Trade Finance Guide

A guide and overview to Export Financing
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For more information, please read the U.S. Department of Commerce’s new “Trade Finance Guide: A Quick Reference for U.S. Exporters.” How to Obtain Copies: The Trade Finance Guide is available online for download at www.export.gov, the U.S. government’s export portal. Printed copies are available from the Trade Information Center at (800) USA-TRADE.
INTRODUCTION

This guide is designed to outline the common techniques of export financing and to provide our Silicon Valley Bank (SVB) clients with an overview of the services we provide for our clients selling overseas.

Benefits of Exporting

Ninety-five percent of the world’s consumers live outside of the United States, so if you are only selling domestically, you are reaching just a small share of potential customers. Exporting enables small and medium-sized exporters (SMEs) to diversify their portfolios and insulates them against periods of slower growth. Free trade agreements have opened in markets such as Australia, Canada, Central America, Chile, Israel, Jordan, Mexico, and Singapore, creating more opportunities for U.S. businesses.

TRADE FINANCE

Offers a means to convert export opportunities into sales by managing the risks associated with doing business internationally, particularly the challenges of getting paid on a timely basis.

Opportunities

- Helps companies reach the 95 percent of non-U.S. customers worldwide
- Diversifies SME customer portfolios

Risks

- Nonpayment or delayed payment by foreign buyers
- Political and commercial risks; cultural influences
In the competitive global marketplace, it’s essential for exporters to offer their customers attractive sales terms supported by the appropriate payment method. In order to be paid in full and on time, appropriate payment methods must be selected carefully to minimize the payment risk while also accommodating the needs of the buyer. There are four primary methods of payment for international transactions. You and your customer should agree upon the method that is mutually advantageous for both parties during or before contract negotiations.

### Payment Risk Diagram

- **Least Secure**
  - Open Account
  - Documentary Collections
  - Letters of Credit
  - Cash-In-Advance

- **Exporter**
  - Document Collections
  - Letters of Credit

- **Importer**
  - Letters of Credit
  - Document Collections

- **Most Secure**
  - Open Account
  - Cash-In-Advance
  - Letters of Credit
  - Documentary Collections

- Options:
  - Introduction
  - Methods of Payment in International Trade
  - Cash-in-Advance
  - Letters of Credit
  - Documentary Collections
  - Open Account
  - Export Working Capital Financing
  - The Export-Import Bank Working Capital Programs
  - Export Credit Insurance
  - SVB’s Asset Purchase Program (APP)
  - Forfaiting
  - Government Assisted Foreign Buyer Financing
METHODS OF PAYMENT IN INTERNATIONAL TRADE

Key Points

- International trade presents a spectrum of risk, causing uncertainty over the timing of payments between the exporter (seller) and importer (foreign buyer).
- To exporters, any sale is a gift until payment is received.
- Therefore, the exporter wants payment as soon as possible, preferably as soon as an order is placed or before the goods are sent to the importer.
- To importers, any payment is a donation until the goods are received.
- Therefore, the importer wants to receive the goods as soon as possible, but to delay payment as long as possible, preferably until after the goods are resold to generate enough income to make payment to the exporter.

Cash-in-Advance

With this payment method, the exporter can avoid credit risk, since payment is received prior to the transfer of ownership of the goods. Wire transfers and credit cards are the most commonly used cash-in-advance options available to exporters. However, requiring payment in advance is the least attractive option for the buyer, as this method creates cash flow problems. Foreign buyers are also concerned that the goods may not be sent if payment is made in advance. Thus, exporters that insist on this method of payment as their sole method of doing business may find themselves losing out to competitors who may be willing to offer more attractive payment terms.

Letters of Credit

Letters of credit (LCs) are among the most secure instruments available to international traders. An LC is a commitment by a bank on behalf of the buyer that payment will be made to the exporter provided that the terms and conditions have been met, as verified through the presentation of all required documents. The buyer pays its bank to render this service. An LC is useful when reliable credit information about a foreign buyer is difficult to obtain, but you are satisfied with the creditworthiness of your buyer’s foreign bank. An LC also protects the buyer since no payment obligation arises until the goods have been shipped or delivered as promised.

Documentary Collections

A documentary collection is a transaction whereby the exporter entrusts the collection of a payment to the remitting bank (exporter’s bank), which sends documents to a collecting bank (importer’s bank), along with instructions for payment. Funds are received from
the importer and remitted to the exporter through the banks involved in the collection in exchange for those documents. Documentary collections involve the use of a draft that requires the importer to pay the face amount either on sight (document against payment—D/P) or on a specified date in the future (document against acceptance—D/A). The draft lists instructions that specify the documents required for the transfer of title to the goods. Although banks do act as facilitators for their clients under collections, documentary collections offer no verification process and limited recourse in the event of nonpayment. Drafts are generally less expensive than letters of credit.

