

*Financial Management*

# Global Finance In The New Global Economy



**CITY NATIONAL BANK**   
The way up.™



## Panelists

- **Bob Iritani**  
*Executive Vice President, Specialty Banking*  
*City National Bank*
- **David Josephson**  
*Western Regional Director*  
*Export-Import Bank of the United States*
- **Gary Mendell**  
*President*  
*Meridian Finance Group*

# Overview

- Where We Stand Today
- Trade Finance
- The Trader's Financial Tool Box
- Looking at the Future
- Open Discussion



# Where We Stand Today



- The recession
  - Global trade
  - Trade finance
- Foreign exchange market
- Recovery



# Trade Finance

- Letters of credit
- Short-term loans
- Open account



# The Trader's Financial Tool Box

- Asset-based lending
- Trade-cycle financing
- Export/import letters of credit
- Standby letters of credit
- Banker's Acceptances



## The Trader's Financial Tool Box

- Documentary collections
- International payment/currency risk management
- Export credit insurance
- Export-Import Bank of the United States



# EXPORT CREDIT INSURANCE

A Tool for Extending Competitive Credit Terms  
*(Even During the Current Economic Downturn)*

Gary Mendell  
*Meridian Finance Group*



## Exporting in the Economic Downturn

- Challenging economy but also opportunities for growth
- Financial crisis not affecting every sector of economy
- Many companies growing, particularly export sales
- Demand continues to engender international trade
- All countries linked but each region on path to recovery

## Challenge: Global Demand for Credit



U.S. exporters need to extend competitive credit terms:

- When customers refuse to pay cash in advance or L/Cs
- For foreign buyers facing limited access to capital
- Vs. high local interest rates or exchange controls
- To support in-country distribution or representation
- To keep doors open in strategic markets



## Problem: Export Credit Risks

But what happens if you don't get paid?

Non-payment risks include:

- Customer bankruptcy or insolvency
- Cash flow problems or balance sheet issues
- General economic conditions (there or in USA)
- Currency fluctuations, foreign exchange/transfer controls
- Expropriation and other political risks
- War, strikes, embargos, trade sanctions

## Solution: Export Credit Insurance



Export credit insurance:

- Protects receivables against virtually all payment risks
- Provides exporters with confidence of getting paid
- Sales tool for increasing export business/profitability
- Financing tool for enhanced borrowing capacity
- Can cover all of an exporter's receivables
- Single-buyer coverage may also be available



## Where to Buy Export Credit Insurance?

- Ex-Im Bank
  - Can cover risky markets, special small business policies
  - Only for products made in USA
- Private-sector insurance companies
  - Higher minimums, no mandate for small business
  - No U.S. content requirements

*Global or domestic coverage also available*



## What Does Export Credit Insurance Cost?

- Premium rates based on a number of factors:
  - Spread of buyer/country risks, payment terms extended
  - Previous exporting experience, track record
- Cost of export credit insurance is low
  - Typically a fraction of one percent of sales
  - Insignificant compared to business growth potential

*Insurance cost can be passed to foreign customers*

# Export Credit Insurance: Sales/Finance Tool



Export credit insurance:

- Increases the profitability of your export sales
- Supports penetration of your target markets
- Helps you get more out of your distributors
- Strengthens your balance sheet
- Enhances your borrowing capacity



# TRADE FINANCE

With the Export-Import Bank of the United States

David Josephson

*Export-Import Bank of the United States*

# Export-Import Bank of the United States

## Who We Are



- Official U.S. export credit agency
  - Continuously operating since 1934
  - Export efforts only since 1950s
- 1700+ U.S. exporting companies insured for foreign receivables losses
- 97 Delegated Authority lenders in U.S.
- Dozens of U.S. and foreign banks insured/guaranteed on loans/leases to foreign buyers



# Export-Import Bank of the United States

## What We Do

- Our mission: U.S. jobs
- Role
  - Take foreign risk on export transactions
  - Support U.S. exporters with loan guarantees
  - Sometimes support foreign buyers



