FACT SHEET

March 25, 2020 (Updated May 1, 2020)

# EXIM Temporarily Expands Supply Chain Financing Guarantee Program

## Background on the Supply Chain Financing Guarantee Program

Supply chain finance programs (SCF, and also referred to as supplier finance or reverse factoring) have been becoming increasingly common in the commercial markets in recent years. The popularity of these programs has been driven by conflicting working capital needs of companies and their suppliers—the former wish to extend their payables while the latter wish to both shorten the term of their receivables and reduce the cost of working capital.

With SCF, a lender purchases at a discount (or factors) a receivable held by a supplier, providing immediate cash and liquidity to that supplier. The buyer pays the lender at the expiration of the term (e.g., 60 days). The discount rate (rate at which the supplier can "borrow" money) is typically linked to the credit worthiness of the buyer since the buyer legally agrees to transfer its obligations to the lender when a receivable is discounted. Thus, the program becomes particularly attractive to suppliers whose alternate sources of liquidity are either:

a) a working capital loan based on the supplier's credit quality, where the supplier's credit quality is below that of the buyer, or

b) factoring firms or other sources of credit that typically come with double-digit interest rates.

These programs have worked effectively for investment grade credits since lenders have a robust appetite for investment grade risk. As credit quality declines and approaches non-investment grade companies, however, a lender's willingness to bear this risk is curtailed immensely given costly capital charges for these credits.

EXIM's SCF guarantee program, which combines a traditional SCF program with EXIM's guarantee, resolves this issue and provides the incentive for banks to underwrite weaker credits, which is particularly needed in the current economic environment when all credits are being impacted adversely.

## Need for Expanding EXIM Supply Chain Financing Guarantee Program

The program was implemented by EXIM in 2010 but was seldom utilized. Among the restrictive terms under the SCF is a target that 50% of the suppliers must be small businesses as defined by Small Business Administration guidelines. Additionally, there is a 50% U.S. export content requirement to the accounts receivable. The guarantee covered 90% of the exporter's liability to the bank.

As credit markets and liquidity improved in the years following the 2008 financial crisis, banks had more private sector options and chose not to utilize the SCF and its restrictive terms.

Recently, EXIM staff had numerous discussions with exporters and lenders that expressed the need for supply chain financing support given the significant and growing liquidity pressure on suppliers and exporters.

As a result, EXIM will temporarily modify the program to make it more widely available for suppliers as follows. These temporary measures underscore the agency's commitment to help small business exporters weather the unprecedented challenges brought on by the COVID-19 global pandemic, while being good stewards of taxpayer funds:

- Temporarily waive the target of 50 percent small business as defined by Small Business Administration guidelines as suppliers in the supply chain. This will allow EXIM to help in those instances when U.S.

exporters have supply chains composed of suppliers that are not mostly small businesses. EXIM reiterates that this temporary waiver does not diminish EXIM's focus on providing financing support to U.S. small businesses, and EXIM expects the 50 percent target to still be met in most cases involving the Supply Chain Financing Guarantee program.

- Some U.S. exporters distribute their products through foreign affiliates. The product is first shipped to their foreign affiliate and then sold to the foreign buyer. This type of transaction is normally excluded from EXIM support because it is considered an intercompany sale. Therefore, EXIM will temporarily allow for the U.S. exporters to make sales directly to foreign affiliates rather than directly to unaffiliated foreign buyers. This will allow for more support to U.S. exporters whose sales are directly to foreign affiliates who then distribute downstream to foreign buyers.
- Temporarily allow for an increased guarantee coverage option to 95%, which is an increase from the standard 90% guarantee. Lenders who elect the 95% coverage, will be charged a guarantee fee of at least 2.06% with a risk premium added to non-investment grade credits. Guarantees under the 95% program are not to exceed 1 year from the effective date of the financing. The guarantee fee will be charged monthly in arrears based on the prior month's guaranteed receivables

**This measure will take effect and be available immediately, subject to the final determination of policies and procedures, as applicable, and will remain in place through April 30, 2021.**

**By modifying the SCF Program in the manner set forth above, EXIM will:**

- Make the program more widely available to suppliers and U.S. exporters;
- Entice lenders to make more supply chain financing available to U.S. exporters by reducing their credit risk.