

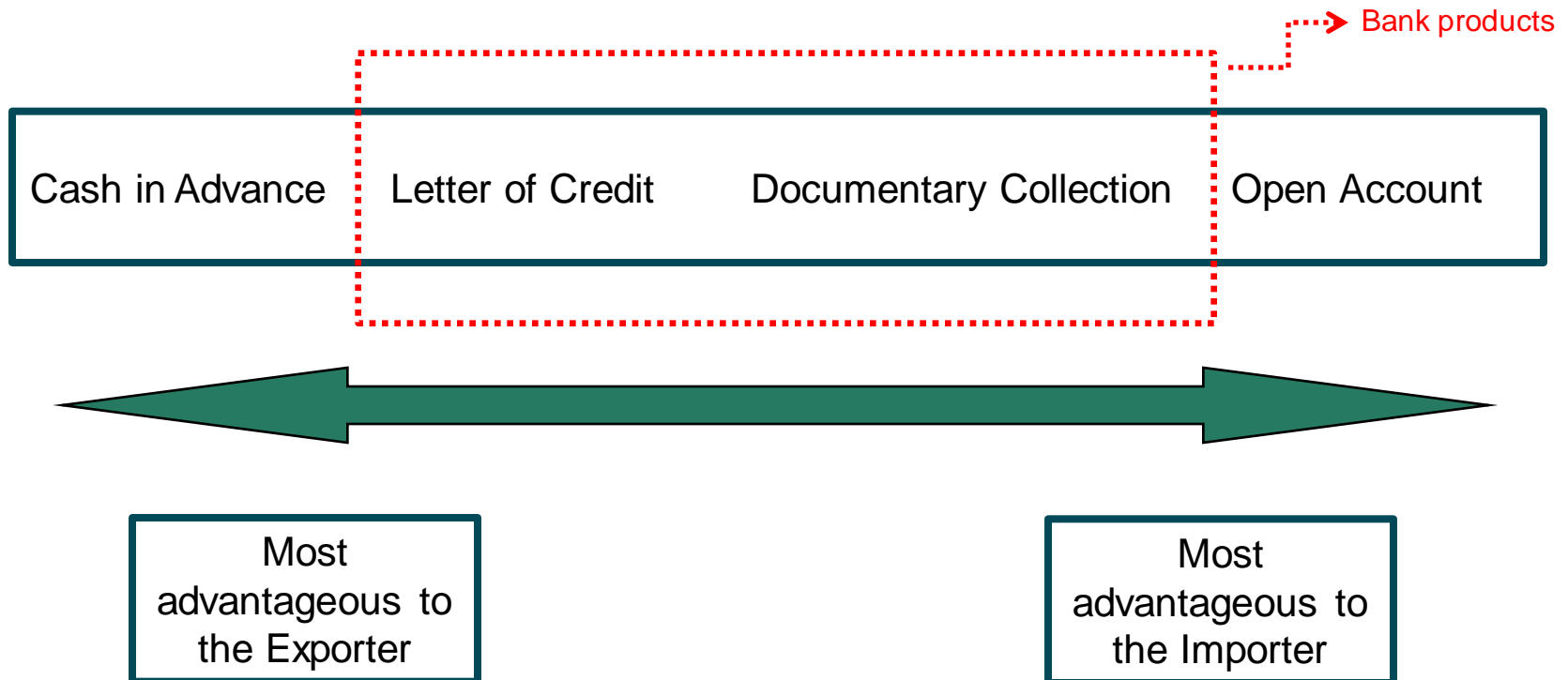


International Trade Payment Structures EXIM/SBA

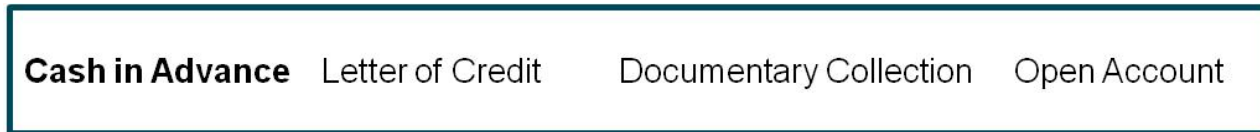


Methods of Payment

- When buying and selling goods abroad, many payment options exist – with varying levels of risk and reward



