

GUIDE TO

EXPORT CREDIT INSURANCE



Introduction to Export Credit Insurance

For U.S. businesses, international markets can represent both tremendous opportunity and daunting risk. The Export-Import Bank of the United States' (EXIM) Export Credit Insurance equips U.S. companies to win international sales while taking risk out of the export equation.

While businesses are well acquainted with the concept of insurance and the importance of managing risk, accounts receivable are often the largest uninsured asset on a company's balance sheet. Export Credit Insurance allows exporters to safeguard their foreign receivables, transferring the risk of nonpayment by overseas customers to EXIM. Like any insurance policy, the exporter pays a premium and gets protection in return. In this case, if a foreign buyer purchases on credit terms and fails to pay, EXIM pays the exporter up to 95% of the invoice value.

The benefits of Export Credit Insurance can be significant. The protection of a policy gives businesses the confidence necessary to enter new markets and chart a path forward with margins they can depend on. With this security in hand, exporters can increase their global competitiveness by offering the credit terms needed to win sales. Moreover, Export Credit Insurance empowers companies to overcome cash flow obstacles, by borrowing against their insured receivables.

The nuts and bolts of a policy are simpler than one might imagine. This guide will offer a snapshot of the value, process, and applicability of EXIM's Export Credit Insurance options.

The Export-Import Bank of the United States (EXIM) is the official export credit agency of the United States. It empowers U.S. companies—large and small—to turn export opportunities into real sales that help to maintain and create U.S. jobs and contribute to a stronger national economy.

EXIM does not compete with the private sector, but rather provides export financing support that fills the gaps in trade financing. No transaction or firm is too small. On average, more than 85% of EXIM transactions directly benefit U.S. small businesses.

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The Value of an Export Credit Insurance Policy

EXIM's Export Credit Insurance—a policy that protects a company's accounts receivable—is a simple tool with significant benefits.

Safeguard Against Risk

Foreign market risk is on every exporter's mind. Export Credit Insurance transfers the risk of credit and counterparty exposure to EXIM, protecting against liquidity shortages arising from delayed payments or nonpayment from overseas customers. A policy can reduce an exporter's earnings volatility, providing certainty and peace of mind.

Increase and Expand Sales

Export Credit Insurance can support exporters to win more sales and grow their business overseas. Insured exporters can extend competitive credit terms to customers, rather than demanding payment in advance.

Insured Exporters Can Increase Their Sales in Two Ways:

1. Expand Into New Markets

With an insurance policy, exporters can safely enter new markets. Many potential customers buy only on credit, yet some markets might present a prohibitive repayment risk. Export Credit Insurance protects an exporter's bottom line and allows them to make sales that would otherwise be out of reach.

2. Boost Sales with Existing Customers

Many exporters have existing customers that would buy more with an extension of credit terms, or an increase in the credit line offered. A safety net for a business' foreign receivables allows it to seize opportunities and increase sales.

Export Credit Insurance Empowers a Family Business to Go Global

Exporter:

Fritz-Pak, Mesquite, Texas

Markets:

Worldwide, including Mexico, Brazil, India, and Taiwan

EXIM Product:

Export Credit Insurance

Located in a warehouse east of Dallas, Texas, Fritz-Pak manufactures 40 different specialty products for the global construction industry, including concrete additives and plasters for swimming pools.

Today, Fritz-Pak is a growing small business, eyeing an expansion to the lot next door. This is due to David Ojeda, the youngest of the father-mother-son team that runs Fritz-Pak who had the idea to look abroad for sales opportunities that could replace lost domestic sales following the 2008 recession.

Using EXIM's export credit insurance, the Ojedas were able to offer credit terms to new foreign buyers and protect against the risk of not being paid—an especially acute concern when margins are thin. Today, using export credit insurance exports account for 35% of their total sales.



The Value of an Export Credit Insurance Policy

(continued)

Unlock More Attractive Bank Financing

Cash flow concerns reign supreme for exporters. EXIM's Export Credit Insurance can help businesses access the liquidity needed to fulfill orders and pay for day-to-day operations. With a policy in hand, insured exporters have greater borrowing power. Some banks require Export Credit Insurance to lend against foreign receivables. In other instances, banks will offer higher advance rates for insured receivables. In both cases, Export Credit Insurance turns the same collateral into a greater borrowing base. In essence: same receivables, but better cash flow.

Transfer the Burden of Credit Management

Exporters have enough on their plates: seeking sales, navigating logistics, managing employees, making products, and so on. The one thing they don't have is time. Export Credit Insurance can help by easing the burden of credit risk management that prevents businesses from focusing on their core operations.

A relationship with EXIM and its credit management expertise can improve receivables management from buyer assessment to protection to collection. With EXIM in their corner, exporters can have more productive days and restful nights.

