



SBA

**EXPORT WORKING CAPITAL PROGRAM
LENDER TRAINING MANUAL**

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A. Purpose

This manual is to be used for training SBA 7(a) lenders participating in the SBA's Export Working Capital Program (EWCP). The manual contains a synopsis of the EWCP Loan Program Requirements applicable to lenders participating in the EWCP. Consistent with the definition in SBA regulations (13 CFR 120.10), EWCP "Loan Program Requirements" include those imposed on lenders by statute, Agency regulations at 13 Code of Federal Regulations (CFR), Part 120, any agreement the lender has executed with SBA, SBA's Standard Operating Procedures (SOPs), including 50 10 5(E) (Lender and Development Company Loan Programs), 50 50 4B (Loan Servicing) and 50 51 3 (Loan Liquidation), official SBA notices and forms, and loan authorizations, as such requirements are issued and revised by SBA from time to time. In the event of any conflict between this manual and the EWCP Loan Program Requirements, the EWCP Loan Program Requirements control. EWCP lenders are advised that this manual is for training purposes only and does not discuss all of the EWCP Loan Program Requirements. SBA regulations (13 CFR 120.180) require all 7(a) lenders comply in all respects with, and maintain familiarity with applicable Loan Program Requirements as such requirements are revised from time to time. Lenders should refer to the applicable SOP provisions to ensure they fully understand the applicable Loan Program Requirements.

The manual discusses the unique features of the EWCP, the loan application process, loan program eligibility requirements and the underwriting, approval, closing, and servicing requirements. Included is a discussion of the portfolio reporting process, including incorporating EWCP loans into a lender's aggregate SBA loan portfolio report. Finally, this manual provides a summary of the liquidation process following a loan default and the steps for requesting that SBA purchase its guaranteed portion.

B. Nature of the Credit Opportunity

Small and Medium-Sized Enterprises (SME) that are currently exporting, or have the potential to export, are often faced with a lack of export working capital. According to the U.S. Census, 97.2% of all known exporters are SMEs, representing 285,000 of the total 293,000 identified U.S. exporters. These businesses are often unable to access adequate working capital financing, as lenders are unable to lend against foreign receivables. SBA loan programs are available to small businesses only. The EWCP is designed to help small businesses access export working capital so that they do not lose viable export business due to a lack of working capital.

The EWCP program is established by statute in Section 7(a)(14) of the Small Business Act, as amended. Agency regulations at 13 CFR 120.340 et seq. govern the EWCP. SBA's SOPs 50 10 5(E), 50 50 4G and 50 51 3, all as amended, describe in detail the policies and procedures governing the EWCP program.

C. Loan Terms and Conditions

1. Types of EWCP Loans. There are three variations of the EWCP loan. (See SOP 50 10 5(E), Subpart B, Chapter 3, Paragraph III.F.2.)

Single Transaction-Specific Loan is a non-revolving loan that supports a specifically identified single export transaction. While the term of a Transaction-Specific Loan generally should not exceed one year, SBA may, on a case-by-case basis, approve a longer loan term (up to 36 Months) to allow for an extended production cycle.

Transaction Based - Revolving Line of Credit supports either multiple export transactions or a specifically identified export transaction on a continuous basis during the term of the loan. The term of a Revolving Line of Credit generally does not exceed one year. However, a revolving line of credit can have a maturity of up to 36 months with annual renewals within that timeframe.

Asset Based Loans (ABL) are revolving lines of credit supported by a monthly Borrowing Base Certificate which reports levels of assets, normally accounts receivable and inventory, supporting the loan amount. ABLs are typically committed for 12 months and re-issued annually. Because a re-issuance of a loan is a new loan, another guaranty fee is due each time the loan is re-issued. (See SOP 50 10 5(E), Subpart B, Chapter 3, Paragraph V for a discussion of guaranty fees.) ABLs, however, can have up to a 36 month maturity with annual renewals. The Lender must supply to SBA updated financial statements on the borrower annually.

2. Guaranty Percentage

The maximum guaranty percentage for EWCP is 90 percent. (See SOP 50 10 5(E), Subpart B, Chapter 3, Paragraph II.) The Lender must retain a ten percent (10%) risk in the loan. The Lender is not permitted to separately collateralize its retained ten percent interest.

The guaranty percentage is based off of the gross principal balance outstanding on the loan. Unlike certain Ex-Im products, the EWCP guaranty is not foreign receivable credit insurance and does not protect the Borrower in the event of non-payment from a foreign buyer.

3. Maximum Loan Amount.

The maximum loan amount allowed under the EWCP program to any one business (including affiliates) is \$5,000,000.¹

Note: EWCP loans currently cannot be sold on the secondary market.

¹ The maximum amount of a 7(a) loan was raised to \$5 million in Section 1111 of the Small Business Jobs Act of 2010, P.L. 111-240.

4. Maximum Guaranty Amount

The guaranty amount is defined as the portion of the loan that is guaranteed by SBA. For example, the guaranty amount of a \$500,000 EWCP with a 90% guaranty is \$450,000.

The maximum dollar amount outstanding of SBA's guaranty on an EWCP loan or loans to any one business (including affiliates) shall not exceed \$4,500,000. There is a sub-limit concerning the maximum guaranty applied to working capital when an EWCP loan is combined with an International Trade Loan. When there is an International Trade Loan and an EWCP loan to the same small business (including its affiliates), the combined maximum SBA guaranty amount on the working capital portion of the loans cannot exceed \$4,000,000.

