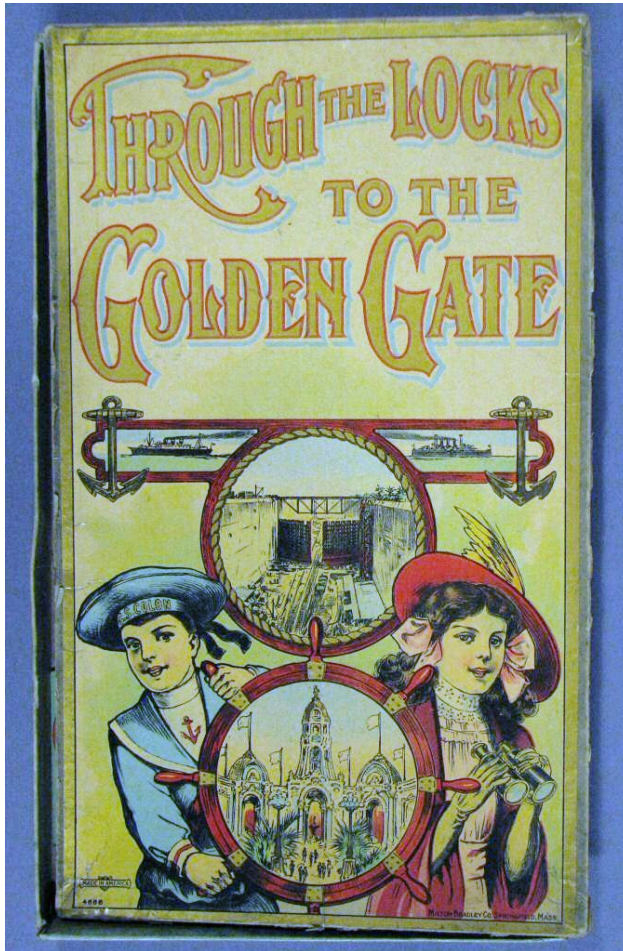


# Financing for **the exporter**

What do you need to get the deal done?



**SBA works with lenders to unlock the financing you need.**



**How?**  
With "7(a)" loan  
guarantees for  
commercial lenders on  
loans up to \$5MM.

Find active lenders at:  
[www.sba.gov/international](http://www.sba.gov/international)

-> select Export Loans -> select Export Lenders



# SBA assistance is limited to “small businesses”

- **What is a “small” business?**

- SBA’s traditional small business definition defines small businesses by NAICS code:

Industry Category	Small Business Size Standard *
Ag producers	\$750,000/year revenue
Wholesalers	100-250 employees
Retailers	\$7.5 - 38 MM/year revenue
Manufacturers	500-1,500 employees
Professional services	\$7.5 - \$38.5 MM/year revenue

*\* There are lots of exceptions, so check with SBA*





# SBA assistance is limited to “small businesses”

- **Or... you can use SBA’s “Alternate Size Standard”:**
  - Tangible net worth of  $\leq$  \$15 million, and
  - 2-year average NET income after taxes (excluding carryover losses) of  $\leq$  \$5 million
- **So small business can actually be pretty BIG...**



## Survey #3

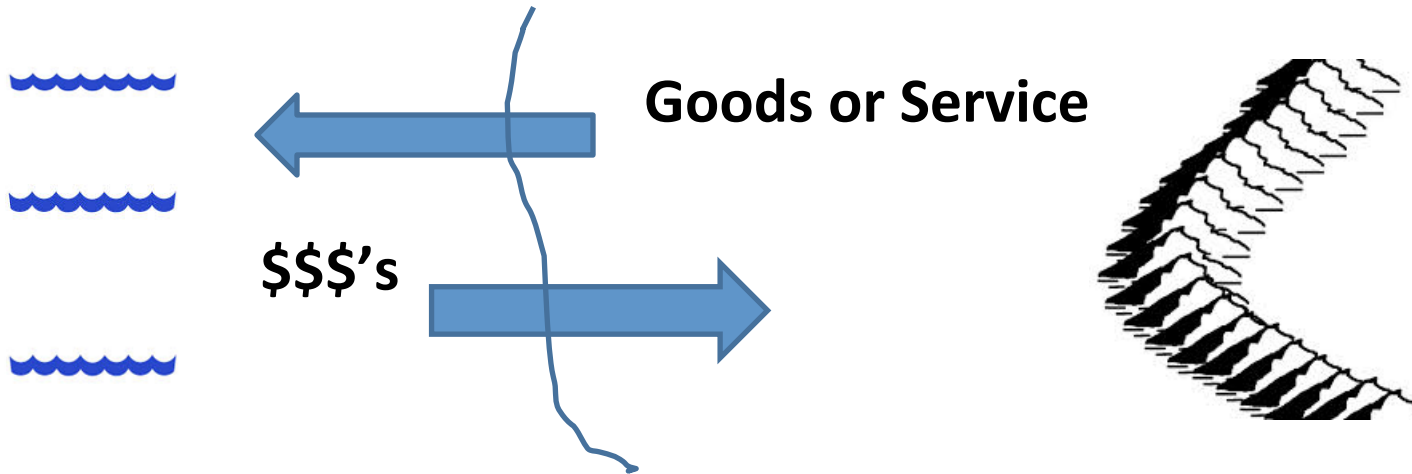
**Is your company a “small business” as defined by SBA?**

