

CHAPTER III

PROGRAMS OF THE U.S.A. EX-IM BANK DIRECT LOANS AND GUARANTEES

DIRECT LOANS

- Loan made by Ex-Im Bank
- 85% of- US contract price
- Fixed interest rate
- Exporter paid with disbursement LIC or directly by buyer
- Shipping rules always apply*

CIRR

Repayment Term	Formula
Up to 5 years	3-yr. Treasury + 100 bp
5 to 8.5 years	5-yr. Treasury + 100 bp
Over 8.5 years	7-yr. Treasury + 100 bp

BEST USED WHEN:

- Buyer insists on fixed rate
- Tied aid competition is present

DISADVANTAGES

- Negotiated Credit Agreement
- Disbursement Process
- No Cash Payment Support
- Shipping Requirements

TYPES OF GUARANTEES

* Under Public Resolution 15, shipment on U.S. vessels is required for:

- All Direct Loans
- Guarantees of over \$10 Million

- Comprehensive
- Political Risk Only

GUARANTEE FEATURES

- 100% principal and interest cover for 85% of US Contract Price
- Negotiated interest rate-usually floating
- Fully transferable; can be securitized
- Available in major foreign currencies
- Can switch from floating to fixed rate
- US vessel shipping rules apply for long terms

ADVANTAGES OVER DIRECT LOANS

- Faster documentation process
- Banks assist in the transaction
- Promotes cash payment financing
- Floating interest rate usually lower
- No shipping regulations under \$10 million

MASTER GUARANTEE AGREEMENT (MGA)

- Provides terms applicable to guarantees issued
- Details documentation and procedures
- MGA must be operative
- Any lending institution can apply

GUARANTEE DOCUMENTATION

- Guarantee Agreement - Ex-Im and Lender
- Credit Agreement (LIT only) - Ex-Im, Lender, Borrower
- Disbursement documentation:
 - Invoice
 - Bill of Lading
 - Supplier's Certificate

With provision for both general and statutory waivers.

MEDIUM-TERM PRIORITY LENDER PROGRAM

- Complete Application with Credit Memorandum
- 20 Business Day Turnaround

CREDIT GUARANTEE FACILITY

- Line of credit -- 85% financing
- US lender and foreign bank
- Foreign bank on-lends on same repayment term
- Covers multiple sales to different buyers
- Minimum \$10 million line
- One year availability
- Reserved for high volume, repeat users

MEDIUM-TERM INSURANCE vs. GUARANTEES

- Conditionality
- Flexibility
- Exporter Liability

FEE STRUCTURE

- Application Fee
- Commitment Fee
- Exposure Fee

APPLICATION FEE

Letter of Interest	\$100
New Final Commitment	\$100
Preliminary Commitment	1/10 of 1% of financed portion; \$25,000 cap

COMMITMENT FEE

Program	Rate Per Annum
Direct Loan	1/2% on undisbursed
Guarantee	1/9%
Credit Guarantee Facility	1/16% Flat

EXPOSURE FEE

Exposure fee determined by:

- Country Risk
- Risk with borrower
- Repayment term

REPAYMENT TERM

Varies by:

- Market category
- Dollar size
- Product convention & sector agreements (O.E.C .D. arrangement and Berne Union understandings)

MAXIMUM REPAYMENT TERM MARKET CATEGORY

Category 1 - Rich

- 8.5 years with prior notification
- Maximum 5 years

Category 2 -- All others

- Maximum 10 years

MAXIMUM REPAYMENT TERM CONTRACT SIZE

Contract Price	Cat I	Cat II
Up to \$300,000	Up to 4	Up to 4
\$300m to \$7mm	5	5
\$7mm to \$11.7mm	5	7
\$11.7mm to \$25mrn	5	8

> than \$25mm

5

10

STARTING POINT FOR DETERMINATION OF CREDIT PERIOD
AND PROGRESS PAYMENTS

Starting Point:

- Shipment for single shipment
- Mid-point of multiple shipments
- Commissioning of project

Progress Payments - Allowable

STANDARD FINANCE MODEL

Contract price	\$1,000,000
Cash payment	\$150,000
Financed portion	\$850,000
Exposure fee @ 3%	\$25,500
Total financed	\$875,500

