

SESSION 9:

SBA EXPORT FINANCING

HOW DO I GET THE WORKING CAPITAL I NEED?



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Hi, welcome to this 9th session of Export-U.

I'm Bob Erwin and I'm narrating this presentation by Ray Gibeau of the US Small Business Administration.



PREVIOUS PIECES



We have already explored several other pieces of the export puzzle.

Now we will take a look at a special financial resource that can help you develop your export business.



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Photos: Baker, by decafinato; Glass worker, by Aloxe; Carpenter, TVA; autoworker, All over the web.

The U.S. Small Business Administration (SBA) was created in 1953 as an independent agency of the federal government.

It's formal mission is to:

- to aid, counsel, assist, and protect the interests of small business concerns,
- to preserve free competitive enterprise and
- to maintain and strengthen the overall economy of our nation.

At SBA, we recognize that small business is critical to our country's economic recovery and strength, ...and that exporting helps make small businesses more profitable...

.... to building America's future, and

.....to helping the United States compete in today's global marketplace.



MYTH: SMALL BUSINESSES DON'T EXPORT

FACTS:

- **70% of US exporting firms** are very small companies (with fewer than 20 employees)
- **30% of all U.S. exports** are by small and medium-sized enterprises (SMEs)



Image: Rosie the Riveter by J. Howard Miller, Smithsonian Institution

One very popular but persistent myth it is that small businesses do not export.

(CLICK)

In fact, the vast majority of American exporting companies are small

.... with most of those companies having 20 employees

.... And, these small companies account for 70% of all US exporters.

Further, small companies have consistently accounted for 30% of U.S. merchandise exports.



WHAT IS SMALL?

- MANUFACTURERS:
under 500 employees up to 1500
- DISTRIBUTION & WHOLESALE:
under 100 employees up to 500
- SERVICES/RETAIL:
under \$6.5M in sales up to \$32.5M



So, what is small?

SBA is the Federal agency that provides the definition of small for all government agencies..... This definition is especially important for companies seeking government contracts or wishing to access many other government services.

-CLICK-1- Any manufacturer with 500 or fewer employees is considered small, and if you have over 1500 employees you are considered large. If you have between 500 and 1500 employees, you may be considered as either small or large, depending on your North American Industrial Classification Code, also called your NAICS Code. You can look-up your company's NAICS code online at www.naics.com. Similarly,

-CLICK-2- wholesalers (including export trading companies) with under 100 employees are considered small, and those with over 500 are classified as large.

-CLICK-3- For service companies, the size classification is based on sales rather employment.

These size standards can be found at www.sba.gov/size . It is very important to note that when determining size, you must also include any subsidiaries, affiliates, or companies with common ownership. Some companies may need to complete this exercise to determine their size, but over 97% of all US companies are clearly within the small category.



SBA OFFICE OF INTERNATIONAL TRADE



- 1. Make sure the voice of small business is heard in international trade negotiations**
- 2. Help small businesses compete globally**
- 3. Contribute to US global agenda**
- 4. Facilitate access to trade capital**

Within SBA is the Office of International Trade, which is responsible for our four pillars of assistance to small business. First, we make sure that the

-CLICK-1- voice of small business is heard and considered in trade negotiations --- especially if you have an problem with a trade agreement or proposed trade agreement that might adversely affect your export sales.We also want to

-CLICK-2- enhance the ability of small businesses to compete globally,

-CLICK-3- To contribute to the government's global agenda, andto accomplish our number one mission..... which is to

-CLICK-4- help small businesses access the capital they need to sell globally.

To accomplish these goals, we work closely with many other government agencies. We also collaborate with universities and Small Business Development Centers throughout America, to help them cultivate the skills required for global business.



SBA EXPORT FINANCE PROGRAMS*

*All SBA loans are lender guaranteed

1. Export Working Capital Loan
2. Export Express
3. International Trade Loans

Another myth about SBA is that we do direct lending at lower rates than banks.

In fact, SBA does not make any direct loans. Rather, we guarantee bank loans. These loans are made at a competitive interest rate set in negotiation between you and your lender.

SBA has several different loan programs to help small business but three have been designed specifically to help exporters. These are

(CLICK)-1- the Export Working Capital Loan Program commonly called the EWCP,

(CLICK)-2- Export Express, and

(CLICK)-3- International Trade Loans.....

