



U.S. Small Business  
Administration

## Why 2018 is the best year yet for Export Express

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If you are an active SBA Express lender, you'll want you to know that SBA's new SOP 50 10 5(J) regulation has unlocked a substantial new opportunity to grow your SBA portfolio with additional lending. The change is not obvious at first glance, so bear with me and you'll see what I mean.

### SBA Express matters

One of SBA's most popular loan programs is SBA Express. This streamlined program with approval authority delegated to the lender provides a 50% guarantee on loans up to \$350,000.

In FY2017, SBA Express accounted for over 35% of all 7(a) loans made in California. Nearly 2,800 of the roughly 7,800 SBA loans approved in California were SBA Express loans. And the year before, in FY2016, SBA Express totaled over 3,800 and accounted for 44% of all 7(a) loans made in California.

Business lenders clearly appreciate the program's simplified application process and underwriting rules. By using SBA Express, many lenders have built a substantial portfolio of already-underwritten business borrowers.

### Why Export Express hasn't mattered so much... yet

SBA also offers a second "Express" style program – Export Express – which closely parallels SBA Express. Just like SBA Express, its application is streamlined, approval authority is delegated to the lender, and underwriting is based on the lender's own internal guidelines. But Export Express provides a larger guarantee and supports larger loans, offering 90% guarantees on loans up to \$350,000 and 75% guarantees on larger loans up to \$500,000.

You would think being so similar to the popular SBA Express program, Export Express would be quite active too. But up until now, that hasn't been the case. In FY2017, just 53 Export Express loans were approved nationwide.

One significant reason that Export Express has not yet gained traction with lenders is that lenders view it as a stand-alone product. They think of Export Express only when a borrower is substantially involved in exporting. And yet studies have found that for the majority of small business exporters, export sales account for no more than 10% of total revenues. In other words, exporting is commonly a revenue *enhancement* strategy rather than the central focus of their business operations. This is not to minimize the importance of exporting, but to recognize that it plays a key *supporting* role in most small business operations.

Export Express rules require the lender to determine that at least 70% of any Export Express general line of credit will be used for export activities. That's a high hurdle for many small businesses who export as a sideline, and so Export Express is often not going to be a good fit *so long as lenders see Export Express as the only business line they are going to extend to their customer*. Furthermore, lenders tend to think of Export Express as a more expensive product since its 90% guarantee brings a proportionally higher SBA fee than a 50% SBA Express guarantee.

**But what if lenders were to begin to view Export Express as an *add-on* financing product rather than a *stand-alone* solution?**

## What changed in SOP 50 10 5(J)

Up until the release of SOP 50 10 5(J), SBA limited total SBA Express borrowing to not more than a maximum of \$350,000 *including* any outstanding Export Express, Patriot Express, and Community Express loans. So if a business had an existing \$200,000 Export Express loan, the most that the borrower could receive under SBA Express would be an additional \$150,000. In other words, SBA's long-time approach was to lump its various "Express" programs together so that using Export Express would directly limit a lender's ability to finance their customers with the more popular SBA Express program.

That all changed on January 1, when SOP 50 10 5(J) took effect. Now Export Express and SBA Express are de-coupled from one another. **An Export Express loan no longer counts against the SBA Express lending limit.** Now a borrower can even have the maximum \$500,000 Export Express loan outstanding and still qualify for a full \$350,000 SBA Express loan. (The change is found in the table on page 139 of the new SOP – where "Export Express" is no longer listed as counting against the Maximum Loan Amount for SBA Express loans.)

## Time to start thinking of Export Express as an add-on loan product

Export Express can certainly always be used as a stand-alone product, but experience so far seems to indicate that lenders encounter few borrowers whose needs can be met solely by Export Express – for the reasons already discussed above. But what if lenders began to consider Export Express as a supplemental loan to the small businesses which they are primarily serving with SBA Express? That would line up nicely with the supplementary role that exporting plays in many small business operations.