FOREIGN CONTENT - 25%

	Eligible	Ineligible
Contract price	\$1,000,000	\$1,000,000
Less ineligible	-0-	\$250,000
Eligible	\$1,000,000	\$750,000
Cash payment	\$250,000	\$112,500
Total financed	\$750,000	\$637,500

(plus exposure fee)

LOCAL COST FINANCING - 15 %

US Export Value	\$1,000,000
Cash payment	\$150,000
Financed portion	\$850,000
15% local cost	\$150,000

Total financed \$1,000,000

Total Contract Price \$1,150,000

AIRCRAFT FINANCE

Interest Rates

- 10 yrs. or less: 10 yr. Treasury + 120 bp
- Over 10 years: 10 yr. Treasury + 175 bp

Exposure Fees:

- Direct Loans 2%
- Guarantees 3%
- **Maximum Term: 12 years**
- **Sector Agreement**

ROLE OF THE ENGINEERING DIVISION

- **Product Eligibility Authority**
- **Environmental Evaluation**
 - Pollutants
 - Other Impact
- **Other**
 - Technical Project Evaluation
 - Monitor Project Progress

ENVIRONMENTAL EXPORTS ENHANCEMENTS

Regular program features, plus:

- Local cost cover
- Capitalized interest during construction
- Maximum allowable repayment terms

USED AND REFURBISHED EQUIPMENT

- Eligible on standard or shorter repayment terms
- Original U.S. manufacture
 - 1-yr. rule if previously exported

- Original foreign manufacture
 - Treated as eligible foreign content
 - 50% of production cost maximum
- Refurbishment normally - eligible US content

TIED AID

- Policy to counter, not initiate
- Budget cost not more than 50%
- Broader market opportunities at stake
- Favorable factors include
 - Competitor country violating tied-aid rules
 - US suppliers are small
 - Environmental or renewable energy project

PROJECT FINANCE

- New or expansion projects
- Repayment from project cash flow
- Two phases:
 - Pre-completion and post-completion
 - Separate exposure fee schedule

OTHER SPECIAL PROGRAMS

- Engineering Multiplier
- Supplier Credits

INTERNAL PROCESSING OF APPLICATIONS

- Application received
- Business Development review; issues LI
- Loan officer review
- Engineering review
- Approval Loan Committee or Board
- Legal review documentation and closing
- Credit Administration - disbursement

HOW TO APPLY

Type	Eligible Applicant
Letter of Interest	Anyone
Preliminary Commitment	Anyone
Final Commitment	Borrower or Mandated Guaranteed Lender

Exposure Fees

Determining the Exposure Fee

- Select appropriate Country Fee Level Chart
- Determine if public or private sector buyer
- Locate buyer category
- Determine fee level
- Determine fee from Fee Level Chart

FEE LEVEL CHART
MEXICO
PRIVATE SECTOR CREDITS

A. SOVEREIGN (e.g.. Finance Ministry Guarantee)	FEE LEVEL	See Public Sector Credits Sheet
B. POLITICAL-ONLY COVER	FEE LEVEL	5
C. TRANSACTIONS OF \$1 MILLION OR LESS	MAXIMUM FEE LEVEL	7

D1. BORROWERS / GUARANTORS with RATED/TRADED CROSS BORDER (HARD CURRENCY) DEBTS

FEE LEVEL	1	2	3	4	5	6	7	8
LONG-TERM (S&P, others)	AA+, AA, AA-	A+, AA	BBB+, BBB	BBB-	BB+, BB	BB	B+, B	B
LONG TERM (Moody's)	Aa1, Aa2	A1, A2, A3	Baa1, Baa2	Baa3	Ba1, Ba2	Ba3	B1, B2	B3
SHORT-TERM (S&P, others)	A-1+	A-1	A-2	A-3	B		C	
SHORT-TERM (TBW)	TBW-1	TBW-2	TBW-3	TBW-4				
SHORT TERM (Moody's)		P-1	P-2	P-3				
SPREAD (bp) over T-YIELD <	40	70	140	250	400	600	900	1500
SPREAD (bp) over LIBOR <	10	40	90	220	370	570	870	1470