The main advantage of SBA loans is that they usually provide a longer term payback,

And, this can decrease the initial cash flow needs,

SBA guarantees also provide reassurance to the lender, who might approve a loan they wouldn't make without the guarantee.



EWCP PHILOSOPHY

“No US business should lose a viable export sale due to a lack of working capital.”



Image: Back of US one dollar bill.

The philosophy behind SBA’s Export Working Capital Program is simple:

“A business should not lose a viable export sale due to a lack of working capital”

We simply don’t want any U.S. company to turn down an overseas sale because they can’t afford to fill the order.



EXPORT WORKING CAPITAL PROGRAM

- ✓ **Short term working capital**
(12 months, single or multiple transactions)
- ✓ **90% guarantee to lender**
(of loan amount less than \$5M)
- ✓ **Interest rate & fees negotiable**
(1/4 of 1% guarantee fee + .55% servicing fee)
- ✓ **Collateral = inventory, receivable** (or transaction proceeds)



Photo Purchased by SBOC-IT, and all over web.

An SBA Export Working Capital loan is a short term loan, usually under 12 months in duration.

It provides funding to cover the costs of filling one or more orders under a revolving line.

(CLICK)

The maximum we can guarantee is \$4.5 million, which at the maximum guarantee of 90%,.... caps our loan limit at \$5 million.

(CLICK)

As we mentioned previously, the interest rates and fees are negotiated between you and your lender. However, SBA does charge a ¼ of 1% guarantee fee up front,..... plus a .55% servicing fee.

The lender pays this service fee to SBA,but will generally pass on to you directly, or in the form of higher interest charges.

(CLICK)

The main advantage of this program is that it allows the lender to loan against the foreign transaction itself, without tying up the other assets of the company.

This can be very important as many lenders will not normally lend against work in progress, inventory, or foreign accounts receivable.

And, if they do, they may set the advance rate at a level below what you need.



WORKING CAPITAL ELIGIBILITY

- In business 12 months
(not necessarily exporting)
- Comply with ExIm Bank
Country Limitation Schedule
- Meet SBA size standards
- Can be military end user
(some limitations)
- No 51% US content requirement



Photo: \$1,000, Wikimedia

So what is needed to qualify?

First, you must have been in business for at least 12 months, though not necessarily exporting. .

This program is not for start ups,.... as the lender and SBA will want to be sure you can produce and deliver a product.

(CLICK)

You must also be exporting to a country in compliance with the EXIM Bank limitation schedule..... This schedule shows which countries we cannot ship to, plus others where the risk of non-payment is high.

To check on the status of individual countries, please reference www.exim.gov, or the address given on the links page of this site.

(CLICK)

We also require that you meet our size standards.

(CLICK)

And, while some agencies have military and U.S. content restrictions, because SBA is focusing on small business we can do most military sales overseas.

(CLICK)

And finally, SBA does not require 51% U.S. content.....But, the product must only be shipped from the U.S. after some value has been added.

For example, one client company located in a Free Trade Zone brought in a product in bulk from overseas, and then they repackaged it in smaller boxes, before exporting it back out of the U.S.This qualified under our program.



WHAT SBA LOOKS FOR

1. Is the deal “doable”?

(Size standard, In business 1 year)

2. Reliable repayment source?

(Open account to first time buyer in an unstable country? Confirmed L/C?)

3. Can the exporter perform?



So what do we look for when considering a loan application?

(CLICK)

First, is it possible for you to do the deal.Does your company meet our qualifications?

(CLICK)

Then how reliable is your repayment source? In Session 8, we discussed the risks associated with various forms of repayment.

(CLICK)

Mainly the SBA and the lender want to be sure you can perform under the terms of the export sale. If you can't, then that letter of credit has little value to the lender,... and the SBA guarantee becomes critical to them.

.....So let's look at an example.



COLLATERAL?



In this example, a company obtains orders from overseas for rebuilt heavy dirt moving equipment.

It may take as much as \$50,000 to source the shell to be rebuilt.

If the lender advances those funds to the company, and has **this** as collateral, you can see how the SBA guarantee protects the lender in the event the order is not filled.