**Open Account**

An open account transaction means that the goods are shipped and delivered before payment is due, usually in 30 to 90 days. Obviously, this is the most advantageous option to the importer in cash flow and cost terms, but it is consequently the highest risk option for an exporter. Due to the intense competition for export markets, foreign buyers often press exporters for open account terms since the extension of credit by the seller to the buyer is more common abroad. Therefore, exporters who are reluctant to extend credit may face the possibility of the loss of the sale to their competitors.

However, with the use of one or more of the appropriate trade finance techniques, such as export credit insurance, the exporter can offer open competitive account terms in the global market while substantially mitigating the risk of nonpayment by the foreign buyer.
CASH-IN-ADVANCE

With the cash-in-advance payment method, the exporter can avoid credit risk or the risk of nonpayment, since payment is received prior to the transfer of ownership of the goods. Wire transfers and credit cards are the most commonly used cash-in-advance options available to exporters. However, requiring payment in advance is the least attractive option for the buyer, as this method tends to create cash flow problems, and unless the seller sees no other option or the buyer has other vendors to choose from, it often is not a competitive option. In addition, foreign buyers are often concerned that the goods may not be sent if payment is made in advance. Exporters that insist on this method of payment as their sole method of doing business may find themselves losing out to competitors who may be willing to offer more attractive payment terms.

CHARACTERISTICS OF A CASH-IN-ADVANCE PAYMENT METHOD

**Applicability**

Recommended for use in high-risk trade relationships or export markets, and ideal for Internet-based businesses.

**Risk**

Exporter is exposed to virtually no risk as the burden of risk is placed nearly completely on the importer.

**Pros**

- Payment before shipment
- Eliminates risk of nonpayment

**Cons**

- May lose customers to competitors over payment terms
- No additional earnings through financing operations
Key Points

- Full or significant partial payment is required, usually via credit card or bank/wire transfer, prior to the transfer of ownership of the goods.

- Cash-in-advance, especially a wire transfer, is the most secure and favorable method of international trading for exporters and, consequently, the least secure and attractive option for importers. However, both the credit risk and the competitive landscape must be considered.

- Insisting on these terms ultimately could cause exporters to lose customers to competitors who are willing offer more favorable payment terms to foreign buyers in the global market.

- Creditworthy foreign buyers, who prefer greater security and better cash utilization, may find cash-in-advance terms unacceptable and may simply walk away from the deal.

Wire Transfer—Most Secure and Preferred Cash-in-Advance Method

An international wire transfer is commonly used and has the advantage of being almost immediate. Exporters should provide clear routing instructions to the importer when using this method, including the name and address of Silicon Valley Bank (SVB), the bank’s SWIFT address, and ABA numbers, and the seller’s name and address, bank account title, and account number. This option is more costly to the importer than other options of cash-in-advance method, as the fee for an international wire transfer is usually paid by the sender.

Credit Card—A Viable Cash-in-Advance Method

Exporters who sell directly to the importer may select credit cards as a viable method of cash-in-advance payment, especially for consumer goods or small transactions. Exporters should check with their credit card company(s) for specific rules on international use of credit cards as the rules governing international credit card transactions differ from those for domestic use. As international credit card transactions are typically placed via online, telephone, or fax methods that facilitate fraudulent transactions, proper precautions should be taken to determine the validity of transactions before the goods are shipped. Although exporters must endure the fees charged by credit card companies, this option may help the business grow because of its convenience.
Payment by Check—A Less-Attractive Cash-in-Advance Method

Advance payment using an international check may result in a lengthy collection delay of several weeks to months. Therefore, this method may defeat the original intention of receiving payment before shipment. If the check is in U.S. dollars or drawn on a U.S. bank, the collection process is the same as any U.S. check. However, funds deposited by non-local check may not become available for withdrawal for up to 11 business days due to Regulation CC of the Federal Reserve. In addition, if the check is in a foreign currency or drawn on a foreign bank, the collection process is likely to become more complicated and can significantly delay the availability of funds. Moreover, there is always a risk that a check may be returned due to insufficient funds in the buyer’s account.

When to Use Cash-in-Advance Terms

- The exporter’s product is unique, not available elsewhere, or in heavy demand.
- The exporter operates an Internet-based business where the use of convenient payment methods is a must to remain competitive.
LETTERS OF CREDIT

Letters of credit (LCs) are among the most secure instruments available to international traders. An LC is a commitment by a bank on behalf of the buyer that payment will be made to the beneficiary (exporter) provided that the terms and conditions have been met, as verified through the presentation of all required documents. The buyer pays its bank to render this service. An LC is useful when reliable credit information about a foreign buyer is difficult to obtain, but you are satisfied with the creditworthiness of your buyer’s foreign bank. This method also protects the buyer, since no payment obligation arises until the documents proving that the goods have been shipped or delivered as promised are presented. However, since LCs have many opportunities for discrepancies, they should be prepared by well-trained documenters. Silicon Valley Bank has an experienced team who can help to structure the transaction and guide the parties through the documentation process.

CHARACTERISTICS OF A LETTER OF CREDIT

Applicability

Recommended for use in new or less-established trade relationships when you are satisfied with the creditworthiness of the buyer’s bank.