The time is ripe for lenders interested in taking this approach because:

- Under the new SOP, SBA Express and Export Express are now de-coupled. Assistance from either program will not adversely affect the available lending limits of the other.
- Businesses in the lender's SBA Express portfolio have already been underwritten and approved for financing. Small loans are often uneconomical for lenders given the small return for the effort involved. Yet when much underwriting has already been completed under SBA Express, the added effort to make a supplementary Export Express loan will be greatly reduced since all the hard initial work has been done.
- The only thing special needed for an add-on Export Express loan is for the lender to ascertain that their SBA Express borrower does some exporting (or is interested in beginning to export) and needs some financing to develop this side of their business. Export Express rules allow this to be documented by a brief lender-generated questionnaire (or the business can provide an export plan). With that sole additional documentation, the lender can use the same SBA Express credit information already in its files to finish the remaining underwriting.
- But what about the larger SBA fee that comes with a 90% Export Express guarantee? Yes, that is a consideration. But if the Export Express loan is an add-on product, there's a good chance it will be a loan for \$125,000 or less. And SBA has waived its SBA guaranty fee for loans of \$125,000 or less (provided no other SBA 7(a) loan is made within 90 days), and this waiver includes Export Express. By taking advantage of the waiver, a small, add-on Export Express can provide a fee-free general line of credit for up to 7 years for the business – with a fee-free 90% guarantee for lender.

## But are SBA Express borrowers really exporters?

Certainly many SBA Express borrowers will not be exporters – the food carts, beauty salons, repair shops, etc. But if you ask them, some SBA Express borrowers are exporting. Remember, exporting means selling goods or services from the US to foreign buyers – and that can be as simple as selling into Canada or Mexico.

Of the 2,800 SBA Express borrowers in California last year, many are involved in sectors that frequently export. Over 200 were manufacturers of some kind; 270 were wholesalers; 40 were electronic shopping or mail order

operations; and many others were professionals – architects, engineers, technical consulting firms – who well may offer cross-border services. Even some small retailers may be exporters – when you look at the e-commerce web sites of retail businesses, they’ll often indicate a willingness to ship internationally.

Easily there’s a pool of businesses amounting to over 20% of every lender’s existing SBA Express portfolio that are worth scouting to ask:

- Do you ever sell to foreign buyers, or do you see an opportunity to do so?
- And if so, would a small supplementary Export Express loan help you grow that side of your business?

The Export Express prospect list is right in front of SBA Express lenders. All that’s needed is to approach them.

## What might an add-on Export Express loan be used for?

Once you’ve found the small business exporters in your SBA Express portfolio, the opportunities that Export Express financing can offer are manifold because the program can support so many different needs:

- Overseas market development costs, such as translating marketing materials, attending foreign trade shows, paying the cost of US Commercial Service assistance in connecting with viable foreign buyers, and other costs associated with finding and vetting foreign buyers.
- For e-commerce exporters, internationalizing the business’s online presence and setting up a more responsive international payment and fulfillment platform.
- Product customization costs, re-labeling to satisfy foreign compliance rules, and any product registration costs that foreign governments may require.
- Legal and registration costs needed to protect intellectual property, trademarks and brands in key foreign markets.
- Arranging for export credit insurance or other risk mitigation services to protect against non-payment by foreign buyers.
- Bid bonds, advance payment guarantees, and performance bonds that may be necessary for a US small business to establish its credibility with foreign buyers. Export Express can back such bonds with its standby letter of credit authority.
- Additional working capital to cover the costs associated with projected export sales volume – whether needed to produce, ship, and otherwise fulfill foreign orders, or to bridge cash flow gaps when foreign distributors buy more but need longer payment terms.
- Additional equipment or other fixed asset improvements that are needed to produce goods or services for export. (Such fixed assets need not be exclusively dedicated to export used; they may also be used for domestic sales.)
- Staging inventory overseas to minimize fulfillment time in foreign markets. Remember, on loans of \$25,000 or less, no collateral is required by SBA, making a small ExportExpress loan an ideal financing solution for businesses that need this. And for the lender, SBA’s 90% guarantee may alleviate the lender’s inability to provide such financing given to the impracticality of taking a lien in a foreign jurisdiction.
- Debt refinancing. Export Express may even refinance debt when this will provide financing that better meets the business’s needs and clearly supports its export development plans.

## How might an add-on Export Express loan be structured?

Export Express allows lenders maximum flexibility in loan structure. Export Express can back a revolving line of credit for up to 7 years, with no term out period required. (SBA Express loans now must have term out periods,

but not Export Express.) Or it may be set up as a term loan, amortized to reflect the use of proceeds – up to 10 years for permanent working capital, up to 10 years or the useful life of equipment when equipment is financed, and up to 25 years when real estate improvements are financed. Interest rates are subject to the same rules as SBA Express loans.