D2. BORROWERS/GUARANTORS with INTRACOUNTRY (LOCAL CURRENCY) RATINGS

FEE LEVEL	6	6	6	6	6	6	7	8
LONG-TERM (S&P, TBW)	AA+, AA, AA-	A+, A.A-	BBB+, BBB	BBB-	BB+, BB	BB-	B+, B	B-
LONG-TERM (Moody's)	Aa1, Aa2	A1, A2, A3	Baa1, Baa2	Baa3	Ba1, Ba2	Ba3	B1, B2	B3
SHORT-TERM (S&P, others)	A-1+	A-1	A-2	A-3	B		C	
SHORT-TERM (Moody's)		P-1	P-2	P-3				
FINANCIAL STRENGTH (Moody's)	A/B	B	B/C	C	C/D	D	D/E	E
INTRA-COUNTRY ISSUER (TBW)	IC, A/B	IC, B	IC, B/C	IC, C	IC, C/D	IC, D	IC, D/E	IC, E
INDIVIDUAL (ISCA)	A/B	B	B/C	C	C/D	D	D/E	E
INDIVIDUAL (Capital Intelligence)	AA+, AA, AA-	A+, A.A-	BBB+, BBB	BBB-	BB+, BB	BB-	B+, B	B-

E. UNRATED LARGEST (PROFITABLE) FINANCIAL INSTITUTIONS MAXIMUM FEE LEVEL 6

FI. UNRATED BORROWERS / GUARANTORS other than Financial Institutions

DEBT TO TANGIBLE NET WORTH	<1X	<2X	<3X	<4X	<6X	>6X
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FEE LEVEL

	>25%	6	6	6	6	7	8
OPERATING	>20%	6	6	6	6	7	8
CASH FLOW	>15%	6	6	6	7	8	8
(2-YEAR AVG)	>10%	6	6	7	8	8	8
TO	>5%	6	7	8	8	8	8
DEBT	<5%	7	8	8	8	8	8

F2. UNRATED FINANCIAL INSTITUTION BORROWERS / GUARANTORS

FEE LEVEL	6	6	6	6	7	8
SHAREHOLDERS' EQUITY TO ASSETS	>9%	>7%	>6%	>5%	>4%	<4%
NET INCOME TO ASSETS (2-YR AVG)	>2.5%	>2.0%	>1.5%	>1.0%	>0.5%	<0.5%
BORROWED FUNDS TO NET LOANS	<40%	<60%	<80%	<100%	<120%	>120%
LIQUID ASSETS TO ASSETS	>25%	>20%	>15%	>10%	>5%	<5%
RESERVES TO NON-PERFORMING ASSETS	>200%	>175%	>150%	>125%	>100%	<100%

**FEE LEVEL CHART
MEXICO
PUBLIC SECTOR CREDITS**

A. SOVEREIGN (e.g.. Finance Ministry Guarantee)	FEE LEVEL	5
B. POLITICAL-ONLY COVER	FEE LEVEL	See Private Sector Credits Sheet
C. TRANSACTIONS OF \$1 MILLION OR LESS	MAXIMUM FEE LEVEL	7

D1. BORROWERS / GUARANTORS with RATED/TRADED CROSS BORDER (HARD CURRENCY) DEBTS

FEE LEVEL	1	2	3	4	5	6	7	8
LONG-TERM (S&P, others)	AA+, AA, AA-	A+, AA	BBB+, BBB	BBB-	BB+, BB	BB	B+, B	B
LONG TERM (Moody's)	Aa1, Aa2	A1, A2, A3	Baa1, Baa2	Baa3	Ba1, Ba2	Ba3	B1, B2	B3
SHORT-TERM (S&P, others)	A-1+	A-1	A-2	A-3	B		C	
SHORT-TERM (TBW)	TBW-1	TBW-2	TBW-3	TBW-4				
SHORT TERM (Moody's)		P-1	P-2	P-3				
SPREAD (bp) over T-YIELD <	40	70	140	250	400	600	900	1500
SPREAD (bp) over LIBOR <	10	40	90	220	370	570	870	1470