# Export-Import Bank of the United States

## What We Did in 2009

- Total transactions: \$21 billion (+50%)
- Small businesses: \$4.4 billion (+38%)
- Approvals: 2,891; 88% small businesses
- 400 small businesses first-time Ex-Im users
- \$1 billion guarantees covered Korean Banks
- 15% premium reductions, affecting 50%



# Export-Import Bank of the United States

## What We Can't Do

- Credit/guarantee authority legislated by US Congress
- Exporters and buyers need to be “arm’s length”
- Prohibited
  - Exports of anything to military buyers
  - Exports of munitions to anybody
  - Adverse impact on U.S. economy
  - Grants, subsidies
  - Start-up risk, rescues



# Export-Import Bank of the United States

## What We Can't Do

- Country restrictions
- NOT legislated, but very political: 50% “US content” needed for short-term cover
- 15% cash down payment: Ex-Im *medium-term* cover (*amount of cover only on U.S. content*)
- Environmental/economic impact always a factor



# Export-Import Bank of the United States

## Credit & Finance Products

- Export credit insurance (*Exporters*)
- Export working capital loan guarantees (*Exporters, banks/finance companies*)
- Medium-term export credit insurance (*Exporters, banks*)
- Medium-term loan guarantees (*Exporters, banks*)
- Project finance/structured finance (*Exporters, foreign projects*)



# Export-Import Bank of the United States

## Small Business Multi-Buyer Policy

- One-year policy, renewable
- Insures ALL export credit sales
- Coverage: 95% commercial and political
- Exporter: SBA-defined “small business”
  - Export credit sales (average last 3-yrs) < \$7.5 million
- Same line of business at least 3 years
- Refundable advance deposit: \$500
- No deductible, no application fee, “pay-as-you-go”, no minimum premium requirement



# Export-Import Bank of the United States

## Single-Buyer Policy

- Insures single sale or multiple sales to one buyer
- 90% coverage (*commercial and political*)
- Maximum policy period: 1 year, renewable
- No deductible, no application fee
- Premium based on country, type of buyer, length of credit term extended (*Rates: [www.exim.gov](http://www.exim.gov)*)
  - Charged on sales volume, not credit limit
  - “Pay-After-You-Ship” premiums
  - Minimum premium: \$500 for SBEs; \$2,500 other



# Export-Import Bank of the United States

## Exporter Working Capital Guarantee (WCG)

- 90% (principal & interest) on loans to exporters
- No limitations on loan amount
- Loan supports advances made against export-related inventory and foreign A/Rs
  - Up to 75% advance rate on inventory
  - Up to 90% on foreign A/Rs



# WCG Increases Borrowing Ability

## Your Working Capital:

Without Ex-Im Bank

With Ex-Im Bank

Collateral Class	Amount	Advance Rate	ABL Collateral	Advance Rate	WCGP Collateral
Raw Materials	\$200,000	20%	\$40,000	75%	\$150,000
WIP	200,000	0%	0	75%	150,000
Finished Goods	600,000	50%	300,000	75%	450,000
<b>Total Inventory</b>	<b>\$1,000,000</b>		<b>\$340,000</b>		<b>\$750,000</b>
Open Account	\$400,000	0%	\$0	90%	\$360,000
Insured A/R	600,000	70%	420,000	90%	540,000
L/C Sales	300,000	70%	210,000	90%	270,000
<b>Total A/R</b>	<b>\$1,300,000</b>		<b>\$630,000</b>		<b>\$1,170,000</b>
<b>Total Borrowing Base</b>	<b>\$2,300,000</b>		<b>\$970,000</b>	<b>vs</b>	<b>\$1,920,000</b>



# Export-Import Bank of the United States

## Medium-term & Long-term Guarantees (Buyer)

- When buyer is seeking extended credit terms 1+ year (generally, 2-5 years)
- 100% coverage on principal and interest on loans to foreign buyers
- Capital equipment, related services
- Buyer must be located in emerging market
- Exporter paid shortly after presentation of export documents to lender
- Long-term financing



