


## Financing Exports & Managing Export Risks

February 2016

Scott Hibbard, Vice President  
Corporate Lending & Relationship Manager



## International Trade Finance

### Agenda

- Global Trade Trends & Risks
- Payment Terms Discussion
- Financing the Export Sale:
  - Pre-Shipment Financing
  - Post-Shipment Financing
- Foreign Currency Considerations
- Best Export Financing Practices



## International Trade Finance

### Global Trade Trends

- The majority of Middle Market and larger companies now conduct business globally, with *Small Businesses and Start-ups now having unprecedented access and reach into foreign markets.*
- With global expansion comes longer lead times and unanticipated trade cycle costs... leading companies to desire to match the physical trade cycle with the financial trade cycle, in order to improve cash flow, optimize working capital, and reduce lead times and costs.
- As companies increasingly rely a supply chain of global materials, products and sales, it's critical that US businesses understand the tools and approaches available to remain competitive.
- Companies are increasingly using or planning to use technology to enhance the trade process.

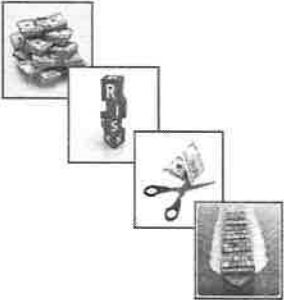

<sup>1</sup> International Trade Administration (2012).



## International Trade Finance

### Primary Goals of Companies

- To Optimize Working Capital
- To Mitigate Key Risks
- To Reduce Costs
- To Simplify the Trade Process

## International Trade Finance

### Types of Risk

The evaluation of risk in global commerce plays a major role in determining the method of payment to be used for settlement between buyer and supplier.

Risk	Examples
Country/Political Risk	Economic instability, government restrictions on payment, war, embargo
Commercial Risk	Insolvency, unscrupulous buyers, fraud
Currency Risk	Convertibility of currency, exchange controls
Transportation Risk	Timeliness of delivery, piracy, pilferage, unions, loss of product
Documentary Risk	Wrong documents, improperly prepared documents, incomplete documents
Foreign Bank Risk	Insolvency, creditworthiness
Product Risk	Quality, quantity



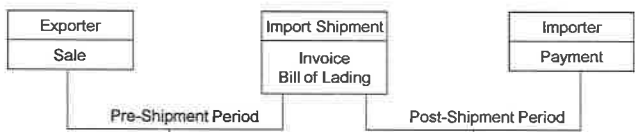
## International Trade Finance

### Global Trade Solutions




## International Trade Finance

### Financing the Trade Cycle: Export Finance Timeline

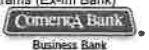


**Working Capital Financing/PO Finance**

1. Bid & Performance Letters of Credit
2. Export Letters of Credit
3. Pre-shipment Working Capital (Ex-Im Bank and SBA programs)
4. Off Shore & In-transit Inventory Financing
5. Foreign Currency Hedging

**Foreign Buyer Financing**

6. Letters of Credit & Bankers Acceptance (BA) Financing (to 360 days)
7. Documentary Collections & Trade Acceptance (TA) Financing
8. A/R Credit Insurance
9. Discounting Foreign A/R's
10. Buyer Financing Programs (Ex-Im Bank) (30 days up to 18 yrs.)



## International Trade Finance

### Payment Terms



### International Trade Finance

**Methods of Payment**

There are four primary methods of payment for global transactions, with the level of risk varying for each.

**PAYMENT RISK DIAGRAM**

Comerica Bank  
Business Bank

### International Trade Finance

**Payment Terms: OPEN ACCOUNT**

**Exporter carries all credit risk and presents documents directly to buyer**

**Bank's Role:** To provide funds transfer and other value-added trade transaction services (as necessary), including:

1. SWIFT – secure Bank to Bank communication for “wired” payments. “Society for Worldwide Interbank Financial Telecommunications”
2. Check or Bank Draft collection services
3. Cross Border ACH payments
4. Credit Card payments
5. Foreign Exchange

Comerica Bank  
Business Bank

### International Trade Finance

**Payment Terms: Documentary Collections**  
(aka...CAD, Sight Draft, Time Draft)

- A bank service offered worldwide that assures the seller and buyer of control over shipping and financial documents that will result in more efficient, predictable payment.
- **URR 522 Rules govern practice of banks** (Int'l Ch. Of Commerce).
- There is no bank obligation or undertaking to pay. This is still an **open account transaction**. (“formal” open account).
- **OFAC & other regulatory compliance checks.**

