

### Introduction

Mexico is the United States' third most important trading partner and Latin America's second largest economy. Besides sharing a 2,000-mile border, the North American Free Trade Agreement (NAFTA) has brought both economies closer and eliminated tariffs, making it easier for Mexican buyers to import US goods. Nevertheless, many US exporters are unsuccessful in selling or increasing their exports to Mexico, due to the lack of information on financing options available to Mexican companies. Frequently, US exporters lose sales because of the payment terms they demand of Mexican buyers without taking into consideration the challenges their clients face.

US exporters should be aware of the fact that **Mexican lending rates range from 8 to 18% per year** (as of January 2010). US exporters are losing sales to Mexican buyers because they are demanding payment either by Confirmed Letter of Credit or Cash In Advance. This can result in the following situations:

1. US exporter ***fails to win*** new sales contracts or loses existing Mexican clients because other foreign competitors are willing to provide the Mexican buyer with open account terms. Some Mexican companies are willing to pay more just to get 30 or 60 day open account terms.
2. US exporter ***sells less*** to a Mexican client. One Mexican company interviewed stated that it would purchase 4 times as much from its US supplier if it were given 90 day terms rather than having to pay cash in advance.
3. US exporter ***loses*** medium term sales contracts, because a foreign competitor assists the Mexican buyer in achieving better financing terms.

While it is prudent for US exporters to insist on secure payment terms, it is critical that they consider the wide variety of payment terms available to them, in order to be as competitive as possible.

The purpose of this guide is to identify the main financing and payment options available to support US exporters selling to Mexico and to understand the costs, advantages, and disadvantages of each option. This guide is an introduction and the reader is encouraged to use it as a starting point in order to become more familiar with the subject. However, it is important to note that in many instances, the use of expert help is recommended. To that end, the following payment terms and financing options will be examined in this report:

1. Cash In Advance;
2. Confirmed Letter of Credit;
3. Open Account Terms;
4. Open Account Terms with Export Credit Insurance;
5. Documents Against Payment (D/P) & Documents Against Acceptance (D/A);
6. Export Finance by US Commercial Bank (US\$ denominated);
7. Import Finance by Mexican Bank (P\$ denominated);
8. Lines of Credit Available from Mexican Development Banks.

### Overview of Main Payment Terms and Associated Costs for Exports to Mexico

	Cash in Advance	Confirmed Letter of Credit	Open Account	Open Account with Export Credit Insurance	D/P and D/A	Export Finance by US Bank	Export Finance with US Ex-Im Bank Guarantee	Import Finance by Mexican Bank
<b>Term*</b>	Short and Medium	Short and Medium	Short	Short	Short	Medium	Medium	Medium
<b>Size</b>	Generally Smaller	Small to Large	Generally Smaller	Generally Smaller	Small to Medium	Small to Large	Small to Large	Small to Large
<b>Cost**</b>	None	Commission of 3%-4%	None	0.08% to 1.5% of Sales Covered	None	6% to 9% per year of amount financed	6% to 12% per year of amount financed	10 to 18% per year of amount financed
<b>Cost paid by</b>	N.A.	Mexican buyer	N.A.	US exporter	N.A.	Mexican buyer	Mexican buyer	Mexican buyer

\* Short-Term: up to 6 months, Medium-Term: 6 months to 5 years.

\*\* Costs are estimates and will depend on transaction characteristics, particularly the Mexican Buyer's credit score.

## What Do All These Financing Options Mean?

Each of these different financing/payment options will be covered in detail in the following sections. A short table will be provided for each financing/payment option to give you an idea of whether that option is appropriate for the sale you want to make. We point out the advantages and disadvantages of each, both for you as a US exporter and for your Mexican buyer.

### **This guide is just the first step**

Please note that this guide is meant to give you, the US exporter, a preliminary overview. A variety of issues are not considered. Once you're ready to take the next step, we encourage you to contact us through our website at [www.buyusa.gov/mexico](http://www.buyusa.gov/mexico). Our sector-specific contacts are listed there and are ready to assist you in examining in further detail what financing/payment method is right for your transaction.

## How do High Mexican Lending Rates Affect My Export Sales?

Local currency loans available from commercial banks in Mexico (both domestic and foreign) range from approximately 8% to 18% in loans and up to 90% per year in credit cards.

Mexican lending rates in pesos have historically been less competitive than lending rates in U.S. dollars even with the risk of peso devaluation. According to Mexico's Central Bank (Banco de México) the current world crisis (2008-2009) has severely limited access to credit in Mexico. Pesos denominated loans are offered with increasing restrictions and decreasing payment terms. This leaves Mexican buyers with fewer options to finance their imports of U.S. goods, which makes financing an important factor when these companies choose a supplier. Often firms that offer the most flexible credit terms are the firms that Mexican companies choose to purchase goods from

## What If I'm Having Trouble Selling or Getting Paid in Mexico?

### **How can the US Commercial Service help you?**

The US Commercial Service in Mexico can conduct an **International Company Profile (ICP)** on your potential buyers, which will give you credit history and references to help you assess the risk of selling to each one.

We can also help you through our **advocacy** support. We can help resolve your investment and trade disputes with Mexican firms, overcome trade barriers, bureaucratic problems, or unfair trade practices, enabling you to settle your differences through friendly negotiations and making sure that your company has the best possible chance to sell its US products and services in Mexico.

If you are bidding on an international tender and would like assistance, please go to our Advocacy Assistance website (<http://www.export.gov/Advocacy/assistance.html>). The US Commercial Service's mission is not only to increase US exports, but to defend US business interests overseas. If you are experiencing problems with Mexican government authorities or with your Mexican business partners, please contact one of our industry sector experts directly at [www.buyusa.gov/mexico](http://www.buyusa.gov/mexico). You will receive a prompt reply to your request for information.

