

 Ex-Im Bank Logo

EXPORT-IMPORT BANK OF THE UNITED STATES
Financing or Operating Lease Coverage
Explanation of Application Form for Export Credit Insurance

THIS EXPLANATION IS GIVEN ONLY FOR THE PURPOSE OF ASSISTING YOU IN REVIEWING THE APPLICATION FORM. THE COMPLETE TERMS AND CONDITIONS OF COVERAGE ARE SET FORTH IN THE POLICY ITSELF. PLEASE NOTE THAT ALL UNDERLINED WORDS IN THIS EXPLANATION AND THE APPLICATION FORM ARE DEFINED IN THE POLICY.

INTRODUCTION - Two Types of Coverage: Operating and Financing Leases

The Export-Import Bank of the United States (Ex-Im Bank) has created two credit insurance policies for the leasing industry, one entitled Operating Lease Policy, and the other Financing Lease Policy. Each provides a unique system of coverage which is described below. It is important to know that the terms operating lease and financing lease are used herein as descriptive titles for the purposes of the policies only. Definitions of an operating lease, true lease, financing or full payout lease vary depending upon whether one is speaking in the context of accounting, taxes, commercial law, or international trade. These definitions do not affect your choice between the two Ex-Im Bank policies. The choice between the Operating Lease Policy or Financing Lease Policy depends upon the characteristic of the transaction. The Finance Lease Policy must be used if the transaction is essentially a conditional sale and the intent of the lessor is to transfer title at the end of the lease period. Usually there is no or little residual value. The Operating Lease Policy must be used if the transaction is not essentially a sale, but involves the rental concept (i.e, the lessor does not intend to transfer title to the lessee at the end of the lease period). Usually there is a significant residual value. All transactions which have residual value greater than or equal to 25% of the full value of the leased products must use the Operating Lease Policy.

The separation between the two types of coverage is due in part to the necessities of compliance with certain international agreements pertinent to medium-term sales. For those purposes, the financing lease is viewed as a medium-term sale and therefore an advance payment from the lessee to the lessor is required. An operating lease, however, which embodies the expectation of repossession of a leased product, which product may or may not have retained its expected market value, can be viewed by Ex-Im Bank as a rental and thereby can be underwritten by Ex-Im Bank without the imposition of an advance payment requirement.

Coverage is made available for leased products of United States origin as defined by the current underwriting guidelines. Used products may be covered. Refer to Ex-Im Bank's Fact Sheet on Used Equipment Guidelines EIB92-63. Lessors may be located in the United States, the country where the lessee is located, or a third country. Coverage is available for products which have been previously exported from the United States, however, products which have been exported as a sale or financing lease must be returned to the United States for at least one year to be eligible for coverage. Products which have been exported under an operating lease must also be returned to the United States but there is no minimum repatriation period required.

STRUCTURE OF EX-IM BANK'S FINANCING LEASE POLICY

Similar to the structure of a medium-term sale transaction, there is a requirement of a 15% advance payment from the lessee to the lessor (applicant/insured) on or before the delivery of the leased products. The advance payment may be financed. You can only insure the remaining 85% of the lease transaction.

Should the lessee default, coverage is provided for the insured percentage of each lease payment as it falls due until the end of the lease term. Coverage is usually provided at 100%. At the time of claim payment, the insured is obligated to transfer to Ex-Im Bank all remaining obligations of the lease, as well as title to the leased products. The coverage of lease payments as they become due remains effective regardless of failed repossession efforts for any reason or Ex-Im Bank's own