

VALIDATION REVIEW GUIDE EXPORT AND SUPPLIER CREDIT GUARANTEE PROGRAMS (GSM-102, GSM-103, and SCGP)

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This guide provides instructions for performing validation reviews of exporters participating in the Commodity Credit Corporation's (CCC) Export Credit Guarantee (GSM-102), Intermediate Export Credit Guarantee (GSM-103), and Supplier Credit Guarantee (SCGP) programs. It provides guidance for determining whether the exporter:

1. Provided valid information on its GSM-102, GSM-103 or SCGP application and application amendments;
2. Executed a valid sales contract prior to the application;
3. Obtained a valid irrevocable letter of credit (GSM) or promissory note (SCGP); and
4. Executed all elements of the sale and delivery of the guaranteed commodities or products as described on its application and amendments.

Validation review checklists (GSM and SCGP) covering the segments contained in this guide are provided for the reviewer as review control worksheets. Reviewers are encouraged to use their professional judgment to tailor the guide to meet specific conditions of sales covered by payment guarantees.

BACKGROUND

CCC administers export credit guarantee programs for commercial financing of U.S. agricultural exports. The programs encourage exports to buyers in countries where credit is necessary to maintain or increase U.S. sales, but where financing may not be available without CCC guarantees.

Two programs underwrite credit extended by the private banking sector in the United States to approved foreign banks using dollar-denominated, irrevocable letters of credit to pay for food and agricultural products sold to foreign buyers. GSM-102 covers credit terms up to 3 years. GSM-103 covers longer credit terms of up to 10 years. Under these programs, CCC does not provide financing, but guarantees payments due from foreign banks. Typically, 98 percent of the principal and a portion of interest, at an adjustable rate, are covered.

Program announcements issued by CCC provide information on specific country and commodity or product allocations, length of credit period, and other program information and requirements.

CCC must qualify exporters for participation before accepting guarantee applications. An exporter must have a business office in the United States and must not be debarred or suspended from participating in any U.S. government program. Financial institutions must also meet established criteria and be approved by CCC.

The exporter negotiates the terms of the export credit sale with the importer. Once a firm sale exists, the qualified exporter pays a fee calculated on the dollar amount guaranteed, based on a schedule of rates published by CCC.

SCGP was developed to expand U.S. agricultural exports by making payment guarantees available to encourage U.S. exporters to extend financing on credit terms of not more than 180 days to importers of U.S. agricultural commodities.

The program is targeted toward those countries where the guarantees are necessary to secure financing of the exports but which have sufficient financial strength so that foreign exchange will be available for scheduled payments.

SCGP is designed to protect the exporter or the exporter's assignee (e.g., a financial institution) against losses specified in the payment guarantee resulting from defaults, whether for commercial or noncommercial reasons, by the importer under the importer's obligation. Currently, the guarantee is for 65% of the principal risk on outstanding obligations.

Under SCGP, the U.S. exporter pays a fee and, in return, receives a payment guarantee from CCC. For the buyer and seller, the transaction is controlled by a promissory note.

GENERAL REVIEW INSTRUCTIONS

A. Preliminary Review Work

Read and be familiar with the GSM-102, GSM-103 and SCGP regulations (7 CFR part 1493, Subparts A, B and D, respectively) and any other CCC policies and directives relating to the programs.

Select at least five percent of the total population of GSM and SCGP (combined) transactions from a list of prior fiscal year program activity provided by CCC. For each exporter identified for review, select payment guarantees for as wide a variety of commodities and products and importing countries (or regions) as possible.

Send a letter to the exporter requesting that documentation be mailed to the reviewer for desk review or prepared for an on-site review.

Allow exporters 45 business days to mail documentation to support payment guarantees selected for review. Schedule and confirm review dates at least four weeks in advance for an on-site review.

B. Communication with Exporter.

Communicate with the exporter via telephone, fax or e-mail with any questions or further documentation requests for all discovered discrepancies and/or missing documentation from a desk review.

Meet with the exporter at the start of the review to discuss the purpose and scope of the review, and any potential problem areas for an on-site review. Meet with the exporter at the end of the review to discuss all discrepancies identified during the on-site review.

C. Validation Review Checklist (attached for GSM and SCGP).

Complete the validation review checklist for each transaction reviewed using the supporting documentation provided by the exporter by mail or on-site. Attach supporting documentation to the checklist to use as supporting workpapers for both desk and on-site reviews. Once the validation review checklist is completed, the reviewer should review the checklist a second time to verify that all elements of the sale covered by the payment guarantee fall within the parameters of the guarantee, application, and application amendments. If material discrepancies exist, the reviewer should write a review report, as described under Step E.

D. Third Party Documentation Collection

If the authenticity or reliability of documentation reviewed during a desk or on-site review is suspect, obtain original documentation or certification from the appropriate party. This could include requesting documentation from suppliers, banks, freight forwarders, broker/agents, shippers, and foreign importers.