## Option 1: Cash in Advance or Prepayment

### Overview:

<b>For:</b>	<b>Payment Prior to Shipping</b>
<b>Size of US Exporter:</b>	<b>Small, Medium, and Large</b>
<b>Transaction Size:</b>	<b>Generally Smaller</b>
<b>Cost:</b>	<b>None</b>

### Description:

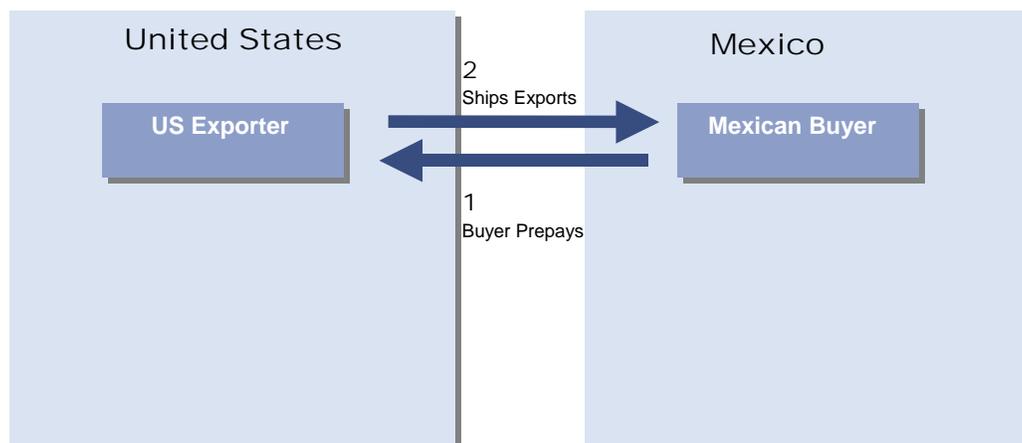
Mexican buyer transfers payment to US exporter's account prior to the US exporter shipping goods.

Terms	Advantages	Disadvantages
<ul style="list-style-type: none"> <li>Payment is received <b>prior</b> to exporting to the Mexican buyer.</li> </ul>	<b>For US exporter:</b> <ul style="list-style-type: none"> <li>Completely secure transaction as payment is received prior to shipping goods.</li> </ul>	<b>For US exporter:</b> <ul style="list-style-type: none"> <li>May lose sale if another seller is willing to provide the buyer with open account terms or other means of financing.</li> <li>May lose sale if the Mexican buyer does <b>not</b> have the working capital (cash on hand) in advance to purchase the product.</li> <li>May sell less to a particular Mexican client, due to the fact that the Mexican company does <b>not</b> have the working capital to buy as much as they would like or need.</li> </ul> <b>For Mexican buyer:</b> <ul style="list-style-type: none"> <li>Least secure form of transaction as there is <b>no</b> guarantee the buyer will receive goods after paying.</li> <li>Financially very draining for the Mexican buyer.</li> </ul>

### Comments:

If Export Credit Insurance or alternative sources of financing are not options, cash in advance is likely the most prudent payment mechanism for a US exporter selling to a Mexican buyer:

- Who is a first time client;
- Who isn't well known to the US Company;
- Who is financially weak;
- Who has a history of payment default;
- Who is operating under the Mexican equivalent of Chapter 11 bankruptcy, known as "quiebra" in Mexico.



## Option 2: Confirmed Letter of Credit (LC)

### Overview:

<b>For:</b>	<b>Receipt of Payment Guaranteed by a US Commercial Bank</b>
<b>Size of US Exporter:</b>	<b>Small, Medium, and Large</b>
<b>Transaction Size:</b>	<b>Generally Smaller although some Medium and Large</b>
<b>Cost:</b>	<ul style="list-style-type: none"> <li>▪ <b>3% to 4% (For an LC with a 90 day to 1 year exercise date) plus commissions established by each bank.</b></li> <li>▪ <b>Cost paid by Mexican buyer.</b></li> </ul>

### Description:

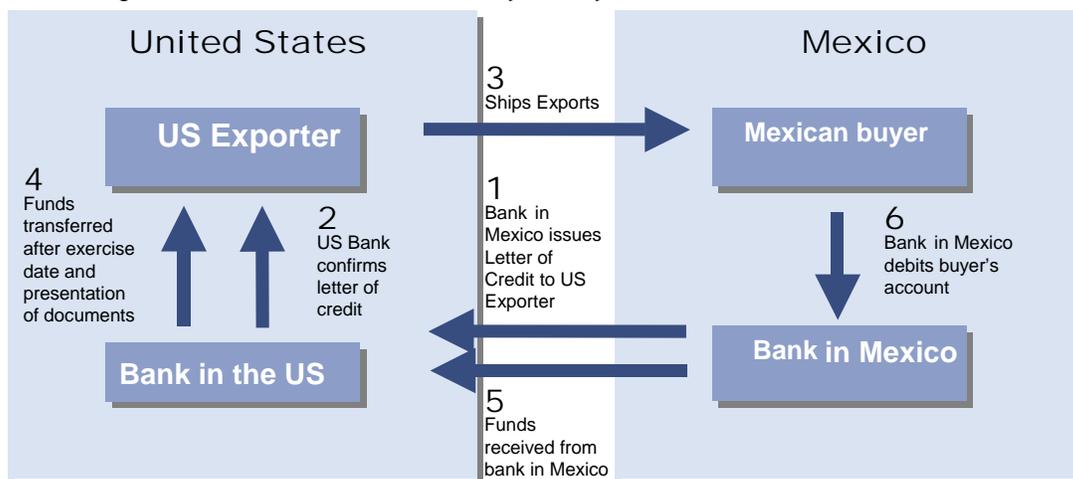
A Letter of Credit is a legal document issued by a bank (domestic or foreign) guaranteeing that at a certain date in the future, the US exporter can “on-demand” receive the funds from the bank. The confirmation by a US bank means that a US bank will pay the US exporter when the Letter of Credit is presented to them in the US and the US bank will then demand the funds from the Mexican bank. It is important to note that the actual wording of the Letter of Credit document is subject to negotiation.