D2. BORROWERS/GUARANTORS with INTRACOUNTRY (LOCAL CURRENCY) RATINGS

FEE LEVEL	5	5	5	5	5	6	7	8
LONG-TERM (S&P, TBW)	AA+, AA, AA-	A+, A.A-	BBB+, BBB	BBB-	BB+, BB	BB-	B+, B	B-
LONG-TERM (Moody's)	Aa1, Aa2	A1, A2, A3	Baa1, Baa2	Baa3	Ba1, Ba2	Ba3	B1, B2	B3
SHORT-TERM (S&P, others)	A-1+	A-1	A-2	A-3	B		C	
SHORT-TERM (Moody's)		P-1	P-2	P-3				
FINANCIAL STRENGTH (Moody's)	A/B	B	B/C	C	C/D	D	D/E	E
INTRA-COUNTRY ISSUER (TBW)	IC, A/B	IC, B	IC, B/C	IC, C	IC, C/D	IC, D	IC, D/E	IC, E
INDIVIDUAL (ISCA)	A/B	B	B/C	C	C/D	D	D/E	E
INDIVIDUAL (Capital Intelligence)	AA+, AA, AA-	A+, A.A-	BBB+, BBB	BBB-	BB+, BB	BB-	B+, B	B-

E. UNRATED LARGEST (PROFITABLE) FINANCIAL INSTITUTIONS	MAXIMUM FEE LEVEL	6
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FI. UNRATED BORROWERS / GUARANTORS other than Financial Institutions

DEBT TO TANGIBLE NET WORTH	<1X	<2X	<3X	<4X	<6X	>6X
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FEE LEVEL

	>25%	5	5	5	5	6	7
OPERATING	>20%	5	5	5	6	7	8
CASH FLOW	>15%	5	5	6	7	8	8
(2-YEAR AVG)	>10%	5	6	7	8	8	8
TO	>5%	6	7	8	8	8	8
DEBT	<5%	7	8	8	8	8	8

F2. UNRATED FINANCIAL INSTITUTION BORROWERS / GUARANTORS

FEE LEVEL	5	5	5	6	7	8
SHAREHOLDERS' EQUITY TO ASSETS	>9%	>7%	>6%	>5%	>4%	<4%
NET INCOME TO ASSETS (2-YR AVG)	>2.5%	>2.0%	>1.5%	>1.0%	>0.5%	<0.5%
BORROWED FUNDS TO NET LOANS	<40%	<60%	<80%	<100%	<120%	>120%
LIQUID ASSETS TO ASSETS	>25%	>20%	>15%	>10%	>5%	<5%
RESERVES TO NON-PERFORMING ASSETS	>200%	>175%	>150%	>125%	>100%	<100%

FEE LEVEL CHART
CHINA, P.R.
PUBLIC SECTOR CREDITS

A. SOVEREIGN (e.g.. Finance Ministry Guarantee)	FEE LEVEL	2
B. POLITICAL-ONLY COVER	FEE LEVEL	See Private Sector Credits Sheet

C1. BORROWERS / GUARANTORS with RATED/TRADED CROSS BORDER (HARD CURRENCY) DEBTS

FEE LEVEL	1	2	3	4	5	6	7	8
LONG-TERM (S&P, others)	AA+, AA, AA-	A+, AA	BBB+, BBB	BBB-	BB+, BB	BB	B+, B	B
LONG TERM (Moody's)	Aa1, Aa2	A1, A2, A3	Baa1, Baa2	Baa3	Ba1, Ba2	Ba3	B1, B2	B3
SHORT-TERM (S&P, others)	A-1+	A-1	A-2	A-3	B		C	
SHORT-TERM (TBW)	TBW-1	TBW-2	TBW-3	TBW-4				
SHORT TERM (Moody's)		P-1	P-2	P-3				
SPREAD (bp) over T-YIELD <	40	70	140	250	400	600	900	1500
SPREAD (bp) over LIBOR <	10	40	90	220	370	570	870	1470