Cash in Advance

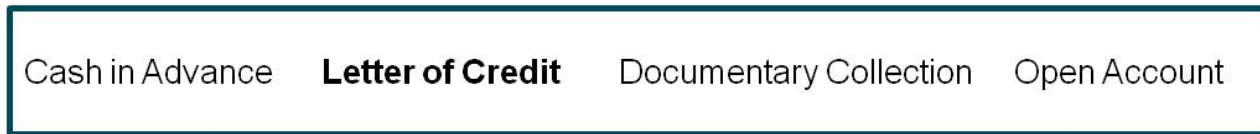


- Exporter receives payment before shipment.
- Transaction is generally paid via wire transfer.
- Avoid receiving international checks if possible as clearing process can take up to 6 weeks.
- Inexpensive working capital

Cash in Advance (cont.)

Advantages	Disadvantages
Importers <ul style="list-style-type: none">• None	Importers <ul style="list-style-type: none">• Cash flow problems• Uncertainty about delivery of goods• Perception that Exporter does not trust him
Exporters <ul style="list-style-type: none">• No international payment risks• Free working capital• Avoid collection problems	Exporters <ul style="list-style-type: none">• May lose sales• Doesn't help build relationship

Letter of Credit



- A definite undertaking issued by the bank of the importer to pay the exporter, at sight or at maturity, a specified sum of money, provided the stipulated documents are presented in conformity to its terms and conditions.
- A letter of credit is a **bank's** undertaking to pay the beneficiary even if the applicant cannot do so, provided conforming documents are presented*.

*Failure to meet all terms and conditions can result in the loss of the bank's undertaking to pay.

Parties of a Letter of Credit

- **Applicant/Accountee (the buyer)** - the party who requests the issuance of the letter of credit.
- **Beneficiary (the seller)** - the party in whose favor the letter of credit is issued.
- **Issuing bank** - the bank issuing the letter of credit and the bank that has the primary obligation to pay.
- **Advising bank** - the bank that advises the beneficiary of the letter of credit and that normally processes documents after shipment. An advising bank has no obligation to pay.

Letter of Credit - Types

LC Payment Structure

- Sight Letter of Credit
 - The letter of credit is available for payment after examination of conforming documents
- Time Letter of Credit
 - Letter of credit with drafts that are payable at a fixed or determinable future date, normally within 180 days
 - This type of letter of credit generates bankers' acceptances
 - Financing costs of the transaction can be borne by the buyer or seller

Foreign Risk And Your Bank's Role

- Advised Letter of Credit
 - Most letters of credit fall into this category
 - Undertaking by issuing bank to pay the seller
 - Exporter looks at the credit standing of the issuing bank and assumes the risk of the issuing bank
- Confirmed Letter of Credit
 - The confirming bank (usually the seller's bank) adds its undertaking to the credit and will be the payment risk
 - Confirming bank will make payment to the exporter under the terms of the LC, not the issuing bank.

Letters of Credit – Types (cont.)

- Export Letters of Credit
 - Payment is made at Sight or over a period of Time
 - Issued by buyer's bank and advised and/or confirmed by M&T
 - If Confirmed - moves the payment risk to the US bank; no foreign payment risk for the beneficiary
 - Discount - beneficiary is paid immediately regardless of LC tenure and advising bank waits for final payment from issuing bank
- Import Letters of Credit
 - Payment is made at Sight or over a period of Time
 - Issued by M&T on behalf of our customer to the advising bank
 - Payment is made as long as beneficiary performs under terms of the LC

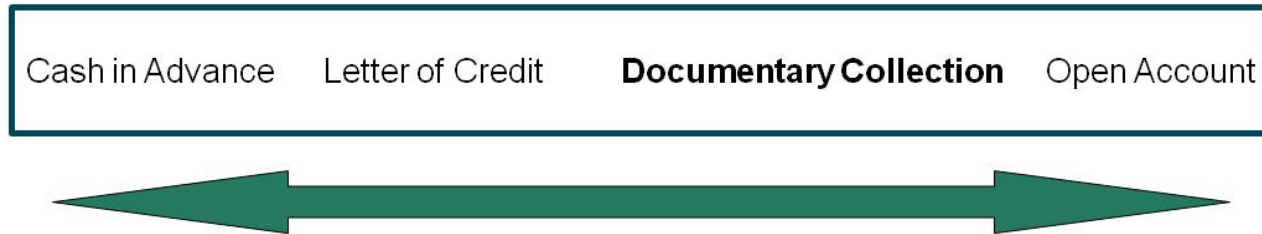
Letters of Credit – Types (cont.)

