

USDA's Foreign Agricultural Service

GSM-102: Credit Guarantee Program

For Importers



GSM-102: Facilitating Trade Finance Worldwide

Who we are

- **Foreign Agricultural Service (FAS)** is an agency within the **United States Department of Agriculture (USDA)**
- **Commodity Credit Corporation (CCC)** is a **Government owned and operated entity that was created to stabilize, support and protect farm income and prices. Its activities are carried out by USDA personnel from the Farm Service Agency and FAS**
- **GSM** stands for **General Sales Manager**, the **FAS official with general administrative responsibility over the GSM-102 program**



GSM

GSM-102: Facilitating Trade Finance Worldwide



Does not provide
financing, but
guarantees payments
due from foreign
banks under Letters of
Credit to U.S. banks or
exporters

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GSM-102 Export Credit Guarantee Program

- **Letter of Credit Driven.** USDA takes risk on approved bank obligors
- **98% guarantee** on principal
- **Interest coverage**
 - Lesser of 55% of the loan interest rate or 55% of 52-week T-Bill
- **Credit terms up to 2.5 years**
- **Freight is generally covered**

GSM-102 ELIGIBLE COMMODITIES

- ✓ 100% produced in USA
- ✓ Food, Feed or Fiber
- ✓ CCC “basket” of commodities
- ✓ High-Value products (90% U.S. Content)



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GSM-102 Commodity Examples

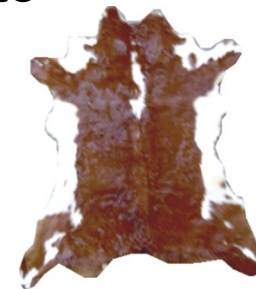


High-Value

fresh fruit, vegetables, meats, condiments, wine and beer, meats, frozen dinners, etc.

