Going Global Series

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Financing Trade Credit

Structured Receivables Financing Alternatives For Exporters

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Webinar Participants & Panelists

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Introduction and Objective

- Today we will examine and review some of the credit products that have been developed by the industry to finance international trade. These have been designed to help:
  - Reduce/transfer the risks inherent in the collection of receivables
  - Provide cash flow and working capital relief so exporters can be profitable in a global marketplace
- **Credit Products Reviewed:**
  - Factoring
  - Forfaiting
  - Securitization
  - Asset Based Lending

Overview of Factoring

- Funding to the borrower/seller is through the legal and outright sale of receivables to an independent or bank-owned factor (with OR without recourse).
- Depending on the type of factoring, Customer/Obligor *may* be notified of the factor's purchase of the receivable, and *may* verify the accuracy of the invoice.
- Receivables payments are generally directed to a blocked account or lockbox controlled by the factor.
- Product available in many countries; multi-country solutions may be available in some regions.
- "Committed" funding of eligible receivables can often be arranged for a period of between one and three years
- Retentions are held against dilutions (non-cash reductions in receivables due)
- Factor funding levels, or the Advance Rate, are generally between 70% and 90% of the eligible assets. The balance is released to the client after payment is received and after the deduction of the factor's fees and interest.
- Facilities are typically revolving - new receivables are purchased and funded periodically (i.e., daily, weekly, etc.).

Factoring

Strengths	Weaknesses
✓ Wide range of solutions - with or without recourse ✓ Tailor Made – funding, balance sheet optimization, suppliers support, risk mitigation ✓ Revolving Structures ✓ Low complexity ✓ Scalable solution ✓ Easy to combine large and small facilities ✓ Outsourcing ✓ Revolving cash generation according to Business Plan ✓ Open for syndication ✓ Low Regulatory Capital allocation- (Basle II) ✓ Off-balance sheet treatment may be possible	✓ Some activities excluded ✓ Restricted to Commercial obligors/B2B ✓ Payment terms usually limited to between 120 and 180 days maximum

Overview of Forfaiting

- Forfaiting involves the non-recourse purchase by a third party of an importer’s documented future payment obligations related to the prior delivery by an exporter of a specific good or product.
- Exporter receives discounted cash proceeds with no future receivable reported on its balance sheet.
- Most commonly used in cross-border trade of relatively large-ticket capital goods that often require relatively longer, often multi-year, payment terms. Terms of 180 days to 5 years are often possible.
- The importer’s future payment obligations are typically documented under a promissory note, bill of exchange or other negotiable instrument.
- Bank-avalized paper dominates the market today.
- Payment risk on importers / banks in most countries can be discounted.
- There is a fairly active secondary market for the purchase and sale of many forfaiting assets.

Forfaiting - Strengths & Weaknesses

Strengths	Weaknesses
✓ Flexibility in terms of amount, tenor and risk acceptance ✓ No set up cost for the exporter ✓ Speed of conclusion ✓ Efficient also for one-off transactions ✓ No further reporting requirements and administration ✓ Gives quick access to new markets without payment risk ✓ Growing business without increasing risk position ✓ Expansion of global trade	➢ Needs a direct acknowledgement from the debtor ➢ Potential for different treatment in different jurisdictions

Overview of Trade Receivables Securitization:

- Funding is accomplished:
  - Through the true sale of receivables to a bankruptcy remote special purpose entity (SPE), which isolates the A/R from a legal and credit perspective.
  - Simultaneously, the A/R collateral in the SPE is used to borrow cash from a funding source(s).
- Funding sources are primarily Bank Sponsored Commercial Paper Conduits, Bank Balance Sheets, and/or Private Institutional Investors.
- Funding is typically for between one and five years, on a committed basis.
- To achieve competitive pricing, the receivables pool/SPE is credit enhanced to an investment grade ('A', 'AA' or 'AAA') structure, using credit rating agency criteria.
- Credit enhancement requires setup of reserves. These are held back, effectively creating an advance rate.
- The two main reserves, loss (delinquency) and dilution, are determined based on the historic performance of the receivables portfolio.
- Facilities are typically revolving - new receivables are purchased & funded daily.
- Collections are remitted to the seller through an account frequently controlled/owned by the SPE.

