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## **EXIM Temporarily Expands Pre-Export Payment Program**

### **Need for EXIM Bank Pre-Delivery/Pre-Export Financing Program**

In numerous discussions with exporters, lenders and other EXIM stakeholders about the temporary problems caused by the COVID-19 crisis, it was clear that there was concern regarding the inability to finance pre-delivery or pre-export payments owed to manufacturers during the manufacturing process.

As a result of the lack of short-term liquidity, many manufacturers will not be able to get the required pre-export payments from foreign buyers to complete manufacturing. Nor will they be able to convert their finished products into cash because of the inability to deliver the finished product to the foreign customer. Consequently, many manufacturers are facing, or may face, a liquidity crisis. These manufacturers will be unable to pay their U.S. workers and U.S. suppliers, which will disrupt their supply chain and add further economic hardships.

Manufacturers could potentially have several billion dollars in potential exports at their manufacturing facilities, waiting to be completed and exported. Suppliers to these manufacturers, which have working capital loan debt, will face repayment pressure.

In response to this need, EXIM developed a temporary expansion of the existing Pre-Export Payment Policy. The current Pre-Export Payment Policy allows EXIM-supported disbursements for pre-export payments owed to manufacturers during the manufacturing process for transactions in which EXIM is providing the medium-term and long-term financing to the foreign buyer. The Pre-Export Payment Policy allows one or more disbursements, which would otherwise not take place until shipment of the completed product, to take place during the manufacturing process in proportion to the work completed.

Historically, the Pre-Export Payment Policy has been used most often to support U.S. exports of long-lead manufactured products, such as satellites, large turbines and other capital goods requiring extensive customization. Such transactions often require the foreign borrower to make periodic partial payments to the U.S. exporter during the manufacturing period prior to shipment of the finished product. EXIM's Pre-Export Payment Policy enables the U.S. exporter to recoup some of its production costs before final delivery in accordance with the payment terms in the commercial contract with the foreign buyer.

Under the previous Pre-Export Payment Policy, some industries did not utilize EXIM's Pre-Export Payment Policy because commercial financing was generally available for pre-export payments. However, in periods of economic stress, commercial lenders are less willing to provide these services. Although, commercial lenders were willing to provide pre-export payment financing if the source of the long-term financing for the asset was known at the time the commercial lender entered into the pre-export financing.

In addition, the assumption underlying EXIM's Pre-Export Payment Policy is that EXIM is providing the long-term financing to the foreign buyer. The expansion of the Pre-Export Payment Policy to include transactions in which EXIM is not providing the long-term financing to the foreign buyer will assist in instances where a commercial lender may be willing to finance a finished product but would be unwilling to financing pre-export payments during the manufacturing period.

### **Program Details:**

As one of several COVID-19 Liquidity Relief Options at EXIM's disposal, the Pre-Export Payment Policy is temporarily expanded to become the Pre-Delivery/Pre-Export Financing Program, which is available to:

(i) the foreign buyer (for pre-delivery or pre-export payments owed to the manufacturer during the manufacturing of a capital good), for transactions in which EXIM is not providing the long-term financing to the foreign buyer; and

(ii) manufacturers, including those that have not utilized EXIM's previous Pre-Export Payment Policy because, as mentioned above, commercial sources of financing were generally available to finance such pre-export payments (except during times of economic stress).

The Pre-Delivery/Pre-Export Financing Program is designed to be temporary, with an initial one-year availability period, by which time it is expected that private sector financing for pre-export payments will again be available. By supporting the manufacturing sector, the Pre-Delivery/Pre-Export Financing Program will help the economic recovery in the United States and abroad.

**The Pre-Delivery/Pre-Export Financing Program will work as follows:**

- The Pre-Delivery/Pre-Export Financing Program will be available to foreign borrowers for an initial period of one year but could be extended beyond the initial one-year availability period, depending on demand and economic conditions.
- Each individual transaction under the Pre-Delivery/Pre-Export Financing Program can have a disbursement period equal to the manufacturing period in the United States in accordance with the contract requirements.
- Each individual transaction under the Pre-Delivery/Pre-Export Financing Program can be customized (in terms of disbursement period and periodicity of interest-only payments until the delivery/takeout financing) to match the requirements of the contract between the U.S. exporter and the foreign buyer.
- An example of the type of transaction that could be supported under the Pre-Delivery/Pre-Export Financing Program includes pre-delivery or pre-export payments, owed to a manufacturer during the manufacturing/assembly of a large capital good.
- Depending on the industry, pre-export payments can be required at any time prior to delivery of the capital good.
- Each individual transaction under the Pre-Delivery/Pre-Export Financing Program can be structured as an EXIM guaranteed loan or as an EXIM direct loan.
- In each individual transaction under the Pre-Delivery/Pre-Export Financing Program, EXIM will assume the credit risk of the foreign buyer. In addition, EXIM:
  - (a) might or might not provide the long-term financing upon delivery of the completed capital good: and,
  - (b) might or might not be secured by collateral, or supported by other credit enhancements, depending on the facts and circumstances of each individual transaction.

- If the foreign buyer has arranged non-EXIM supported long-term financing for the export at delivery, the EXIM-supported, pre-export financing will be repaid with the loan proceeds from the non-EXIM supported, long-term financing.
- EXIM will perform its standard due diligence and credit analysis of each individual transaction considered under the Pre-Delivery/Pre-Export Financing Program.
- Each individual transaction under the Pre-Delivery/Pre-Export Financing Program will be approved in accordance with standard EXIM procedures (i.e., either by Individual Delegated Authority or by the Board of Directors).
- Each individual transaction under the Pre-Delivery/Pre-Export Financing Program will comply with all EXIM policies in effect at time of transaction review, and to the extent such policies are applicable to the transaction.

**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.**

**Temporarily expanding the Pre-Delivery/Pre-Export Financing Program to purchasers of U.S. exports will:**

- Support U.S. exports in various sectors during this period of uncertainty;
- Support the U.S. supply chain in multiple manufacturing sectors;
- Facilitate the re-entry of private sources of financing as soon as possible; and
- Ultimately reduce the amount of EXIM supported long-term financing.