C2. BORROWERS/GUARANTORS with INTRACOUNTRY (LOCAL CURRENCY) RATINGS

FEE LEVEL	2	2	3	4	5	6	7	8
LONG-TERM (S&P, TBW)	AA+, AA, AA-	A+, A.A-	BBB+, BBB	BBB-	BB+, BB	BB-	B+, B	B-
LONG-TERM (Moody's)	Aa1, Aa2	A1, A2, A3	Baa1, Baa2	Baa3	Ba1, Ba2	Ba3	B1, B2	B3
SHORT-TERM (S&P, others)	A-1+	A-1	A-2	A-3	B		C	
SHORT-TERM (Moody's)		P-1	P-2	P-3				
FINANCIAL STRENGTH (Moody's)	A/B	B	B/C	C	C/D	D	D/E	E
INTRA-COUNTRY ISSUER (TBW)	IC, A/B	IC, B	IC, B/C	IC, C	IC, C/D	IC, D	IC, D/E	IC, E
INDIVIDUAL (ISCA)	A/B	B	B/C	C	C/D	D	D/E	E
INDIVIDUAL (Capital Intelligence)	AA+, AA, AA-	A+, A.A-	BBB+, BBB	BBB-	BB+, BB	BB-	B+, B	B-

D1. TRANSACTIONS OF \$10 MILLION OR LESS - FINANCIAL INSTITUTIONS FEE LEVEL 2*

D2. TRANSACTIONS OF \$10 MILLION OR LESS - OTHER THAN FINANCIAL INSTITUTIONS FEE LEVEL 3*

E. UNRATED LARGEST (PROFITABLE) FINANCIAL INSTITUTIONS MAXIMUM FEE LEVEL 3

FI. UNRATED BORROWERS / GUARANTORS OTHER THAN FINANCIAL INSTITUTIONS

DEBT TO TANGIBLE NET WORTH <1X <2X <3X <4X <6X >6X

		FEE LEVEL					
	>25%	3	3	4	5	6	7
OPERATING	>20%	3	4	5	6	7	8
CASH FLOW	>15%	34	5	6	7	8	8
(2-YEAR AVG)	>10%	5	6	7	8	8	8
TO	>5%	6	7	8	8	8	8
DEBT	<5%	7	8	8	8	8	8

F2. UNRATED FINANCIAL INSTITUTION BORROWERS / GUARANTORS

FEE LEVEL	3	3	5	6	7	8
SHAREHOLDERS' EQUITY TO ASSETS	>9%	>7%	>6%	>5%	>4%	<4%
NET INCOME TO ASSETS (2-YR AVG)	>2.5%	>2.0%	>1.5%	>1.0%	>0.5%	<0.5%
BORROWED FUNDS TO NET LOANS	<40%	<60%	<80%	<100%	<120%	>120%
LIQUID ASSETS TO ASSETS	>25%	>20%	>15%	>10%	>5%	<5%
RESERVES TO NON-PERFORMING ASSETS	>200%	>175%	>150%	>125%	>100%	<100%

*MAY NOT APPLY IF A FEE LEVEL HAS BEEN PRE-APPROVED. REFER TO EXPOSURE FEE ADVICE.

EXPOSURE FEES TABLE

\$Per \$100 of Each Disbursement

Fee Level	1	2	3	4	5	6	7	8
Repayment								
Term								
1 Year	0.50	0.75	1.13	1.38	1.69	2.07	2.53	3.90
2 Years	0.63	0.94	1.41	1.73	2.11	2.58	3.16	4.75
3 Years	0.75	1.13	1.69	2.07	2.53	3.10	3.80	5.70
4 Years	0.88	1.31	1.97	2.41	2.95	3.81	4.43	5.64
5 Years	1.00	1.50	2.25	2.75	3.33	4.14	5.06	7.59
6 Years	1.13	1.89	2.90	3.80	4.98	6.85	10.27	N/A
7 Years	1.25	1.88	3.22	4.22	5.53	7.61	11.41	N/A
8 Years	1.38	2.06	3.54	4.64	6.08	8.37	12.55	N/A
8.5 Years	1.44	2.16	3.70	4.85	6.36	8.75	13.12	N/A
9 Years	1.50	2.25	3.56	5.06	6.63	9.13	13.69	N/A
10 Years	1.63	2.44	4.19	5.48	7.19	9.89	14.83	N/A
12 Years	1.88	2.81	4.83	6.33	8.29	11.41	17.11	N/A