Risk

Risk is evenly spread between seller and buyer provided all terms and conditions are adhered to.

Pros

- Payment after shipment
- A variety of payment, financing and risk mitigation options

Cons

- Requires detailed, precise documentation
- Relatively expensive in terms of transaction costs
Key Points

- An LC, also referred to as a documentary credit, is a contractual agreement whereby a bank in the buyer’s country, known as the issuing bank, acting on behalf of its customer (the buyer or importer), authorizes a bank in the seller’s country, known as the advising bank, to make payment to the beneficiary (the seller or exporter) against the receipt of stipulated documents.

- The LC is a separate contract from the sales contract on which it is based and, therefore, the bank is not concerned whether each party fulfills the terms of the sales contract.

- The bank’s obligation to pay is solely conditional upon the seller’s compliance with the terms and conditions of the LC. In LC transactions, banks deal in documents only, not goods.

Illustrative Letter of Credit Transaction

1. The importer arranges for the issuing bank to open an LC in favor of the exporter.

2. The issuing bank transmits the LC to the advising bank, which forwards it to the exporter.

3. The exporter forwards the goods and documents to a freight forwarder.

4. The freight forwarder dispatches the goods and submits documents to the advising bank.

5. The advising bank checks documents for compliance with the LC and pays the exporter.

6. The importer’s account at the issuing bank is debited.

7. The issuing bank releases documents to the importer to claim the goods from the carrier.

Irrevocable Letter of Credit

LCs can be issued as revocable or irrevocable. Most LCs are irrevocable, which means they may not be changed or cancelled unless both the buyer and seller agree. If the LC does not mention whether it is revocable or irrevocable, it automatically defaults to irrevocable. Revocable LCs are occasionally used between parent companies and their subsidiaries conducting business across borders.

Confirmed Letter of Credit

A greater degree of protection is afforded to the exporter when a LC issued by a foreign bank (the importer’s issuing bank) and is confirmed by Silicon Valley Bank (the exporter’s advising bank). This confirmation means that Silicon Valley Bank adds its guarantee to...
pay the exporter to that of the foreign bank. If an LC is not confirmed, the exporter is subject to the payment risk of the foreign bank and the political risk of the importing country. Exporters should consider confirming LCs if they are concerned about the credit standing of the foreign bank or when they are operating in a high-risk market, where political upheaval, economic collapse, devaluation or exchange controls could put the payment at risk.

Special Letters of Credit

LCs can take many forms. When an LC is issued as transferable, the payment obligation under the original LC can be transferred to one or more “second beneficiaries.” With a revolving LC, the issuing bank restores the credit to its original amount once it has been drawn down. Standby LCs can be used in lieu of security or cash deposits as a secondary payment mechanism.

Tips for Exporters

- SVB will assist in negotiating with the importer’s bank to agree upon detailed terms to be incorporated into the LC.
- Determine if all LC terms can be compiled within the prescribed time limits.
- Ensure that all the documents are consistent with the terms and conditions of the LC.
- Beware of many discrepancy opportunities that may cause nonpayment or delayed payment.
A documentary collection (D/C) is a transaction whereby the exporter entrusts the collection of payment to the remitting bank (SVB- the exporter’s bank), which sends documents to a collecting bank (importer’s bank), along with instructions for payment. Funds are received from the importer and remitted to the exporter through the banks involved in the collection in exchange for those documents. D/Cs involve the use of a draft that requires the importer to pay the face amount either on sight (document against payment—D/P) or on a specified date in the future (document against acceptance—D/A). The draft lists instructions that specify the documents required for the transfer of title to the goods. Although banks do act as facilitators for their clients under collections, documentary collections offer no verification process and limited recourse in the event of nonpayment. Drafts are generally less expensive than letters of credit (LCs).

**CHARACTERISTICS OF A DOCUMENTARY COLLECTION**

**Applicability**

Recommended for use in established trade relationships and in stable export markets.

**Risk**

Exporter is exposed to more risk as D/C terms are more convenient and cheaper than an LC to the importer.

**Pros**

- Bank assistance in obtaining payment
- The process is simple, fast, and less costly than LCs
- DSO improved if using a draft with payment at a future date

**Cons**

- Banks' role is limited and they do not guarantee payment
- Banks do not verify the accuracy of the documents
**Key Points**

- **D/Cs** are less complicated and more economical than LCs.
- Under a D/C transaction, the importer is not obligated to pay for goods prior to shipment.
- The exporter retains title to the goods until the importer either pays the face amount on sight or accepts the draft to incur a legal obligation to pay at a specified later date.
- SVB plays an essential role in transactions utilizing D/Cs as the remitting bank (exporter’s bank) and in working with the collecting bank (importer’s bank).
- While the banks control the flow of documents, they do not verify the documents nor take any risks, but can influence the mutually satisfactory settlement of a D/C transaction.