Intermediate

Animal feed
Cattle Hides
Flour
Soybean Meal
Sweeteners



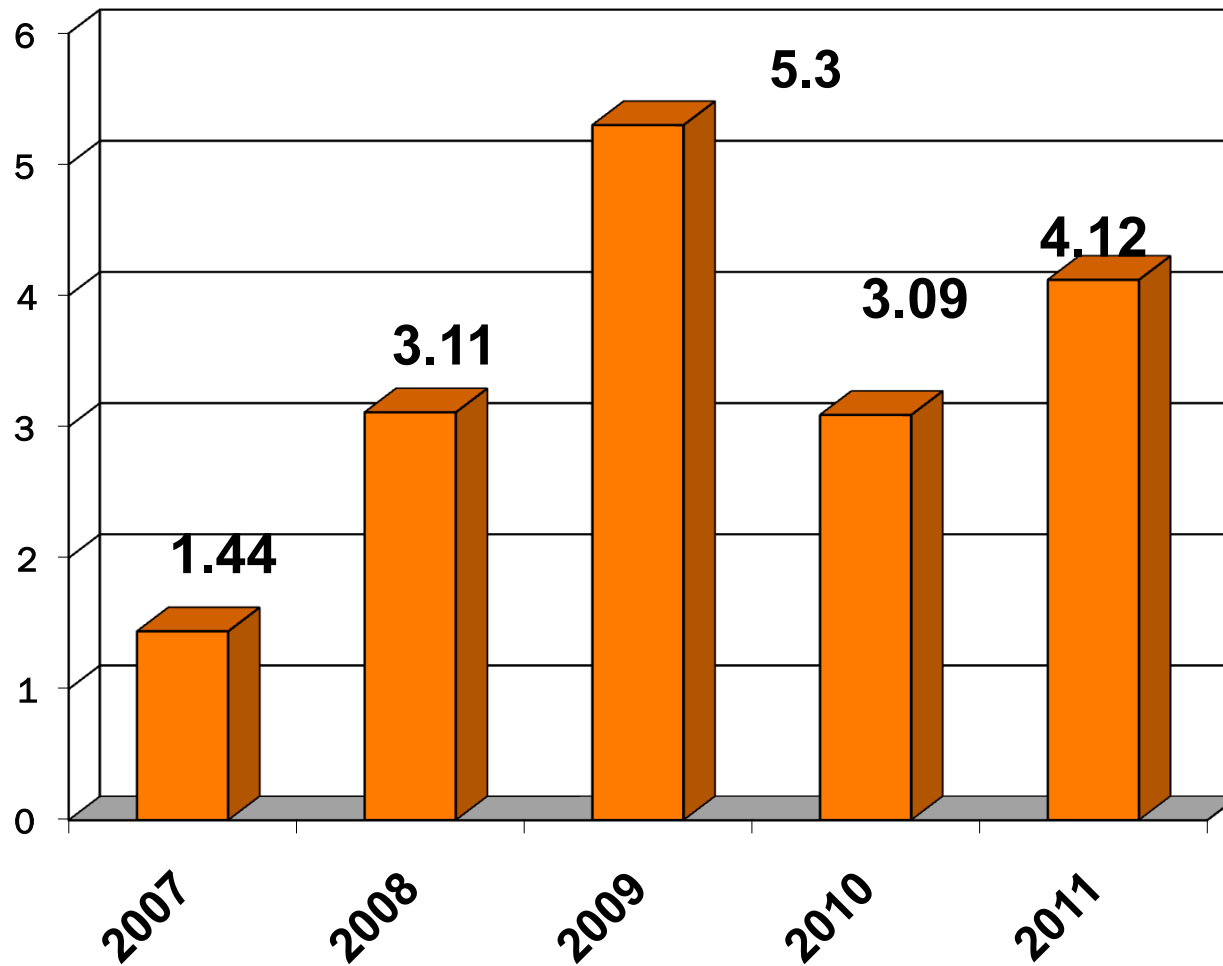
Bulk

wheat, corn, rice, soybeans, cotton

Also: Seafood – Forest Products – Aquaculture - Fibers

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Credit Guarantees 2007 – 2010*