5. Loan Maturity

The maximum maturity of an EWCP loan is 36 months. SBA's guarantee remains in effect for disbursements made through the maturity date, subject to the terms and conditions of the loan authorization and related documentation. With the exception of a disbursement made to fund a draw against a letter(s) of credit that was issued under the EWCP before the maturity date, disbursements made after the maturity date are not covered under the guarantee. The maturity of the loan is:

- a. The date specified in the loan authorization. Such date will not be longer than 36 months from the Note date. If the Loan is not reissued, or extended, all outstanding amounts are due and payable on that day.
- b. Standby Letters of Credit - Unless SBA provides prior written approval, Standby Letters of Credit supported by this loan must expire before the loan maturity date. If the Lender receives SBA's prior written approval and makes a disbursement after the maturity date because there has been a draw on a standby letter of credit which was issued under the EWCP prior to the maturity date, such disbursement will be covered by the guarantee.

[See SOP 50 10 5(E), Subpart B, Chapter 3, Paragraph III.F. SBA QUICK REFERENCE CHART No. 3 contains additional guidance regarding loan maturity.]

6. Use of Proceeds

- a. EWCP loan proceeds may be used:
 - i. To acquire inventory for export or to be used to manufacture goods for export;
 - ii. To pay the manufacturing costs of goods for export;
 - iii. To purchase goods or services for export;
 - iv. To support Standby Letters of Credit related to export transactions;
 - v. For working capital directly related to export orders;
 - vi. For foreign accounts receivable and inventory financing; and
 - vii. To support an indirect export. The term "indirect export" applies to situations where, although the Borrower's direct customer is located in the United

States, that customer will be exporting the items/services it purchased from the Borrower to a foreign Buyer. In such cases, the Borrower must provide certification of the indirect export from the actual exporter (typically in the form of a letter, invoice, order or contract) to the Lender. The country to which the items/services will be shipped must be one with which SBA is not legally prohibited from doing business, pursuant to the Ex-Im Bank Country Limitation Schedule which is located at http://www.exim.gov/tools/country/country_limits.cfm.

- b. Lender fees and charges are an eligible use of proceeds as well as any packaging fee paid.
- c. EWCP loan proceeds may *not* be used to (13 CFR 120.342):
 - i. Support the Borrower's domestic sales, except in the case of an indirect export;
 - ii. Acquire fixed assets or capital goods for use in the Borrower's business;
 - iii. Acquire, equip, or rent commercial space overseas; or
 - iv. Finance professional export marketing advice or services, foreign business travel, participation in trade shows or support staff in overseas offices, except to the extent it relates directly to the transaction being financed.

[See SOP 50 10 5(E), Subpart B, Chapter 2, Paragraph IV.K.]

7. SBA Guaranty Fee

The Lender must pay a fee to SBA for each EWCP loan. This fee is known as the "SBA Guaranty Fee." The total loan amount and loan maturity determines the percentage that is used to calculate this fee.

For loans with a maturity of 12 months or less, regardless of the size of the loan, the SBA Guaranty Fee is .25% of the guaranteed portion of the Loan and the guarantee fee must be submitted to SBA with the application for guaranty. The application will not be processed without the fee. For short-term PLP-EWCP loans, the lender must pay the guaranty fee within 10 business days from the date the loan number is assigned and before the lender signs the loan authorization for SBA.

For loans with a maturity of more than 12 months, the SBA Guaranty Fee ranges between 2% and 3.75% of the guaranteed portion of the Loan and the guarantee fee must be paid within 90 days of the date of loan approval. For further guidance on SBA's guaranty fee policy, see SOP 50-10 5(E), Subpart B, Chapter 3, Paragraph V.

Renewals of EWCP loans are handled as re-issued loans, which are new loans with new SBA loan numbers. Another guaranty fee is due each time a loan is re-issued.

8. SBA On-going Fee

The lender shall also pay SBA an annual on-going fee equal to an amount set at the time of loan approval, and based on the guaranteed portion of the outstanding disbursed balance of the loan. The fee is set annually, and is currently 0.55 % per year on the guaranteed portion of the outstanding balance. The Lender may not charge or otherwise pass on this fee to the Borrower. The Small Business Jobs Act of 2010 provides that for EWCP loans only, the annual ongoing fee shall not be collected more frequently than once per year and no fee shall be assessed on capital that is not accessed by the small business concern. Guidance concerning the payment and collection of this fee can be obtained by contacting your United States Export Assistance Center (USEAC) representative or see SOP 50-10-5(E), Subpart B, Chapter 3, Paragraph VI.A(2).

9. Interest Rates

SBA does not impose any interest rate ceiling on EWCP loans, but does monitor the rates charged for reasonableness. The SBA guaranty does not cover any penalty interest or other punitive fees.

10. Other Fees

Allowable fees which the Lender may charge the Borrower are the same as in other 7(a) loan programs as described in SOP 50 10 5(E), as amended. The lone exception is that SBA does not limit the amount of extraordinary servicing fees on EWCP loans. For further information on allowable fees, see SOP 50-10 5(E), Subpart B, Chapter 3, Paragraph VI.