**Typical Simplified D/C Transaction Flow**

1. The exporter ships the goods to the importer and receives in exchange the documents.
2. The exporter presents the documents with instructions for obtaining payment to SVB.
3. SVB sends the documents to the importer’s collecting bank.
4. The collecting bank releases the documents to the importer upon receipt of payment or the collecting bank releases the documents on acceptance of draft from the importer.
5. The importer then presents the documents to the carrier in exchange for the goods.
6. Having received payment, the collecting bank forwards proceeds to SVB.
7. Once payment is received, SVB credits the exporter’s account.

**Documents Against Payment (D/P) Collection**

A greater degree of protection is afforded to the exporter when an LC is issued by a foreign bank (the importer’s issuing bank) and is confirmed by Silicon Valley Bank (the exporter’s advising bank). This confirmation means that Silicon Valley Bank adds its guarantee to pay the exporter to that of the foreign bank. If an LC is not confirmed, the exporter is subject to the payment risk of the foreign bank and the political risk of the importing country. Exporters should consider confirming LCs if they are concerned about the credit standing of the foreign bank or when they are operating in a high-risk market, where political upheaval, economic collapse, devaluation or exchange controls could put the payment at risk.
DOCUMENTARY COLLECTIONS

- Time of Payment: After shipment, but before documents are released
- Transfer of Goods: After payment is made on sight
- Exporter Risk: If draft is unpaid, goods may need to be disposed

Documents Against Acceptance (D/A) Collection

Under a D/A collection, the exporter extends credit to the importer by using a time draft. In this case, the documents are released to the importer to receive the goods upon acceptance of the time draft. By accepting the draft, the importer becomes legally obligated to pay at a future date. At maturity, the collecting bank contacts the importer for payment. Upon receipt of payment, the collecting bank transmits the funds to SVB for payment to the exporter.

- Time of Payment: On maturity of draft at a specified future date
- Transfer of Goods: Before payment, but upon acceptance of draft
- Exporter Risk: Has no control of goods and may not get paid at due date

When to Use Documentary Collections

Under D/C transactions, the exporter has little recourse against the importer in case of nonpayment. Thus, the D/C mechanism should only be used under the following conditions:

- The exporter and importer have a well-established relationship.
- The exporter is confident that the importing country is stable politically and economically.
- An open account sale is considered too risky, but an LC is also too expensive for the importer.
OPEN ACCOUNT

An open account transaction means that the goods are shipped and delivered before payment is due, usually in 30 to 90 days. Obviously, this is the most advantageous option to the importer in cash flow and cost terms, but it is consequently the highest risk option for an exporter. Because of the intense competition for export markets, foreign buyers often press exporters for open account terms. In addition, the extension of credit by the seller to the buyer is more common abroad. Therefore, exporters who are reluctant to extend credit may face the possibility of the loss of the sale to their competitors. However, while this method of payment will definitely enhance export competitiveness, exporters should thoroughly examine the political, economic, and commercial risks, as well as cultural influences to ensure that payment will be received in full and on time. It is possible to substantially mitigate the risk of nonpayment associated with open account trade by using such trade finance techniques as export credit insurance. Exporters may also wish to seek export working capital financing to ensure that they have access to financing for both the production for export and for any credit while waiting to be paid.

CHARACTERISTICS OF AN OPEN ACCOUNT

Applicability

Recommended for use (1) in secure trading relationships or markets or (2) in competitive markets to win customers with the use of one or more appropriate trade finance techniques.

Risk

Exporter faces significant risk as the buyer could default on payment obligation after shipment of the goods.

Pros

- Boost competitiveness in the global market
- Establish and maintain a successful trade relationship

Cons

- Exposed significantly to the risk of nonpayment
- Additional costs associated with risk mitigation measures
Key Points

- The goods, along with all the necessary documents, are shipped directly to the importer who agrees to pay the exporter’s invoice at a future date, usually in 30 to 90 days.
- Exporter should be absolutely confident that the importer will accept shipment and pay at agreed time and that the importing country is commercially and politically secure.
- Open account terms may help win customers in competitive markets, if used with one or more of the appropriate trade finance techniques that mitigate the risk of nonpayment.

How to Offer Open Account Terms in Competitive Markets

Open account terms may be offered in competitive markets with the use of additional trade finance techniques such as Export Government Guaranteed Programs, Export Insurance or Forfaiting.

Export Working Capital Financing

To extend open account terms in the global market, the exporter who lacks sufficient liquidity needs export working capital financing that covers the entire cash cycle from purchase of raw materials through the ultimate collection of the sales proceeds. Export working capital facilities can be provided to support export sales in the form of a loan or revolving line of credit.

Government-Guaranteed Export Working Capital Programs

The Export-Import Bank of the United States and the U.S. Small Business Administration offer programs that guarantee export working capital facilities to U.S. exporters. With these programs, U.S. exporters are able to obtain needed facilities from commercial lenders when financing is otherwise not available or when their borrowing capacity needs to be increased.