Trade Receivables Securitization

Strengths	Weaknesses
✓ Competitive pricing /positive credit arbitrage ✓ High liquidity / Maximize collateral efficiency ✓ Committed funding – one to five years ✓ Little or No financial covenants ✓ No impact on customer relationships ✓ Easy to expand to include additional selling entities / countries ✓ Access to new sources of capital ✓ Off Balance Sheet Treatment (GAAP & IFRS) with appropriate level of risk transfer ✓ Can fund capital expenditure, M&A and growth	✓ Sometimes higher upfront fees – structuring, legal and rating agency ✓ Time to implement and reach funding stage ✓ May involve more Intensive administration and reporting ✓ Complexity can delay implementation ✓ Requires allocation of internal resources in early stages

Overview of Asset Based Lending / Borrowing Base Facilities:

- Asset Based Lending is a secured lending product typically in the form of a revolving line of credit. For exporters, it can be used to provide working capital finance.
- Advances are based on a borrowing base formula as a percentage of the value of a company's assets. The most prevalent assets financed are trade accounts receivable and inventory, but plant & equipment, real estate and other assets are sometimes utilized.
- Invoices or receivables are not sold to the lender. Instead, the lender takes a security interest in the receivables. The Borrower continues to take the credit risk of collection.
- Advance rates against "eligible" collateral vary - typically 80 - 85% for accounts receivable, 50 - 65% for inventory, 50 - 75% for plant and machinery and 25 - 65% for real estate – all established through analysis and appraisals. Borrowing Bases are updated regularly to reflect the ongoing value of collateral.
- Facilities are committed, on balance sheet financings with typical tenors of 3 to 5 years.
- The Borrowing Base Facility construct was developed, and is still most widely used, in North America, but is becoming increasing popular in Western Europe and elsewhere.
- Eligibility of Borrowing Base assets varies from country to country, related primarily to local bankruptcy laws, but lenders are generally comfortable with A/R in most West European countries.

Asset Based Lending / Borrowing Base Facilities

Strengths

- ✓ High liquidity / immediate availability
- ✓ Committed term funding
- ✓ Funding based on eligible assets, not solely cash flow
- ✓ No impact on client relationship. No notification of client
- ✓ Funding limits expand as underlying assets increase – follows business growth
- ✓ Access to new sources of capital
- ✓ Can provide incremental funding compared to cash flow lending
- ✓ Can also fund capital expenditure, M&A and growth – not just working capital
- ✓ Relatively immature market outside US, but eligible geographies are expanding

Weaknesses

- ✓ Does not provide risk mitigation for customer/receivable default
- ✓ ABL is secured debt on balance sheet
- ✓ greater administration and reporting requirements (“securitization ‘light’.”)
- ✓ Requires pledge against all eligible assets
- ✓ Geographic limits based on local jurisdictional differences in asset assignability and bankruptcy laws.
- ✓ Increases bank debt/leverage for reporting/ covenant purposes

Biographies of FINACITY Panelists

David Viney
Managing Director – Global Head of Origination
David has over 20 years of experience in the structured finance business, having advised clients at C-level in the United States, Europe, Asia and the Middle East.
David started his investment banking career at Barclays de Zoete Wedd and has worked in the securitization teams at Bank of America, Mizuho and RBS. David headed the RBS conduit securitization business in Europe before moving to the United States to establish the RBS conduit securitization business in North America. He was subsequently appointed RBS Country Head for Qatar, with responsibility for the RBS Qatar branch and its relationships with Qatari GREs.
David holds a M.B.A. (Distinction) in Finance from Alliance Manchester Business School, the Financial Studies Diploma ("DipFS") and is an Associate of the Chartered Institute of Bankers ("ACIB").

Bruce Miller
Managing Director – Origination / Client Relationship Management
Bruce has over 25 years experience in Securitization, Capital Markets, Commercial Banking, and Trade Finance.
His primary responsibility at Finacityis the origination and structuring of Trade Receivables Financings. Mr. Miller was Head of the Americas Securitization Group at ING Capital, Director at Credit Suisse First Boston, where he founded the firm's original ABCP Conduit & Credit Products Group. He headed Daiwa Bank's securitization business in the Americas He has advised clients and executed securitizations in most asset classes, with particular emphasis on Trade Receivables
Mr. Miller holds a Bachelor's degree in Economics from St. John's University and a M.B.A. from the New York University Stern School. He has taught corporate finance at the undergraduate level, and has been a guest speaker at industry conferences.

Jim Leonard
Managing Director – Alternative Liquidity Solutions
Jim spearheads Finacity's alternative asset origination and distribution activities. His offers clients working capital solutions such as factoring/invoice finance, asset-based lending, supply chain finance and structured trade finance, in addition to Finacity's core trade receivable securitization business.
Prior to Finacity, Jim was a director at Rosemount Capital Management, where he managed the origination, trading and syndication of trade and commodity finance assets in Latin America and Eastern Europe. Before that, he was head of international marketing for the Financial Institutions Group at Bank of Tokyo-Mitsubishi New York. Jim also had stints at Citicorp Investment Bank, Global Structured Trade Solutions, and Goldman Sachs. He has a BS in Economics from the College of William and Mary, and an MBA in International Finance from NYU. He holds both US and EU citizenship.