



Financing Your International Transaction

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How to Determine Your Cost

(Price high enough to make a profit, low enough to be competitive)

Cost of Goods PLUS:

- Commissions
- Special Packaging
- Translation Fees
- Shipping (inland, ocean, trucking, terminal charges, etc)
- Export documentation
- Import duties, tariffs
- Insurance
- Advertising, Marketing
- Bank fees for L/C, wire transfer, etc
- Reserve for currency fluctuation

- Check with your customs broker, freight forwarder, insurance agent, banker, etc.

Your Customer's Payment Options

- Payment in Advance (Low Risk)
 - Credit Card
 - Wire Transfer
- Letters of Credit
- Documentary Collection
- Open Account (High Risk)
- Consignment Sales (Higher Risk)

Cash in Advance

- Exporter gets paid before the shipping.
- High risk for the buyer. Ties up their cash.
- May not be competitive

Wire Transfers

- Consider using a separate account
- Factor in fees (incoming wire fee, intermediate bank fees)

Credit Cards

- Beware of fraud
- Factor in fees

Letters of Credit

Letters of Credit are issued by a bank as a promise to pay and is an agreement between three parties to facilitate the purchase of goods or services. The parties are:

- Applicant or Account Party (Buyer)
- Beneficiary (Seller)
- Issuing Bank

The L/C substitutes the creditworthiness of the buyer with the bank. Ask your bank to check out the strength of the issuing bank. The applicant usually secures the L/C with cash. Seller gets paid when the shipment is made and terms are met.

Types of Letters of Credit

- Commercial Letter of Credit (payment for each shipment)
 - Draft
 - Invoice
 - Bill of Lading (evidences the right to the title of goods)
 - Insurance Certificates
 - Customs documents
 - Certificates of Origin
- Standby Letter of Credit (payment only upon default)
 - Draft with Statement of Default

Letter of Credit Terms

- How the beneficiary will be paid
- Description of the goods
- Time and place of delivery and method of shipment
- Required documents
- Revocable or Irrevocable
- Tran-shipments, Partial Shipments

Documentary Collections aka “Bills of Exchange”

Banks act as intermediaries, sending drafts and documents to the buyer's bank for payment.

- Sight Draft
 - like a check. Risk if the draft is not honored.
 - Title of goods don't transfer until draft is paid
- Time Draft or Banker's Acceptance
 - Terms: paid at a later date

Open Account

- Similar to domestic sales. Payment 30, 60, 90 days from invoice or shipment date.
- Allows seller to be competitive.
- Seller had time to sell before payment due.
- Risk non-payment, collection problems
- Additional political and economic risks

Foreign Exchange Tips

- Rates may vary daily
- Rate is set at time of negotiation by the issuing bank for L/C and drafts
- Currency exchange rates differ from draft or wire exchange rates (lower)
- Specific if funds should be sent in US dollar



Export Financing

U.S. Small Business Administration (SBA)

Small Business Administration was formed as an independent government agency in 1953 to help small business start, grow and succeed.

- Export Express Program (\$500,000)
- Export Working Capital Program
(\$5,000,000)

Eligibility for SBA Loans

- Meet size limit (e.g. 100 employees for most wholesaler)
- Be for-profit
- Able to repayment
- Have good character, management capability, collateral and owner's contribution
- Proceeds for business purposes (buy equipment, working capital, office improvements, inventory, etc)
- Approval based on creditworthiness

SBA Export Express Conditions

- Must be in business at least 12 full months (not necessarily in exporting)
- Loan proceeds must be to support export activity
 - Export development
 - Participate in foreign trade show
 - Finance Standby Letter of Credit
 - Translate product literature in foreign language
 - Finance specific export order
 - Export expansion
 - Equipment, inventory purchases

Export Express Program Highlights

- Loans: Up to \$500,000
Rates: Prime plus 4.5%-6.50%, floating
(Currently 8% to 10%)
- Fees: SBA Guaranty Fee of .25% to 3.5%
(depending on term & loan amount. Fee currently waived for loans/lines \$150,000 and under)
- No pre-payment penalty
- Approval based on creditworthiness
- Can be a line of credit or term loan

SBA Export Working Capital Program For Short term or Single Transaction

- Loans: Up to \$5,000,000
- Rates: No maximum
- Maturity: Generally, 1 year for Lines,
3 years for term loans
- Fees: SBA Guaranty Fee of .25% to 3%
(depending on term & loan amount)

With an approved EWCP loan in place, you have greater flexibility in negotiating export payment terms. However, disbursements can only be made against firm purchase orders from a foreign buyer or to support foreign accounts receivable.