Comerica Bank  
Business Bank

### International Trade Finance

**Payment Terms: Documentary Collections**  
(aka...CAD, Sight Draft, Time Draft)

- **Sight Draft:** The payment is made when the documents are received by the buyer’s bank and the buyer agrees to pay.
- **Time Draft (tenor of 30, 60, 90... up to 360 days):** The documents are received by the buyer’s bank and the **buyer agrees to pay at a specific future date. “Trade Acceptance”.**


**\*\*Risk:** The exporter relies on the buyer to pay at the future date. Remember, the buyer has possession of the merchandise before payment is due.

Comerica Bank  
Business Bank

## International Trade Finance

**Payment Terms: Letters of Credit**


<b>Commercial (aka Trade LC)</b>	<ul style="list-style-type: none"> <li>Import &amp; Export trade transactions</li> <li>Payment at "Sight"</li> <li>Payment at "Time" (i.e. "XX Days from Bill of Lading Date")</li> <li>Banker's Acceptances, drafts can be discounted</li> <li>LC terms are based on terms with the Sales Contract.</li> <li><b>Commercial LC's (Trade LC) are the "mechanism" for payment.</b></li> </ul>
<b>Standby</b>	<ul style="list-style-type: none"> <li>Financial (guarantee a financial commitment)</li> <li>Performance (guarantee performance)</li> <li>Significant growth in use of standby LCs supporting trade payments. ("advance payments", "performance per contract", "bid/warranty bonds" and backstopping credit exposure to a customer with "open terms".</li> <li><b>Standby LCs are generally NOT drawn down and serve as support</b></li> </ul>



## International Trade Finance

**Parties to a Letter of Credit**



Party	Role
Applicant	Account Party, Buyer, Drawee, Buyer, Opener, Importer, Accountee, Principal
Beneficiary	Shipper, Seller, Drawer, Exporter
Issuing Bank	Opening Bank, Buyer's Bank, Account Bank
Advising Bank	Confirming Bank, Negotiating Bank, Paying Bank, Seller's Bank, Nominated Bank, Transferring Bank, Claiming Bank
Reimbursing Bank	Issuing Bank's Correspondent



## International Trade Finance

**Responsibilities of Beneficiary**

- To carefully examine the letter of credit to ensure
  - all documents stipulated can be obtained,
  - all terms and conditions can be complied with,
  - letter of credit has been opened in accordance with the sales contract or other agreements.

## International Trade Finance

**Advantages for Beneficiary**

- Mitigates credit risk, reduces FX and political risks
- All requirements for payment are Known
- Facilitates financing (vendor & customer)
- Prompt payment upon compliance with documentation requirements




## International Trade Finance

**Confirmation of Letter of Credit**

- Provides beneficiary with protection against political risk and risk of insolvency of Issuing Bank
- Confirmation valid only with compliant docs and presentation to confirming bank
- Cost based on credit risk of issuing bank


Note: If LC is unconfirmed, the advising bank will authenticate the LC instrument, but has no commitment, or liability for payment.



## International Trade Finance

Solutions That Work: Trade LC *Soybeans*

<b>Line of Business</b>	▪ Exporter of U.S. grain to China (\$150,000 Sale)
<b>Requirements</b>	<ul style="list-style-type: none"> <li>▪ Mitigate risk of larger foreign sales</li> <li>▪ Optimize working capital: finance buyer/accelerate exporter cash flow</li> </ul>
<b>Solution</b>	<ul style="list-style-type: none"> <li>▪ Mitigate Risk:                             <ul style="list-style-type: none"> <li>• Require buyer to provide commercial letter of credit</li> <li>• Letter of credit is payable in 90 days</li> </ul> </li> <li>▪ Optimize Working Capital:                             <ul style="list-style-type: none"> <li>• Leverage the letter of credit by discounting the draft</li> <li>• Exporter paid shortly after shipment, Buyer paid in 90 days</li> </ul> </li> </ul>




## International Trade Finance

**Documentary Letter of Credit:**  
Estimated Cost to Finance Your Buyer for 90 Days

Assume: \$150,000 export sale on LC payable at 90 days

Advising fee	\$75
Document exam fee	\$750 (.50%)
Confirmation fee	\$750 (2% per annum) eliminates foreign bank risk
Acceptance fee	\$563 (1.50% per annum)
Discount fee	\$938 (2.50% per annum) time value of money
<b>Total LC fees</b>	<b>\$3,100 (2% of LC value)</b>

Benefits: Competitive solution that moved the credit exposure from a foreign company to US-based bank, financed foreign buyer for 90 days, AND Exporter receives cash shortly after shipment date!