SVB is one of the top users of the Export-Import Bank Working Capital Guarantee program, and is one of only eight banks in the U.S. that enjoys a Super Delegated Authority of up to $300 million from the Ex-Im Bank. As of June 2009, SVB is providing 45 Ex-Im Bank-guaranteed working capital facilities totaling over $150 million and supporting more than 3,000 U.S. small business jobs. SVB earned Ex-Im Bank’s Small Business Bank, Bank of the Year Award in 2005.
Export Credit Insurance

Export credit insurance provides protection against commercial losses—default, insolvency, bankruptcy, and political losses—war, nationalization, currency inconvertibility, etc. It allows exporters to increase sales by offering liberal open account terms to new and existing customers. Insurance also provides security to SVB in the event it considers providing working capital to finance exports.

Forfaiting (Medium-term Receivables Discounting)

Forfaiting is a method of trade financing that allows the exporter to sell its medium-term receivables (180 days to 7 years) to SVB at a discount, in exchange for cash. With this method, the forfafter assumes the risk of non-payment, enabling the exporter to extend open account terms and incorporate the discount into the selling price.
Export working capital (EWC) financing allows exporters to purchase the goods and services they need to support their export sales. More specifically, EWC facilities extended by SVB can provide a means for exporters who lack sufficient internal liquidity to process and acquire goods and services to fulfill export orders and extend open account terms to their foreign buyers. EWC funds are commonly used to finance three different areas: (1) materials, (2) labor, and (3) inventory, but they can also be used to finance receivables generated from export sales and/or standby letters of credit used as performance bonds or payment guarantees to foreign buyers. An unexpected large export order or many incremental export orders can often place challenging demands on working capital. EWC financing helps to ease and stabilize the cash flow problems of exporters while they fulfill export sales and grow competitively in the global market.

CHARACTERISTICS OF EXPORT WORKING CAPITAL FINANCING

Applicability
To purchase raw materials, supplies, and equipment to fulfill a large export sales order or many small export sales orders.

Risk
Without the use of proper risk mitigation measures, the exporter is exposed to significant risk of nonpayment.

Pros
- Can fulfill export sales orders
- Can offer open account terms to remain competitive

Cons
- Cost of financing a facility
- Risk mitigation may be needed, incurring additional costs
EXPORT WORKING CAPITAL FINANCING

Key Points

- Funds may be used to acquire materials, labor, inventory, goods and services for export.
- A facility can support a single export transaction (transaction specific short-term loan) or multiple export transactions (revolving line of credit) on open account terms.
- A government guarantee may be needed to obtain a facility that can meet your export needs.
- Risk mitigation may be needed to offer open account terms confidently in the global market.

Why a Government Guarantee May Be Needed

The Export-Import Bank of the United States and the U.S. Small Business Administration offer programs that guarantee export working capital facilities to U.S. exporters. With these programs, U.S. exporters are able to obtain needed facilities from SVB when financing is otherwise not available or when their borrowing capacity needs to be increased.

Why Risk Mitigation May Be Needed

While export working capital financing will certainly make it possible for exporters to offer open account terms in today’s highly competitive global markets, the use of such financing itself does not necessarily eliminate the risk of nonpayment by foreign customers. In order to offer open credit terms more confidently in the global market, the use of some forms of risk mitigation may be needed. In addition, the use of risk mitigation may be necessary for exporters to obtain export working capital financing. For example, SVB may require the exporter to obtain export credit insurance as a condition of providing working capital and financing exports. Other forms of risk mitigation will be discussed later in this guide.
THE EXPORT-IMPORT BANK WORKING CAPITAL PROGRAMS

Government-guaranteed export working capital facilities can provide the exporter with the liquidity to accept new business, help grow export sales, and compete more effectively in the global marketplace. The Export-Import Bank of the United States (Ex-Im Bank) works to offer such programs to U.S. firms through SVB. Through these government-guaranteed export working capital programs (EWCP), U.S. exporters are able to obtain needed facilities from commercial lenders when financing is otherwise not available or when their borrowing capacity needs to be increased.

CHARACTERISTICS OF AN EXPORT-IMPORT BANK WORKING CAPITAL PROGRAM

Applicability

When commercial financing is otherwise not available or when pre-approved borrowing capacity is not sufficient.

Risk

Without the use of proper risk mitigation measures, the exporter is exposed significantly to the risk of nonpayment.

Pros

- Encourage lenders to make financing to exporters
- Enable lenders to offer enhanced advance rates

Cons

- Cost of obtaining and maintaining a guaranteed facility
- Risk mitigation may be needed, incurring additional costs
THE EXPORT-IMPORT BANK WORKING CAPITAL PROGRAMS

Key Points

- Fulfill export sales orders by expanding access to export working capital financing.
- Maximize the borrowing base by turning export inventory and accounts receivable into cash.
- Risk mitigation may be needed to offer open account terms confidently in the global market.

Comparison: Commercial Facility vs. Guaranteed Facility

See the table below for examples of how the EWCP can increase your borrowing base against your total collateral value.¹

¹ EWCP advance rates may vary depending on the quality of the collateral offered.