- Standby Letter of Credit
 - A bank's undertaking to pay if the applicant fails to perform an obligation.
 - It is generally not a primary payment mechanism and is not intended to be drawn upon.
 - A Standby Letter of Credit can be used for the following:
 - Bid Bonds
 - Advanced Payment Guarantee
 - Performance Bonds
 - Loan Warranty
 - Assuring Payments

Letters of Credit (cont.)

Advantages	Disadvantages
<p data-bbox="208 486 417 532">Importers</p> <ul data-bbox="208 565 954 718" style="list-style-type: none"><li data-bbox="208 565 794 611">• Knows he will receive goods<li data-bbox="208 622 954 718">• Delays payment for goods until bank has reviewed documents	<p data-bbox="993 486 1201 532">Importers</p> <ul data-bbox="993 565 1640 718" style="list-style-type: none"><li data-bbox="993 565 1578 611">• Ties up credit line with bank<li data-bbox="993 622 1640 718">• Must pay regardless of product disputes
<p data-bbox="208 809 417 855">Exporters</p> <ul data-bbox="208 888 954 989" style="list-style-type: none"><li data-bbox="208 888 649 933">• Guarantees payment<li data-bbox="208 945 954 989">• Risk lies with foreign bank not buyer	<p data-bbox="993 809 1201 855">Exporters</p> <ul data-bbox="993 888 1734 989" style="list-style-type: none"><li data-bbox="993 888 1734 989">• Does not eliminate international risk unless the LC is confirmed

Documentary Collections



- The handling by banks, on instructions received, of documents in order to:
 - Obtain acceptance and/or payment
 - Deliver commercial documents against acceptance and/or against payment
 - Deliver documents on other terms and conditions

Parties of a Collection

- **Principal** - the customer entrusting the handling of a collection to a bank
- **Remitting bank** - the bank to which the principal has entrusted the handling of a collection
- **Collecting bank** - any bank, other than the remitting bank, involved in processing the collection
- **Presenting bank** - the collecting bank making the presentation to the drawee
- **Drawee** - the one to whom presentation is to be made according to the collection instruction

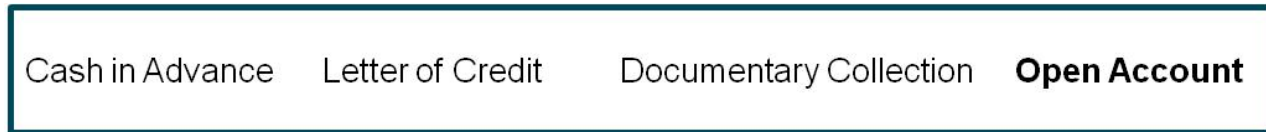
Documentary Collections - Types

- Sight Documentary Collections
 - The exporter draws a sight draft on the importer with instructions to pay on presentation.
 - The exporter sends the draft and shipping documents for collection through its U.S. bank (indirect collection), or directly to the foreign importer's bank (direct collection).
 - The importer's bank is instructed to release the documents against payment of the sight draft.
- Time Documentary Collections
 - The exporter draws a time draft on the importer with instructions to pay at an agreed future date.
 - The exporter sends the draft and shipping documents for collections through its U.S. bank (indirect collection).
 - The importer's bank is instructed to release the documents to the importer “against acceptance” of the time draft

Documentary Collections (cont.)

Advantages	Disadvantages
Importers <ul style="list-style-type: none">• Credit is not tied up• Can refuse shipment without recourse	Importers <ul style="list-style-type: none">• None
Exporters <ul style="list-style-type: none">• Inexpensive• Uniform Rules for Collections URC 522 govern responsibilities of the parties involved	Exporters <ul style="list-style-type: none">• No guarantee payment will occur / Buyer could refuse to pay for shipment• Does not eliminate commercial and political risk

Open Account



- Offer terms to buyer (30, 60 , 90...)
- Demonstrates strong relationship with buyer
- Transaction is generally paid via wire transfer
- Competitive advantage

Open Account (cont.)