## International Trade Finance

**How to Reduce Letter of Credit Fees**

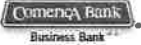
- Minimize partial shipments
- Minimize number of LC amendments
- Clearly communicate LC terms **prior to issuance**
- Have Bank expand SWIFT/telex network
- Prepare accurate documents
- Research Issuing Bank/country risks
- To Confirm or Not To Confirm?
- Identify fees/build into pricing
- Who pays LC fees?
- Maintain DDA account with your **global trade** bank



## International Trade Finance

### Fee vs. Method of Payment

Type of Transaction	Typical Fee
• Open Account & Cash in Advance	\$3 to \$50+ <small>*based on processing requirements</small>
• Documentary Collection	\$175+/-
• Export Letter of Credit	\$400+ (sight) \$650+ (time)



## International Trade Finance

### Selecting The Appropriate Payment Term

Question	Letter of Credit	Collection	Open Account
What is customer relationship	New	Established	Trusted, Parent/Sub.
Impact of total loss (\$)	Substantial	Normal	Small
Nature of order	Custom	Normal Production	Inventory
Political situation - buyer's country	Uncertain	Stable	Strong
Economic situation - buyer's country	Uncertain	Stable	Strong
Competition to sell goods	Some/Limited	Some	Heavy
Financing availability	Yes	Some	Limited
Experience in preparing documents	Strong	Some	Some
Company policy for risk protection	Strong	Medium	Unwritten



## International Trade Finance

### Financing Solutions

**A Review of Programs**

Pre-Shipment:     **Working Capital Loan Program**

Post-Shipment:    **Short Term Export Credit Insurance**  
                          **Medium Term (up to 5 years, i.e. equipment)**



## International Trade Finance

### Export-Import Bank of the United States (Ex-Im Bank)

(Authorization lapsed 7/1/2015, but now re-instated as of 12/1/2015)

- Independent agency of the U.S. federal government.
- Created in 1934 as the official Export Credit Agency (ECA) of the United States.
- Mission: Jobs Through Exports. They assist in financing the export of U.S. goods and services.
- "Sunset Agency" reauthorized by U.S. Congress every 5 years.



## International Trade Finance

**Ex-Im Bank: 2014 Authorizations**

- **\$20.5 billion in total authorizations** (loans, guarantees, and export credit insurance) supporting over \$27.4B of exported value
- Near record number of transactions (3,746) in its 80-year history
- **Authorizations for SMALL BUSINESS totaled \$10.7 billion** (Small business defined as < 500 employees)
  - 90% of total transactional volume (3,340 transactions)
  - 52% of total dollar volume (\$10.7B)
- FYE 2014 authorizations supported over 2,700 U.S. companies
- Other items of note:
  - Snapshot of industries served in Ex-Im Bank's \$112B portfolio: 18% mfg, 16% service, 15% oil/gas, 6% power project, 45% air transportation
  - **Over \$675M of net income was returned to the U.S. Treasury in 2014**
  - Ex-Im Bank is open for business in 175 countries through 150 designated brokers
  - **Portfolio default rate of .17% (less than 1/5 of 1%)**



## International Trade Finance

**Ex-Im Bank: PRE-Shipment Financing**

**Working Capital Loan Guarantee Program**

- **Credit Line for production costs of Export Orders.**  
Also supports bid, performance and warranty LC requirements
- **“Revolving Credit Line” or “Transaction Specific Credit Line.”**
- Loan is closed/funded with an “Ex-Im approved” banks and Ex-Im Bank guarantees the loan (generally a 90% guarantee).
- Generally One Year maturity, but may extend up to three years.
- **Excellent Tool to Finance Export Growth**