<table>
<thead>
<tr>
<th>Collateral</th>
<th>Value</th>
<th>Advance Rate</th>
<th>Borrowing Base</th>
<th>Advance Rate</th>
<th>Borrowing Rate</th>
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<td>Export Inventory</td>
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</tr>
<tr>
<td>Raw Materials</td>
<td>$200,000</td>
<td>20%</td>
<td>$40,000</td>
<td>75%</td>
<td>$150,000</td>
</tr>
<tr>
<td>Work-in-Progress</td>
<td>$200,000</td>
<td>0%</td>
<td>$0</td>
<td>75%</td>
<td>$150,000</td>
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<tr>
<td>Finished Goods</td>
<td>$600,000</td>
<td>50%</td>
<td>$300,000</td>
<td>75%</td>
<td>$450,000</td>
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<td>Export Accounts Receivable</td>
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<td></td>
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<tr>
<td>On Open Account</td>
<td>$400,000</td>
<td>0%</td>
<td>$0</td>
<td>90%</td>
<td>$360,000</td>
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<tr>
<td>By Letter of Credit</td>
<td>$600,000</td>
<td>70%</td>
<td>$420,000</td>
<td>90%</td>
<td>$540,000</td>
</tr>
<tr>
<td>Totals</td>
<td>$2,000,000</td>
<td></td>
<td><strong>$760,000</strong></td>
<td></td>
<td><strong>$1,650,000</strong></td>
</tr>
</tbody>
</table>
Key Features of Ex-Im Bank’s Export Working Capital Program

- For U.S. exporters and credit lines of all sizes.
- Must adhere to the Bank’s requirements for content, non-military uses and country policy.
- Nonrefundable $100 application fee.
- 1.5 percent up front facility fee based on the total loan amount and a one-year loan.
- Enhancements are available for minority- or woman-owned, rural and environmental firms.

Why Risk Mitigation May Be Needed

The EWCP does not make exporters immune to the risk of nonpayment by foreign customers. The use of some forms of risk mitigation may be needed to offer open account terms more confidently in the global market. Possible risk mitigation measures recommended for use in conjunction with open account terms are export credit insurance and forfaiting.
Export credit insurance (ECI) protects an exporter of products and/or services against the risk of nonpayment by a foreign buyer. In other words, ECI significantly reduces the payment risks associated with doing business internationally by giving the exporter conditional assurance that payment will be made in the event that the foreign buyer is unable to pay. Simply put, with an ECI policy, exporters can protect their foreign receivables against a variety of risks, which could result in nonpayment by foreign buyers. The policy generally covers commercial risks—insolvency of the buyer, bankruptcy or protracted defaults (slow payment), and certain political risks—war, terrorism, riots, and revolution, as well as currency inconvertibility, expropriation, and changes in import or export regulations. The insurance is offered either on a single-buyer or portfolio multi-buyer basis for short-term (up to one year) and medium-term (one to five years) repayment periods.

**CHARACTERISTICS OF EXPORT CREDIT INSURANCE**

**Applicability**
Recommended for use in conjunction with open account terms and export working capital financing.

**Risk**
Exporters share the risk of the uncovered portion of the loss and their claims may be denied in case of non-compliance with requirements specified in the policy.

**Pros**
- Reduce the risk of nonpayment by foreign buyers
- Offer open account terms safely in the global market

**Cons**
- Cost of obtaining and maintaining an insurance policy
- Deductible—coverage is usually below 100 percent incurring additional costs
EX-POR-T CREDIT
IN-SUR-ANCE

Key Points

- ECI allows you to offer competitive open account terms to foreign buyers while minimizing the risk of nonpayment.
- Creditworthy buyers could default on payment due to circumstances beyond their control.
- With reduced nonpayment risk, you can increase your export sales, establish market share in emerging and developing countries, and compete more vigorously in the global market.
- With insured foreign account receivables, banks are more willing to increase your borrowing capacity and offer attractive financing terms.

Coverage

Short-term ECI, which provides 90 to 95 percent coverage against buyer payment defaults, typically covers (1) consumer goods, materials, and services up to 180 days, and (2) small capital goods, consumer durables and bulk commodities up to 360 days. Medium-term ECI, which provides 85 percent coverage of the net contract value, usually covers large capital equipment up to five years.

Pricing

Premiums are individually determined on the basis of risk factors such as country, buyer’s creditworthiness, sales volume, seller’s previous export experience, etc. Most multi-buyer policies cost less than 1 percent of insured sales while the prices of single-buyer policies vary widely due to presumed higher risk. However, the cost in most cases is significantly less than the fees charged for letters of credit. ECI, which is often incorporated into the selling price, should be a proactive purchase, in that you have coverage in place before a customer becomes a problem.

Where Can I Get Export Credit Insurance?