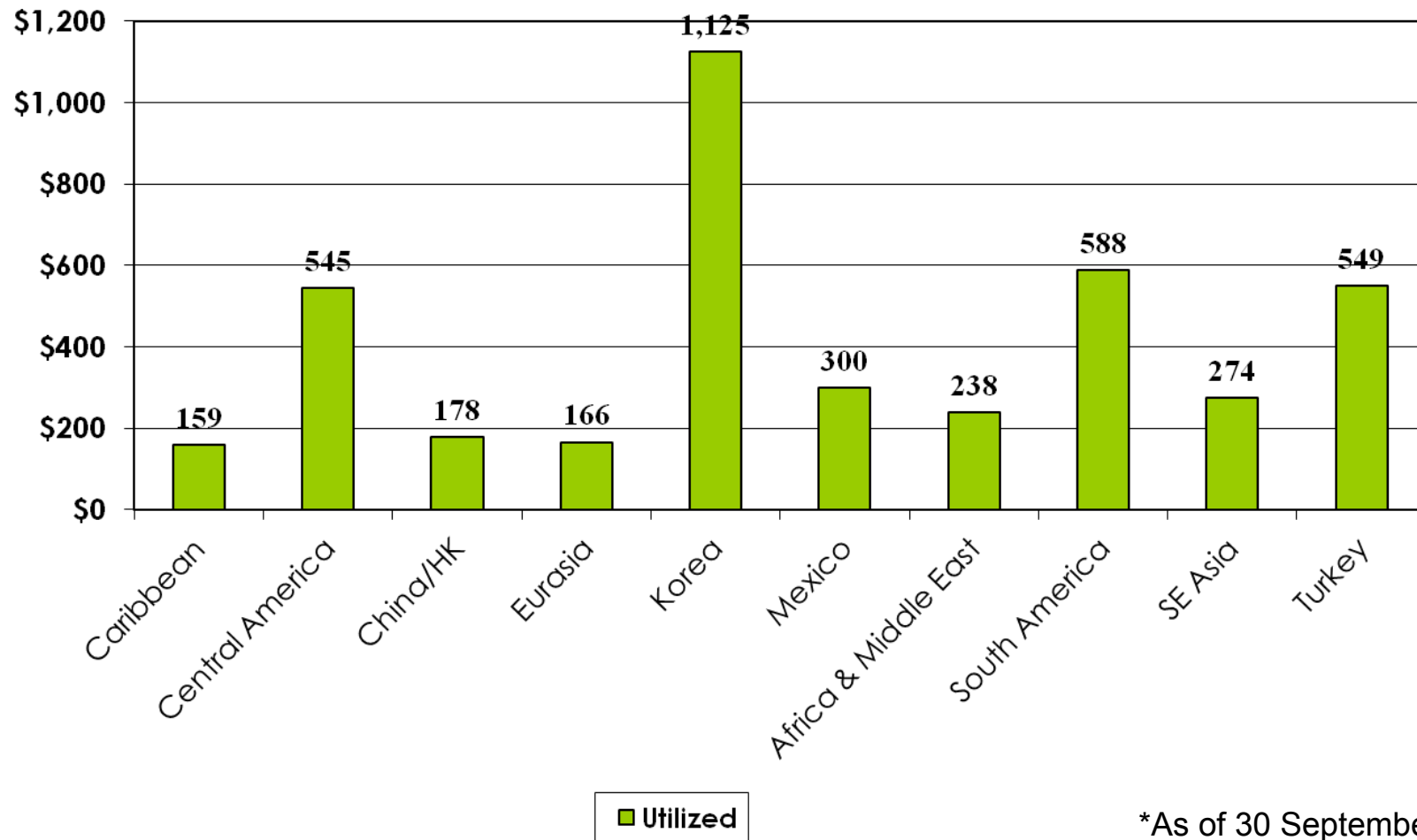


*As of Sept 7, 2010

GSM-102 Global Usage

FY 2011 (in USD millions)

\$4.1 Billion in Registrations*

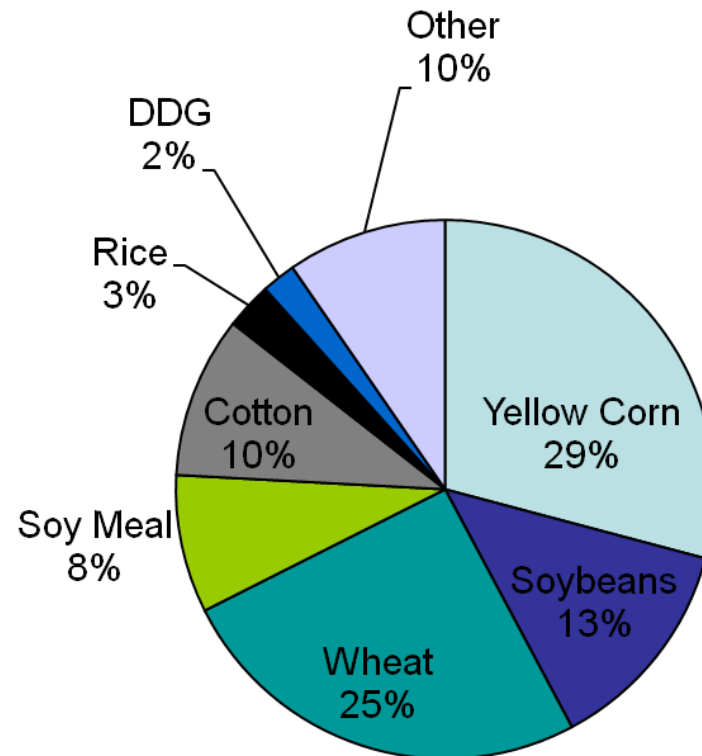


*As of 30 September, 2011

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Top Commodities under GSM-102

FY 2010



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GSM-102 Usage in Turkey FY 2011 (in USD millions)