E. Review Report.

When mail-in or on-site reviews identify material discrepancies between the payment guarantee agreement, application, application amendments and the documentation supporting the transaction and delivery of the covered sale, provide CCC a draft report detailing findings. If CCC concurs with the findings, prepare and issue a final report for CCC administrative action.

VALIDATION REVIEW CHECKLIST INSTRUCTIONS

1. *Objectives.* To determine if an exporter: (A) provided valid information on its GSM-102, GSM-103 or SCGP application and application amendments; (B) executed a valid sales contract prior to the application; (C) obtained an irrevocable letter of credit (GSM) or promissory note (SCGP); and (D) executed all elements of the sale and delivery of the guaranteed commodities or products as described on its application and amendments.
2. *Reference.* 7 CFR parts 1493.50 and 1493.440.

3. *Review Steps.* The cornerstone of the review process is the completion of the validation review checklist (General Review Instructions, Step C). By using the GSM and SCGP validation review checklists, the reviewer can efficiently and comprehensively verify whether the documentation the exporter uses to support the sale covered by the payment guarantee falls within the parameters of the description of the sale contained in the payment guarantee, application, and application amendments. The validation review checklist facilitates the identification of material discrepancies between the facts of the exporter's implementation of the sale covered by the guarantee and the payment guarantee, application and application amendments.

Verify the following elements of the guaranteed sale for each payment guarantee agreement selected for review using the validation review checklist. Report any material discrepancies identified in this process to CCC, as described under General Review Instructions, Step E.

A. Exporter Address.

Verify that the exporter operates as a U.S. entity from the evidence of sale. The exporter must be headquartered or have an agent in the United States to facilitate the service of legal process by the U.S. Government. Write the exporter's address on the validation review checklist.

B. Importing Country (or Region).

Verify the importing country (or region) from the evidence of sale, shipping documentation, and/or letter of credit. Write the importing country on the validation review checklist.

C. Importer.

Verify the importer's name from the evidence of sale, bill of lading, shipping documentation, letter of credit and/or promissory note. Write the importer's name on the validation review checklist.

D. Name of Maker (SCGP only).

Verify the name of the maker of the promissory note. Write the promissory note's name of maker on the validation review checklist.

E. Commodity or Product.

Verify that the guaranteed commodity or product is the same as included in the evidence of sale, bill of lading, shipping documents, customs declarations, the exporter's inventory records, and supplier records. Note

differences in specifications, grades, types, styles, or in the case of blended or processed commodities, different blends or processes, among the guarantee, application, application amendments and evidence of sale, bill of lading, shipping documents, customs declarations, the exporter's inventory records, and if applicable, supplier records. Write the commodity or product and specifications on the validation review checklist.

F. Quantity.

Verify the quantity exported from the evidence of sale, bill of lading, shipping documents, customs documents, the exporter's inventory records, and if applicable, supplier records. Calculate and write the quantity exported on the validation review checklist.

G. Unit Price.

Verify the unit price from the evidence of sale. Write the unit price on the validation review checklist.

H. Port Value.

Verify the port value from the evidence of sale, shipping documents, customs declarations and/or the exporter's inventory records. Calculate and write the port value on the validation review checklist.

I. Loading Tolerance.

Verify that the quantity exported is within the loading tolerance stated on the application from the evidence of sale, bill of lading, shipping documents, customs declarations, the exporter's inventory records, and/or supplier records. Calculate and write the loading tolerance on the validation review checklist.

J. Date of Sale.

Verify that the exporter had a contractual obligation with the importer with a firm contract price or an agreed to mechanism to establish the price. The evidence of sale may include something other than a formal written contract. It may include an offer and acceptance via telex, fax, telephone or e-mail. Consider the information presented in light of the normal trading practices for the commodity or product and the importing country (or region). Write the date of sale on the validation review checklist.

K. Foreign Bank (GSM) and Bank of Assignment (SCGP).

Verify that the foreign bank listed on the application issued an irrevocable letter(s) of credit for at least the amount of the port value for deferred payments in favor of the exporter. Verify that the guaranteed sale is supported by the letter of credit. The information should include a date corresponding to the contract date, terms relative to the contract with regard to amount, commodity or product description, quantity, date of shipment, and repayment terms.

Verify that the credit terms in the letter of credit used to support the application correspond to the terms of the payment guarantee. Guarantees for GSM-102 require credit terms of 3 years or less. Guarantees for GSM-103 require terms of more than 3 years, but not more than 10 years. Write the name of the foreign bank and the letter of credit reference number on the validation review checklist (GSM only).

Verify the bank to which the promissory note was assigned, if applicable. Often promissory notes are not assigned to any bank. Write the name of the bank of assignment on the validation review checklist (SCGP only).