Terms	Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• An LC in Mexico is expensive. Local banks charge a commission of 3 to 4% plus additional charges that can go from \$10 to \$30 dollars per LC depending on the bank.</li> <li>• In order to “demand” payment from the bank, one or more of the following documents must be presented to the bank [the documents to be presented are agreed on in advance by the buyer and the seller and are stipulated in the LC document]:               <ul style="list-style-type: none"> <li>○ Bill of Lading;</li> <li>○ Proof of Shipment;</li> <li>○ Proof of Receipt;</li> <li>○ Acceptance of goods by the buyer.</li> </ul> </li> </ul>	<p><b>For US exporter:</b></p> <ul style="list-style-type: none"> <li>• Very secure form of transaction as US Bank is obliged to pay the US Exporter on-demand, once the US exporter has presented the agreed upon documents to the bank and the exercise date has been reached.</li> </ul> <p><b>For Mexican buyer:</b></p> <ul style="list-style-type: none"> <li>• Very secure form of transaction for the Mexican buyer, as the US exporter will have to provide the confirming bank with documents that prove that they have fulfilled their obligations under the sales agreement.</li> </ul>	<p><b>For US exporter:</b></p> <ul style="list-style-type: none"> <li>• Due to the high cost, the US exporter may lose sale if another seller is willing to provide the Mexican buyer with open account terms.</li> <li>• May lose sale if the Mexican buyer does not have the available line of credit with a Mexican bank.</li> <li>• May sell less to the Mexican buyer due to the fact that the buyer has limited credit but would otherwise purchase more.</li> </ul> <p><b>For Mexican buyer:</b></p> <ul style="list-style-type: none"> <li>• Very costly form of transaction for the Mexican buyer.</li> </ul>

### Comments:

While Confirmed LCs are a very secure form of payment, many US exporters lose sales or sell less to Mexico due to their insistence on either Confirmed LCs or Cash in Advance. While great care must be taken when selling to any foreign buyer, other less secure forms of payment should be considered by US exporters if a given buyer is particularly creditworthy or other forms of security, such as export credit insurance, are available.

The cost of a Confirmed LC of less than one year does not generally drop in Mexico. Accordingly, for short-term transactions, the cost is particularly expensive relative to the term. For example, a Mexican company purchasing \$100,000 in goods from a US exporter will pay between \$3,000 and \$4,000 for a confirmed LC regardless of whether it is for 90 days or 1 year.



### Option 3: Unsecured Open Account Terms

#### Overview:

<b>For:</b>	<b>Shipment Prior to Payment</b>
<b>Size of US Exporter:</b>	<b>Small, Medium, and Large</b>
<b>Transaction Size:</b>	<b>Generally Smaller</b>
<b>Cost:</b>	<b>None</b>

#### Description:

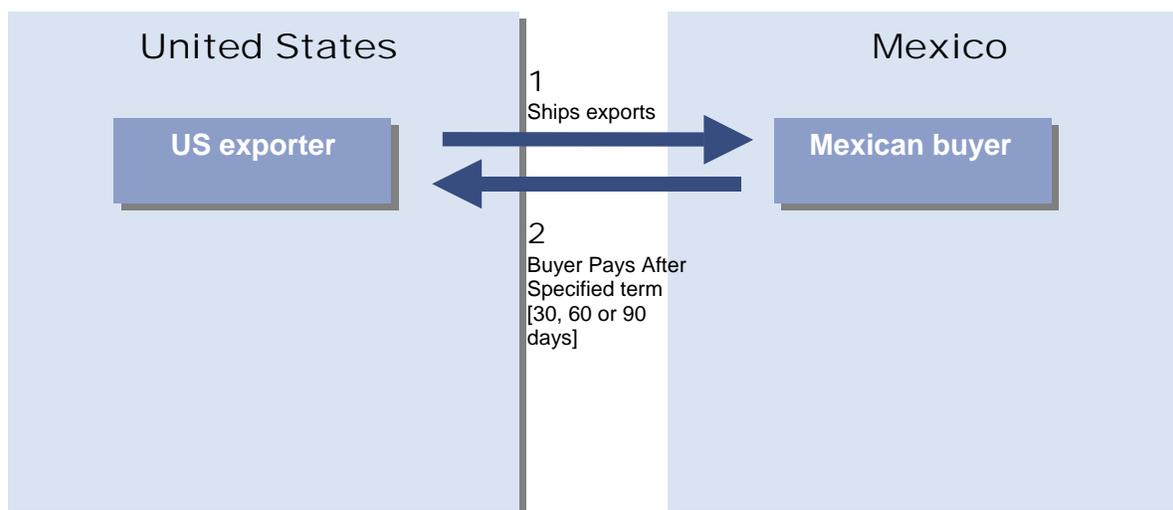
A US exporter agrees to ship goods to the Mexican buyer prior to receiving payment. The purchase order or sales contract indicates at what point in the future the Mexican buyer is obliged to pay the US exporter. Normally the Mexican buyer will transfer the funds to the US exporter at a certain point in the future. Generally open account terms are short-term and rarely exceed 120 days. It should be noted that 30, 60 and 90 days are most common in Mexico.

Terms	Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Payment <b>after</b> goods are shipped.</li> <li>• Payment due 30, 60, or 90 days after shipment or receipt of goods, as agreed to by both exporter and buyer.</li> </ul>	<p><b>For US Exporter:</b></p> <ul style="list-style-type: none"> <li>• May win sales when competing with other suppliers who demand more onerous payment terms.</li> <li>• May sell more to their Mexican clients because of the interest free credit they are providing.</li> </ul> <p><b>For Mexican buyer:</b></p> <ul style="list-style-type: none"> <li>• Most secure form of transaction for Mexican buyer as they receive the goods before paying.</li> </ul>	<p><b>For US exporter:</b></p> <ul style="list-style-type: none"> <li>• Least secure form of transaction for US exporter as goods are shipped prior to receiving payment.</li> </ul>

#### Comments:

Selling on Unsecured Open Account terms is highly risky for US exporters and is generally **not recommended** without the added security of Export Credit Insurance. US exporters should only consider providing Unsecured Open Account terms to Mexican buyers for:

- Firms that are very creditworthy;
- Firms with whom US exporters have had a great deal of favorable experience.



## Option 4: Open Account Terms with Export Credit Insurance

### Overview:

<b>For:</b>	<b>Short-term transactions (30 days to 120 days)</b>
<b>Size of US Exporter:</b>	<b>Small, medium, and large</b>
<b>Transaction Size:</b>	<b>Any size</b>
<b>Cost:</b>	<b>0.08% to 1.5% of insured receivables</b>  <b>US exporter pays initially. However, cost can be charged back to the Mexican buyer through price increases equal to the cost of the insurance</b>

### Description:

The transaction is exactly the same as that of Open Account except that the US exporter purchases Export Credit Insurance and the Credit Insurer agrees to reimburse the US exporter up to 90% of the value of the receivable in the event that the Mexican buyer declares bankruptcy, defaults on payment, or cannot pay due to one of a variety of political risks.

It is important to recognize that some Credit Insurance policies provide broader coverage than others. Use of a specialist Credit Insurance broker is highly recommended.

