



Financing Your Exports

HPEC'S HISTEP SEMINAR SERIES— MAY 2017

How to Determine Your Cost

Cost of Goods

Packaging

Shipping

Insurance

Marketing

Reserve for currency fluctuation

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.

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

Transshipments, Partial Shipments

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

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

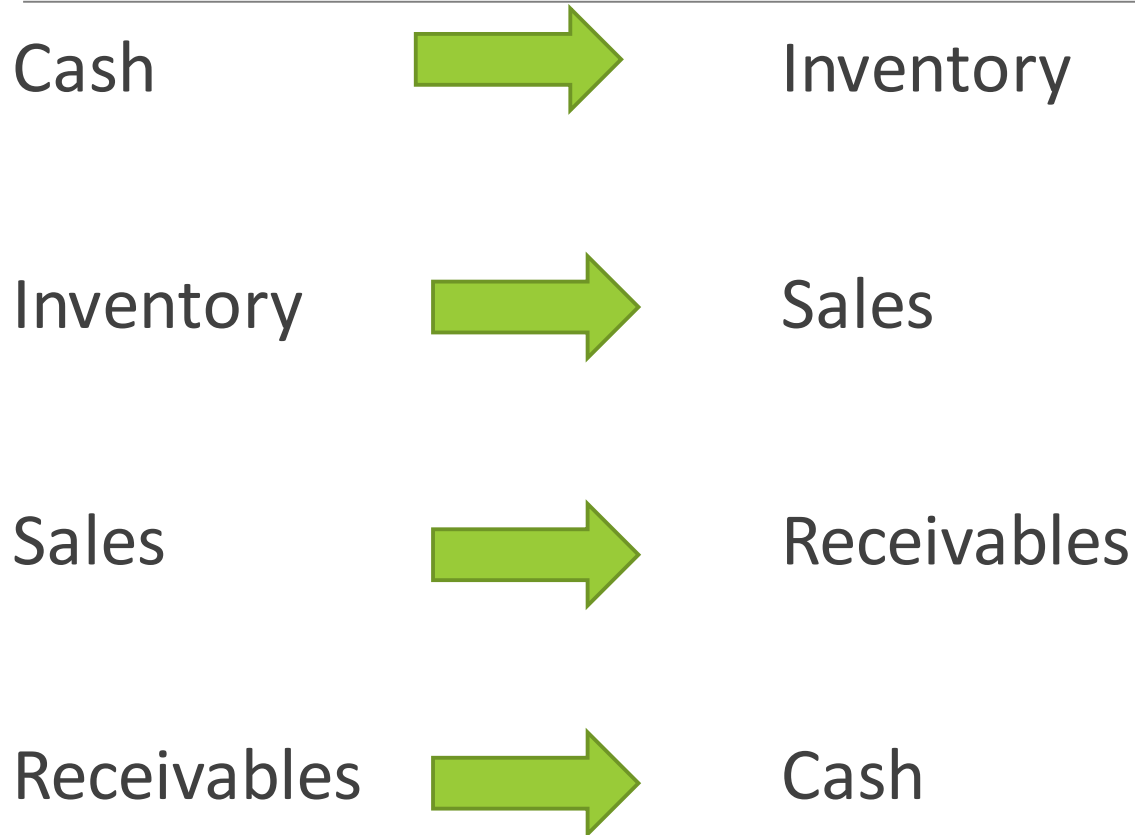
Rate is set at time of negotiation by the issuing bank for L/C and drafts

Currency exchange rates differ from draft or wire exchange rates (lower)

Specific if funds should be sent in US dollar

FINANCING OPTIONS

“Working Capital”



Where's the money?

Owner's pocket (loan to the business)

Vendor's pocket

Consignment, barter, customers prepay

Grants, Angel Investors

Crowd-funding

Borrow

- Relatives
- Investors
- Charge Cards
- Cash Value Life Insurance
- Retirement Plans
- Bank Loan

Loan Structure

Purpose of the Loan?

Amount to borrow?

Term (How Long?)

Line of Credit vs. Term Loan?

Repayment is manageable?

Collateral?

Guarantors?

Types of Financing (Loans)

Also known as Term Loans, Commercial Loans, Installment Loans.

