Export-import bank

Finance

Loan guarantees al Affiliation) Introduction The Export-Import bank (Ex-Im) has offered various forms of support to address the credit risk associated with a foreign buyer of a U. S. product. A foreign buyer of a U. S. product may seek for a loan from a commercial bank. To cover itself from the inherent credit risk, the commercial bank could apply for a loan guarantee from Ex-Im. The loan guarantee would be issued to cover the debt obligations in case the foreign buyer defaults. The cost of default would be passed through to the buyer. Such medium and long-term loan guarantees have continuously covered the political and commercial risk to approximately 85% of the contract value.

Ex-Im also issues export credit insurance to U. S. exporters. This protects them from the default risk of foreign buyers.

Discussion

Ex-Im began issuing loan guarantees after thirty years of existence. This move aimed at encouraging commercial banks to take part in export markets. Loan guarantees focused on reducing the administrative obligations of commercial banks. Loan guarantees surpassed direct loans, making insurance to become popular. Ex-Im guarantees 90% of the outstanding balance of working capital loans from a commercial bank to an exporter. It only authorized transactions that had a reasonable assurance of repayment. It offers medium and long-term coverage for transactions by providing an 85% guarantee. In this case, a 15% deposit is required from the buyer. Ex-Im charges the following costs on direct loans and medium and long-term guarantees;

An exposure fee,

A loan commitment fee based on its unused portions,

An application fee; 0. 1% of 1% of the amount financed, and

$100 charge for processing a letter of interest.

Export-Import bank charged fixed interest rates on loans that were set at the Commercial Interest Reference Rate (CIRR). The cost of direct loans was static; that is, it was set after numerous negotiations among countries in the OECD (organization for Economic Co-operation and Development). All medium and long-term guarantees were subject to a ‘ one-off’ exposure fee. The exposure fee was determined by the degree of transactional risk. For example, scheduled payments from Amal to Wells Fargo were subject to a 0. 2 exposure risk value. The beta constitutes the transactional risk for the scheduled payments. Ex-Im would charge a 0. 2 exposure fee for the transactional risk.

Importer payment obligations differed from those of foreign buyers of a U. S. product. Direct loans and guarantees of importer payment obligations are influenced by various aspects such as; market risk premium of the destination country, the repayment period, percentage of exports covered, and whether the exposure fee was financed or paid in advance. Each country has a baseline fee set for sovereign borrowers. Non-sovereign borrowers are subject to a transaction risk increment higher than the sovereign baseline fee. For example, the scheduled payments from Amal to Wells Fargo are subjected to a 5% market risk premium in addition to the 0. 2 transaction risk.

Working capital loan guarantees are subjected to a different treatment to determine the associated cost. Ex-Im charges a 0. 25 to 1. 5% upfront facility fee, based on the value of the loan. This fee is determined by the party which underwrites the loan; that is, the banking partner or Ex-Im. Ex-Im

charges a premium for export credit insurance based on the type of credit, buyer, and the buyer's origin (Foley, & Johnson, 2010).

Ex-Im values its net present value of transactions as the surplus or loss between the present value of the expected cash outflows and inflows. A surplus is viewed as a " negative subsidy," whereby the expected cash inflows exceed outflows. A loss is termed as a " positive subsidy," whereby expected cash outflows exceed cash inflows.

Conclusion

Export-Import Bank has continuously issued medium and long-term support. This support has been termed as insurance, since it issues loan guarantees to commercial banks. Ex-Im has offered support to small business exports. It was mandated by Congress to give priority to such businesses. Their support to small business exporters is required to be at least 20% of all authorizations in a fiscal year. Its terms of guaranteeing a loan is that, transactions are only authorized when there is a " reasonable assurance of repayment" (Foley, & Johnson, 2010).

Reference

Foley, F. C., & Johnson, M. S. (2010). Harvard Business School. The Export-Import Bank of the United States, 1, 1-21.