During the next few months additional funds are advanced for labor and material to rebuild the piece of equipment....

And, now as much as \$200,000 may have been spent.

At the same time, if the deal fell apart and the lender needed to resort to the collateral, he would have a piece of equipment that would be difficult, if not impossible to sell.



PAID AT PORT



Photo: by instructor.

Finally, the piece is completed and delivered to the port where funds are received.

With very little foreign risk the lender is paid and the company pockets the profits.

This is an example of what is called pre-export financing.

If the sale was on 60 days terms, then the transaction would have included post-export financing until the receivable was collected.

In this example, we used a manufacturer of a product but the same outline could be used for multiple sales, a trading company who simply buys and resells the product overseas, or a service company who operates under a contract and needs access to funding to fulfill that contract.



EWCP – INDIRECT EXPORTS

Selling to export trading companies

Selling to manufacturers who will export

(e.g., export trading companies, other US manufacturers)

Must certify that final product will be exported



If your company does not export,... but sells to someone who does, then you could still qualify under this program. This is especially true for manufacturers

-CLICK-1- using an export trading company to sell overseas, Or, for companies

-CLICK-2- selling components to other US manufacturers, who will export the final product. However, you

-CLICK-3- must certify that the final product will be exported.



In this example, we have a foundry producing castings.

These are sold domestically to an assembler who then exports the final assembled product made from parts made by other manufacturers.

Each US supplier,... as well as the assembler would be eligible for EWCP financing, as long as they can certify that the end product will be exported.



HOW TO APPLY FOR EWCP



1. Approach your lender and request a commercial loan.
2. The Bank will then forward your application to SBA for approval, if needed.

How do you apply?

You first approach your lender with your request.

The bank then takes your application and forwards it to SBA for approval.

If you are unsure about approaching your lender directly, there are Small Business Development Centers around the U.S. who help you prepare,... and who can direct you to receptive lenders.



SBA EXPORT EXPRESS

Loans from \$5,000 to \$500,000

Can be used for any legitimate business purpose
to support exporting:

Commerce Department export assistance services, inventory, equipment, real estate

Revolving line from 1 - 7 years, or a term loan up to 25 years.

Export Express is the second SBA program designed for small business exporters. Under Export Express,..... pre-approved lenders can make SBA backed

- loans from as little as \$5,000, up to a maximum of \$500,000. And, the loan proceeds

-CLICK-1- can be used for **any** legitimate business purpose to support your exporting. For example: The loan funds can be used to purchase

-CLICK-2- Commerce Department export assistance services, as described in Session 5. You can also purchase inventory, equipment or real estate.

And, the terms can be

-CLICK-3- for a revolving line to help fund liquid assets,..... or for a term loan of up to 25 years.



EXPORT EXPRESS KEY FEATURES

- SBA has numerous *Express* lenders.
- Banks can use own application forms and approve loans in-house
- Lender has loan guaranty of 90% or 75% depending on loan size
- Must have been in business one year, but not necessarily exporting



This program is called **express** because it provides fairly quick access to export capital. Most of these loans are processed within 36 hours of the information being faxed to SBA .

-CLICK-1- SBA has numerous pre-approved express lenders.

-CLICK-2- These banks can then use their own forms for the application, and can approve their own loans in-house with the SBA guarantee. This makes the program fast and relatively simple. Also, because the company is involved in exporting, the

-CLICK-3- lender can obtain an 90% or 75% SBA guarantee, depending on loan size. This is considerably more than the 50% guarantee offered under our domestic express program.

Again, your company

-CLICK-4- must have been in business for at least one year,..... but not necessarily in exporting.



EXPORT EXPRESS IS GREAT FOR SMALL SHIPMENTS



Here is an example of why a lender would want to use Export Express. These

-CLICK-1- plastic fishing grubs are on their way into the Asian market, and the orders usually range between \$5,000 and \$15,000.

From a lender's perspective, the cost associated with tracking each transaction under the Export Working Capital Program would be excessive. However, by using Export Express, they can simply set up a revolving line that the company accesses as needed. Smaller shipments and single transactions requiring less than \$500,000 are the prime uses for this program.