1. Yes
2. No
3. Unsure



# SBA's export eligibility

- What is an “export”?



Must be delivered from the US

Can't be “drop-shipped” (e.g., China assembly to EU market, never entering the US)

SBA has **no** US content requirement.

Licensed defense exports are eligible.



# SBA's export eligibility

- **“No go” zones?**
  - SBA follows Export-Import Bank's “Country Limitation Schedule” prohibited countries.
  - Currently just five countries are off limits:
    - **Bolivia**
    - **Cuba**
    - **North Korea**
    - **Iran**
    - **Syria**





## Two types of financing that an exporter needs

- 1. To fulfill export orders – working capital** – for production and pre-shipment costs (raw materials, inventory, labor, etc.);  
post-shipment carrying costs (assuring sufficient cash flow while offering competitive terms)
- 2. To position the firm for export success – fixed assets, equipment, permanent working capital, debt restructuring** – to improve competitive position and be more efficient



# SBA Export Lending

The highest % guarantee – **the Export BOOST!**



## The “EXPORT BOOST”

- Typical SBA loan guarantees range from **50% to 75%**
- SBA export loans receive:

90%

- Why? Because exports are critical to national economic success



# SBA's 3 Export Programs

Specialized **7(a) loan guarantees** for financing an exporter:

## 1. International Trade Loan (ITL)

- Positioning the firm to export

## 2. Export Working Capital Program (EWCP)

- Fulfilling export orders

## 3. Export Express

- Smaller loans for either need



## SBA's export financing programs #1

### International Trade Loan (ITL)

"Positioning the firm for export success"



- 90% guarantees on loans up to **\$5 million**
- Financing for projects that **improve the competitive position** of US exporter so as to **increase exporting**
- Equipment, real estate, refinancing, permanent working capital (No transfers of ownership)
- The loan may also support the borrower's domestic operations provided it contributes to the expansion of exporting too.
- No specific export sales threshold is required; instead, the business must have a clear export plan and target.
- **FY2016: \$375MM, 214 loans, 86 lenders**





# International Trade Loan (ITL)

## Features



- Fully-amortized, long-term loans:  
RE – up to 25 yrs; M&E or WC – up to 10 yrs
- Interest rate – typically < 6.5% (i.e., Prime + 2.75%)
- Personal guaranties required from all 20+% owners; and one personal guarantor is always required regardless.
- Personal assets are not pledged if the loan is fully secured by business assets.
- SBA guaranty fee ranges from 3-3.75% (which may be included in the loan). No fee on loans  $\leq$  \$150,000.



## SBA's export financing programs #2

### Export Working Capital Program (EWCP)



**“Working capital to fulfill the export order”**

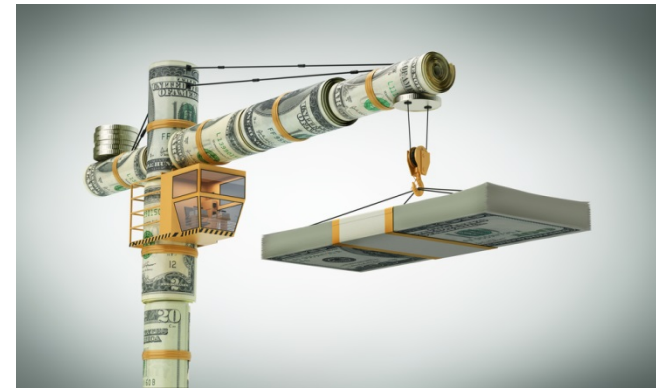
- 90% guarantees on loans up to \$5 million
- Pure export working capital line, usu. **revolving**
- Typically 1 year loans; re-issued annually
- Advance rates of 75-90% on export sales
- Structure: (1) Asset-Based, (2) Transaction-Based, or (3) Standby Letter of Credit
- **SBA's lowest guaranty fee (0.25%)**
- **FY2016: \$313MM, 166 loans, 65 lenders**



