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EX-IM BANK

Lending

Good for Business: How Lenders Can Benefit From Ex-Im Bank Charter Extension

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After some contentious sparring in the media, the charter of the Export-Import Bank of the United States ("Ex-Im Bank") was recently extended through June 30, 2015. Now that the media blitz and political rhetoric have subsided (at least for the time being), lenders may wish to consider whether Ex-Im Bank programs could help generate additional business from existing customers and potentially attract new customers.

Ex-Im Bank provides risk mitigation tools to allow lenders to potentially expand their customer base and international reach, and offer additional trade-related services and products to existing customers. Ex-Im Bank supports lenders and U.S. exporters primarily through its loan guarantee and credit insurance programs. Ex-Im Bank offers a number of complimentary products that address a wide variety of trade finance needs such as pre-export working capital credit facilities, short-term loans and facilities to finance the export of consumables and medium- and long-term loans to finance the purchase of capital goods and equipment.

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Ex-Im Bank provides comprehensive coverage of both commercial and political risks backed by the full faith and credit of the U.S. government. Lenders can obtain 100 percent coverage for loans under the medium- and long-term insurance and guarantee programs. Coverage for the other programs offered by Ex-Im Bank ranges from 90 percent (for working capital facilities and short-term financing of consumer goods) to 98 percent (for short-term financing of agricultural exports). Ex-Im Bank charges a risk-based fee for its insurance products and guarantees. The Ex-Im Bank fee, lender fees and lender expenses (including legal and consulting fees) can be financed and folded into the financial package offered to the borrower. A brief summary of the primary Ex-Im Bank programs available to lenders is set forth below.

Medium/Long-Term Loan Guarantees and Credit Insurance. Ex-Im Bank provides guarantees of medium-term loans (typically up to five years) and long-term loans (generally seven years or longer) to international creditworthy borrowers to finance the purchase of U.S. capital goods. Ancillary services related to a transaction (including technical, banking and legal services) may be financed under the loan. Medium-term transactions can range in size from $350,000 to $10 million. Transactions over $10 million or with repayment terms in excess of seven years are typically handled through Ex-Im Bank's long-term guarantee program.

Ex-Im Bank can provide comprehensive coverage in most markets although the types of transactions it may cover is limited in certain countries. Ex-Im Bank charges a small commitment fee (0.125 percent) and an exposure fee for the coverage (which is based on the risks of the country to which the products will be sold, the tenor of the loan and the creditworthiness of the borrower or guarantor). The Ex-Im Bank exposure fee can be financed under the loan.

Medium- and long-term guarantees and insurance cover 100 percent of the principal and accrued interest on the financed portion of the transaction and insure against both commercial and political risks. Ex-Im Bank coverage requires the foreign borrower to make a down payment of at least 15 percent of the amount of the contract price, and the down payment may be separately financed either by the exporter or a lender.

Transparent credit standards, an exposure fee calculator and a country limitation schedule are all available on Ex-Im Bank's web site to allow a lender to ascertain on the front end of a transaction the likelihood of approval and the approximate Ex-Im Bank fees.

Pre-Export Working Capital Guarantee Program. Ex-Im Bank's Working Capital Guarantee Program (''WCGP'') supports revolving and transaction specific lines of credit to U.S. exporters that are secured by export-related collateral (such as foreign receivables and export-related inventory). By leveraging export sales orders and inventory (which are typically not eligible for inclusion in the borrowing base under a traditional domestic credit facility) at attractive advance rates, U.S. exporters can achieve greater liquidity to purchase additional inventory and grow their international sales.

The WCGP is an asset-based lending program and, consequently, is often a natural fit for lenders that already have asset-based lending experience, infrastructure and resources. The WCGP allows for generous advance rates (typically 75 percent for inventory and up to 90 percent for foreign receivables) that can be further enhanced when combined with Ex-Im Bank's short-term credit insurance. Ex-Im Bank charges a facility fee of 1.5 percent of the maximum amount of the facility for a one-year facility (this fee can be reduced to 1 percent for qualified small businesses). The WCGP guarantee provides coverage of 90 percent of the principal and interest outstanding under the line.

Delegated authority is available to qualified lenders to allow the extension of working capital loans under the WCGP guarantee to the lender's qualified customers without Ex-Im Bank's pre- approval. Under the delegated authority program, the lender splits the facility fee with Ex-Im Bank and is permitted to separately collateralize its 10 percent retained risk.

Short Term Credit Insurance. Ex-Im Bank offers insurance for short-term credits (typically for sales on open account with payment terms of up to 180 days) to finance U.S. exports of agricultural products, consumer goods, spare parts and raw materials. Coverage is available to both lenders and exporters for sales to a single or multiple foreign buyers.

Short-term insurance typically covers 90 percent of the foreign receivables (95 percent for letter of credit transactions and 98 percent for agricultural products). Ex-Im Bank charges a risk-based premium based on the country to which the products will be sold. The premiums are calculated on a monthly basis and are paid only on actual shipments (subject to certain minimum premiums).

Short-term insurance can be effectively used by a lender in a number of different ways. For example, the lender can obtain insurance coverage and enter into an insured credit facility directly with the foreign borrower for the benefit of the U.S. exporter, or can obtain insurance to facilitate receivables financing or the nonrecourse purchase of receivables directly with the exporter. Alternatively, the exporter can obtain short-term insurance and assign the policy or the proceeds to the lender or use the insurance coverage to enhance its receivables under a pre-export working capital facility. If the exporter is a qualified small business, the lender can obtain an enhanced assignment of the insurance policy from the exporter that protects the lender against the risk of nonperformance of the exporter.

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