Meeting Minutes

Open Public Conference Call Meeting

Trade Finance Advisory Council

U.S. Department of Commerce | International Trade Administration

Wednesday, January 29, 2020
1:00 – 2:30 pm ET

Meeting Date, Time, and Place

On Wednesday, January 29, 2020 between 1:00 pm and 2:30 pm ET, the U.S. Department of Commerce Trade Finance Advisory Council (TFAC) held the fourth open public meeting of its second (2018-2020) charter term via teleconference.

Committee Members Present

1. Alan Beard, Managing Director, Interlink Capital Strategies
2. Alisa DiCaprio, Head, Trade and Supply Chain, R3
3. Chapin Flynn, Vice President, Enterprise Partnerships, Mastercard
4. Craig Moore, Founder of Pruf, Inc.
5. Craig Weeks, Independent Consultant
6. Daniel Pische, Senior Vice President, Trade Finance, First American Bank
7. David Shogren, President, U.S. International Foods LLC.
8. Dominic Capolongo, Executive Vice President, Global Head of Funding, PrimeRevenue, Inc.
9. Gary Mendell, President, Meridian Finance Group
10. Ken Rosenberg, Senior Vice President and Manager for International Banking, Bridge Bank
11. Kenneth Wengrod, Co-Founder/President, FTC Commercial Corporation
12. Kevin Klowden, Executive Director, Center for Regional Economics, Milken Institute
13. Madison Spach, Jr., Partner, Spach, Capaldi and Waggaman, LLP.
14. Qingyuan Zhang, Director, Global Trade Finance, John Deere Financial Services
15. Richard Brent, Chief Executive Officer, Louroe Electronics
16. Steven Bash, Senior VP, International Banking Group Manager, City National Bank
17. Stephen Simchak, Vice President and Chief International Counsel, American Property Casualty Insurance Association
18. William Glassford, Senior Vice President, Zions Bancorporation

U.S. Commerce Department Employees Present

1. James Sullivan, Deputy Assistant Secretary for Services Industries, International Trade Administration (ITA), U.S. Department of Commerce (DOC)
2. Paul Thanos, Director, Office of Finance and Insurance Industries (OFII), ITA/DOC
3. Michael Fuchs, Trade and Project Finance Team Lead, OFII, ITA/DOC
4. Yuki Fujiyama, Trade Finance Specialist, TFAC DFO, OFII, ITA/DOC
5. Erik Lenz, Senior International Trade Specialist, OFII, ITA/DOC
6. Michael Corbin, Senior International Trade Specialist, OFII, ITA/DOC
7. Jeffrey Odum, International Trade Specialist, Office of the DAS/Services, ITA/DOC

Other U.S. Government Employees Present

1. David Vidal, Managing Director and Head of International Trade Finance, Office of International Trade, U.S. Small Business Administration
2. Michele Wilkins, Senior Financial Economist, U.S. Export-Import Bank
3. Eric Larger, Policy Analyst, U.S. Export-Import Bank

Public Members Present

1. Combiz R. Abdolrahimi, Emerging Technology & Innovation Leader, Deloitte Consulting
2. Donald DiMartini, Senior Vice President, SBA Lending Manager, CITI Commercial Bank

Meeting Purpose

The purpose of the meeting was for the TFAC to discuss and vote on its proposed recommendation to the U.S. Commerce Secretary in light of the U.S. Small Business Administration's (SBA) Federal Register Notice (FRN) on September 17, 2019: *Request for Comments on Potential Changes to SBA's Export Loan Programs*, a copy of which is attached as Exhibit "B."

Summary of Meeting Proceedings

- TFAC Designated Federal Officer (DFO) Yuki Fujiyama announced the opening of the meeting and remined everyone that it was a public meeting and that the call would be recorded. He subsequently asked Commerce, other U.S. government attendees, and public participants to introduce themselves. He then turned the meeting over to TFAC Chair Klowden and asked him to call the meeting to order.

- Chair Klowden took roll call of TFAC members and opened the meeting by greeting U.S. Commerce Deputy Assistant Secretary (DAS) Jim Sullivan, SBA's David Vidal, TFAC members, other government participants and public guests. Chair Klowden then provided opening remarks and introduce DAS Jim Sullivan for his welcome remarks.

