



# Financing Bioenergy Projects: The Role of Ex-Im Bank



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# U.S. Ex-Im Bank

- ▶ Independent agency of the U.S. government established in 1934 to finance the export sales of U.S.-made goods and services
- ▶ Provides Loan Guarantees, Export Credit Insurance, Working Capital Guarantees, and Direct Loans.
- ▶ Ex-Im Bank's support for renewable energy and environmental exports mandated in its Congressional Charter since 1992
- ▶ FY2010 tripled its portfolio of renewable energy projects to \$330 million, and doubled this to \$721 million in FY2011.
  - Created the Office of Renewable Energy & Environmental Exports in 2008
- ▶ Environmental Exports Program offers enhancements:
  - Terms of up to 18-years for renewable energy projects
  - Up to 30% local cost support within the U.S. scope of supply.
  - Capitalization of interest during construction
- ▶ Ex-Im Bank financing is usually the most cost-effective source of financing for international customers to purchase U.S.-made technology

# Direct Loan

- ▶ Direct Loans made by Ex-Im Bank to international borrowers
- ▶ Fixed interest rates based on a 1% spread over Treasury notes
  - Interest rate for an 7-year Direct Loan is 1.76% (as of June 14, 2012)
  - Interest rate for a 8.5-12-year Direct Loans is 2.21% (as of June 14, 2012)
  - Interest rate for an 18-year Direct Loan is 3.00% (as of June 14, 2012)
- ▶ The international borrower submits the Direct Loan application.
- ▶ Ex-Im Bank requires the buyer to make a cash payment to the exporter equal to at least 15% of the U.S. supply contract.
  - 15% cash payment can either be borrowed from a lender or the exporter, or be from the buyer's own funds.
- ▶ Exporter paid with disbursement L/C or buyer is reimbursed
- ▶ A negotiated credit agreement required for a Direct Loan
- ▶ Shipping must be made on U.S.-flag vessel (except air shipments)

# Case Study: Gas Verde, S.A. - Brazil

- ▶ Ex-Im Bank approved a 12-year \$48.5 million Direct Loan in May 2012 to finance the export of equipment and services for a biogas treatment facility in Rio de Janeiro.
- ▶ Ex-Im Bank's current 12-year fixed-interest Direct Loan in U.S.\$ = 2.43%
- ▶ Gas Verde S.A. will install U.S. biogas technology to process raw landfill gas into high-grade methane to be sold to a Petrobras refinery under a 15-year sales contract..
- ▶ The exporter is FirmGreen®, of Newport Beach, CA who along with its subcontracted companies supplied proprietary biogas-cleaning equipment run by FirmGreen's patented VerdeControls™ operating software and other related services.
- ▶ Repayment for the loan is based on the creditworthiness of the main shareholders of Gas Verde S.A. who will provide the repayment guarantee for the loan.
- ▶ The new biogas plant will capture and treat 20,000 normal cubic meters per hour (nM<sup>3</sup>/hr) of raw landfill gas to produce 9,000 nM<sup>3</sup>/hr of fuel-grade biomethane gas.
- ▶ Reclamation of the biogas at the site will significantly reduce passive landfill emissions to the atmosphere.
- ▶ Biogas from the Novo Gramacho plant will directly replace an estimated 10% of the natural gas derived from fossil-fuel sources that is consumed at the Petrobras refinery.
- ▶ One of the world's largest solid-waste landfills, Jardim Gramacho was the subject of "Waste Land," an acclaimed documentary nominated for an Academy Award in 2011.

# Loan Guarantee

**Guaranteed Loans made by commercial banks (U.S. or foreign) to a foreign buyer with a 100% *unconditional* repayment guarantee from Ex-Im Bank**

- **Guarantee covers 85% of the U.S. content of the transaction.**
- ***Negotiated* interest rates, often floating rates based on spread over 6-month U.S. dollar LIBOR rate; banks can also arrange fixed interest rates**
- **Loan fully transferable, can be securitized**
- **Banks often finance the 15% required cash payment**
- **Guarantee available in major foreign currencies, including Rand**
- **Ex-Im Bank's Local Currency Loan Guarantees can in turn support capital market issues in local currency**

# Case Study: Generadora Trasandina - Chile

- ▶ Ex-Im Bank approved a 10-year \$1.9 million Loan Guarantee in 2011 to finance the export of equipment for a biogas-to-energy system to Generadora Trasandina, S.A. of Chile
- ▶ The exporter, Applied Filter Technology, Inc. of Snohomish, WA, custom designs, installs and operates biogas-to-energy systems .
- ▶ Generadora Trasandina, S.A. will use the equipment in the “Proyecto Central Los Colorados” to capture methane gas from a municipal landfill to generate electricity.
- ▶ The electricity generated by the project will be sold under a 10-year PPA to KDM Energia y Servicios.
- ▶ The electricity from the project provides power to hundreds of homes and businesses in the City of Til-Til, in Central Chile
- ▶ PNC Bank made the Loan with repayment guaranteed under Ex-Im Bank’s Medium-Term Insurance program.