Realize Tax Benefits

Companies offering credit terms generally account for a "bad debt" or "loss" reserve—that is, an account set aside to offset anticipated nonpayment on outstanding accounts receivable. Unlike bad debt reserves, however, the premium paid for an Export Credit Insurance policy is tax-deductible*. With insured receivables, companies can lower bad debt reserves and taxable income, decreasing risk and increasing their bottom line.

EXIM has experienced export finance professionals located throughout the United States. To get in touch, call **1-800-565-EXIM (3946)** or [request a free consultation today¹](#)

*** Not all companies are eligible for the aforementioned tax deduction. Please check with your tax professional to determine your company's eligibility for this deduction.**



1. grow.exim.gov/contact-a-trade-finance-specialist

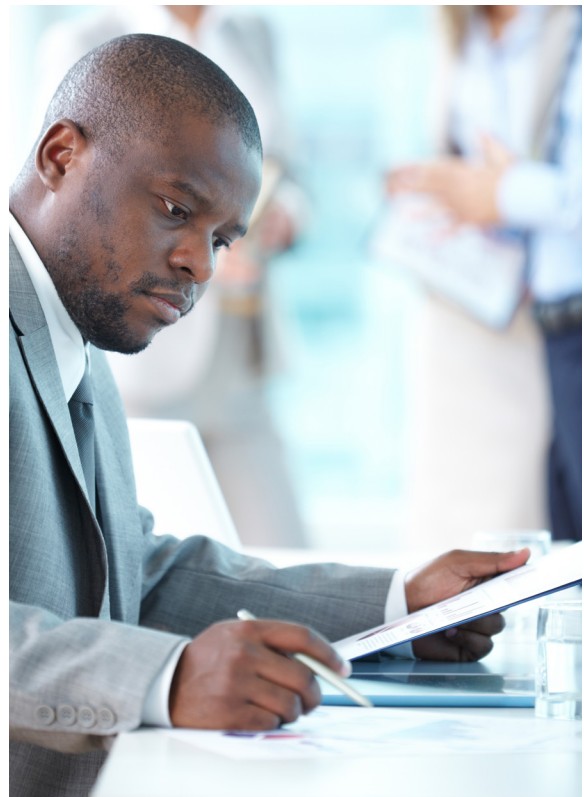
How Export Credit Insurance Works



What Credit Insurance Actually Covers

EXIM's policies cover both commercial risk (e.g., bankruptcy) as well as political risk (e.g., war or the inconvertibility of currency).

- Commercial risk means an exporter's buyer went insolvent or bankrupt, or there is a protracted default on payment.
- Political risks include actions taken by a government that prevents an exporter from receiving payment and/or recovering goods. This could be war, insurrection, cancellation of licenses, or inconvertibility of currency.



How Export Credit Insurance Works (continued)

EXIM's Export Credit Insurance has many variations that are tailored to fit an exporter's specific business need.

Insure a Single Buyer or Multiple Buyers

There are policy options that cover a single foreign buyer, a defined set of many buyers, or an entire export portfolio.

Maximum Payment Terms

Short-term policies insure credit terms of up to 180 days and, in certain cases, up to 360 days for capital equipment.

Medium-term insurance protects term financing to international buyers of capital equipment or related services for amounts up to \$10 million. Medium-term policies cover credit sales in which payment terms range between one and five years (or, in certain cases, seven years).

Options Exclusive to Small Businesses

There are special policies for small businesses* that offer up to 95% coverage against nonpayment by foreign buyers on short-term credit sales, with no deductible. Small business policies allow exporters to pay only upon shipment, assuring there are no lost premium dollars.

Take the Next Step!

EXIM's highly experienced export finance professionals, located throughout the country, can help exporters determine the right policy to meet their needs. [Request a free consultation today!](#)¹

*Small Business as defined by the U.S. Small Business Administration



1. grow.exim.gov/contact-a-trade-finance-specialist

Case Study - Los Kitos Produce

Learn how Los Kitos Produce uses export credit insurance to expand into new markets and protect against the risk of foreign buyer nonpayment.

The Opportunity

Los Kitos Produce (LKP) is a California-based network of growers, packers, and shippers of fresh fruits and vegetables. LKP sources their produce from minority-owned growers in areas with high unemployment. Once the produce is sourced, LKP packages the products for export and domestic distribution using uniform labels that emphasize the source and the quality of the produce.

LKP's packaging allows it to both communicate with its consumers on the nutritional value of the products, and also to entice new customers, domestically and internationally, to try its U.S. produced goods.

The Challenge

LKP's most significant challenges exporting have been two-fold: assuring their domestic supply chain that they will be paid while exporting, and assuring their foreign customers that LKP will deliver their quality produce as promised. This results in LKP having to play the role of a goodwill ambassador, convincing its domestic supply chain that exporting is just as safe as selling its produce domestically, while assuring its foreign customers that it can offer the credit terms they demand.