- DAS Jim Sullivan provided welcome remarks, introduced SBA's David Vidal to the audience, and then turned the meeting over to Chair Klowden.

- Asked by Chair Klowden, David Vidal, SBA's Head of International Trade Finance, provided background of the FRN for Potential Changes to SBA's Export Finance Programs.

- After being introduced by Chair Klowden, TFAC member Daniel Pische presented the proposed recommendation to the Secretary in light of SBA's September 17, 2019 FRN. In its proposed recommendation, the TFAC advised the Secretary to encourage SBA to re-evaluate and update current rules governing the agency's export working capital finance programs (originally written for term loans and commercial mortgages).

- Chair Klowden solicited feedback and comments from those in attendance. Positive feedback and supportive comments concerning the proposed recommendation were received from several TFAC members, DAS Jim Sullivan, public guest Donald DiMartini of CITI Commercial Bank, and SBA's David Vidal.

- The TFAC voted unanimously to approve the proposed recommendation, a copy of which is attached as Exhibit "A."

- The four TFAC Subcommittees provided briefings on their preliminary ideas and plans for developing the second set of recommendations. ideas and plans for developing the second set of recommendations.

    - **International Trade Policy Subcommittee** would continue developing a recommendation on improving trade finance knowledge for U.S. Embassy Africa Deal Teams.
    - **Public-Private Partnerships Subcommittee** would continue developing a recommendation on leveraging trade finance partnerships to aid exporters.
    - **Education Strategies Subcommittee** would explore developing a recommendation on updating the Trade Finance Guide.
    - **Financial Technology Subcommittee** would explore developing one or two recommendations focusing on blockchain or digitalization.

- DFO Yuki Fujiyama and other TFAC Secretariat members provided a briefing on planned 2020 TFAC meetings and activities as well as the status of the implementation of recommendation adopted by the Council under its first charter.

- Chair Klowden and DAS Jim Sullivan provided their closing remarks.

Public Comment

No Issues were raised for public comment.

Adjournment

The meeting adjourned approximately at 2:30 P.M.

Certification

I hereby certify that, to the best of my knowledge, the foregoing minutes are accurate and complete.

Yuki J. Fujiyama

Yuki J. Fujiyama
Designated Federal Officer
Trade Finance Advisory Council

Kevin Klowden

Kevin Klowden
Chair
Trade Finance Advisory Council

Exhibit A: Proposed TFAC Recommendation to Secretary Ross in Light of SBA's September 17, 2019 Federal Register Notice

TRADE FINANCE ADVISORY COUNCIL

SBA Export Program Response
January 29, 2019

CONTEXT

Small and midsized businesses require greater access to export working capital in order to succeed internationally. The export working capital programs of the Small Business Administration serve as a vital first step for many exporters beginning to expand internationally. While the programs provide a significant amount of flexibility in the financing options available to exporters, the program is not as readily available as it needs to be in order to reach more of the nation's growing exporter base.

As banks work to monitor the compliance and anti-money laundering controls associated with international trade, the minimum loan size for Trade Finance facilities continues to increase and many small and midsized exporters struggle to obtain the working capital they need to export.

In an effort to improve access to Trade Finance working capital, the following is the TFAC's response to the SBA's request for public comment in regards to their proposed rulemaking:

Response Overview:

As the Small Business Administration works to make updates to its export loan programs, we would also strongly encourage the Agency to think more broadly about the rules that pertain to monitored and self-liquidating working capital. Many businesses struggle to obtain working capital financing, including Trade Finance, given its customized nature. Unlike commercial mortgages or equipment term loans, working capital is self-liquidating when done correctly and thus requires rules and procedures designed with this fact in mind.

Export Working Capital Program:

Fees and Rulemaking – A Response to EWCP Question #1:

In the TFAC's various interactions with the Small Business Administration, we believe that the rules governing the programs were originally written for term loans and commercial mortgages. As such, the fee structure for the Export Working Capital Program is exactly the same as that of a 25 year commercial mortgage issued under the 7a program despite the fact that one is a short term working capital program and the other designed for financing long term fixed assets. Under this standardized fee structure, loans of 12 months or less are assessed a guaranty fee of 0.25%, whereas the guaranty fee for loans over 12 months can be as high as 3.75%.