11. Small Business Eligibility for EWCP Loans

The eligibility criteria for 7(a) loans is set forth in SOP 50 10 5(E), Subpart B, Chapter 2, and specific requirements for EWCP loans are found in Chapter 2, Paragraph III.L.

D. Submission of Application for Guaranty

EWCP applications must be submitted on EIB-SBA Form 84-1. This is a joint application form used by both the SBA and the U.S. Ex-Im Bank. This form requests information on the principals involved in the business and eliminates the need for separate SBA Form 912 submissions, except from any individual with a prior arrest or conviction.

For applications to reissue an existing EWCP line of credit that is maturing, the lender must submit a new EIB-SBA Form 84-1. The lender will not have to resubmit all of the historical information required with the Form 84-1, because the USEAC Representative handling the processing and servicing of the line of credit will have the historical information in the original loan file. (See SOP 50 10 5(E), Subpart B, Chapter 6, Paragraph I.F.)

Standard EWCP applications may be submitted by mail, fax or e-mail to the USEAC covering the territory where the business is located. The contact information for each USEAC may be found at: <http://www.sba.gov/content/us-export-assistance-centers>. (See SOP 50 10 5(E), Subpart B, Chapter 6, Paragraph II.D. for further guidance on submitting standard EWCP applications.)

PLP-EWCP (defined below) applications shall be submitted to the Sacramento Loan Processing Center or by E-Tran (SBA's electronic origination program). (See SOP 50 10 5(E), Subpart B, Chapter 6, Paragraphs I.C. and II.C. for further guidance on submitting PLP-EWCP applications.)

E-Tran is a secure website where lenders can enter loan information for single or multiple applications simultaneously via an SML (Extensible Markup Language) file transfer. For those PLP-EWCP lenders who currently do not use E-Tran, application for E-Tran access is easily made available by going to <https://eweb.sba.gov/gls>. Then select "Request SBA user Id". Gaining access may take up to 72 hours to be approved. Expect an e-mail from IT Security. For more information on E-Tran, go to www.sba.gov/lender_resources, or contact your local USEAC representative. PLP-EWCP lenders should check with their SBA departments to determine whether their institution already uses E-Tran.

1. Program Delivery

The SBA processes guarantees on EWCP loans through one of three delivery methods (see SOP 50 10 5(E), Subpart B, Chapter 6, Paragraphs II.C. and D.):

1. Standard U.S. Export Assistance Center (USEAC) approval processing
2. Preliminary Commitment conversions
3. Preferred Lender Program (PLP) EWCP Authority

Standard USEAC Approval. There are currently 19 U.S. Export Assistance Centers located throughout the United States. The U.S. Export Assistance Centers are a partnership of the U.S. Department of Commerce, Export Import Bank of the United States and the U.S. Small Business Administration. USEACs are one-stop shops that provide small and medium-sized businesses with export assistance, although SBA loan assistance is only available to small businesses. The USEAC is the first point of entry for small business exporters and SBA's front-end visibility. Staff within the office should be proficient in identifying the export finance opportunity and to know when an EWCP loan provides the best fit for the small business exporter. USEAC staff will direct exporters to those lenders that participate in the program and will provide first level underwriting from completed applications submitted by EWCP lenders. Their expertise is utilized throughout the life of the EWCP loan as the USEAC is called upon by lenders after the loan is disbursed for assistance with program requirements.

Each USEAC location has a particular geographic territory which it serves based upon the location of the small business applicant. If the applicant has multiple locations, the headquarters location of the applicant is used to determine the processing USEAC.

For a complete listing of the USEAC locations and personnel, go to <http://www.sba.gov/content/us-export-assistance-centers>.

The Regional Manager of SBA's Export Solutions Group located at each USEAC will consult, advise and train lenders and small business exporters on the procedures and benefits of SBA's EWCP program. Lenders submit their EWCP loan applications directly to the USEAC for processing. The USEAC Regional Manager will conduct a full eligibility and credit review in his or her Loan Officer's Report (LOR), prepare the Loan Authorization and submit a recommendation to the SBA Loan Guaranty Processing Center (LGPC). Due to the time sensitivity of these requests, processing is done as expeditiously as possible and typically within ten business days of receipt of a complete application.

The LGPC will review the LOR and EWCP application for final approval. If the Center concurs with the USEAC approval recommendation, a final authorization will be sent directly to the lender within five business days. In the event the LGPC does not concur with the USEAC's recommendation, the request is sent to SBA's Office of International Trade for final disposition.

Preliminary Commitment Conversions. Small business exporters that are unable to find a lender willing to process an EWCP loan request on their behalf have the option of applying directly to their local USEAC for a "Preliminary Commitment." The SBA will only issue a "Preliminary Commitment" to an applicant upon submission of a complete application and the conclusion that the applicant meets SBA eligibility and qualifications guidelines. If SBA issues an SBA EWCP "Preliminary Commitment," it will outline the specific terms and conditions under which SBA is prepared to guarantee an EWCP loan extended by an eligible Lender. The Preliminary Commitment is valid for 90 days. It is the applicant's responsibility to find a lender to convert the Preliminary Commitment to a final EWCP loan approval. Lenders that wish to convert a "Preliminary Commitment" to an EWCP loan would follow the complete "Standard USEAC Approval" process as explained above in order to receive the final approval and authorization.