# Ex-Im Bank: Approach to Lending

## Ex-Im Bank can make a credit decision based on:

- 1) A corporate borrowing approach based on the financial condition and existing business of the borrower or guarantor via analysis of:
  - ▶ A current credit report
  - ▶ A current commercial bank reference
  - ▶ Latest 3 years financial statements
    - ▶ Application of Ex-Im Bank's Medium-Term Credit Standards as the starting point
- 2) As limited recourse project finance with a special purpose company borrower and project cash flows as the source of repayment;
- 3) Or, as a structured finance transaction with the borrower's balance sheet enhanced by special features.

# Medium-Term Credit Standards

*Standards Ex-Im Bank applies in its analysis of the international customers financial statements*

- 1) Positive Operating Profit over last 2 years
  - 2) Positive Net Income over last 2 years
  - 3) Positive Cash-Flow-From-Operations (latest year)
  - 4) EBITDA/Debt Service greater than 150%
  - 5) Total Liabilities/Total Net Worth less than 175%
  - 6) Ex-Im Bank Exposure/Total Net Worth less than 40%
- ▶ Borrowers that meet these standards very likely to be approved.
  - ▶ If the borrowers misses one or more of the standards, Ex-Im Bank will conduct further analysis of the borrowers' business to determine whether to grant approval.

# Export Credit Insurance

Enables U.S. exporters to offer short- and medium-term *credit directly to their customers*, or for banks to insure credit lines and L/Cs.

Financing is often THE critical factor in financing export sales, open account credit has advantages:

- “Supplier credit” attractive substitute to buyer using L/Cs
- Interest rates high in many international markets
- Increase order quantities to existing customers/distributors

Insures credit repayments up to 180 days from date of importation of the goods; capital goods terms of 360 days-7+ years.

▶ Ex-Im Bank offers both Multi-buyer and Single-Buyer Insurance

## Process:

1. The U.S. supplier submits the application along with the required information to establish a credit limit for the foreign customer.

2. Information requirements for the foreign buyer credit limits:

- ▶ \$10,000 credit - a favorable trade or bank reference
- ▶ \$10,000-\$50,000 credit - a current credit report
- ▶ \$100,000-\$300,000 credit a current credit report + favorable bank or trade reference.

3. Ex-Im Bank’s Loan Officer analyzes the application and makes a decision on the amount of credit to be supported.

# Working Capital Guarantee

- ▶ Ex-Im Bank provides 90% repayment Guarantee for working capital loans revolving or transaction based, made by commercial lenders to small businesses to finance export sales.
- ▶ The Working Capital Guarantee serves as the collateral to the commercial lender by mitigating the risk inherent when the source of repayment for the loan is an overseas contract.
- ▶ Enables exporters to finance materials, labor, and overhead to produce goods/services for export.
- ▶ Enables exporters to cover standby letters of credit for bid and performance bonds, or payment guarantees.
- ▶ Enables the exporters to finance foreign sales receivables.
- ▶ Most Working Capital Guarantees provided by Delegated Authority Lenders (see [www.exim.gov](http://www.exim.gov) for a list) without prior Ex-Im Bank approval.

# Conclusion

- ▶ **Ex-Im Bank: top priority to support renewable energy & environmental exports**
- ▶ **Ex-Im Bank supports short, medium, and long-term financing to creditworthy international customers, and working capital guarantees to U.S. exporters**
- ▶ **Ex-Im Bank often plays a critical early-stage role in helping small clean tech companies finance their operations.**
- ▶ **With Ex-Im Bank's early-stage intervention these companies can grow their international business, increase profitability, and ultimately attract significant equity investment.**
- ▶ **Ex-Im Bank is interested in any size project**
- ▶ **We will work with you to create “bankable” projects**
- ▶ **We welcome your projects and your ideas!**

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