In order to expand the use of the EWCP program and improve the availability of Trade Finance working capital, the TFAC recommends that the guaranty fee structure for monitored working capital programs such as the EWCP be structured to allow fees to be assessed per 12 month increment. Using the current structure, a loan of 12 months would have a guaranty fee of 0.25%, with a loan of 24 months incurring a fee of 0.50%. Unlike term loans, working capital loan fees are most commonly structured for 12 to 24 months at a time, with a fee structure that is continued for that period. In exchange for a term beyond 12 months, it may be possible to charge a slightly increased guaranty fee for the convenience of not having to re-document the loan after 12 months. By more easily allowing for a two year term, the administrative burden of the loan will be greatly reduced and there are many small businesses who would opt for the small premium over to save on the time and effort in the second year.

Unlike equipment and mortgage loans, it is common for a business to increase and decrease the size of a working capital facility from year to year. As such, maintaining the ability for proceeds from a EWCP loan to be able to payoff the original EWCP loan is central to its functionality and is the largest reason why the structure works so well compared to the CAPLine program.

While the Export Working Capital Program is the primary export working capital loan program of the SBA, we believe reforms are necessary for the CAPline program as well. CAPLines provide excellent solution for businesses to which exports is a smaller percentage of their overall business. As such, the TFAC recommends that the SBA modify the rules of the CAPLine program such that they mirror those of the EWCP program in regards to the fee structure and renewals.

Exporters, and those looking to begin exporting, require access to sophisticated working capital to succeed. It is critical that the rules governing the SBA's working capital programs match the sophistication of the industry and move away from their term loan roots.

Loan Limit & Lender Engagement – Response to EWCP Question #2:
Part of the TFAC's mandate is to identify ways to expand Trade Finance amongst the nation's small and midsized exporters. We are proud to have the opportunity to engage with the SBA on this critical mission.

Given the diverse background of this committee, we have engaged in the various aspects of Trade Finance as lenders, borrowers, professionals and academics. There is a common consensus that Trade Finance loans are not as readily available as they could be and that gap is holding back businesses from exporting. Larger banking and lending institutions are the best positioned to help close this Trade Finance working capital gap, as they already have the resources necessary to manage the product. Given the complexities of Trade Finance, many institutions have minimum loan requirements in order to access the product line. Even on the low end, this easily sets a floor of $1 million or $2 million for SME's to access Trade Finance working capital.

When combined with the SBA's maximum loan limit of $5 million, this produces a narrow band of loans that are both above the minimum loan size and below the program cap. For an institution to look to the EWCP program as part of their Trade Finance product suite, the range of allowable deals needs to be expanded. In order to improve the availability of the program amongst lenders, the TFAC recommends that the SBA increase the program cap of the Export Working Capital Program to $10 million.

The logistical challenges and sales terms of international trade are such that the average transaction can take two or three times as long as that of business conducted domestically. When offered, domestic sales terms average approximately 30 days. Leveraging the strong banking markets in the United States, foreign buyers often require 60 day terms, this is on top of transit times that can which can easily reach 30 days for product shipped by container. Due to these requirements, domestic exporters require a larger working capital facility than that of their domestic counterparts.

The TFAC believes a $10 million dollar limit would allow more Trade Finance lenders, including non-bank lenders, to begin using the program when afforded the expanded range of allowable loan sizes. Similar to how the SBA 504 program can support real estate and equipment transactions in excess of $10 million, we believe that expanding the Export Working Capital Program contributes to the national goal of supporting exporters and fostering international trade.

When combining the increased program cap of $10 million with the structural reforms to guaranty fees, lenders would have a more usable program that would contribute greatly to improving Trade Finance access in the United States.

Program Controls – Response to EWCP Question #4:
The strength of the asset-based loans comes from the regular monitoring of collateral. As such, it is critical that collateral be properly margined and updated regularly through the use of a borrowing base certificate.

The SBA should not allow any monitored working capital loans, EWCP or CAPLine, to determine collateral at a single point in time on a 1:1 ratio. Collateral bases shift during the course of the year and waiting upwards of 12 months to evaluate if the loan remains in margin results in unnecessary risks being taken by both the lender and borrower.

Trade Credit Insurance – Response to EWCP Question #11:
While the use of Trade Credit Insurance is not a direct requirement of the SBA EWCP program, we believe that the SBA should continue to educate both lenders and borrowers on the benefit that the product brings as a way of both developing business and reducing the financial impact of a non-payment event.

