

***A Brief Primer
On
How to Prepare a Convincing Loan Case for Bank Export Financing***

Finding a bank willing to extend pre-export working capital financing is often the precondition for proceeding with an export transaction. Although the conventional thought may be that United States banks are reluctant to finance global trade, an abundance of U.S. banks by their very nature or policy are willing to lend to creditworthy export clients. Therefore, a well prepared and convincing loan request or business plan to demonstrate to the bank that it will be repaid is essential. Additionally, it is vital to explain how repayment of the loan will occur if suddenly the export receivable is uncollectible or the contract of sale is terminated because of unforeseen political or commercial circumstances. Bankers always look for a second source of repayment of the loan. Be prepared to describe the second source of repayment.

Understanding Bank Lending Attitudes

Once you locate a suitable bank, prepare a business plan. Do not go to the bank without such a written plan to present. In preparation, keep in mind a bank's lending attitude or their approach to the analysis of the five C's of credit. The five C's of credit for an exporter can be summarized as follows:

- ***Character of the business and principals.*** The bank will judge this from your latest credit report. Information from trade creditors makes a statement about the integrity of the principals of the business.
- ***Capacity of the business.*** The bank will judge the capacity of your business or, stated another way, the cash flow of your business from the financial statements and the business plan you submit.
- ***Capital of the business.*** The bank will judge the capital or net worth of your business from the financial statements and the liquidity and quality of your current and fixed assets. The capital position of your business allows the bank to determine what amount of the export sale you can finance or manage and what amount the bank is willing to finance.
- ***Collateral for the loan.*** Banks do not typically lend to exporters on an unsecured basis. What are you offering as collateral for the export working capital loan? Typically, the export inventory and the export receivable are a major component of the collateral base for the loan. As a rule, banks require that export working capital loans be personally guaranteed by the principals of the business.
- ***Contract for the export sale.*** What are the contract conditions of the export sale? What are the payment terms—open account, cash-in-advance, documentary collection or letter of credit? What are the INCOTERMS that state the responsibilities and obligations of the buyer and the seller with respect to insurance and transportation costs? Are inspection reports required? Are residuals required by the buyer?

The safest payment method is cash-in-advance. However, this is frequently unattainable. A mutual compromise with respect to the payment terms between the buyer and the seller is the letter of credit. If you can negotiate letter of credit terms with the foreign buyer, the probability of securing a pre-export working capital facility from a commercial bank escalates significantly. Alternatively, open account sales with foreign receivable credit insurance significantly enhance the interest of commercial bankers to extend an export loan.

Key Elements of Business Plan

When preparing a business plan, include the following:

- ***A brief history of your business.*** This brief overview of your business should include information as to type of product or service provided. Be complete as to ownership status such as incorporation, partnership, sole proprietorship and principals. Provide complete address, location of operations and other pertinent information.
- ***An export marketing plan.*** This is your strategy for obtaining export orders and being paid. The plan must convince the banker that your product has market demand and is saleable. The plan should demonstrate that you have both marketing and risk management skills.
- ***An export administration plan.*** This is where you demonstrate that you have a history of proven performance in the business. The capacity for fulfilling export orders as well as the knowledge to prepare error free documentation must be addressed. This is where you address your knowledge and ability to comply with export trade regulations and licenses.
- ***An export financial plan.*** This is where you must describe the sources and uses of funds. Moreover, this is where you should clearly indicate whether bank funds are required for both pre-shipment and post-shipment finance. The financial plan should include the other potential products and services you may need, such as standby letters of credit and foreign exchange hedging facilities. This is the section where you address payment terms, collateral for the loan and any risk mitigation product that minimizes the risk of carrying foreign receivables on your balance sheet.

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