Advantages

- One lump sum
- Paid back over time (future profits).
- One-time fee
- Steady monthly payments (P & I, P + I)

Disadvantages

- Doesn't revolve
- Higher monthly payment

Types of Financing (Lines of Credit)

Also known as Revolving Credit, Credit Line, Grid Line

Advantages

- Usually revolves, sometimes not
- Flexible
- Pay interest monthly, maybe some principal

Disadvantages

- Short-term
- May be reviewed annually (can be cancelled)
- May have annual fees

US Small Business Administration

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 Loan or Line)
- Export Working Capital Program (\$5,000,000)
- International Trade Loan (\$5,000,000)

Eligibility for SBA Loans

Meet size limit (e.g. 100 employees for most wholesaler)

Can be and Indirect exporter as part of an exporting supply chain (sell to a customer who incorporates the product into their export (need letter/documentation))

Have 1 year export revenue projection and export plan

Able to repayment

Have credit worthiness, management capability, collateral and owner's contribution

Proceeds for business purposes (buy equipment, working capital, office improvements, inventory, etc)

SBA Export Express Conditions

Ideally in business and exporting at least 12 months

Loan proceeds must be to support export activity

- 70% export-dedicated use of
- Export development
- Goods or service must be delivered/shipped from the US
- 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 2.25%-4.50%, floating
(Currently 6.25% to 10.50%)

Fees: SBA Guaranty Fee of .25%
to 3% (depending on term & loan amount)

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

Prohibited in the Country Limitation Schedule (Cuba, North Korea, Iran, Sudan, Syria)

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 Process

Client meets with Bank to determine what is needed.

Client prepares Loan package.

Submits loan package to the Bank.

Bank decides, informs client of conditions.

Bank orders documents.

Loan officer schedules signing of documents.

Process may take hours to weeks, depending on the process and complexity of business plan and/or financial information.

Loan Request

Purpose of the Loan (what's the money for?)

Loan Amount (how is the money used?)

How Long is the loan (short term, long term)

Any Collateral?

Who are the Guarantors?

Loan Decision

How is this loan going to be paid back?

How have past loans been handled?

Are the projections realistic?

Owners/Managers have experience?

Are there cash reserves?

Is there a back-up (contingency) plan?

Where is the business located? Lease terms?

Collateral, secondary source of payment?

What is the structure of the loan/line?

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)

Crowdfunding

Crowd funding: funding of a company by selling small amounts of Equity to many investors or by accepting a small amount in return for something.

Research – do your homework

Compare programs. Read the fine print

Be careful of fraud

Popular websites *

[Kickstarter.com](https://www.kickstarter.com)

[RocketHub.com](https://www.rockethub.com)

[Peerbaclers.com](https://www.peerbaclers.com)

[Indiegogo.com](https://www.indiegogo.com)

[ChipIn.com](https://www.chipin.com)

[AppBackr.com](https://www.appbackr.com)

[Prosper.com](https://www.prosper.com)

- Please do your own research of these companies. No endorsement or suggestion is being made by the presenters or sponsors.

Speed Up Your Cash Flow

Reduce inventory

Deals from vendors

Speed up receivable collections

Sell assets

Cut expenses

- Cut payroll
- Reduce benefits
- Renegotiate your lease
- Work from home

Words of Advice

Watch your numbers (cash, receivables)

Pay your taxes

Pay attention to your financial statements

Have a succession plan, cross-train

Plan for contingencies, retirement

Keep your banker informed

Take a break!

Restart at 10am



Reducing Risk. Unleashing Opportunity.

David Josephson | Managing Director – Western Region
Export-Import Bank of the United States
2302 Martin Court Suite 315
Irvine, CA 92612
Office (949) 660-0726
Mobile (562) 889-0443

Export Import Bank (Ex-Im Bank)

WEBSITE: www.exim.gov

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

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;

Have export credit sales (average from the preceding 3 years) not exceeding \$7.5 million; and

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).
Single Buyer Insurance Policy

Country Limitation Schedule

Ex-Im 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, Burma, Cuba, Haiti, Iran, North Korea, Nauru, South Africa, Somalia, Sudan, Syria, Tajikistan, Venezuela, Zimbabwe.

What's the next step for bank financing?

Preparing Your Loan Package

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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

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.

Minority Business Development Agency (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)

Country Limitation Schedule

(http://www.exim.gov/tools/country/country_limits.cfm)

10:30-10:45am

10:45-11:00am

15 minutes to

Ask a Banker!

Mahalo!