We consciously stop short of stating that it should be a requirement as doing so would ignore the creditworthiness of many foreign buyers and place further constraints on the program where they are not necessary.

Standby Letters of Credit – General Comment Response:
One of the most unique and meaningful aspects of the Export Working Capital Program is ability for manufacturers to utilize the program in order to issue advance payment guaranty letters of credit. For export transactions involving a significant down payment, exporters are often required to secure that deposit with an advance payment guaranty letter of credit. While this does place funds directly under the control of the business, that capital is immediately tied up in order to secure the letter of credit right back to their customer.

Allowing the business to utilize an EWCP loan, secured with as little as 25% cash, provides a considerable boost to the working capital position of the business and reduces their reliance on borrowed funds to complete the project. This also benefits businesses in how they bid and structure contracts as it provides a considerable augment to their working capital needs.

By expediting the approval process for EWCP related to the issuance of advance payment guaranty letters of credit, there exists a broader opportunity to engage community lenders who may not have a Trade Finance or Asset Based Lending program but still wish to support their manufacturer clients. By allowing these lenders to tap into the support of the EWCP program to issue the letter of credit, they can avoid much of the work in process project financing that would otherwise be required if the business was not free to use the majority of their deposits.

This creative solution is exactly what the nation's exporters require in order to become more competitive abroad.

We believe that anything that can expedite the ability for lenders to approve loans will greatly improve the attractiveness of the EWCP program. Further, the issuance of letters of credit under the program allows those lenders who may not have asset-based capabilities to participate and support their customer base.

Export Education & ExporTech – General Comment Response:

The TFAC would also like to encourage the SBA to help educate borrowers and lenders on the export education programs available in their market. By engaging with programs like ExporTech, the SBA would have the opportunity to work with businesses who would directly benefit from working capital programs such as EWCP and CAPLine and improve the export readiness of their borrowers. Further, educated exporters would make for stronger borrowers and help reduce the risk of loss to the Agency.

The TFAC is very encouraged by the steps being taken by the Small Business Administration to support international trade. We hope that the comments and suggestions set forth by the TFAC are helpful to the Administration and we welcome the opportunity to engage further on the topic at any time.

Exhibit B: Summary of SBA's September 17, 2019 Federal Register Notice

SMALL BUSINESS ADMINISTRATION

13 CFR Part 120

RIN 3245–AG95

Export Express, Export Working Capital, and International Trade Loan Programs

AGENCY: U.S. Small Business Administration.

ACTION: Advance notice of proposed rulemaking.

SUMMARY: The U.S. Small Business Administration (SBA or Agency) is seeking comments on potential changes to the regulations governing its Export Loan Programs (the Export Express, Export Working Capital, and International Trade Loan Programs). SBA is soliciting comments on how the Agency can improve the products, procedures, forms, and reporting requirements of the Export Loan Programs. Feedback will be used to modernize the Export Loan Programs, increase lender participation and usage, ensure that U.S. small businesses can finance their international sales, and increase U.S. small business exports.

DATES: Comments must be received on or before November 18, 2019.

ADDRESSES: You may submit comments, identified by RIN 3245–AG95 by any of the following methods:

- Federal eRulemaking Portal: https://www.regulations.gov. Follow the instructions for submitting comments.
- Mail/Hand Delivery/Courier: David Vidal, Director, Office of International Trade, U.S. Small Business Administration, 409 Third Street SW, 2nd Floor, Washington, DC 20416.

All comments will be posted on https://www.regulations.gov. If you wish to submit Confidential Business Information (CBI) as defined in the User Notice at https://www.regulations.gov, you must submit such information either by mail to David Vidal, Director, Office of International Trade, U.S. Small Business Administration, 409 Third Street SW, 2nd Floor, Washington, DC 20416, or by email to David.Vidal@sba.gov. Highlight the information that you consider to be CBI and explain why you believe SBA should hold this information as confidential. SBA will review your information and determine whether it will make the information public.

FOR FURTHER INFORMATION CONTACT: David Vidal, Director, Office of International Trade, U.S. Small Business Administration, 409 Third Street SW, 2nd Floor, Washington, DC 20416; (202) 205–7119 or David.Vidal@sba.gov.