MEDIUM / LONG TERM PROGRAMS

CASE STUDIES/ CLASS DISCUSSION

Please answer the following questions for the case assigned to your group:

1. Application process

- A. Of the three types of Ex-Im application, Letter of Interest, Preliminary Commitment, or Final Commitment, which is most appropriate for your case?
- B. Who can submit the application?

2. Policy considerations

Are there military, foreign content, additionality, shipping issues or other policy concerns?

3. Repayment terms

- A. What is the appropriate repayment term?
- B. When would repayment begin?

4. Fees

- A. How much is the application fee?
- B. How much is the commitment fee?
 - i. When does it begin to accrue?
 - ii. Who pays it?
 - iii. Can it be financed?
- C. Determine or approximate the exposure fee.
 - i. When is it paid?
 - ii. Who will pay it?
 - iii. Can it be financed?

5. Financing package

- A. Would you recommend a loan or a guarantee?
- B. How would the interest rate be determined (for loan or guarantee)?
- C. How much can be financed, including the exposure fee if applicable?
- D. Would there be local cost support?

Information.

A. Interest Rates for Direct Loans

Assume the Ex-Im Direct Loan Interest Rates are as follows:

	Up to 5 Years	From 5 to 8 1/2 Yrs	Over 8 1/2 Yrs.
Category I	6.9%	7.1%	7.2%
Category II	6.9%	7.1%	7.2%

Note: To determine the four-month hold rate, add 20 basis points (PC's only)

B. Use the Mexico Exposure Fee Table for all cases.

CASE No. 1 BIG TIME EXPORTER

Big Time Co. is bidding on a \$20,000,000 sale of computing equipment that will time the departure and arrival of each train that uses the Central Railway Station in Jakarta, Indonesia, a Category 11 country. Competition has been intense with exporters from Japan, Canada and Germany, as well as your firm from the US, all placing bids. Through negotiation, the governments of those countries have agreed to a common line calling for non-concessional OECD financing terms.

The computer will have some foreign content, which will be imported from abroad and assembled into the computer equipment in the US amounting to 13% of the total cost. There is no local cost support requested. The Central Railway Station serves primarily passenger trains but it is also the point of embarkation for some military transports. The Government of Indonesia will be the buyer. Although the computer equipment will be installed in 6 months, the remainder of the system will take one year in total to complete.

You are the financial vice president of Big Time and need to explore financing alternatives for the potential sale. The Indonesians are requiring that financing be part of the bid submission, and you want to bring them some indication of financing on your upcoming trip.

CASE No. 2 CLEAN ENVIRONMENT INC.

Clean Environment Inc. has won a \$10,000,000 contract to supply capital equipment to a waste water facility 30 miles south of Mexico City. The signed contract is contingent on Clean Environment providing financing for their scope of supply. The financing offer should include comment on local cost financing. Mexico is a Category 11 country.

The company had obtained a Letter of Interest from Ex-Im Bank which proved to be very helpful in their marketing efforts. The Mexican company, Cia. de Agua S.A., is owned by the Mexican Government and is asking you, the Treasurer of Clean Environment, to secure financing. The facility will be built in one year. They are especially interested in the Environmental Exports Program that was mentioned in Ex-Im Bank's Letter of Interest.

They would like to ship the product via rail to Laredo Texas, followed by pickup by a Mexican carder at that point. Some of the software to operate the plant will be shipped by air.

Your next step is to meet with your friendly banker at the Can Do Bank in your city. They are unwilling to take unsecured risk in Mexico but are very comfortable using the Ex-Im Bank programs.

Although the Mexican company is owned by the government, it is not a full-faith-and-credit entity and relies on its own financial merits when obtaining credit. The firm carries a Baal intracountry, local currency, Moody's long-term debt rating.