Underwriting, collateral, and loan monitoring requirements are simple. A lender just follows the same policies and procedures that it uses for its similarly-sized, non-SBA guaranteed commercial loans. The sole exception is on collateral for standby letters of credit, where SBA requires lenders to obtain cash or other collateral equal to 25% of the face amount of the standbys – actually quite a modest collateral requirement. And again, if the loan is for \$25,000 or less, no collateral is required. Personal guaranties of course must be taken from all 20+% owners.

## Developing an Export Express delivery platform

A key reason behind SBA Express's popularity is that nearly every active lender has developed some kind of streamlined system for quickly gathering the information necessary for underwriting and approving them. Lenders would be understandably reluctant to develop a second platform just for Export Express. Fortunately, since Export Express is fundamentally just an enhanced variant of SBA Express lending, Export Express delivery does not require an entirely new or separate process. Instead, existing SBA Express platforms can be adapted to deliver Export Express as well. Export Express processing only requires the following 2 pieces of additional information:

1. Export questionnaire completed by the business. The only special documentation needed from the applicant is an export plan or questionnaire. This can be very brief since it only needs to answer a half dozen questions relevant to Export Express eligibility: (1) export history and experience, (2) what will be exported, (3) anticipated export revenue, (4) planned export markets, (5) export benefits of the loan, and (6) nature of any overseas operations.
2. Export Express eligibility addendum completed by the lender. Lenders will need to supplement their SBA Express credit memo to consider the few additional Export Express-specific eligibility issues – which are answered Yes/No on SBA Form 1920, page 8. These are: (1) whether the applicant is an exporter (or an indirect exporter); (2) projected export revenue; (3) time in business; (4) whether export development will result from the loan; (5) authorized use of loan funds, including satisfying special refinancing and standby letter of credit requirements when applicable; (6) no unauthorized overseas operations; and (7) no plans to export to prohibited countries.

This added documentation can be easily gathered with simple templates that supplement a lender's existing SBA Express processes. Sample formats are available for the asking.

## What an Export Express deal would look like?

With the above guidelines and systems in place, an acceptable, add-on Export Express loan might look something like this:

- The small business responds positively to their lender's inquiry, *"Yes, we do have some foreign sales, and we could increase these if we could set up a small supplemental credit line for some export development work and additional working capital for the increased international sales we anticipate."* The lender has the borrower document their intentions by completing a brief export questionnaire.
- With Export Express eligibility thus established, the lender internally underwrites the new loan utilizing information in the business's existing SBA Express loan file and reviewing the borrower's known SBA Express credit performance.
- If the lender already has a lien on all business assets, the Export Express may simply be secured by a junior lien on these same assets, and if the Export Express loan is for \$25,000 or less, no collateral is required. The new Export Express loan is set up as an up-to-7-year revolving line, allowing the borrower the latitude to draw down on the line as export-related needs arise and always have recourse to it as needed over the next 7 years.

- Since Export Express is a delegated authority program, the lender does all of the processing, approvals, and closing in-house with no SBA review involved. Post-closing disbursements and monitoring are done via the lender's standard internal processes and in conjunction with the already ongoing SBA Express monitoring.

And what's the cost of this very flexible, multi-year add-on Export Express credit line? Assuming the loan is \$125,000 or less, it's free because there's no SBA guaranty fee. Yet the lender can proceed with confidence because their new loan is backed by a 90% Export Express guarantee.

## **Why 2018 is the best year yet for Export Express**

If you've followed this train of strategic thought, you probably are beginning to think of borrowers already in your portfolio that would benefit from what Export Express has to offer. You may even have realized that Export Express could be an add-on product for many of your small business borrowers regardless of whether they are SBA Express borrowers or not. In any case, with the de-coupling of Export Express and SBA Express, there's a universe of businesses in your small business portfolio which are now potential Export Express candidates, where making them such a loan will not impair your ability to help them later with an SBA Express loan.

Given the tremendous market for US goods and services overseas and relatively modest investment needed to get into exporting, many small businesses are interested in doing more foreign business. Studies show such businesses are more profitable, stable, and more likely to be successful in the long run, with foreign sales serving to spread their market exposure risk and honing the exporter's business acumen thanks to their exposure to international insights and customer opportunities.

These retail banking clients of today are among the most likely to be your business and even commercial banking clients of tomorrow. And in the meantime, for the lender, we're talking about a relatively small investment that is backed by a 90% Export Express guarantee.

That's why 2018 is the best year yet for Export Express lending.