Terms	Advantages	Disadvantages
<ul style="list-style-type: none"> <li>US exporter insures a group of export receivables.</li> <li>Coverage for non-payment can include: bankruptcy, Chapter 11 equivalent, protracted default (non-payment more than 90 days past due), or political risks. Note that not all policies cover all of these perils. Use of a specialist insurance broker is recommended.</li> <li>There are two main types of Export Credit Insurance programs: (1) <b>Catastrophic Program</b> with a high deductible equal to approximately 120% of anticipated bad debt and (2) <b>No or Low Deductible Program</b>.</li> <li>Costs vary depending on a variety of factors such as volume, bad debt history, insured buyers, and program type.</li> <li>Catastrophic Program costs range from approximately 0.08% to 0.5% of insured receivables.</li> <li>Low Deductible Program costs range from 0.5% to 1.5% of insured receivables.</li> <li>In the event of a loss the insurer generally pays 90% of the receivables value (co-insurance).</li> </ul>	<p><b>For US exporter:</b></p> <ul style="list-style-type: none"> <li>Moderately secure form of transaction for US exporter.</li> <li>With open account terms US exporter may win sales when competing with other suppliers who demand more onerous payment terms.</li> </ul> <p><b>For Mexican buyer:</b></p> <ul style="list-style-type: none"> <li>Completely secure form of transaction since goods are received before paying.</li> </ul>	<p><b>For US exporter:</b></p> <ul style="list-style-type: none"> <li>Certain key buyers may be uninsurable. Nevertheless, these buyers are likely to be extremely high risk and the US exporter can demand Cash In Advance or Confirmed LC for these particular buyers.</li> </ul>

### Comments:

Open account sales covered by Export Credit Insurance are considered by many to strike an excellent balance between prudence and the desire to provide competitive payment terms that won't undermine sales. The costs associated with Export Credit Insurance are minimal when compared to the costs of Confirmed Letters of Credit. Generally an exporter can charge back the minimal insurance costs to their buyers by increasing their prices from between the 0.08% to 1.5% in accordance with the cost of their insurance program.

Open account terms with Credit Insurance are more secure than simple open account terms. However, they are not considered as secure as Cash In Advance or Confirmed LC. Why? Because Export Credit Insurance is a conditional guarantee that includes certain conditions and exclusions. For example, a typical Export Credit Insurance policy excludes payment in the event of a dispute between the buyer and seller until the dispute is resolved.

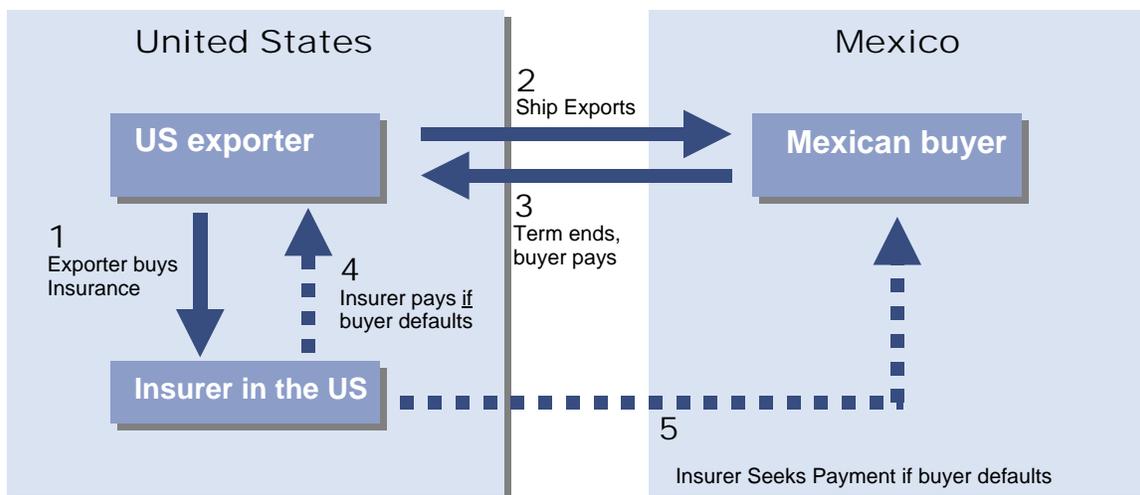
Due to the complexity of Export Credit Insurance and the fact that policy terms and conditions vary dramatically among insurers, the use of an insurance broker with specialized experience with Credit Insurance is highly recommended.

The US Export Credit Insurance market is competitive. There are several Credit Insurers available to US exporters:

- |                    |                   |
|--------------------|-------------------|
| 1. Atradius (NCM); | 5. US Ex-Im Bank; |
| 2. Chubb;          | 6. FCIA;          |
| 3. Coface;         | 7. Zurich.        |
| 4. Euler Hermes;   |                   |

In the past many US exporters found that Export Credit Insurers were reluctant to approve key buyers in Mexico. While this was indeed the case, Credit Insurers are increasingly willing to assume risk in Mexico.

For many small and medium sized US Exporters who export to Mexico, Export Credit Insurance is a valuable tool. If an insurer is unwilling to provide coverage for a particular buyer, that buyer is most likely a very high risk. In this case, the US exporter should probably insist on receiving a Confirmed LC or Cash In Advance.



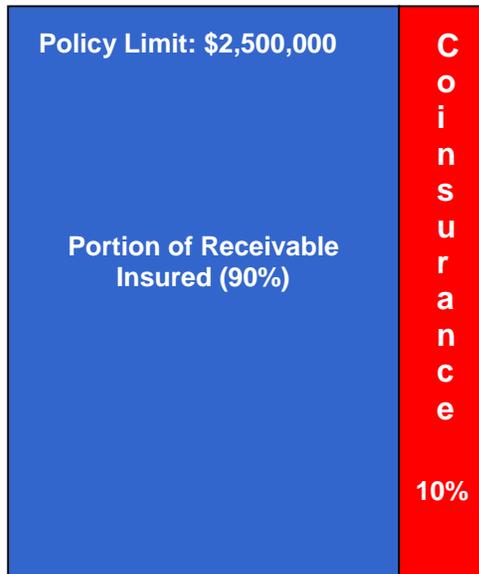
### Looking at some examples.

On the next page we show examples of how both the Catastrophic and No or Low Deductible Programs might actually work. It bears repeating that we advise US Exporters to consult a specialist Credit Insurance broker before proceeding further.