GSM-102: How the Program Works

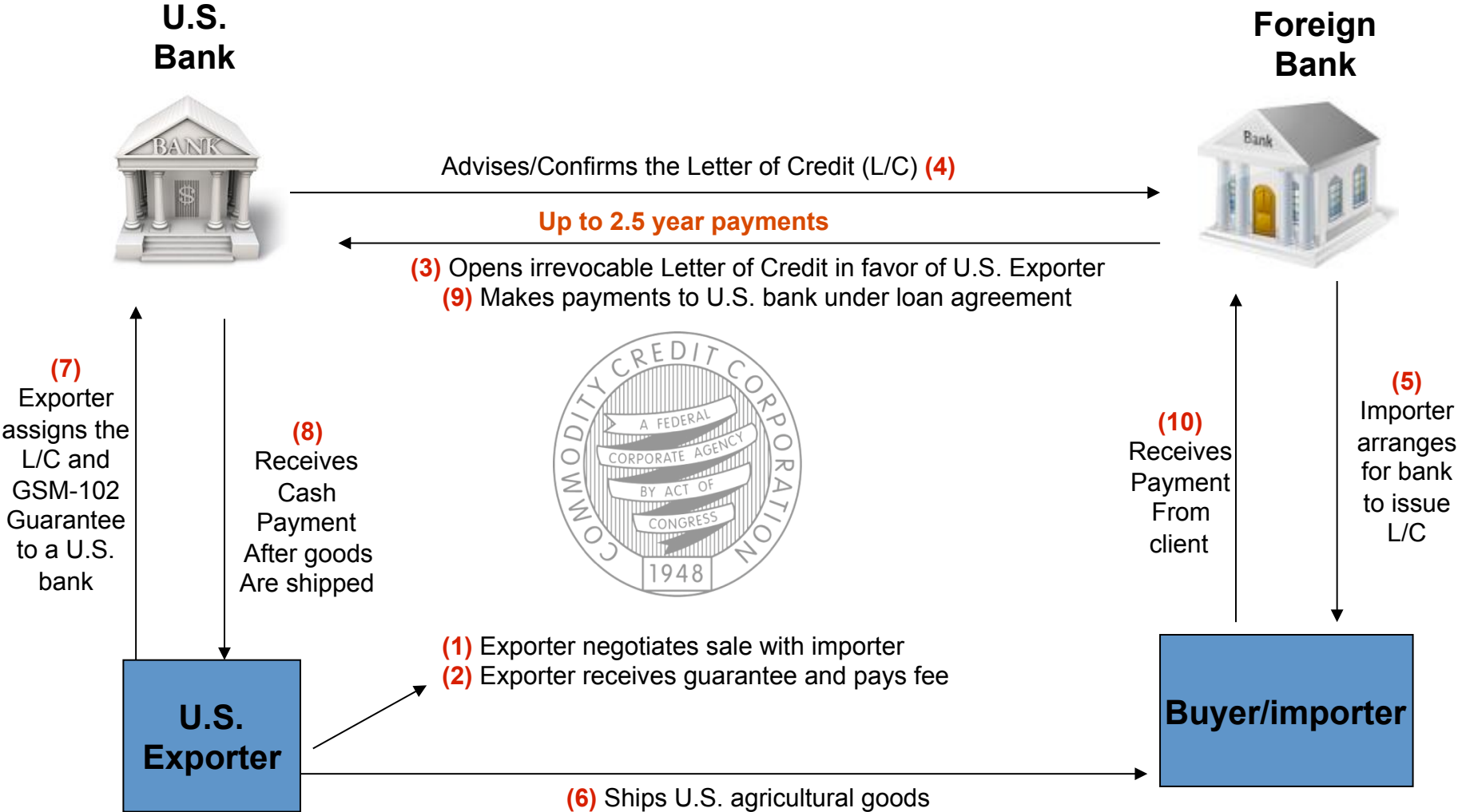
- U.S. exporter qualifies to participate. (Online application)
- USDA announces country/regional coverage.
- U.S. exporter negotiates a firm sales contract with the **importer**.
- Exporter applies for guarantee coverage and pays guarantee fee.
- USDA issues guarantee to exporter.
- **Importer** applies for L/C and USDA approved foreign bank issues L/C in favor of the exporter.
- Exporter ships commodity & presents documents to USDA approved U.S. bank.

GSM-102: How the Program Works

Cont.

- U.S. bank pays exporter
- Foreign bank pays U.S. bank over terms of loan
- **Importer** receives goods
- **Importer** pays foreign bank per terms established between these parties

A GSM Transaction



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BENEFITS TO IMPORTERS

- May encourage U.S. exporters' interest in the market because the U.S. bank is willing to take on financing with the GSM-102 guarantee
- Foreign bank able to provide **terms to the importer** because of the GSM-102 dollar trade credit obtained from the U.S. bank
- Increased buying capacity because of access to trade credit
- Potentially longer repayment terms
- Lower cost of buying on credit
- Access to quality U.S. products



BENEFITS TO U.S. EXPORTER

- **Less risk – USDA takes almost all repayment risk**
- **Ability to sell more to customers**
- **Ability to accommodate importers**
- **Ability to get paid at sight by assigning guarantee to U.S. bank**