## International Trade Finance

**Ex-Im Bank: PRE-Shipment Financing**

**Features**

- **Advance Rates**
  - > 90% of Eligible Export-Related Accounts Receivable
  - > 75% of Eligible Export-Related Inventory, incl. WIP!
- **Standby Letters of Credit** (bid/performance/warranty)
  - > Reduced Collateral requirements...just 10% to 25% of LC
- **Supports “In-Direct” Exports**
  - > Co. A sells to Co. B who then exports product.
- **Delegated Authority Lenders**  
Designated banks can commit credit facilities up to \$10MM without pre-approval from Ex-Im Bank, thus expediting the process.



## International Trade Finance

**Ex-Im Bank: PRE-Shipment Financing**

**Eligibility**

- **Minimum Operating History: One (1) year & Positive net worth**
- **Meets RMA Ratio Test (passes 4 of 7 ratios)**
- **Minimum US Content: 51%**
- **Military/Defense and Nuclear Sales: Ineligible**
- **Semi-annual bank field audit required for loans \$1MM and greater**



### International Trade Finance

Ex-Im Bank: PRE-Shipment Financing

**Costs:**


- **Ex-Im Bank Application Fee: \$100**
- **Ex-Im Bank Facility Fee:**  
1.75% of loan amount for a one-year loan
- **Bank Loan Interest Rate: *Negotiated between bank & borrower***
- **Loan Closing Costs (i.e. legal fees)**



### International Trade Finance

Ex-Im Bank: PRE-Shipment Financing

	<b>EXIM BANK</b>	<b>SBA</b>
US Content	51%	n/a
Military/Nuclear Fees	Ineligible	Eligible
	A bit more	A bit less
Loan amount	No min/max.	> \$5MM
Approval	Delegated to Bank	Govt. Must Review
Maintenance	Less	More/On-going
Ease of Collection	Easier	Difficult




### International Trade Finance

Financing Solutions: POST-Shipment Financing

Credit insurance: 3 Primary Advantages


1. **Risk Mitigation Tool**  
*Insure selected receivables against non-payment.*
2. **Marketing Tool**  
*Extend competitive credit terms to international buyers.*
3. **Financing Tool**  
*Arrange attractive financing with the exporter's lender by using insured foreign receivables as additional collateral.*



### International Trade Finance

Ex-Im Bank: POST-Shipment Financing

- **Short Term Insurance** (accounts receivable)  
To 180 days, exceptionally to 360 days.  
Exporter is generally paid at invoice maturity  
51% minimum US content, otherwise only insurable up to US content amount.
- **Medium Term Insurance** (larger "one off" transactions)  
Loan to buyer, up to \$10MM with 5 year max. maturity.  
Exporter is paid at time of shipment  
85% minimum US content, otherwise only insurable up to US content amount.






## International Trade Finance

**Ex-Im Bank: POST-Shipment Financing**

**“Multi-Buyer” Credit Insurance Policy**

- One (1) year policy insuring *all* short-term export credit sales
- Allowed Exceptions: Cash in-Advance, LC transactions, Canada, others.
- Political/Commercial Risk Coverage:
  - 90% to 95% on Private Buyers
  - 98% on Bulk Agriculture sales
  - 100% on Sovereign Buyers (foreign govt.'s)
- Premiums are paid only on actual shipments.
- Annual First Loss Deductible
- Covers payment terms up to 180 days, exceptionally to 360 days.
- Exporters with DCLs insure most sales w/out prior approval from Ex-Im
- **Policy can be assigned to a bank for financing purposes.**




## International Trade Finance

**Financing Solutions: POST-Shipment Financing**

**Required Credit Information on Foreign Buyers**

- **Up to \$50,000:** Credit Agency Report, or Trade Reference
- **\$50,001 to \$100,000:** Credit Agency Report and Trade Reference
- **\$100,001 to \$300,000:** Credit Agency Report and 2 Trade References  
...The Buyer's audited or signed unaudited financial statements for the last 2 fiscal years may be substituted for the trade references
- **\$300,001 to \$1million:** Credit Agency Report and 2 Trade References and the Buyer's audited or signed unaudited financial statements for the last 2 fiscal years with notes.
- **Over \$1 million:** Credit Agency Report and 2 Trade References and a Bank Reference and the Buyer's audited or signed unaudited financial statements for the last 3 fiscal years with notes.