### Types of Export Credit Insurance Programs

The following two diagrams highlight the two main types of programs available to US Exporters, a **No or Low Deductible Program** and a **High or Catastrophic Deductible Program**. The No Deductible Program is more expensive as it pays claims regardless of loss size. Two payment default scenarios are listed after each program type and show how much indemnity the insured US Exporter would receive in the event of a \$600,000 default and a \$100,000 default. These programs are representative only and actual premiums and deductible levels will depend on the US exporter and their insured buyers.

#### No Deductible Program



#### High Deductible Program



Value of Insured Receivables:	\$10,000,000
Policy Limit:	\$2,500,000
Deductible:	none
Co-Insurance:	90%
Premium Rate:	0.9%
Annual Premium:	\$90,000
Loss Scenario 1:	Buyer in Mexico defaults on \$600,000 payment
Insurer Pays:	\$540,000 (90% of \$600,000)
Loss Scenario 2:	Buyer in Mexico defaults on \$100,000 payment
Insurer Pays:	\$90,000 (90% of \$100,000)

Value of Insured Receivables:	\$10,000,000
Policy Limit:	\$2,500,000
Deductible:	\$120,000
Co-Insurance:	90%
Premium Rate:	0.3%
Annual Premium:	\$30,000
Loss Scenario 1:	Buyer in Mexico defaults on \$600,000 payment
Insurer Pays:	\$420,000 (90% of \$600,000 less \$120,000)
Loss Scenario 2:	Buyer in Mexico defaults on \$100,000 payment
Insurer Pays:	Nothing (Loss is in excess of deductible)

## Option 5: Documentary Collections Documents Against Payment (D/P) & Documents Against Acceptance (D/A)

### Overview:

<b>For:</b>	Release of Shipping Documents on Payment <b>OR</b> Acceptance of Bank Draft
<b>Size of US Exporter:</b>	Small, Medium, and Large
<b>Transaction Size:</b>	Small and Medium
<b>Cost:</b>	None

### Description:

1. US exporter delivers shipping documents and Bank Draft to a bank in the US.
2. The bank in the US then forwards the shipping documents and the Bank Draft to its correspondent bank in Mexico.
3. The correspondent bank then notifies the Mexican buyer that the documents are available.
4. Normally, buyers will wait for confirmation that the goods have arrived at customs in Mexico.
5. Then one of two things happens, depending on mechanism – either
  - a. *For Documents Against Payment (D/P)*, also referred to as *Cash Against Documents* or *Sight Collection*, buyers will then pay the local Bank Draft in order to receive the shipping documents so that they may then present the documents to Mexican customs for clearance of the goods.

**or**

  - b. *For Documents Against Acceptance (D/A)*, also referred to as *Term Collection*, buyers will then accept, by signature, the local Bank Draft in order to receive the shipping documents so that they may then present the documents to Mexican customs for clearance of the goods. After the term, normally 30, 60, or 90 days, buyers will pay the bank that will in turn remit funds to US exporters via their US bank.

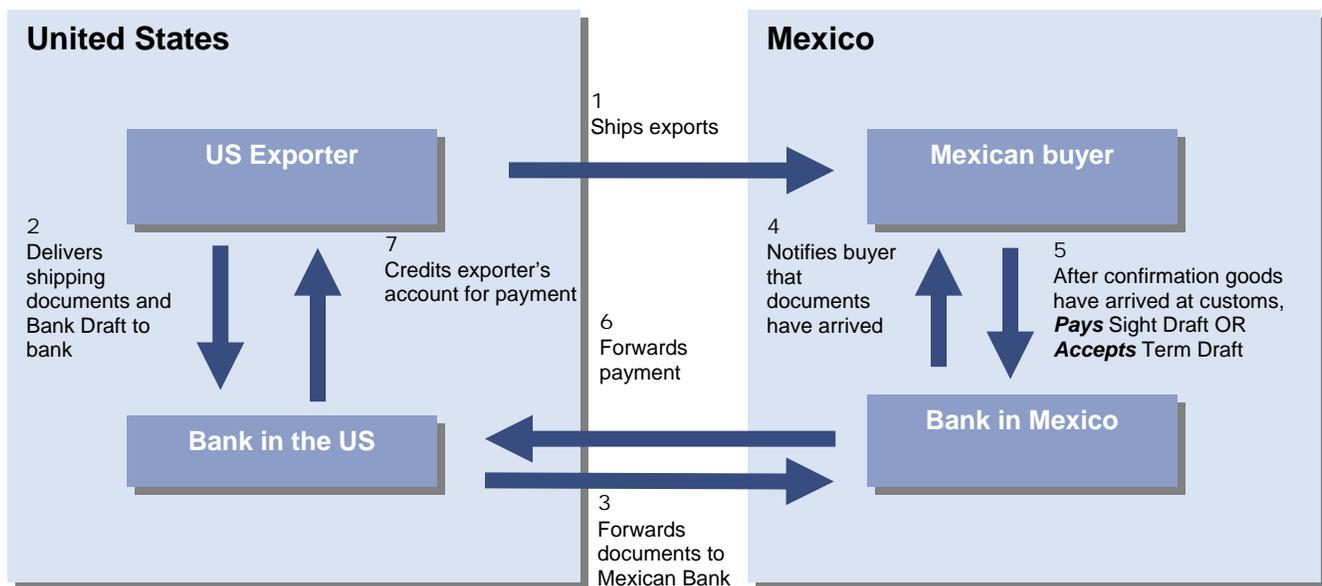
Terms	Advantages	Disadvantages
<p><b>For D/P:</b></p> <p>Payment is made by Mexican buyer on presentation of shipping documents by local bank once goods have arrived at customs.</p> <p><b>For D/A:</b></p> <p>Payment is made 30, 60, or 90 days after buyer accepts shipping documents.</p>	<p><b>For US exporter using D/P:</b></p> <ul style="list-style-type: none"> <li>• Very secure as buyer only receives goods after payment.</li> </ul> <p><b>For US exporter using D/A:</b></p> <ul style="list-style-type: none"> <li>• May sell more as exporter is providing buyer with credit up to 90 days.</li> </ul> <p><b>For Mexican buyer (Both D/P and D/A):</b></p> <ul style="list-style-type: none"> <li>• Inexpensive.</li> <li>• Secure, as buyer does not pay until goods are waiting at customs in Mexican or 30, 60, or 90 days thereafter in the event of D/A.</li> </ul>	<p><b>For US exporter using D/P:</b></p> <ul style="list-style-type: none"> <li>• May lose sale if another seller is willing to provide the buyer with open account terms or other means of financing.</li> <li>• May lose sale if the Mexican buyer does <b>not</b> have the working capital (cash on hand) to purchase the product prior to receipt of goods.</li> <li>• May sell less to a particular Mexican client than otherwise would due to the fact that the Mexican company does <b>not</b> have the working capital to buy as much as they would like or need.</li> </ul> <p><b>For US exporter using D/A:</b></p> <ul style="list-style-type: none"> <li>• Risky as buyer receives goods prior to paying.</li> </ul> <p><b>For Mexican buyer using D/P:</b></p> <ul style="list-style-type: none"> <li>• Needs cash in advance of receiving goods.</li> <li>• Financially more draining for the Mexican buyer than open account terms, cash against documents with sight draft, or other forms of financing.</li> </ul>