Preferred Lender Program PLP-EWCP. The SBA can designate experienced EWCP lenders and international trade lenders with PLP-EWCP authority. Lenders that earn this distinction are delegated the authority to process, close, service and liquidate EWCP loans without prior SBA review. In order to obtain PLP authority for the EWCP program, lenders must request this authority from the SBA. Complete details of application process for becoming a PLP-EWCP lender can be found in SOP 50 10 5(E), Subpart A, Chapter 1, Paragraph IV.B.5. as amended. It should be noted as a result of the Small Business Jobs Act, Ex-Im Bank Delegated Authority Lenders shall be eligible to participate in PLP-EWCP. For further details contact your USEAC representative. Lenders with PLP- EWCP authority enjoy an advantage in the marketplace in that they are able to approve and close EWCP loans on their own, thereby reducing processing time. PLP-EWCP lenders retain the ability to process EWCP requests through the Standard USEAC Approval process.

E. Loan Underwriting

1. Credit Standards and Lender's Credit Memorandum

Lenders must submit a Credit Memorandum with the application and analyze each EWCP request in a commercially reasonable manner, consistent with prudent lending standards. EWCP loans are self-liquidating loans and the conversion of the export trading assets to cash is the primary source of repayment. The lender's financial analysis should pay particular attention to the Applicant's foreign payment terms and the impact on the Applicant's cash cycle. Lender must specify whether the request is for a:

Single Transaction-Specific Loan;

Transaction Based -Revolving Line of Credit, single or multiple transactions; or

Asset Based Loan (ABL).

The lender's analysis must include:

- a. Explanation of use of proceeds and benefits of the loan guarantee, including details of the underlying transaction(s) for which the loan is needed, including country(s) where the buyers are located;
- b. A description of the history and nature of the business;
- c. A description of and comments on the business plan including the financial condition of the business;
- d. A discussion of the owners' and managers' relevant experience in the type of business, including whether or not any key man life insurance will be required;
- e. A financial analysis of the Applicant's current balance sheet;
- f. A financial analysis of repayment ability based on the Applicant's cash cycle;
- g. A ratio analysis of the financial statements including comments on any trends and a comparison with industry averages;
- h. An analysis of the collateral adequacy, including a discussion of the payment terms accepted by the Applicant and the proposed allowable foreign receivables to be financed with the EWCP;
- i. If Applicant intends to seek advances on "open account, uninsured foreign receivables," memorandum must provide an analysis on the suitability of these foreign receivables; and
- j. A discussion of lender's credit experience with the Applicant and a review of business and personal credit reports.

[See SOP 50 10 5(E), Subpart B, Chapter 4, Paragraph I.A.4.]

2. Collateral Policies

- a. EWCP loans shall be secured by no less than a first lien on all collateral associated with the transactions financed. This includes at least the export inventory and receivables, assignment of credit insurance, letters of credit proceeds, and contract proceeds as applicable.
- b. In general, the inventory produced and the receivables generated by the export sales financed will be considered to provide adequate collateral coverage. SBA, however, may require additional collateral by placing a lien on other business assets.
- c. Receivables generated from sales to foreign purchasers are not considered a foreign asset and may be taken as collateral.
- d. Personal guaranties of all 20% or more owners is generally required, but may be waived by the Director, Office of Financial Assistance.

[See SOP 50 10 5(E), Subpart B, Chapter 4, Paragraph II.H.]

3. Accounts Receivable

Terms of Sale – Payment terms must be in compliance with SBA’s Loan Authorization. The Ex-Im Bank Country Limitation Schedule should be reviewed for prohibited Countries, and accounts receivables supported by Ex-Im Bank Export Credit Insurance shall not exceed 180 days from the invoice date. Accounts receivable supported by acceptable letters of credit shall not exceed 364 days, and the loan must mature after the expiration date of any standby letter of credit, unless approved by SBA. In addition, payment terms must be in line with prudent lending practices. Typical terms of sale include but are not limited to:

- a. Confirmed irrevocable letter(s) of credit.¹
- b. Irrevocable letter(s) of credit.¹
- c. Open account insured through Ex-Im export credit insurance for comprehensive commercial and political risk.²
- d. Open account insured through non-Ex-Im export credit insurance for comprehensive commercial and political risk.²
- e. Cash payment received prior to shipment.
- f. Open account uninsured, with prior written SBA approval.
- g. Sight draft documents against payment, with prior SBA approval.

¹ SBA or the PLP-EWCP Lender may require for some or all of the Borrower’s export-related accounts.

² SBA or the PLP-EWCP Lender may determine that export credit insurance is required to enhance the quality of Export-Related Accounts Receivable. Export credit insurance is available through Ex-Im as well as through several private companies. If export credit insurance is obtained, the Lender must be named as loss payee on the export credit insurance policy.

Jurisdiction and Currency of Accounts Receivable - Receivables held as collateral should be payable to the Borrower in the United States and with United States currency. Accounts Receivable Due and Payable in Non-U.S. Currency may be allowed on a case-by-case basis with SBA's prior written approval. Depending on the stability of the currency in question, SBA may require that the Borrower mitigate the risk through hedging (purchasing of a forward currency contract or similar mechanism) as a condition of such approval.

Control accounts - For the "single transaction specific" and "transaction based-revolving line of credit" EWCP Loans and Lines of Credit, Lenders will be required to set up a control account to capture the proceeds of foreign receivables as they are paid by the foreign buyers. The proceeds are required to be applied against the loan balance, either in their entirety or as a percentage of the proceeds in a sufficient amount to pay off the initial advance for that specific transaction.