Advantages	Disadvantages
Importers <ul style="list-style-type: none">• Free financing	Importers <ul style="list-style-type: none">• None
Exporters <ul style="list-style-type: none">• Buyer may purchase more• Builds relationship with buyer• Competitive advantage• No banking fees	Exporters <ul style="list-style-type: none">• 100% Payment Risk• Drain on Working Capital

U.S. Export-Import Bank Working Capital Guarantee Program

- Encourages banks to lend to small business exporters
- ExIm & SBA Goal: increase employment
- Types of exporters:
 - Manufacturers
 - Trading companies
 - Service providers
- **Typical Exporter situation creating a Working Capital need:**
 - Large contract relative to sales
 - Creating temporary pressure on Cash Flow
 - Initial Collateral Shortfall
 - Current borrowing base limits ability to advance against foreign A/R
 - **Also eligible:** M&T export customers' products (“indirect exports”). Allows M&T to finance the suppliers product that is ultimately incorporated into the export transaction.

Export *Express*

Program Features

Maximum Loan Size	\$500,000
Uses	Line of credit or term loan
Max. Variable Rate	
Loans \$50,000 or less	Prime + 6.50%
Loans Over \$50,000	Prime + 4.50%
Max. Maturity	
Line of credit	7 years
Term loan	10 years, 25 years for real estate
Guaranty Percentage	
Loans \$350,000 or less	90%
Loans over \$350,000	75%
Customer Guaranty Fees	
<i>Fees charged on guaranteed portion of loan only</i>	
1 year or less	0.25%
Over 1 year (gross loan)	
\$0 - \$150,000	0.00%
\$150,001 - \$700,000	3.00%
Over \$700,000	3.50%
Guaranteed over \$1MM	3.75%

Fee Example: a \$350,000 loan with a term over 1 year would be calculated as $\$350,000 * 90% * 3.00% = \$13,500$

Requirements

- Borrower completes SBA form 1919
- Bank credit application, 3 years of business financials and tax returns, signed 4506T
- Must meet SBA's standard eligibility tests
- Business must be engaged in export activities
- Personal guaranty of all Owners over 20%
- Additional info may be required depending on Use of Proceeds

Benefits

- Same as SBA *Express*; including
- May support letters of credit
- Higher guaranty percentages than 7(a)
- Exporter may be eligible for IC-DISC tax breaks
 - [IRS Form 4876-A](#)
 - [IRS Form 1120-IC-DISC](#)

Ideal Uses

- Lines of credit
- Fund letters of credit
- Working Capital
- Purchase equipment
- Expand or support export activities

Export Working Capital (EWCP) / PLP

Program Features

Maximum Loan Size \$5,000,000

Uses Line of credit or term loan

Max. Variable Rate

No cap on rates, but SBA will monitor

Max. Maturity

Line of credit or term Generally 1 year, up to 3

Guaranty Percentage 90%

Customer Guaranty Fees

Fees charged on guaranteed portion of loan only

<u>1 year or less</u>	<u>0.25%</u>
Over 1 year (gross loan)	
\$0 - \$150,000	0.00%
\$150,001 - \$700,000	3.00%
Over \$700,000	3.50%
Guaranteed over \$1MM	3.75%

Fee Example: a \$1,000,000 loan with a term less than 1 year would be calculated as $\$1,000,000 * 90% * 0.25% = \$2,250$

Requirements

- SBA Form 84-1 and Form 1919
- Business must have been in operation for 12 months; waivers available based on management's demonstrated export expertise
- Loan proceeds must support an export transaction
- Cannot be used to purchase fixed assets or facilities
- 1st lien on export inventory and receivables being financed
- Additional info may be required depending on Use of Proceeds
- Loans <\$350M: subject to SBA credit scoring
- Loans >\$350M: DSCR and global cash flow of a minimum 1.15:1 on a historical and/or projected basis

Benefits

- 90% guaranty regardless of loan size
- May support letters of credit
- Larger maximum loan size than Export Express
- Can support military sales
- Exporter may be eligible for IC-DISC tax breaks
 - [IRS Form 4876-A](#)
 - [IRS Form 1120-IC-DISC](#)

Ideal Uses

- Short term export transactions where letters of credit are needed
- Work capital to support an export transaction

Contacts

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