# Export Working Capital Program (EWCP)

## Features

- Designed so a lender can lend safely against foreign A/R.
- All prudent selling terms are permitted; not limited to sales using export credit insurance or L/C's.
- Self-liquidating loan; the loan is repaid by the successful completion of the export transactions being financed.
- EWCP lines must be monitored at least monthly; extraordinary servicing fees are allowed.
- ABL collateral: foreign A/R and export inventory
- TBL collateral: purchase order work-in-progress and A/R
- SBLC collateral: cash/other equal to 25% of face amount
- No US content rules on exports; licensed military sales okay.
- Personal guaranties of all 20+% owners; at least one.



# How loan guarantees increase borrowing base

Collateral		Without Loan Guarantee		With Loan Guarantee	
Export Collateral	Value	Advance Rate	Borrowing Base	Advance Rate	Borrowing Base
Raw Material	\$200,000	20%	\$40,000	75%	\$150,000
Work in Progress	\$200,000	0%	\$0	75%	\$150,000
Finished Goods	\$600,000	50%	\$300,000	75%	\$450,000
Foreign A/R on Open Account	\$400,000	0%	\$0	80-90%	\$360,000
Foreign A/R by Letter of Credit	\$600,000	70%	\$420,000	90%	\$540,000
<b>MAX LOAN</b>	<b>\$2,000,000</b>		<b>\$760,000</b>		<b>\$1,650,000</b>

# A Study in Standby's: Using Standby Letters of Credit



The case of the prepayment that wasn't





# The case of the prepayment that wasn't

- An exporter uses **cash-in-advance** as it mantra
  - The prepayment provides the working capital needed for fulfilling purchase orders
- A foreign buyer agrees to prepay, but their condition...
  - A **performance bond**
- The exporter asks their lender; they have a solution...
  - A **standby letter of credit**
  - The cost? A bank fee and cash collateral maintained on deposit = 100% of the face amount to the standby L/C
- The exporter's access to their prepayment WC is frozen!



## Solution – The case of the prepayment that wasn't

How to get a standby L/C without locking up the prepayment?

- SBA's **Export Working Capital Program (EWCP)** or **Export Express**
  - SBA-backed **Standby Letter of Credit**
- 90% guarantee from SBA on a lender's standby L/C
  - Only 25% of face amount of L/C is required as collateral
  - Collateral is typically cash on deposit with the lender...
  - or even other acceptable assets (like inventory associated with the order)



## Solution – The case of the prepayment that wasn't

### The value of an EWCP/Export Express Standby Letter of Credit

- Allows an exporter to give a performance standby L/C *without* tying up 100% of their prepayment
  - With only 25% collateral required, **75% of the prepayment remains available for working capital needs**

👉 **Strategy: When asking for prepayment, consider offering a standby L/C advance payment bond to soften the terms.**



## SBA's export financing programs #3

### Export Express

“Fast-track for smaller export-related loans”



- 90% guarantees on loans up to \$350,000
- 75% guarantees on loans up to \$500,000
- Use lender's own underwriting/collateral standards
- Any “**export development activity**” – fixed assets; market development; refinancing; **general line of credit *if* at least 70% will be export-related**
- **Term** loan or **revolving** line
- **FY2016: \$22MM, 101 loans, 55 lenders**



# Export Express Features



- Same SBA Express application & process ... just add an export plan.
- Export Express lenders have delegated approval authority.
- A simple pathway to offer a revolving export line.
- A  $\leq \$500,000$  export line meets the need of most small exporters.
- Intensive line management *not* required.
- Ideal for export promotion and development needs like web site translation & localization, trade shows, foreign marketing activities, travel to meet with foreign buyers.
- May also be used for small standby L/C's (with same 25% collateral requirement as EWCP).