For the "asset based lines of credit," Lenders normally must have 100% of the export accounts receivable proceeds applied against the loan balance and have the Borrower request additional advances as needed. Another available option is to allow for the Borrower to maintain a balance within the Borrowing Base limits and to retain export accounts receivable proceeds (not apply them to the loan balance upon collection). The Borrower must submit an aging of receivables and listing of inventory and Borrowing Base Certificate no less than monthly. The Lender will review the Borrowing Base to assure the Borrower is not over-advanced according to the available collateral detailed on the Borrowing Base Certificate. If the Borrower is over-advanced per the Borrowing Base, the Lender will require the Borrower to immediately make a payment to reduce the loan balance to be in compliance. For a company with an asset-based line of credit to be allowed to retain the accounts receivable proceeds, the company must meet the following requirements:

- a. Be in business for at least 2 years (no start-ups); and
- b. Have financial records satisfactory to SBA and the ability to provide a current aging of accounts receivable and a listing of inventory to determine the allowable loan balance per the borrowing base.

Restrictions – Unless the Lender receives prior written approval from SBA, any of the following types of accounts receivable are not eligible for inclusion in an asset based loan borrowing base:

- a. an account receivable that does not arise from the sale of items in the ordinary course of the Borrower's business.
- b. an account receivable from a domestic (U.S.) company, unless the transaction has been documented as an indirect export.
- c. an account receivable for which an invoice has not been sent.
- d. an account receivable that is due and payable from a foreign buyer located in a

country with which SBA is legally prohibited from doing business as set forth in the current Ex-Im Bank Country Limitation Schedule. (If the Borrower has knowledge that an export to a country in which SBA may do business, as set forth in the Ex-Im Bank Country Limitation Schedule, will be re-exported to a country with which SBA is legally prohibited from doing business, the corresponding receivables are not eligible for inclusion in the export-related borrowing base.)

- e. an account receivable that, by its original terms, is due and payable more than one-hundred-eighty (180) calendar days from the date of invoice, except those accounts receivable supported by acceptable Letters of Credit.
- f. an account receivable that is still outstanding more than sixty (60) calendar days from its original due date unless insured through Ex-Im (or other acceptable) export credit insurance for comprehensive commercial and political risk, in which case one hundred twenty (120) calendar days shall apply.
- g. an account receivable that the Lender deems uncollectible or unacceptable; this category includes, but is not limited to, finance charges or late charges imposed on the foreign buyer by the Borrower as a result of the foreign buyer's past due status.
- h. an account receivable that does not comply with the terms of sale as set forth in the SBA loan authorization.
- i. an account receivable that arises from a bill-and-hold, guarantee sale, sale-and-return, sale on approval, consignment, or any other repurchase or return basis or is evidenced by chattel paper.
- j. an account receivable that is subject to any offset, deduction, defense, dispute, or counterclaim, or the buyer is also a creditor or supplier of the Borrower or the account receivable is contingent in any respect or for any reason.
- k. an account receivable for which any of the items giving rise to such account receivable have been returned, rejected, or repossessed; or
- l. when 50% or more of the total accounts receivable for a specific buyer are over 60 calendar days past original due date, then the total accounts receivable for that buyer are excluded.

In addition, the lender shall apply the same policies in reference to receivables eligible to be included in the borrowing base, as the Lender applies to its own similar asset-based loans which are not guaranteed by SBA or any other government entity.

The lender may verify that no ineligible accounts receivable (as described above) are included in the borrowing base certificate by obtaining a borrower certification to this effect at the bottom of the borrowing base or on a separate certification form.

4. Inventory

General Guidelines

- a. Export-related inventory taken as collateral must be located within the United States, until shipped to the foreign buyer.
- b. Export-related inventory must be valued at the lower of actual cost or market value (including cost of work-in-process inventory) as determined in accordance with Generally Accepted Accounting Principles (“GAAP”).
- c. Export-related inventory may include raw materials, work-in-process, and finished goods.
- d. Advance rates against eligible export-related inventory may vary depending on inventory quality.

Restrictions - Unless the Lender receives prior written approval from SBA, any of the following export-related inventory is not eligible for inclusion in the export-related borrowing base:

- a. Inventory that is not subject to a valid, perfected, and enforceable first priority lien in favor of the Lender;
- b. Inventory located at an address that has not been disclosed to the Lender in writing;
- c. Inventory that is not located in the United States, unless being shipped to the foreign buyer;
- d. Inventory that is placed by the Borrower on consignment or held by the Borrower on consignment;
- e. Inventory that is demonstration inventory;
- f. Inventory that consists of proprietary software (i.e., software designed solely for the Borrower’s internal use and not intended for resale);
- g. Inventory that is damaged, obsolete, returned, defective, recalled or unfit for further processing;
- h. Inventory that is to be incorporated into Items destined for shipment to a country with which SBA is **legally prohibited** from doing business as designated in the current Ex-Im Bank Country Limitation Schedule, or that the Borrower has knowledge will be re-exported by a foreign buyer to a country in which SBA is legally prohibited from doing business; and
- i. Inventory that is to be incorporated into Items whose sale would result in an Account Receivable that would not be an Eligible Export-Related Account Receivable.