# Export-Import Bank of the United States

## How to Apply

- Contact Ex-Im regional office
- Exporter qualifications
  - Minimum 3-year operating history
  - At least 1-year exporting experience
- Buyer qualifications
  - Minimum 3-year operating history
  - Located in country where Ex-Im is open
  - Must meet Ex-Im's short-term credit standards

# Looking at the Future

## Trends in Financial Management

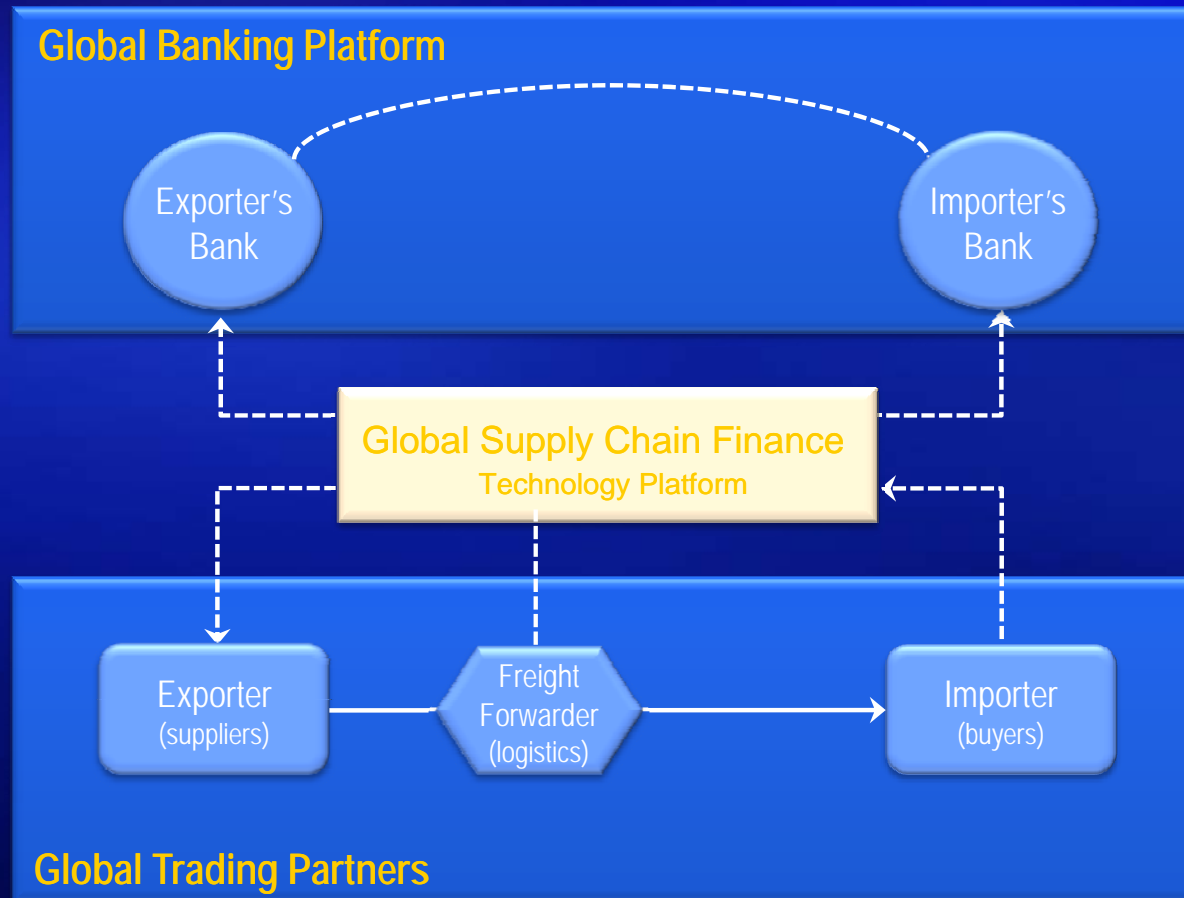


- Costs
  - Raw material
  - Production, distribution
  - Financing, hedging
- Balance sheet management



# Looking at the Future

## Supply Chain Finance Solutions



# Open Discussion





## Panelists

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