INTERNATIONAL TRADE LOAN

- For fixed assets
- Must prove hurt by imports or loan will increase exports
- Up to 90% guarantee
- Up to \$4.5M in guarantee
- Max term of 25 years



SBA's International Trade Loan Program may be a good option if you want to expand your capacitywith the purchase of

-CLICK-1- fixed assets,.... such as long term equipment or real estate. However, to qualify, must show that your company has been

-CLICK-2- adversely affected by foreign imports or that the loan funds will help increase your export sales. Under this program, SBA can provide lenders

-CLICK-3- with a 90% guarantee, and, the amount of the guarantee can be

-CLICK-4- up to \$4.5 million, and the

-CLICK-5- term can be as long as 25 years..... This exceeds our normal lending guarantee limit of \$3.75 million. Also, while there is no set percentage of sales that must be exported, a minimum of about 10% is adequate.



BUILDING ON LEASED LAND



In this example, a company needed to expand their facility for painting corporate jets. The majority of these jets were being exported.

From a banking standpoint, the loan would be partially unsecured because the building would be on land leased from the airport.

This plus the long term of the loan, suggested that an SBA guarantee would make sense.

Some other good examples would include:

- a trading company looking to own their building and add additional computer equipment,

- a manufacturer needing to expand its capacity for increased export sales,

or

- a company that has been adversely affected by imports..... needing to retool for a special export version of its product.



DOMESTIC SBA FINANCING PROGRAMS AVAILABLE TO EXPORTERS

1. 7(a) Guaranty Loan, standard loan program
2. Regular SBA Express
3. Caplines, domestic lines of credit
4. 504 Certified Development Company Loans, long term fixed rate debentures



While the programs we have discussed so far are designed specifically for exporters, many companies who export can also take advantage of SBA's domestic loan programs.

These fall into 4 general categories:

(CLICK)

- First, is the **7(a) program**; this is SBA's original mainstay loan guarantee program,.... which can be used for almost any legitimate business purpose.

(CLICK)

- The **regular SBA express loan program**, as mentioned earlier, has a 50% guarantee.....And, accounts for a large percentage of all SBA guaranteed loans under \$350,000.

(CLICK)

- The **Capline loan program** is similar to the Export Working Capital program..... But, it may be used to support domestic sales as well as international ones. Capline features a revolving line of credit, it is largely asset based, and you must apply to an SBA approved Capline lender.

(CLICK)

The **504 Certified Development Company loan program** offers a long term fixed rate for fixed asset projects as large as \$12 million.

You can check for list of approved lenders under these programs on SBA's website at www.sba.gov .

From the home page,..... navigate to "local resources."There you can find SBA lenders in your area.



Photo: Historical image of ice house in 1930's.

Finally, as part of its export promotion program, SBA offers **Trade Mission On Line**, ...which is

-CLICK-1- part of its Central Contractor Registry. This program allows small businesses to register their company and product on line at www.ccr.gov. There foreign buyers looking for what you make can access that information. SBA also uses the database when foreign buyer delegations arrive in the U.S. looking for suppliers. To register you

-CLICK-2- just need a Duns number from Dun & Bradstreet. If **you** are looking for a small business supplier, you can

-CLICK-3- access the database at www.sba.gov/oit , and look for TM Online, under "resources." modom



Quiz 9

Quiz - 9 questions

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U.S. Small Business
Administration

www.sba.gov/oit

www.sba.gov

In summary—Small business is **BIG BUSINESS** to us,....

Hopefully, you now have a basic understanding of our various programs, and how they can help you develop international business.

We encourage you to contact your local SBA international representative, many of whom are located in the U.S. Export Assistance Centers throughout the country. They can discuss in detail how to access these programs.

To find your local representative for these programs, simply go to www.sba.gov/oit . Then look for your local U.S. Export Assistance Center on the right hand side.

I also encourage you to look at the general SBA website, www.sba.gov. There you will discover how our agency can help you obtain government contracts, surety bonds, investment capital, innovative research, advocacy, and more.

And remember, if you receive an overseas order, but may have to turn it down because you lack of working capital.....Don't do it, without at least exploring how SBA programs can make it happen.

SESSION 9:

THE END

SBA EXPORT FINANCING



Again, thank you for attending this session of Export-U