In addition, Lender shall apply the same policies in reference to inventory eligible to be included in the Borrowing Base, as the Lender applies to its own similar Asset Based Loans which are not guaranteed by SBA or any other government entity.

The Lender can verify that no ineligible inventory (as described above) is included in the Borrowing Base by obtaining a Borrower Certification to this effect at the bottom of the Borrowing Base Certificate or on a separate certification form.

[See SOP 50 10 5(E), Subpart B, Chapter 7, Paragraph III.G.6.]

5. Standby Letters of Credit

- a. In situations where the Borrower is in need of a standby letter of credit to be issued as a bid bond, the Lender may issue such standby letter of credit (if allowed in the Loan Authorization) even though no firm export order yet exists as long as prior to such issuance, the Borrower is required to deposit, in cash, into an account held by the Lender an amount equal to 25% of the standby letter of credit being issued. This deposit must remain in the account held by the Lender for the life of the standby letter of credit. SBA may, at its discretion, allow export inventory or export accounts receivable or other acceptable collateral to replace the cash deposit; however, this substitution must be approved by SBA in advance.
- b. Issuance of a standby letter of credit to support a performance bond is tied to a deposit, in cash, into an account held by the Lender of an amount equal to 25% of the standby letter of credit being issued. This deposit must remain in the account held by the Lender for the life of the standby letter of credit. SBA may, at its discretion, allow export inventory or export accounts receivable or other acceptable collateral to replace the cash deposit; however, this substitution must be approved by SBA in advance.
- c. EWCP loans may also support standby letters of credit issued as “advance payment guarantees”. In these situations, the Borrower receives a down payment from the foreign buyer of an export transaction which would be eligible for support under the loan authorization. The foreign buyer, in turn, requests a standby letter of credit in an amount equal to the down payment as an “advance payment guarantee”. Standby letters of credit supported by transaction based EWCP loans used for this purpose do not require additional cash collateral. Normally, the export inventory and receivables associated with the transactions being financed are sufficient collateral. When a down payment is received on a transaction, the loan advance for that transaction is reduced by the amount of the down payment.
- d. At such time as a standby letter of credit is drawn upon, the Lender may draw upon the SBA-guaranteed line of credit to pay the beneficiary (if there is sufficient availability), or request direct payment from the Borrower.
- e. For the Asset Based Lines of Credit - If, at any time, the applicable export-related borrowing base is less than the sum of (i) the aggregate outstanding amount of disbursements, (ii) 25% of the aggregate amount set aside for standby letters of credit, the Borrower shall immediately either pay the Lender an amount equal to the difference between such sum and the export-related borrowing base, or provide the Lender with additional collateral sufficient to

cover such difference.

Notwithstanding the foregoing, over-advances, whereby the Lender would like to make advances to the Borrower over the export-related borrowing base, are not allowed without prior written approval of SBA.

- f. Terms of Standby Letters of Credit - A Lender may issue standby letters of credit throughout the loan term, with the length of the term of any such letter of credit not to extend beyond the SBA maturity date. The Lender may issue letters of credit that extend beyond the SBA maturity date only with the prior written approval of SBA.

F. Loan Authorization

The lender sets the terms and conditions for extending credit to the borrower. SBA establishes the terms and conditions for its EWCP loan guaranty. The Authorization is SBA's written agreement between the SBA and the lender providing the terms and conditions under which SBA will guarantee a business loan.

SBA establishes the wording for all EWCP Authorization conditions in the National Authorization Boilerplate (“the Boilerplate”). The conditions contained in the Boilerplate reflect the policies and procedures in effect at the time the Boilerplate is issued. The Boilerplate is incorporated by reference into SOP 50 10 5(E), as amended. If there is any conflict between the Boilerplate and the SOP, the Boilerplate supersedes the SOP.

1. The Boilerplate contains the mandatory national standard language for all EWCP Authorizations.
2. The Wizard is an electronic document application intended to make it easier for lenders to create Authorizations based on the EWCP Boilerplate.
3. The party responsible for drafting and signing the Authorization is determined by the EWCP delivery method utilized.

<u>EWCP delivery method</u>	<u>Responsible Party</u>
Standard USEAC Processing	SBA drafts and signs the Authorization
Preliminary Commitment Conversions	SBA drafts and signs the Authorization
PLP-EWCP Processing	Lender drafts and signs on SBA’s behalf

4. The latest edition of the EWCP Boilerplate can be found at <http://www.sba.gov/category/lender-navigation/steps-sba-lending/7a-loans/approval-authorization/7a-loan-package-templates> . The Authorization for EWCP loans must use the pre-approved conditions that are found in the Boilerplate.

5. Processing Center counsel must review and approve any Authorization that proposes to deviate from the Boilerplate language with the following exception:

PLP-EWCP lenders may develop Authorization conditions that are not pre-approved in the Boilerplate and use them without prior SBA approval, provided they are only used one time. Whenever a PLP-EWCP Lender develops and uses a non-standard condition, an explanation for its development must be in the loan file.

[See SOP 50 10 5(E), Subpart B, Chapter 5, Paragraph I.D.]

G. Post-Approval Modifications, Loan Closing & Disbursements

1. Loan Increases

A lender may request an increase for an amount up to 33.3% of the original loan amount after initial approval whether the loan is unfunded, partially or fully disbursed. The resulting loan amount and SBA guaranty amount may not exceed SBA's maximums.