**Comments:**

- Documents Against Payment (D/P) is considered a very secure payment mechanism for US exporters, although they do face the risk that Mexican buyers will refuse to accept the goods.
- Documents Against Acceptance (D/A) is considered to be a risky payment mechanism and is **not** recommended for US exporters, **unless** they have a great deal of experience with a Mexican buyer or the Mexican buyer is large and considered extremely creditworthy. It is considered only slightly less risky than unsecured open account terms in that the buyer has signed a legally binding document pledging to pay.

Shipping documents forwarded to the correspondent bank normally include:

- Bill of Lading OR Airway Bill.
- Invoice.
- Certificate of Origin (sometimes).
- Proof of Insurance (sometimes).



## Option 6: Export Finance by US Commercial Bank (in US\$)

### Overview:

<b>For:</b>	<b>Prepayment by US Bank prior to Shipment Medium Term – 1 to 5 years</b>	
<b>Size of US Exporter:</b>	<b>Medium and Large, some Small</b>	
<b>Transaction Size:</b>	<b>Generally Larger (in excess of US\$ 25,000)</b>	
<b>Cost:</b>	<b>Transaction Size:</b>	<b>Total Loan Cost:</b>
	\$25,000 to \$100,000	6% to 8% per year
	\$100,000 to \$500,000	5% to 7% per year
	In Excess of \$500,000	4% to 6% per year

### Description:

A US bank pays a US exporter in advance for goods to be shipped to a Mexican buyer. The US bank is essentially providing the Mexican buyer with a loan and the Mexican buyer will have to repay the US bank as contractually agreed to in the financing agreement between the bank and the buyer. In Mexico, these financings generally contain a 6-month grace period, after which the buyer must begin repaying the bank.

**A number of export financings in support of US exports to Mexico include a US Ex-Im Bank Guarantee** that costs approximately 2% and 3% per year in addition to the cost of funding from the commercial banks. Due to the added complexity and additional work required to arrange the transaction, the finance cost generally increases more than the simple cost of the Ex-Im Bank Guarantee. Banks interviewed indicated that Export Finance for US exports to Mexico with an Ex-Im Bank Guarantee generally costs as follows and depends on the amount financed:

#### Export Finance for US exports with Ex-Im Bank Guarantee – Typical Costs

<b>Cost:</b>	<b>Transaction Size:</b>	<b>Total Loan Cost:</b>
	\$25,000 to \$100,000	8% to 12% per year
	\$100,000 to \$500,000	7% to 9% per year
	In Excess of \$500,000	6% to 8% per year

<b>Terms</b>	<b>Advantages</b>	<b>Disadvantages</b>
<ul style="list-style-type: none"> <li>4% to 12% per year.</li> <li>6-month Grace Period.</li> <li>Loans are US\$ denominated.</li> </ul>	<p><b>For US Exporter:</b></p> <ul style="list-style-type: none"> <li>Very secure form of transaction since payment is received prior to shipment.</li> <li>May win sales when competing with other suppliers who demand more onerous payment terms.</li> </ul> <p><b>For Mexican buyer:</b></p> <ul style="list-style-type: none"> <li>Less expensive than Peso denominated financing.</li> </ul>	<p><b>For Mexican buyer:</b></p> <ul style="list-style-type: none"> <li>Least secure form of transaction. Once the Bank pays the US exporter, the Mexican buyer is required to repay the loan with interest even if no goods are received.</li> <li>Transaction has the added risk of Mexican currency devaluation. Mexican buyer may need to buy a currency hedge to protect against local currency devaluation.</li> </ul>

### Comments:

Mexican buyers must meet a number of minimum credit benchmarks in order to be approved for an Ex-Im Bank loan guarantee (please see [www.exim.gov](http://www.exim.gov)). Ex-Im indicates that Mexican buyers with the following characteristics will likely be approved:

- Positive Operating Profit over the last 2 years.
- Positive Net Income over the last 2 years.
- Positive Cash Flow from Operations (latest year).
- EBITDA / Debt Service greater than 150%.
- Total Liabilities/Total Net Worth less than 175%.
- Ex-Im Bank Exposure/Total Net Worth less than 40%.

There are several entities in Mexico that offer Ex-Im's programs. Nevertheless, not all Mexican banks have a specialized department to provide in-depth consulting to Mexican companies searching for the best financing option. Although Mexico constitutes over 50% of Ex-Im's operations for small and medium