\* The applicant's credit experience with the Buyer may be substituted for a Trade Reference.



## International Trade Finance

**Ex-Im Bank: POST-Shipment Financing**


**BEST VALUE => “SMALL BUSINESS” Multi-Buyer Policy**

**Eligibility:** Exporters with 3 year avg. export sales of under \$3MM.

Generally same as regular Multi-Buyer Policy... with these Enhancements:

1. **Simplified and Less Expensive Premium Rate Schedule**

1 – 60 days	55 bps	(.55%)
61-120 days	90 bps	(.90%)
121- 180 days	115 bps	(1.15%)
2. **NO Annual First Loss Deductible**



## International Trade Finance

**Financing Solutions: POST-Shipment Financing**

**PRIVATE Credit Insurance Market**  
(i.e. Euler Hermes, CoFace, Atradius, FCIA, AIG... NOT Ex-Im Bank)


Private Market can be a very competitive alternative to Ex-Im Bank insurance

**PRO'S**

- Potentially better rates than Ex-Im Bank
- No U.S. content requirements or military restrictions.
- Specialty risks (unfair calling of LC's, contract frustration, nationalization)

**CON'S**

- Generally must pay full annual insurance premium upfront
- During periods of crisis and market instability (2008-1010), the capacity of private insurance market can be sharply reduced.
- Private market has cancelled broad swaths of policies and previously insured industry types.








## International Trade Finance


**Foreign Exchange: Quoting with "Premium" Currencies**


- Quote: US\$100,000 to Japanese Buyer
- Terms: 60 days inv. date (add 60 days prod time)
- Yen Quote: Y118:US\$1 (spot rate) or Y11,800,000
- Bank Offers You a 4 month (120 days) Forward FX rate = Y117.4:US\$1
- At Maturity of transaction You receive Yen:
- You sell Y11,800,000 to Bank @ contracted rate of Y117.50:US\$1
- Conversion:  $Y11,800,000 / 117.50 = \mathbf{\$100,511}$

## International Trade Finance

Summary / Final Lap





## International Trade Finance

**Best Practices: Managing the Export Process**

- **Select & Leverage Valuable Business Partners** (cpa, bank, global logistics, legal, etc.)
- **Engage your Partners EARLY** in the transaction
- **A Dedicated International Business Team Leader**
  - > manages the "sweet confusion", "owns" issues and possesses internal influence.
- **Create a Standard Company Policy for Export Transactions**
  - Thus building Confidence by being Consistent & Efficient
  - > Sales terms, legal documentation, managing credit risk, foreign currency, shipping terms.
- **Leverage your Partner's Technology** (bank, global logistics partners)
  - > Tracking cargo location, clearing customs, payments, communications regarding documents.
- **Avoid Complaisance:**
  - Seek to Improve Your Financial & Physical Supply Chain processes



## International Trade Finance

**Best Practices: Managing Export Credit Risk**

- **International Credit Reports** (Coface, Graydon, C<sup>3</sup> Business Information)
- **Trade References**
- **Visit Export customers/vendors** (\* build personal, face-to-face relationship)
- **Bank References**
- **Prudent use of a Scalable Set of Credit Terms:**
  - CIA/LC/Sight Drafts (collections), Credit Insurance, Open Account
- **Strong Legal Advisor** (transaction documents, legal agreements, collection efforts, IP)



### International Trade Finance

**Best Practices:**

**Financial Considerations to Improve your Global Supply Chain**

- Does your global payables turnover (DPO) compare favorably to your A/R Turnover (DSO)?
- Does off-shore or in-transit inventory offer potential add'd working capital?
- Are you taking advantage of Trade Discounts from your foreign vendor?
- Have you considered financing your foreign vendor?
- Are you able to adequately finance the production of export orders?
- Do your foreign AR's offer potential additional working capital?
- Have you considered offering a Foreign Currency Price?
- Have you considered financing your foreign buyers?



### Comerica Contact

**Scott K. Hibbard**  
 Vice President  
 Corporate Lending / Relationship Manager  
 Grand Rapids, MI  
 (616) 776-7888  
 skhibbard@comerica.com



Healthy Forests HC call

712 720 4910  
631 245