The guaranty fee and on-going fee applicable to the increased portion will be the rates in effect at the time the loan was originally approved. (See SOP 50 10 5(E), Subpart B, Chapter 3, Paragraph I.D.1.) Increases are requested on SBA Form 2237 and in the same manner as when the loan was originally approved.

For Standard USEAC Approved EWCP loans, the SBA Form 2237 as well as documentation justifying the request is submitted to the local USEAC for processing. For PLP-EWCP approvals, the Lender submits SBA Form 2237 to the appropriate SBA Commercial Loan Service Center as listed at the top of Form 2237 (either Fresno or Little Rock) (See SOP 50 10 5(E), Subpart B, Chapter 7, Paragraph I.E.).

2. Other Modifications

For other loan modification requests, lenders should submit in the same manner as in paragraph 1 above via form 2237 to the appropriate USEAC or Commercial Loan Servicing Center (if PLP-EWCP). SBA Form 2237 can be obtained at: http://archive.sba.gov/idc/groups/public/documents/sba_program_office/sba_form_2237.pdf

Lenders should refer to the Servicing and Liquidation Actions 7(a) Lender Matrix to determine which modifications can be performed unilaterally, when SBA approval is needed, and when lenders should use E-Tran to make entries. Lenders should register with E-Tran as described in section D of this manual. The Matrix can be obtained at: http://archive.sba.gov/idc/groups/public/documents/sba_program_office/unilateral_action_matrix.pdf.

3. Loan Closing

Disbursements/Advance Rates

A. All transactions financed by EWCP loans shall be payable in U.S. dollars unless SBA approves payment in a foreign currency. If the transaction is payable in a foreign currency, the borrower must show the Lender evidence that the currency risk has been mitigated through hedging (i.e. purchasing of a forward contract, forward option, or similar mechanism). When advancing against a transaction payable in a foreign currency, Lender must use an established foreign exchange rate and must retain documentation showing the exchange rate used and the Lender's calculation of the amount of the advance.

B. On a transaction-based revolving line of credit where draws are made against foreign purchase orders or contracts, the advance rate shall not exceed 90% of the purchase order/contract or the borrower's costs (including overhead), whichever is less. Receivables will be captured by the lender through the use of a controlled account, and each transaction will be paid off as the receivables proceeds are received. For example, if \$90,000 is disbursed against a purchase order of \$100,000, when the \$100,000 receivable comes in; \$90,000 will first be applied to the loan balance. If the buyer in this example pays \$10,000 in 15 days and the other \$90,000 30 days later, the lender would apply 90% of each payment to the principal balance of the loan.

C. On an asset-based revolving line of credit where advances are made against a borrowing base of foreign receivables and/or foreign inventory, the maximum advance rates are 90% on eligible foreign receivables and 75% on eligible foreign inventory located within the United States. Controlled accounts may be required at the discretion of the SBA Approving Official, however PLP-EWCP lenders have delegated authority to make this decision unilaterally. PLP-EWCP lenders must document their files in reference to their decision making process concerning whether a control account is required on each asset based loan. At a minimum, the borrower will be required to complete a monthly borrowing base certificate submitted to the lender along with an aging schedule of the receivables and a listing of inventory, as appropriate. If the borrowing base shows the borrower is over-advanced, the lender must immediately require the borrower to make a payment to reduce the loan balance so it is within the borrowing base formula.

D. Advance rates on foreign purchase orders/contracts or foreign receivables when sold on open account (no credit insurance or letter of credit to mitigate the foreign risk) shall not exceed 80%. The SBA Approving Official may approve a maximum advance rate up to 90% when the lender submits written justification that meets the following conditions:

- a) The receivables are from financially sound corporations or multinational companies located in countries with minimal political risk;

b) The receivables are from highly-rated government entities in countries with minimal political risk; or

c) The exporter can provide favorable ledger experience with specific accounts over a significant period of time (e.g., three years). If the lender is a PLP-EWCP lender, the lender may advance up to 90 % and must document its loan file with the analysis and justification to allow the higher advance rate.

[See SOP 50 10 5(E), Subpart B, Chapter 7, Paragraph IV.G.1-4.]

H. Loan Portfolio Monitoring/1502 Reporting/Servicing

Lenders participating in SBA's EWCP are responsible for ensuring that monthly reporting of the payment status of loans outstanding is provided to SBA. The format for all SBA 7(a) loan reporting is the SBA Form 1502 report. This Form is filed by participants each month and is submitted to SBA's Fiscal and Transfer Agent (currently Colson Services Corporation) for processing and data distribution to SBA.

Information on the proper completion of the Form 1502 report can be found in SOP 50 10 5(E), Subpart B, Chapter 8, as amended. Please note the Ongoing Service Fee payment for EWCP loans differs from standard 7(a) loans. Lenders must pay this fee monthly along with the 1502 report on standard 7(a) loans. On EWCP loans, however, SBA requires this fee be collected not more frequently than once per year. For more information, contact your USEAC representative.

International trade divisions of 7(a) participants that make EWCP loans must ensure that this reporting function is addressed within their own overall 7(a) operation. EWCP lenders should determine how this form of SBA loan reporting is carried out by any domestic 7(a) lending affiliate group(s) and combine 7(a) loan portfolio reporting into one source point where possible.