## Survey #4

**Has your business ever received financing help from SBA?**

1. Yes, from regular SBA programs
2. Yes, from SBA export programs
3. No

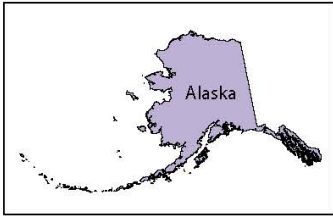


## Bonus program: **STEP!**



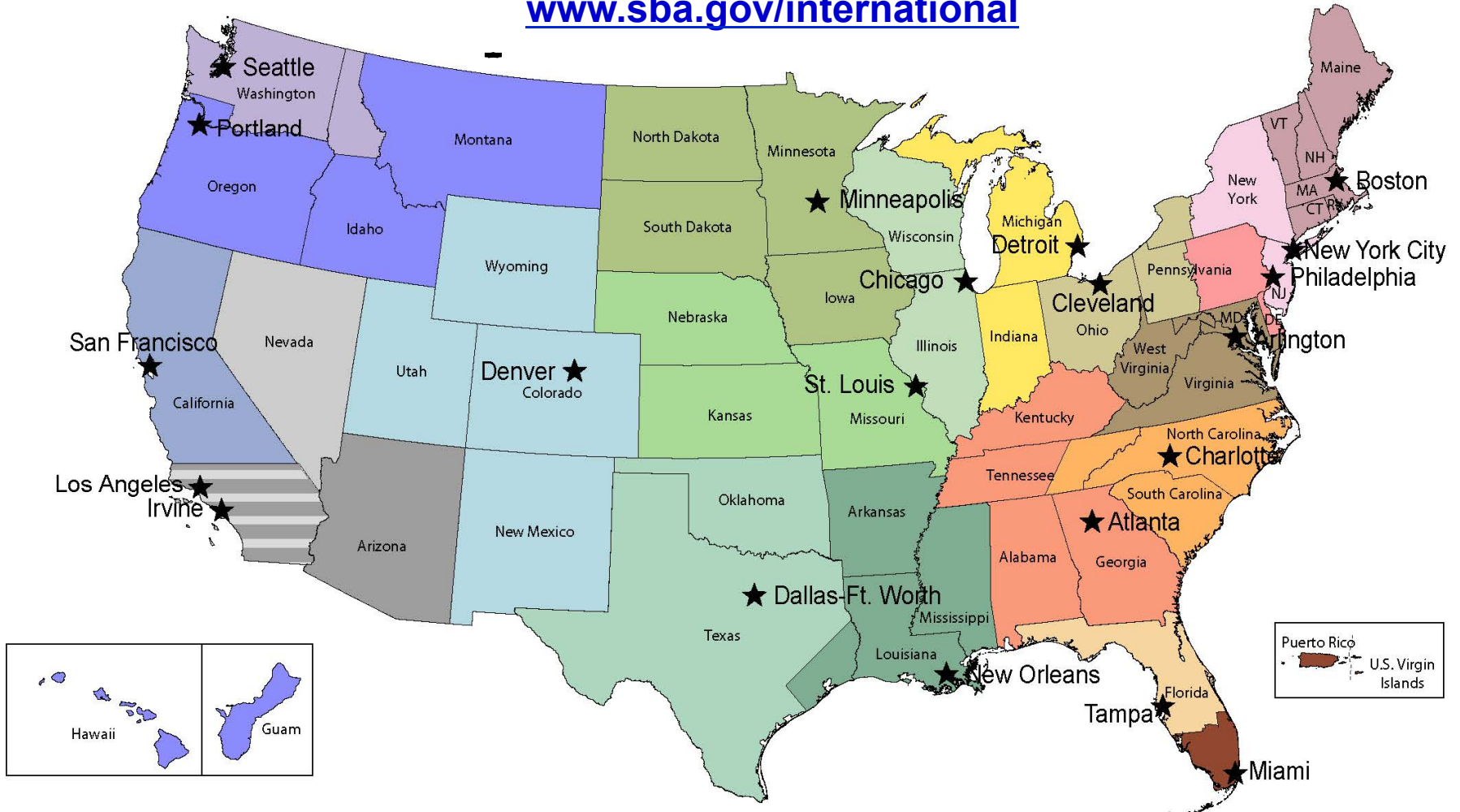
- **State Trade Expansion Promotion (STEP) grants**
  - Grant program funded by SBA.
  - States compete for grant funds to deliver in their state.
  - For FY2017, 44 states received awards totaling \$18.5MM.
  - State agencies award STEP funds as grants (or programs) – typically \$3,000-\$10,000 per business - to reimburse local small businesses for export promotion activities like attending/exhibiting at international trade shows and other export market development activities.
  - Find out about your state's STEP at <https://www.sba.gov/step>





## ★ U.S. Export Assistance Centers (USEACs)

[www.sba.gov/international](http://www.sba.gov/international)