SVB has brokers that we can refer you to who will place bids for coverage with numerous insurance providers in the market, including Ex-Im.
### Features of Ex-Im Bank’s Export Credit Insurance

- Offers coverage in emerging foreign markets where private insurers may not operate.
- Exporters electing an Ex-Im Bank Working Capital Guarantee may receive a 25 percent premium discount on Multi-buyer Insurance Policies.
- Offers enhanced support for environmentally beneficial exports.
- The products must be shipped from the United States and have at least 50 percent U.S. content.
- Unable to support military products or purchases made by foreign military entities.
- Support for exports may be closed or restricted in certain countries per U.S. foreign policy.
SVB’S ASSET PURCHASE PROGRAM (APP)

SVB’s Asset Purchase Program (APP) allows SVB to finance a company’s sales through the purchase of invoices or accounts receivable. SVB’s Asset Purchase Plan (APP) is offered under an agreement between SVB and the exporter, in which SVB purchases the exporter’s approved short-term foreign accounts receivable for cash at a discount from the face value on a non-recourse basis and assumes the risk of the foreign buyer’s ability to pay. By virtually eliminating the risk of non-payment by foreign buyers, SVB’s APP allows the exporter to offer open account terms; improve its liquidity position; and boost competitiveness in the global marketplace. SVB’s APP can be a viable off balance sheet alternative. Purchases made under SVB’s APP are made on a “true sale” basis and are also used for balance sheet window dressing.

CHARACTERISTICS OF SVB’S ASSET PURCHASE PROGRAM

Applicability

Ideal for an established exporter who wants: (1) the flexibility of selling on open account terms, (2) to avoid incurring any credit losses, or (3) to improve their cash position without further borrowing.

Risk

Risk inherent in an export sale is virtually eliminated.

Pros

- Eliminate the risk of nonpayment by foreign buyers
- Maximize cash flows
- DSO improved
- Manages buyer risk
- Does not require an all-asset lien

Cons

- More costly than export credit insurance
- Limited availability in developing countries
- Limited availability; reserved for well-established, larger companies
SVB’S ASSET PURCHASE PROGRAM (APP)

Key Points

- Recommended for continuous short-term export sales of consumer goods on open account.
- 100 percent protection against the foreign buyer’s inability to pay – no deductible/risk sharing.
- An attractive option particularly during periods of rapid growth because cash flow is preserved and risk is virtually eliminated.
- Unsuitable for the new-to-export company as SVB will generally not take on a client for a one-time purchase.
- Purchases made under SVB’s APP are subject to repurchase due to product fulfillment issues.

How Does SVB’s Asset Purchase Program Work?

The exporter signs an agreement with SVB and submits invoices for purchase to SVB. SVB investigates the foreign buyer’s credit standing and determines invoices for purchase. The exporter confirms receivables for purchase. SVB purchases receivables less discount and deposits proceeds to the exporter’s account.
FORFAITING

Forfaiting is a method of trade finance that allows exporters to obtain cash by selling their medium term foreign account receivables at a discount on a “without recourse” basis. SVB performs non-recourse export financing through the purchase of medium-term trade receivables. Forfaiting virtually eliminates the risk of nonpayment, once the goods have been delivered to the foreign buyer in accordance with the terms of sale. In forfaiting, receivables are normally guaranteed by the importer’s bank, allowing the exporter to take the transaction off the balance sheet to enhance its key financial ratios. The current minimum transaction size for forfaiting is $100,000. In the United States, most users of forfaiting have been large established corporations, although small and medium-size companies are slowly embracing forfaiting as they become more aggressive in seeking financing solutions for countries considered high risk.

CHARACTERISTICS OF FORFAITING

Applicability

Ideal for exports of capital goods, commodities, and large projects on medium-term credit (180 days to up to seven years).

Risk

Risk inherent in an export sale is virtually eliminated.

Pros

- Eliminate the risk of nonpayment by foreign buyers
- Strong capabilities in emerging and developing markets

Cons

- Cost can be higher than commercial bank financing
- Limited to medium-term and over $100K transactions
FORFAITING

Key Points

- Eliminates virtually all risk to the exporter with 100 percent financing of contract value.
- Allows offering open account in markets where the credit risk would otherwise be too high.
- Generally works with bills of exchange, promissory notes, or a letter of credit.
- Normally requires that the exporter obtain a bank guarantee for the foreign buyer.
- Financing can be arranged on a one-shot basis in any of the major currencies, usually on a fixed interest rate, but a floating rate option is also available.

How Does Forfaiting Work?

The exporter approaches SVB before finalizing a transaction's structure. Once SVB commits to the deal and sets the discount rate, the exporter can incorporate the discount into the selling price. The exporter then accepts a commitment issued by SVB, signs the contract with the importer, and obtains, if required, a guarantee from the importer's bank that provides the documents required to complete the forfaiting. The exporter delivers the goods to the importer and delivers the documents to SVB who verifies them and pays for them as agreed in the commitment. Since this payment is without recourse, the exporter has no further interest in the transaction and it is SVB who must collect the future payments due from the importer.