Servicing requirements are set forth in SOP 50 50 4.

I. Loan Liquidation, Guarantee Purchase and Disposition

1. Loan Liquidation

Generally speaking, when an EWCP loan is more than 60 days in arrears, lender participants need to decide whether the primary source of loan repayment will come from a liquidation of pledged collateral. The process of performing loan liquidations within SBA is detailed in SBA SOP 50 51 3, as amended. EWCP lenders must review this SOP for SBA guidance on the steps involved in conducting loan liquidations and the distribution of proceeds from liquidation recoveries.

2. Requesting SBA Purchase of the Guarantee

Once an EWCP loan is deemed uncollectible and the process of collateral liquidation is completed, EWCP lenders may request SBA purchase of the participation interest by filing a written request for purchase with SBA's National Guaranty Purchase Center (NGPC). The steps for making a purchase demand to SBA, and for submitting requested loan documents for SBA's pre-purchase review of the loan account, are found on the following website: http://www.sba.gov/lender_resources.

Additional guidance concerning guaranty purchases may be found in SOP 50 51 3, Chapters 22 and 23. The SOP may be found at: <http://archive.sba.gov/aboutsba/sbaprograms/elending/reg/index.html>.

If this link becomes inactive, look for the SOP 50 51 3 at: www.sba.gov/lender_resources.

3. Final Disposition and Charge-Off

As detailed in SOP 50 51 3, as amended, EWCP lenders are required to provide a wrap up report following the completion of all liquidation activities and recoveries applied to SBA EWCP loans. This report filing is the final step in the disposition of an SBA loan, and will be the basis for determining the extent of any SBA loan account charge offs. This charge off data is used by SBA to compute lender portfolio performance statistics and for SBA risk management purposes.

J. Roles and Relationships of Other SBA Offices

1. Office of International Trade

SBA's Office of International Trade operates out of Washington D.C. and is responsible for policy and program management and provides supervision to the USEAC network. Established by statute with an Associate Administrator for International Trade who is responsible to the SBA Administrator, the Office serves as the hub for international small business trade relations and the liaison for issues surrounding access to capital for small business exporters. The Office handles intake of all requests for delegated authority for PLP-EWCP lenders. The Office of Credit Risk Management makes the decision as to whether to approve delegated authority for PLP-EWCP lenders (see paragraph 7 below).

2. U.S. Export Assistance Centers

U.S. Export Assistance Centers (USEACs) are staffed by SBA Trade Finance Specialists, who are charged with training and counseling lenders and borrowers on SBA's specialty loan programs designed for American exporters. In addition, the SBA representatives at the USEAC do the loan underwriting (for non PLP-EWCP applications) on EWCP loan guaranty requests as well as the subsequent loan servicing for EWCP loan guaranty approvals. For a full description of USEACs see the Program Delivery section above in this manual.

All servicing requests should be submitted to the USEAC with jurisdiction over the territory in which the borrower's home office is located. When lenders decide to place loans in liquidation, the appropriate USEAC Representative must be notified in writing.

3. Office of Financial Assistance

SBA's Office of Financial Assistance develops loan policy for all 7(a) loans. The Office of International Trade coordinates with the Office of Financial Assistance (OFA) in developing EWCP loan policy. Exceptions to policy must be approved by the Director of International Trade Finance (D/ITF) in accordance with SOP 50 10 5(E). Such exceptions cannot be processed using PLP-EWCP authority. Loans with exception to policy requests must be submitted through a USEAC.

4. Loan Guaranty Processing Center

The SBA Loan Guaranty Processing Center (LGPC) performs transactional underwriting of SBA export working capital credit, and evaluates loans for program eligibility. Currently located in Citrus Heights, California, all EWCP loans, except those processed by PLP-EWCP lenders, will be approved through this unit of SBA. Selected staff at the Center is trained at evaluating EWCP applications and provide Lenders with direction on the proper application of current policy.

5. Sacramento Loan Processing Center

The Sacramento Loan Processing Center (SLPC) processes PLP-EWCP loan guaranty submissions. This SBA unit is also located in Citrus Heights, California.

6. SBA Fiscal and Transfer Agent

The SBA Fiscal and Transfer Agent (FTA) provides financial support services under contract for all SBA 7(a) loans. Currently, for purposes of the EWCP loans, the FTA is the point of contact for lender loan portfolio reporting related to the payment status of all outstanding EWCP loans.

7. Office of Credit Risk Management

The Office of Credit Risk Management (OCRM) performs SBA portfolio performance monitoring and lender oversight for the 7(a) loan program. OCRM is an SBA operating unit headquartered in Washington D.C. and employs a risk-based approach to lender oversight and corrective actions. Its primary function is to evaluate the level of financial risk to SBA arising from the issuance of loan guarantees by lender participants to small business concerns throughout the nation. OCRM also approves delegated authority for PLP-EWCP lenders.

8. SBA Liquidation and Purchase Center

The National Guaranty Purchase Center (NGPC) in Herndon, Virginia is the SBA office which handles liquidation matters and purchase requests. As previously stated, lenders must notify the appropriate USEAC when they decide to place EWCP loans into liquidation status. The USEAC will then transfer the loan to the (NGPC). Lenders will then deal with the NGPC in reference to liquidation matters and guaranty purchase requests concerning those loans.