# SBA's Network of Export Finance Specialists at U.S. Export Assistance Centers



## **ATLANTA**

serving Georgia, Alabama, Kentucky,  
West/Central Tennessee

[David.Leonard@sba.gov](mailto:David.Leonard@sba.gov) -- 404-815-1496

## **ARLINGTON, VA**

serving Virginia, Maryland, District of  
Columbia, West Virginia

[William.Houck@sba.gov](mailto:William.Houck@sba.gov) 202-557.4063

## **BOSTON**

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Massachusetts, Connecticut, Rhode Island

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## **CALIFORNIA**

### **IRVINE**

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### **LOS ANGELES**

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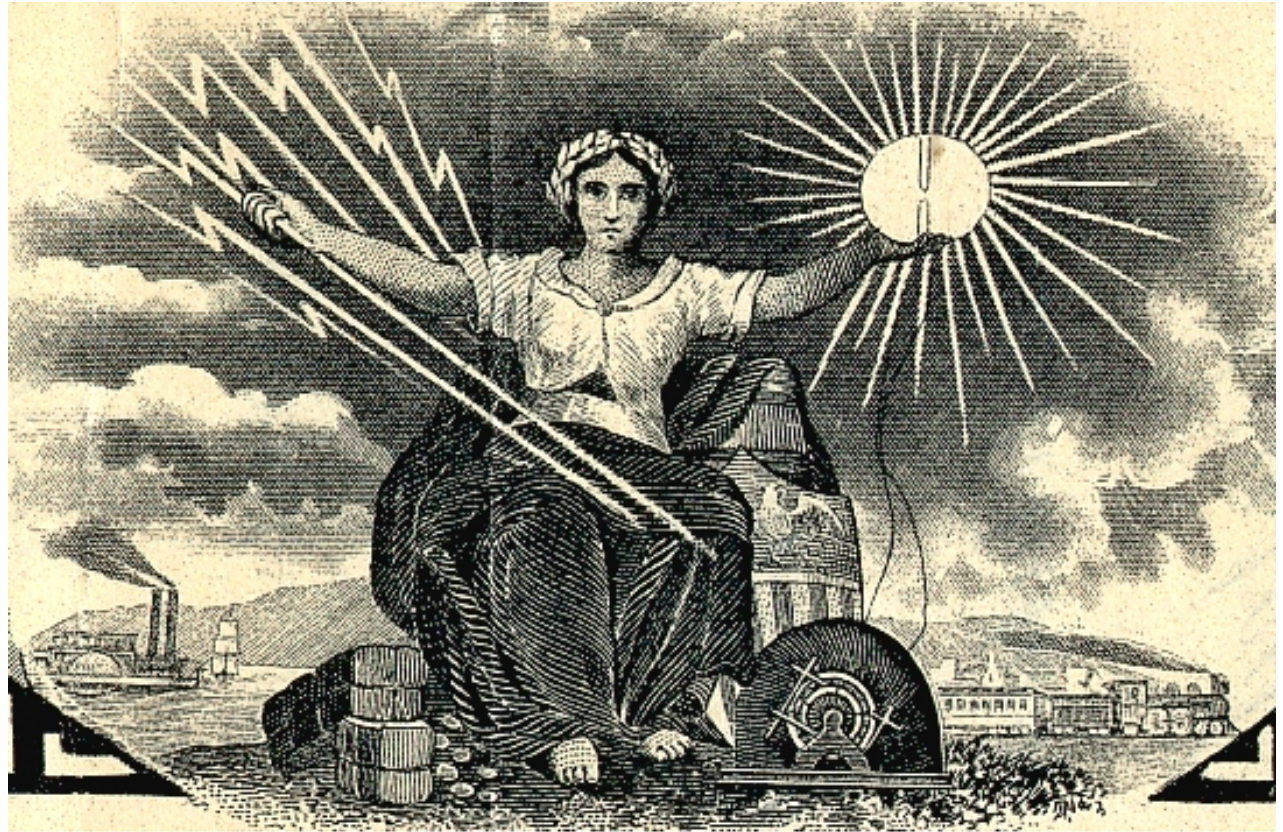
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## WEGG Mission:

Our mission is to educate women business owners and entrepreneurs worldwide on how to go global so they can run healthier businesses and create a new future for themselves, their families and their community.



# WEGG

Women Entrepreneurs  
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**Stephanie Lewin**, Berry Appleman & Leiden LLP

Wednesday, **October 4, 2017** at 11:00 a.m. Central time.

Topic: **Navigating Global Business Travel in 2017**

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