The Solution

LKP is able to succeed in doing this by using multi-buyer Small Business Export Credit Insurance from the Export-Import Bank of the United States (EXIM). Multi-buyer export credit insurance (export credit insurance) does exactly what it sounds like: insures a business' foreign accounts receivable. With EXIM's export credit insurance, LKP can guarantee its domestic supply chain that should a foreign customer default or does not pay for a shipment, EXIM will cover up to 95% of LKP's international sales invoice: in short meaning that if LKP isn't paid, they will be reimbursed by EXIM meaning, in turn assuring LKP's producers they will also be paid.

Export credit insurance further allows LKP to extend competitive credit terms to its foreign customers, knowing that should a foreign buyer default, LKP is insured against commercial and political risk.

The Results

With EXIM's credit reporting standards, LKP has been able to create a weekly report to help build confidence for its local growers and overseas buyers, keeping them informed of the variables that could affect international sales. The overseas buyers really appreciate the extra effort put in for them.

With export credit insurance, LKP and its suppliers have been assured that shipping internationally they will be paid. Additionally, LKP is able to compete internationally by offering the credit terms its foreign buyers demand to complete its international sales.

LKP's job has further been simplified domestically. With export credit insurance, LKP's job explaining international risk has been dramatically reduced. Knowing that its foreign invoices are covered up to 95% assuages local producers of LKP's ability to deliver on its international sales. Since beginning to export, LKP has established a solid infrastructure, a great team, and a direct vendor network overseas. LKP currently exports to Mexico, Korea, Saudi Arabia, and Hong Kong, with Mexico being its largest exporting partner.



Photo provided by: Los Kitos Produce (lkproduce.wix.com)

EXIM Eligibility and Regulations

While EXIM can do business in most markets, there are some basic requirements governing whether exports are eligible for support. Below is an overview of factors affecting exporter eligibility.

Eligibility for EXIM Support

Businesses meet basic eligibility requirements to receive EXIM support if they:

- Have been in business for at least one year
- Have at least one person working in the firm full-time
- Have a positive net worth
- Export products and/or services that have more than 50% U.S. content based on all direct and indirect costs (e.g. labor, materials, and administrative costs)

Additional Requirements and Restrictions

Goods and services must be exported from the U.S.

EXIM does not provide support for content shipped from foreign ports.

Export destinations must not be restricted countries

EXIM can support exports to most markets. There are some export destinations, however, that are not eligible for support. EXIM's [Country Limitation Schedule²](#) provides an up-to-date listing of approved countries.

Exports must be non-military in nature

EXIM is prohibited from financing the export of defense articles and services. There are exceptions for "dual use" items (that is, items used for both military and commercial or civilian applications). More details are available at www.exim.gov.

What EXIM Does Not Support

EXIM does not provide support for:

- Imports
- Grants
- Early stage start-ups
- Crude oil
- Direct investment
- Personal loans
- The purchase of land



2. www.exim.gov/tools/countrylimitationschedule/

Pricing Examples for Small Business Multi-buyer Policies and Express Insurance

Depending on a given exporter's needs, how costs are calculated varies greatly. The best way to find out about costs is to [contact an EXIM export finance specialist directly](#)¹.

The costs of an Export Credit Insurance policy are primarily comprised of two parts:

- 1. An advanced premium**
An upfront refundable payment that gets applied to exposure fees
- 2. Exposure fees**
A percentage of the value of the invoices shipped

Additionally, there are some basic factors that affect the determination of fees. Depending on the policy, these may include:

- Whether the exporter is a small business
- The countries of shipment
- Are you shipping to one buyer or many?
- The identity of the buyer (e.g., sovereign nation, financial institution, non-financial institution)
- The length of credit terms extended to the foreign buyer (e.g., 60, 90, 120, 180 days)

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Disclaimer: This explanation is meant to provide a general overview of the program at EXIM. The information provided is not comprehensive or complete, nor does it reflect all eligibility requirements or process details. For specific details on the product, please contact the Export-Import Bank directly.

Small Business Multi-buyer Pricing

PAYMENT TERMS	SOVEREIGN	BANK	PRIVATE
1-60 days	\$0.16	\$0.20	\$0.55
61-120 days	\$0.27	\$0.33	\$0.90
121-180 days	\$0.35	\$0.43	\$1.15
181-270 days	\$0.43	\$0.54	\$1.45
271-360 days	\$0.53	\$0.65	\$1.77

(pricing per \$100 of contract price, letter of credit, or invoice value excluding interests)

Express Insurance

PAYMENT TERMS	PRIVATE BUYERS
1-60 days	\$0.65
61-120 days	\$1.06
121-180 days	\$1.35

(pricing per \$100 of contract price, letter of credit, or invoice value excluding interests)

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