Cost of Forfaiting

The cost of forfaiting is determined by the rate of discount based on the aggregate of the LIBOR (London Inter Bank Offered Rate) or Prime based rates for the term of the receivables and a margin reflecting the risk being sold. The degree of risk varies based on the importing country, the length of the loan, the currency of transaction, and the repayment structure – the higher the risk, the higher the margin and therefore the discount rate. However, forfaiting can be more cost-effective than traditional trade finance tools because of many attractive benefits it offers to the exporter.
FORFAITING

Three Additional Major Advantages of Forfaiting

- Volume: Can work on a one-shot deal, without requiring an ongoing volume of business.
- Speed: Commitments can be issued within hours/days depending on details and country.
- Simplicity: Documentation is usually simple, concise, and straightforward.

Forfaiting Industry Profile

While the number of forfaiting transactions is growing worldwide, industry sources estimate that only 2 percent of world trade is financed through forfaiting and that U.S. forfaiting transactions account for only 3 percent of that volume.
GOVERNMENT ASSISTED FOREIGN BUYER FINANCING

The international sales of high-value capital goods or services or exports which require medium-term financing, often pose special challenges to the exporter. One viable solution to these challenges is foreign buyer financing offered by SVB through the support of the Export-Import Bank of the United States (Ex-Im Bank). With Ex-Im Bank’s medium-term guarantees, SVB supports the purchases of U.S. goods and services by creditworthy foreign buyers who are unable to obtain financing they need through traditional commercial sources. With SVB’s foreign buyer financing, U.S. exporters can turn their business opportunities into real transactions and get paid cash on delivery and acceptance of the goods or services.

CHARACTERISTICS OF GOVERNMENT ASSISTED FOREIGN BUYER FINANCING

Applicability

Suitable for the export of high-value capital goods that require extended-term financing.

Risk

SVB and/or Ex-Im Bank assume all risks.

Pros

- Buyer financing as part of an attractive sales package
- Cash payment upon shipment of the goods or services

Cons

- Subject to certain restrictions per U.S. foreign policy
- Possible lengthy process of approving financing
GOVERNMENT ASSISTED FOREIGN BUYER FINANCING

Key Points

- Helps turn business opportunities, especially in emerging markets, into real transactions for large U.S. exporters and their small business suppliers.
- Enables creditworthy foreign buyers to obtain loans needed for purchases of U.S. goods and services, especially high-value capital goods or services.
- Provides fixed-rate direct loans or guarantees for term financing offered by SVB.
- Available for medium-term (up to five years) and for certain environmental exports up to 15 years.

Key Common Features of Ex-Im Bank’s Loan Guarantees

Ex-Im Bank assists U.S. exporters by guaranteeing commercial loans to creditworthy foreign buyers for purchases of U.S. goods and services. They are generally used to finance the purchase of high-value capital equipment or services that require medium-term financing. SVB’s foreign buyer financing, through the support of Ex-Im Bank, is also used to finance the purchase of refurbished equipment, software, and certain banking and legal fees, as well as some local costs and expenses.

Ex-Im Bank requires the foreign buyer to make a cash payment to the exporter equal to at least 15 percent of the U.S. supply contract. Repayment terms up to five years are available for exports of capital goods and services. Exports to certain sectors may be eligible for repayment terms up to 12-15 years. Military items are generally not eligible for Ex-Im Bank financing nor are sales to foreign military entities. In addition, goods must meet the Bank’s foreign content requirements. Finally, Ex-Im Bank financing may not be available in certain countries and certain terms per U.S. foreign policy.

Key Features of Ex-Im Bank Loan Guarantees

- Loans are made by SVB and guaranteed by Ex-Im Bank.
- 100 percent principal and interest cover for 85 percent of U.S. contract price.
About SVB Global Trade

As companies prepare to do business in the international marketplace, Silicon Valley Bank’s experienced international bankers work with our clients to choose and implement the most effective strategies to manage trade payments. SVB offers a full range of services for both companies that import and that export goods and services. We can help accelerate cash flow, minimize the risks of nonpayment, maintain a competitive edge and control payment to suppliers. For information about our global trade services, please check our Web site at www.svb.com/services/globaltrade.asp or contact your regional advisor listed online at www.svb.com/contact/service.asp?s=intlsvcs.

About Silicon Valley Bank

Silicon Valley Bank is the premier commercial bank for companies in the technology, life science, venture capital/private equity and premium wine industries. SVB provides a comprehensive suite of financing solutions, treasury management, corporate investment and international banking services to its clients worldwide. Through its focus on specialized markets and extensive knowledge of the people and business issues driving them, Silicon Valley Bank provides a level of service and partnership that measurably impacts its clients’ success. Founded in 1983 and headquartered in Santa Clara, Calif., the company serves clients around the world through 27 U.S. offices and international operations in China, India, Israel and the United Kingdom. Silicon Valley Bank is a member of global financial services firm SVB Financial Group (Nasdaq: SIVB), with SVB Analytics, SVB Capital, SVB Global and SVB Private Client Services. More information on the company can be found at www.svb.com.