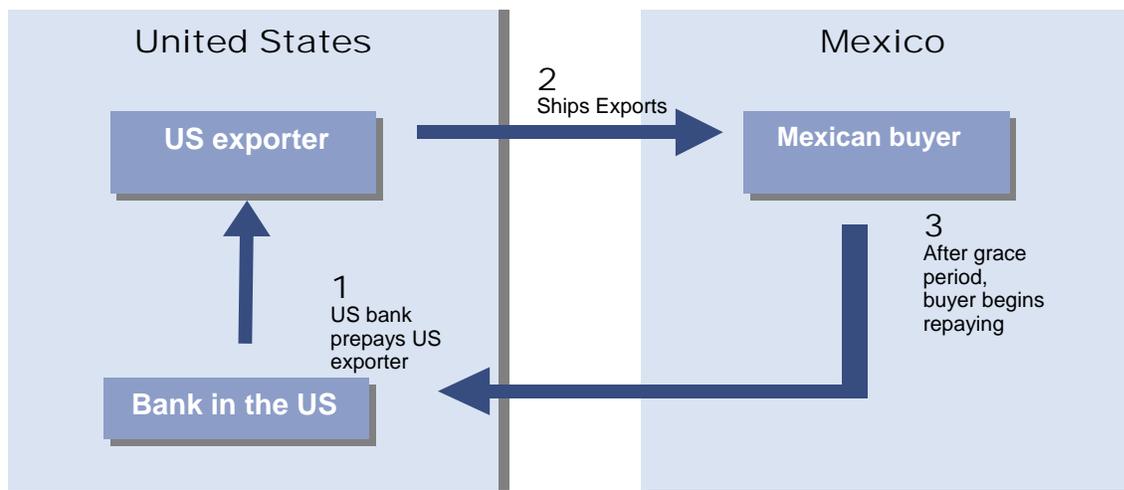
businesses, qualifying can be a challenging process and can take months. We urge US Exporters to work with banks that have an established record of qualifying Mexican buyers.

A number of banks and other institutions in Mexico are known to arrange Ex-Im Bank Guaranteed Export Financings, including:

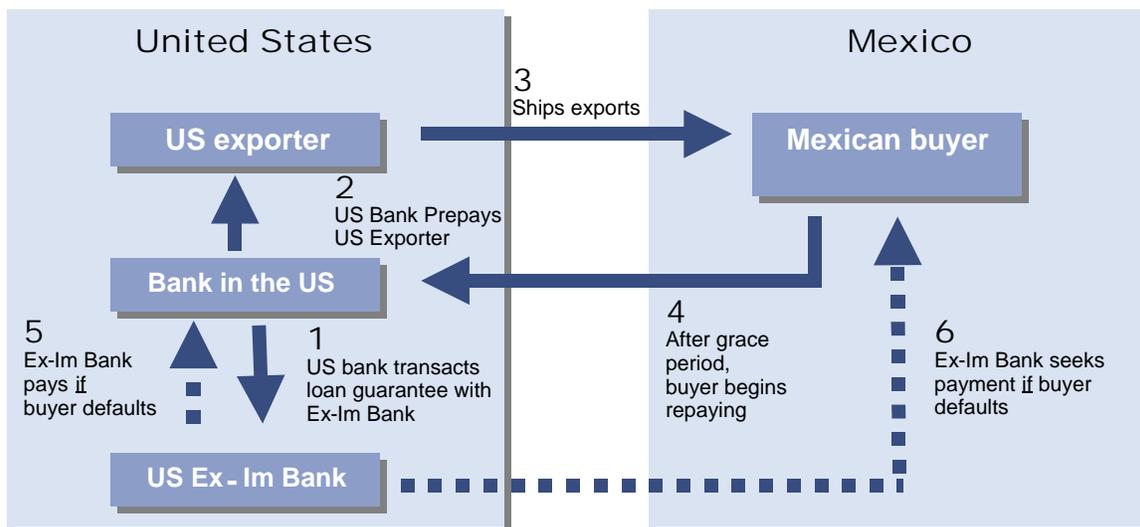
American Express Bank  
 BANAMEX  
 Bank of America Mexico  
 Banorte  
 Banregio  
 BBVA Bancomer  
 COFINE  
 Comerica Bank

G.E. Capital Bank  
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**Export Finance *without* Ex-Im Bank Guarantee**



**Export Finance *with* Ex-Im Bank Guarantee**



## Option 7: Import Finance by Mexican Bank (in Pesos)

### Overview:

<b>For:</b>	<b>Payment by Mexican bank prior to shipping</b>
<b>Size of US Exporter:</b>	<b>Small, medium, and large</b>
<b>Transaction Size:</b>	<b>Medium term – 1 to 5 years</b>
<b>Cost:</b>	<b>10-18% per year (variable)</b>

### Description:

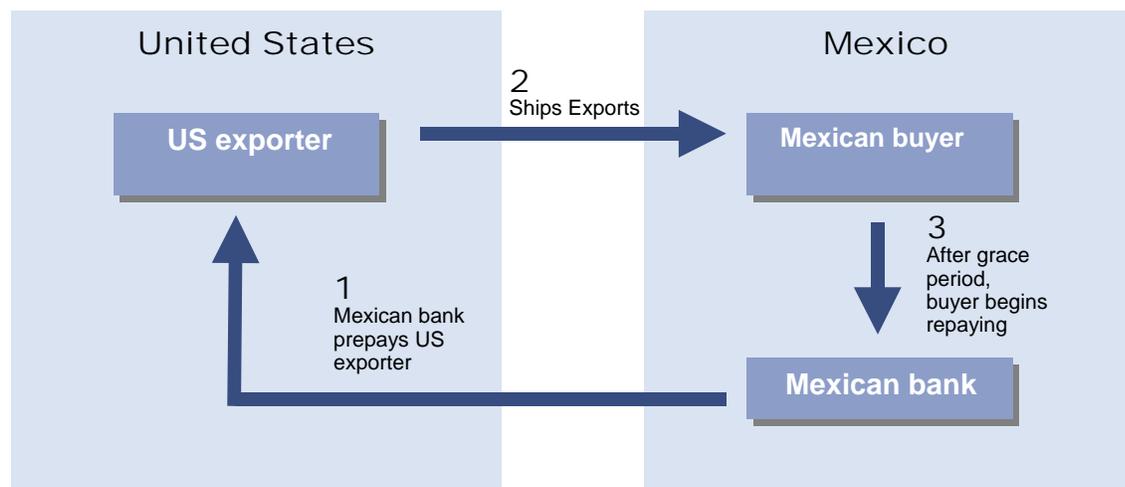
A Mexican bank pays a US exporter in advance for goods to be shipped to a Mexican buyer. The Mexican bank is essentially providing the Mexican buyer a loan and the buyer will have to repay the bank as contractually agreed in the financing agreement between the bank and the buyer.

