



Introduction to Medium-Term Export Financing

Medium-Term Export Financing means selling capital equipment with a repayment period of 1-5 years, with no cost or recourse to the manufacturer or seller. Financing charges, including all interest costs, insurance premium, and bank fees, can be less than 6% per year even in high-risk countries.

Credit insurance transfers the risk of non-payment from the seller, allowing:

- the **manufacturer or seller** to be paid in full upon shipment by a bank. There is no recourse to the manufacturer aside from normal warranty responsibilities.
- the **buyer** to pay for the goods over time, financed at LIBOR-based interest rates normally much lower than those available in the buyer's country. Repayment is usually in equal semi-annual installments of principal and interest.
- the **bank** bearing the repayment risk to be fully protected against default, thus encouraging highly competitive interest rates.

The insurance cost depends primarily on the buyer's country and length of the credit period, and is usually added to the semi-annual installments.

The buyer must be considered creditworthy by an insurance underwriter. Evidence includes complete financial statements on the buyer for the past 3 years, preferably audited; a recent credit agency report on the buyer; and written bank and trade references. A benchmark is that the contract price should not exceed 40% of the buyer's net worth. Otherwise, a bank or parent company may have to guarantee payment.

The most active underwriter of Medium-Term credit insurance is the Export-Import Bank of the U.S. (Ex-Im Bank), a government agency. They require a downpayment of 15% (financing of the downpayment outside the insurance policy is permitted), and that products must be at least 85% U.S.-made. The transaction may not be defense-related. Ex-Im Bank covers 100% of the financed portion against non-payment. Commercial insurers generally cover only up to 90% of the risk, but may not require a downpayment.

Repayment terms for Ex-Im Bank backed transactions of less than \$80,000 may not exceed 2 years, \$80-\$175,000 up to 3 years, \$175-\$350,000 up to 4 years, over \$350,000 up to 5 years, with a maximum contract size of \$11,750,000. Terms to dealers and others for resale are capped at 2 years.

Global Insurance Services, LLC specializes in credit and political risk protection and related financing. We work with exporters and banks to place and fund Medium-Term sales using both Ex-Im Bank and commercial underwriters. We welcome inquiries as to the suitability of a potential export sale for Medium-Term financing. Call John F. Strayhorn, President at (410) 480-0040, or email him at getglobal@mindspring.com

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