BENEFITS TO U.S. BANKS

- **Less risk – USDA takes almost all repayment risk**
- **Ability to extend increased credit lines & volume to foreign banks**
- **Ability to lend up to program tenor**
- **Ability to lend at cheaper interest rates**
- **Earn fees**
- **Initiate the development of exporter/importer business relationships**

BENEFITS TO FOREIGN BANKS

- Able to support and finance bank clients interested in buying U.S. agricultural products
- Access to trade finance with U.S. banks (dollar credit)
- Increased credit lines from U.S. banks
- Up to 2.5 years repayment period

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GSM-102: A WIN/WIN FOR PARTICIPANTS



- Shared risk
- Favorable terms
- New markets for U.S. exporters
- Diversifies product origin for importers
- Food security managed through sustainable, commercial practices
- Expanded business opportunities and investment in Russian markets

IMPORTERS

- Terms extended by the U.S. bank to your local bank are not the same as those extended to you the importer
- USDA cannot regulate terms offered/extended by the foreign/local bank to the importer
- Financing international trade transactions helps to build and strengthen the client-bank relationship.

IMPORTERS

Pricing a Letter of Credit: General Guidelines

London Interbank Offered Rate (LIBOR)

- International floating interest rate

Fixed Rate

- Based on country's prime rate or LIBOR

Spread

- Determined by the local bank. Based on client credit history

Letter of Credit – Definition

- A letter of credit is a written undertaking issued by a (Colombian) bank, to pay, in favor of a third party (beneficiary/exporter) on behalf of the bank's customer (applicant/importer)
- Letters of credit are documentary in nature. The bank's promise to pay is contingent solely upon presentation of documents, as specified in the credit terms
- Transfers credit risk from buyer to buyer's bank
- If confirmed by a U.S. bank, the country or political and credit risks are transferred to U.S. bank
- Letters of credit are only as good as the banks that issue/confirm them

Precepts of Letters of Credit

- Letters of Credit are separate transactions from the sales contract or agreement on which they may be based
- Banks are not responsible for the accuracy of the content of the documents
- All parties deal in documents and not the goods or services involved in the transaction.

Parties Involved

- Applicant (Buyer)
- Issuing bank (Buyer's bank)
- Beneficiary (Seller)
- Advising bank (Seller's bank)

Contractual Relationships

- **Sales Contract**
 - Between Buyer and Seller
- **Application and Security Agreement**
 - Between Buyer and Issuing Bank
- **Letter of Credit**
 - Between Issuing Bank and Beneficiary (Seller)

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DETERMINING GSM-102 SALES PROSPECTS

- Has the importer contacted the **Agricultural Affairs office** for help in **finding a U.S. supplier** or information about GSM-102?
- Is the importer able to have a bank in his or her country or region **open an L/C**? Is that bank approved under GSM-102?
- Does the foreign **bank need information** and training under GSM-102?
- Does the foreign **bank** have an **existing banking relationship with a U.S. correspondent bank** already?
- What commodity or food product (**must be U.S. agriculture origin**) does the U.S. exporter intend to sell, the proposed value, and shipping date?
- Is the **U.S. exporter familiar with the benefits of the GSM-102?** Does he or she want to be paid once the goods are shipped?
- Does the **U.S. exporter have a U.S. bank or financial institution that is interested in**, or will use the GSM-102?

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Additional Information

GSM-102 Program Information

Home Page:

<http://www.fas.usda.gov/excredits/exp-cred-guar-new.asp>

Announcements/Changes

Qualifying Application

Program Activity Reports

Approved Banks Domestic and Foreign

Country Ratings

Fees Schedule

Eligible commodities

List of Appropriate Specialists

Available Balances

<http://www.fas.usda.gov/excredits/ecgp.asp>

GSM-102: Facilitating Trade Finance Worldwide

GSM 102 Program KEY CONTACTS

**Foreign Agricultural Service
Clay Hamilton, Ag Counselor**

U.S. Embassy, Ankara

Telephone: (011-90-312) 468-6129

Tel-Embassy: (011-90-312) 455-5555 ext. 7393

Fax: (011-90-312) 467-0056

Email-FAS: agankara@fas.usda.gov

ATO, U.S. Consulate Istanbul

Telephone: (011-90-212) 335-9140 or 335-9068

Tel-Consulate: (011-90-212) 335-9000

Fax: (011-90-212) 335-9077

Email-FAS: agistanbul@fas.usda.gov