Terms	Advantages	Disadvantages
<ul style="list-style-type: none"> <li>10-18% per year</li> <li>Loans are Peso denominated.</li> </ul>	<p><b>For US exporter:</b></p> <ul style="list-style-type: none"> <li>Very secure form of transaction since payment is received prior to shipment of goods.</li> </ul>	<p><b>For US exporter:</b></p> <ul style="list-style-type: none"> <li>May lose sale if another seller is willing to provide the buyer with open account terms or assists with less costly financing.</li> </ul> <p><b>For Mexican buyer:</b></p> <ul style="list-style-type: none"> <li>Least secure form of transaction. Once the Bank pays the US exporter, the Mexican buyer is required to repay the loan with interest even if no goods are received.</li> <li>Very costly and difficult to obtain.</li> </ul>

### Comments:

Since this is a very expensive option for Mexican buyers, it is not as common. According to Mexico's Central Bank, 74% of companies do not request financing by a Mexican bank due to the high interest rates and the high percentage of turndowns from banks.

Since bank financing is limited, small and medium Mexican businesses rely on open account terms to finance their purchases. Additionally, many Mexican banks ask for collateral of twice the value of the loan in order to authorize it. However, banks won't accept machinery or equipment as collateral.



## Option 8: Direct Loan by Local Development Bank to Mexican Buyer (in Pesos)

### Overview:

<b>For:</b>	<b>Lines of Credit</b> <b>Short and Medium Term – Up to 2 years</b>
<b>Size of US Exporter:</b>	<b>Generally Small and Medium</b>
<b>Transaction Size:</b>	<b>US\$ 7,500 to US\$ 750,000</b>
<b>Cost:</b>	<b>10% to 18% per year</b>

### Description:

Small and medium sized Mexican companies can arrange below market direct loans with the Nafin development bank. The funds can be used to purchase goods from US exporters.

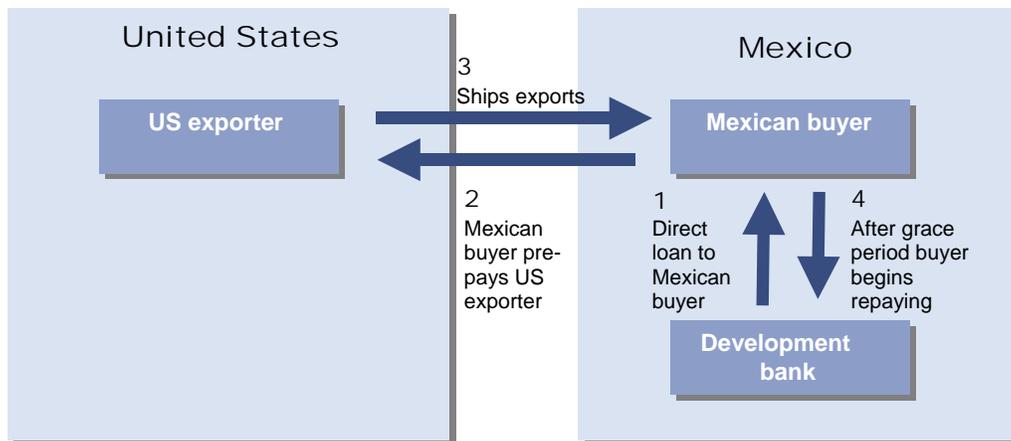
Terms	Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Peso denominated direct loans to Mexican buyer.</li> <li>• 10% to 18% per year.</li> <li>• Up to six-month grace period.</li> </ul>	<p><b>For US exporter:</b></p> <ul style="list-style-type: none"> <li>• Secure transaction if payment is in advance of shipment.</li> </ul> <p><b>For Mexican buyer:</b></p> <ul style="list-style-type: none"> <li>• Below market interest rate.</li> <li>• Peso denominated, accordingly no associated currency devaluation risk.</li> </ul>	<p><b>For US exporter and Mexican buyer:</b></p> <ul style="list-style-type: none"> <li>• Some importers claim that the loan approval process is bureaucratic and consequently slow making it a discouraging option.</li> </ul>

### Comments:

There are currently four National Development Banks in Mexico with different specialties.

- **Nafin:** focused on the industrial sector, especially the small and medium businesses.
- **Banobras:** Finances infrastructure and public services projects exclusively.
- **Bancomext:** finances export related projects for small and medium businesses.
- **Banrural:** dedicated to financing and supporting agricultural development projects.

**Nafin** is the development bank created to help small and medium business finance their imports of goods and machinery. This institution offers financing through Ex-Im Bank as well as direct loans, nevertheless, peso denominated microcredits are their most popular program.



## Conclusion

If you are interested in pursuing any of these financing options, or are interested in learning more about export opportunities to Mexico, we are here to help you. Please check our website at [www.buyusa.gov/mexico](http://www.buyusa.gov/mexico), where we maintain a variety of contact information, a Commercial Guide to doing business in Mexico, and over 10,000 registered Mexican companies seeking to import US goods and services.

The Commercial Service also offers an **International Company Profile (ICP)**. Through this service, a U.S. exporter can obtain a credit history and references of a potential Mexican client through a simple financial report. This can help the U.S. exporter make more informed choices when providing credit and facilitating the Mexican company's purchases.

The Commercial Service has offices in Mexico City, Monterrey, Guadalajara, and Tijuana, in addition to a network of more than 200 US Department of Commerce domestic and overseas offices.

Our mission is to promote the export of goods and services of American companies and develop and protect US business interests in Mexico. We have a vast network at our fingertips, supported by more than 1,500 international industry and trade specialists whose job it is to provide the best source of customized solutions for US companies and their Mexican partners to do business in the global marketplace.

We also encourage you to contact your local US-based Export Assistance Center. At these domestic offices, trade specialists can provide you with guidance on entering Mexico and other exciting international markets. Please call **1-800-USA-TRADE** or check the US Commercial Service web site (<http://www.buyusa.gov/home/us.html>) to locate the office nearest you.

To the best of our knowledge, the information contained in this report is accurate as of the date published. However, The US Department of Commerce does not take responsibility for actions readers may take based on the information contained herein. Readers should always conduct their own due diligence before entering into business ventures or other commercial arrangements.

This report was written by [Yazmin Rojas](#), at US Commercial Service Monterrey, Mexico, based on a publication by [John Charles Mueller III](#), Commercial Director of the US Commercial Service in Belo Horizonte, Brazil.

With its team of industry sector experts, the US Commercial Service can assist US exporters gain entry into the Mexican market through market research reports, matchmaking services and advocacy programs. The Commercial Service has offices in Mexico City, Monterrey, Guadalajara, and Tijuana. You can visit us at [www.buyusa.gov/mexico](http://www.buyusa.gov/mexico).