Ineligible for SBA Financing

- Funds available from personal resources
- Non-profit businesses, Cooperatives
- Some Passive and Speculative Businesses
- Engaged in lending, Loan Packaging, Politics, Lobbying
- Life Insurance Companies
- Pyramid Businesses
- Engaged in Gambling, Illegal Businesses
- Businesses that restrict patronage
- Religious or sexual in nature
- Those with criminal history or anyone who has defaulted on any government loans, including VA and Student Loans
- Complex loans or unusual situations/issues
- Persons with poor credit history.

Loan Package

- Loan Application
- Financial Statements/Tax Returns
- Personal Financial Statement for each owner of 20% or more
- Organizational Documents
- Business Plan, if less than 2 years old with projections
- Accounts Receivable & Payable Agings may be required
- SBA Forms, if needed

Loan Decision (5 C's of Credit)

- Character (Credit Score)
- Capacity to repay the loan (Cash flow)
- Capital (owner's investment in company)
- Collateral (assets to support the loan)
- Conditions (type of industry/product, economy, external factors)

Export Import Bank of the United States (ExIm Bank)

The Export-Import Bank of the United States is an independent agency of the United States, established in 1934. Headquartered in Washington, DC, they have 5 regional business development offices , plus 2 satellite locations in CA (San Diego and San Francisco). They help companies expand sales, boost borrowing power, speed cash flow, enter new markets, mitigate risks and losses.

- Mission: Support U.S. exports in order to create and sustain U.S. jobs
- Products: Credit Insurance and Working Capital Guarantees to lenders
- David Josephson; Managing Director located in Irvine, California (949) 660-0726; David.Josephson@exim.gov
- **WEBSITE:** www.exim.gov

Ex-Im Bank's Export Credit Insurance

Increase Your Export Sales, Minimizing Risks

- **Limit Your Risk** of buyer nonpayment for commercial risks (e.g., bankruptcy) and certain political risks (e.g., war or the inconvertibility of currency). This product can replace cash-in-advance, letters of credit, and other documentary sales.
- **Extend Credit to Your Buyers** by providing this “open account” financing feature.
- **Access Working Capital** by enhancing the quality of your balance sheet by transforming export-related accounts receivable into receivables insured by the U.S. government. With our insurance in place, lenders are more likely to advance against these receivables to increase your working capital cash flow

Risks Covered

Up to 180 days, exceptionally 360 days

- **Commercial Risks**

- Insolvency
- Bankruptcy
- Protracted default

(Doesn't cover disputes, cancellation of sales, currency devaluation)

- **Political Risks**

- Transfer risk
- War, revolution, insurrection, expropriation
- Cancellation of an import or export license

Requirements

- Be a small business as defined by the Small Business Administration;
- Goods shipped from U.S and not to restricted countries on Country Limitation Schedule.
- Have at least one year successful operating history and a positive net worth.
- Military or defense items are generally not eligible nor are sales to military buyers (with certain exceptions).
- Must have at least 50% U.S. content (excluding mark-up).

Country Limitation Schedule

- ExIm Bank can do business in most markets, however, they may be limited or unable to offer financing in certain countries and under certain circumstances.
- See Country Limitation Schedule at http://www.exim.gov/tools/country/country_limits.cfm
- Examples of countries that are not supported:
Afghanistan, Argentina, Burundi, Cuba, Haiti, Iran, North Korea, Nauru, Somalia, Sudan, Syria, Tajikistan, Venezuela, Yemen and many more.

Technical Assistance Providers

SCORE 547-2700

“Counselors to America’s Small Business” is a pool of volunteers assisting small businesses with business counseling and training. Active online counseling available.

Small Business Development Centers (SBDCs) 945-1430

Provides management assistance to small business owners. SBDCs offer one-stop assistance providing a wide variety of information and guidance.

MBDA Business Center (MBDA) 956-0850

To cultivate and support the entrepreneurial spirit in the Hawaii minority community: its individuals, businesses and organizations.

Resources

- Hawaii Pacific Export Council (<http://hawaiiexportsupport.com/>)
- US Small Business Administration (sba.gov)
- US Dept of Commerce (www.export.gov/begin)
- Business USA (business.usa.gov)
- State Department of Agriculture (hdoa.hawaii.gov/agl/food-manufacturing/)

Oahu:973-9460, Maui: 984-2400 x39460, Hilo: 933-9975

- U.S. Department of Agriculture, Foreign Agricultural Service (fas.usda.gov) (www.fas.usda.gov/agx/exporter_assistance.asp)
- Export-Import Bank of the United States (www.exim.gov)
David Josephson; Managing Director located in Irvine, California (949) 660-0726; David.Josephson@exim.gov
- Country Limitation Schedule (http://www.exim.gov/tools/country/country_limits.cfm)



Mahalo