CASE No. 3 CHEMBRAZIL

A large Brazilian company- ChemBrazil is expanding and is seeking suppliers of capital goods and services valued at about \$550 million.

Because there has been a world-wide slow down in such projects over the past few years, many companies from several countries are fighting hard for the business. Knowing this, ChemBrazil is driving a hard bargain. In addition to the typical financing available under the OECD arrangement, they want support for an additional \$7 million of local costs for the site development and the building to house the expansion, which is in a very nice location on the edge of a national wetlands park. Support for the cash payment is also being requested. The total construction time is estimated at 2 years.

You are a senior vice president at Pay Us Back Bank. Your highly valued customer from Chemsupply, U.S. has talked to you about this transaction and is coming in shortly. You want to be supportive but you are not willing to take the Brazilian risk, although you will do some cash payment financing on a one-year basis.

You have made a preliminary review of ChemBrazil's financial statements and noted that, among other financial characteristics, the firm's operating-cash-flow to total-debt ratio average for the past two years was 11.4% and the firm has a total-debt to tangible-net-worth ratio of 2.4: 1.

Brazil is a Category II country.

CASE No. 4 EARTH PUSHER INC.

Earth Pusher Inc. has signed a sales contract for the sale of ten of its biggest bulldozers, the Super EP2000 to Alpha Goldmines Ltd., a privately-held company in South Africa for a total of \$10 million, subject to Earth Pusher obtaining satisfactory financing for the sale.

The bulldozer is made in the U.S. but Earth Pusher has three options to purchase the motor, transmission and gear assembly: 1) purchase from a U.S. manufacturer and assemble in the US; 2) purchase from a Mexican manufacturer, bring it into the U.S. and assemble it into the bulldozer, or 3) purchase it from the Mexican manufacturer and have it shipped to South Africa where it will be then incorporated into the bulldozer shipped from the U.S. Assume that the total cost of the motor, transmission and gear assembly to Earth Pusher is \$3.0 million for all ten tractors to be exported in each of the three options.

Alpha Goldmines is a growing South African firm, which is starting to obtain credit on an international basis. Last year the firm issued its first international debt placement of \$30 million, a dollar-denominated issue handled by Warsaw and Duff in London. The unsecured debt carries a Baa2 Moody's rating.

South Africa is a Category II country.

You are the banker / advisor to Earth Pusher. You would have no problem making an Ex-Im Bank supported loan to South Africa. You are concerned, however, that the amount of local content will minimize Ex-Im Bank's support and put a higher finance burden on you or the South African buyer. You need to outline to Earth Pusher Ex-Im Bank's programs and make a recommendation as to the sourcing of the motor, transmission and gear assembly.

CASE No. 5 SECOND HAND MINING TOOLS

You are the owner of a small business that buys used mining equipment, refurbishes it and sells it. During a vacation to Argentina, you visited a mine and noticed that their equipment was both obsolete and worn out. You made a proposal to the mine owner that covered the sale of two mining tools with a value of approximately \$ 3 million.

Upon returning home, you find the order waiting in the mail. It is, however, contingent on financing of at least five years. One of the machines was made in the U.S. and will sell for \$1,200,000. The second was made in the United Kingdom. Its cost to you is \$450,000 and will require refurbishment work of \$600,000 to yield a \$1.8 million sales price. It will take about 3 months for the equipment to be reconditioned. Once in Argentina, the equipment will be put into use immediately.

You approach your bank for assistance. The bank is willing to look at the transaction with Ex-Im support. You have obtained financial statements for the past three years and supporting credit information from the buyer, which you have given to the bank. After reviewing the information the bank believes Ex-Im is unlikely to support the transaction without additional financial support for the buyer. You contact the buyer who states that he can obtain the guarantee of a local bank for his company. He submits to you financial statements on the proposed guarantor bank for the past three years. The most current year's financial statements show the following financial characteristics for the guaranteeing bank:

Shareholders Equity to Assets:	5.5%
Net Income to Assets (2-yr avg.)	0.72%
Borrowed Funds to Net Loans	72%
Liquid Assets to Assets	14%
Reserves to Non-Performing Assets	133%

Argentina is a Category I country.