L. Commodity or Product Origin and Supplier(s).

Verify from the exporter's and/or supplier's records that the commodity or product is of U.S. origin using origin certificates and, if applicable, supplier records. Exporters are required to report any non-U.S. origin content. Note indications on the documentation which would support foreign sources of supply (e.g., shipping documents listing port locations as the origin of shipment, or suppliers known to be involved in importation of the commodity or product).

M. Delivery Period.

Verify the delivery period from the evidence of sale, bill of lading, shipping documents, customs declarations, the exporter's inventory records, and/or supplier records. Write the delivery period on the validation review checklist.

N. Entry Certification.

Verify from the evidence of sale that the entry certification conforms to the provision contained in 7 CFR parts 1493.100 (GSM) and 1493.490 (SCGP). The exporter must obtain documentation to show that the commodity or product arrived in the eligible country.

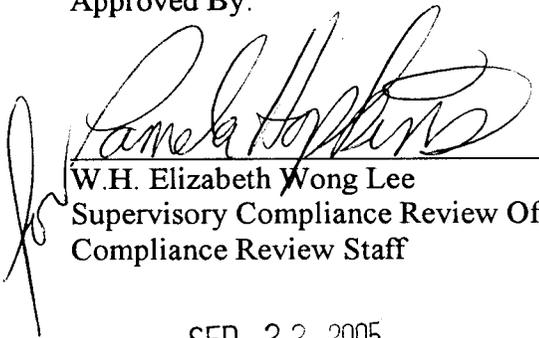
O. Proof of Payment.

Verify from proof of payment documentation that the exporter received payment per the evidence of sale, letter of credit, and/or promissory note. Calculate and write the amount paid to the exporter as supported with proof of payment documentation on the validation review checklist.

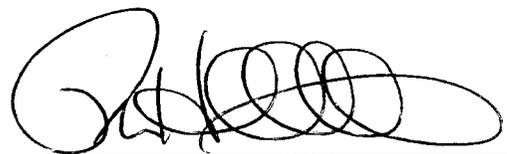
CONTACT INFORMATION

If you have any comments or suggestions about this guide, please address them to Lawrence Chamorro or W.H. Elizabeth Wong Lee, FAS/CRS, at 720-6713, via fax at 720-7138, or via email at: lawrence.chamorro@fas.usda.gov, or beth.wong@fas.usda.gov.

Approved By:



W.H. Elizabeth Wong Lee
Supervisory Compliance Review Officer
Compliance Review Staff



Robert J. Huttenlocker
Director
Compliance Review Staff

SEP 22 2005

Date

Validation Review Checklist
Export Credit Guarantee Program
GSM-102

Review Date:

Exporter:

Reviewer:

Guarantee #:

GSM-102-

| ITEM | APPLICATION | VERIFICATION | REFERENCE DOCUMENTS (attached) |
|-------------------------------------|--------------------|---------------------------------------|--|
| Exporter Address | | | |
| Importing Country (or Region) | | | |
| Importer (Intervening Purchaser) | | | |
| Commodity (Specifications) | | | |
| Quantity | | (enter amount verified) | |
| Unit Price | | | |
| Port Value | | (enter amount verified) | |
| Loading Tolerance | | | |
| Foreign Bank | | (enter bank name or N/A) | (enter foreign bank letter of credit number) |
| Supplier(s) (or self-supplied) | | (enter supplier name, city and state) | |
| Commodity Origin | 7 CFR Part 1493.50 | | |
| Delivery Period | | | |
| Entry Certification | | | |
| Proof of Payment * | | (enter amount verified) | |

Notes: ✓ = Same (or Within Tolerance)

N/A = Not Available/Applicable

* = Amount After Bank Fees

= Data Verified and Entered

DISCREPANCY = Verified Data Outside Tolerances of Application's Parameters

Validation Review Checklist Supplier Credit Guarantee Program SCGP

Review Date:
Reviewer:

Exporter:
Guarantee #: GSM-102-

| ITEM | APPLICATION | VERIFICATION | REFERENCE DOCUMENTS (attached) |
|-------------------------------------|--------------------|---------------------------------------|-----------------------------------|
| Exporter Address | | | |
| Importing Country (or Region) | | | |
| Importer (Intervening Purchaser) | | | |
| Name of Maker (per Promissory Note) | | (enter name of maker) | |
| Commodity (Specifications) | | | |
| Quantity | | (enter amount verified) | |
| Unit Price | | | |
| Port Value | | (enter amount verified) | |
| Loading Tolerance | | | |
| Date of Sale | | | |
| Bank of Assignment (or N/A) | | (enter bank name or N/A) | |
| Supplier(s) (or self-supplied) | | (enter supplier name, city and state) | |
| Commodity Origin | 7 CFR Part 1493.50 | | |
| Delivery Period | | | |
| Entry Certification | | | |
| Proof of Payment * | | (enter amount verified) | |

Notes: ✓ = Same (or Within Tolerance)
 * = Amount After Bank Fees

N/A = Not Available/Applicable

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