

THE EXPORT IMPORT BANK OF THE UNITED STATES WORKING CAPITAL GUARANTEE PROGRAM



The Export Import Bank of the United States (“EXIM Bank”) is the official Export Credit Agency of the United States. It provides insurance, guarantees, and at times, direct loan programs to support American jobs by facilitating the export of US goods and services.

One of the programs offered by EXIM Bank is their Working Capital Guarantee Program (“EXIM WCGP”). This program is generally offered through commercial lenders in the United States and provides the lender with a loan guarantee to facilitate loans against certain foreign receivables and inventory destined for export. The program is designed to encourage lenders to provide loan facilities to maximize working capital for US based businesses to support their export sales.

EXIM Bank provides lenders with a 90% guarantee and permits the lenders to provide working capital loans to its customers with the following parameters:

- Up to 75% advance rate on export-related inventory
- Up to 90% advance rate on foreign accounts receivable
- Standby letters of credit (“SBLC”) issued as bid bonds and performance or advance payment guarantees can be issued with collateral as low as 10% of the value of the SBLC.

Below are some examples of ways companies and lenders can leverage the EXIM Bank WCGP to help grow revenue and expand market share.

COMPANIES LEVERAGE THIS PROGRAM TO INCREASE THEIR ACCESS TO WORKING CAPITAL FUNDING

By leveraging more assets and thus borrowing more money from their bank, companies can obtain the necessary financing to finance a specific project or the overall growth of the company. In addition to favorable advance rates for export related inventory and foreign receivables, a key feature of this program, that is often overlooked, is the ability for companies to issue certain types of SBLCs by only providing collateral amounts as low as 10% of the value of the SBLC. This is an especially important

feature for companies needing to post a performance or advance payment guarantee in response to a customer's advance payment.

By way of example, assume US exporter wins an overseas contract, requiring them to deliver some form of product or capital equipment in a specified timeframe. As part of the contract, the buyer agrees to make an advance payment along with milestone payments throughout the manufacturing process. In return, however, the buyer requires the US exporter to provide an SBLC from their bank, guaranteeing the repayment of the down payment and progress payments, in the event the US exporter fails to perform. The purpose of these advance payments, in addition to showing the commitment of the buyer to fulfill their payment obligation, is to help fund the US exporter's working capital needed to manufacture the product. The issue, however, is most banks will require at least 100% collateral in order to issue the SBLC - thus, effectively offsetting the cash down payment and still leaving the US exporter with the need to come up with the funding to complete the contract.

With the EXIM WCGP, however, SBLC's can be issued with as little as 10% collateral, making 90% of the advance payment available for working capital needs. This can be an enormous benefit to US exporters and is often one of the most overlooked features of the program.

BANKS LEVERAGE THIS PROGRAM TO HELP GROW THEIR EXISTING CLIENT RELATIONSHIPS AS WELL AS HELP WIN NEW CUSTOMERS

By being able to offer advance rates against foreign receivables and more aggressive advance rates against inventory, including work in process, lenders leverage this program to help distinguish themselves from competing banks.

The most common application for the program is when a US exporter has a borrowing need that exceeds the margined value of their domestic collateral. In instances like this, the EXIM WCGP allows the lender to include select foreign receivables and provide a higher advance rate on a portion of the US exporter's inventory to increase the eligible collateral values, thus increasing credit availability for the US exporter. Lenders that do not participate in this program are limited on their ability to lend against these forms of collateral and therefore risk losing their client to a competing bank who can offer more attractive loan terms.

As the business grows and collateral values change, the program can be increased, decreased, or removed all together, allowing the bank and the US exporter maximum flexibility. For longer term needs, the program can be implemented on terms of up to three years allowing the lender and the US exporter the added benefit of having the security of a multi-year program.



IS AN EXIM WCGP THE RIGHT FIT FOR YOUR NEEDS?

When considering if an EXIM WCGP is the best option for your business, it is important to understand who receives EXIM Bank's guarantee. One aspect of the EXIM WCGP that is commonly misunderstood is the general support EXIM Bank is providing. EXIM Bank is providing the lender with a 90% indemnity against a default by their borrower (the US exporter). The US exporter, in turn, is getting access to working capital financing; however, they are not receiving any form of insurance or mitigation against a default by their foreign customers. If the risk of a foreign customer default is a concern, trade credit insurance should be considered in conjunction with an EXIM Bank WCGP or as an alternative, depending on the specific mitigation and borrowing needs of the US exporter.

ABOUT IMPELLO GLOBAL

Impello Global is a trade finance advisory boutique and trade credit and political risk insurance brokerage, headquartered in Seattle, Washington. We specialize in trade credit and political risk insurance and provide advisory services to companies and banks who are looking to expand their global trade capabilities.

We are a member of the EXIM Bank Alliance Program, and our team has been working with EXIM Bank and their Working Capital team for the past 15 years. We have assisted banks and companies to obtain delegated authority, establish internal best practices, and develop formal credit policies and procedures. We have built a lasting relationship with the EXIM Bank team and have successfully processed and collected on claims, when needed.

If you are a bank or an exporter trying to better understand the EXIM Bank programs or looking for guidance as to how to grow your trade finance capabilities, our team would be delighted to learn more about your business and discuss options available to you. Please visit our website at www.impelloglobal.com or contact us directly at info@impelloglobal.com.