

## Figure AP3.F1. - Foreign Military Financing Loan Agreement - Exhibit A

### Procedures for Obtaining DSCA Approval for Loan Financing of Purchase Agreements

#### 1. General:

- a. The Defense Security Cooperation Agency (DSCA) is responsible for approving loan financing of all Purchase Agreements that the Borrower wishes to finance with proceeds from the loan issued by the DSCA under the provisions of the Arms Export Control Act (AECA). The use of loan proceeds shall be approved for the financing of purchases by the Borrower only of defense articles, defense services, and design and construction services of U.S. origin. In reviewing requests for financing of Purchase Agreements, the DSCA is guided by objectives established by the U.S. Government for improvement of the Borrower's defense capabilities, by generally accepted financing practices, and by United States laws, regulations and policies in effect at the time the financing is requested. The U.S. Government reserves the right to refuse to finance any purchase agreement and is not required to explain its reason(s) for such refusal.

#### 2. Purchases from U.S. Military Departments:

- a. The U.S. Military Departments (MILDEPs) effect Foreign Military Sales (FMS) by means of the Letter of Offer and Acceptance (LOA). Each LOA, also referred to as an FMS case, is identified by a three digit alphabetic code referred to as "case identifier". If a Borrower desires to fund an FMS case from this loan, it must so inform the MILDEP prior to the issuance of the LOA. In turn, the MILDEP will reflect the desired loan financing on the LOA and submit it to the DSCA (Office of Business Operations (OBO)) for approval and countersignature.
- b. When the Borrower wishes to use FMS loan funds to pay amounts due under an FMS case which has already been established as a "cash" or "dependable undertaking" case, the Borrower must ask the pertinent MILDEP to convert all or part of that case from cash to loan funding. The MILDEP must also submit the amended case to the DSCA (OBO) for review and approval to support the requested change in funding.
- c. For each case it approves for financing from the FMS loan, the DSCA (OBO) will reserve funds from the uncommitted loan balance in an amount equal to the entire estimated cost of the FMS case, or, as the situation may be, that part of the FMS case requested for loan funding. The portion of the loan so reserved will then be available only for such payments. Payments, either for deliveries of materiel or progress payments, from advances requested by the Borrower, will be made by the DSCA (OBO) against the amount reserved for that purpose.

### 3. Purchases from Commercial Firms:

- a. Loan funds may be used to finance purchases from U.S. Commercial Suppliers, provided such financing has been approved by the DSCA. In order that the DSCA may advise a Borrower whether it will approve such financing, the Borrower must provide a copy of the contract or proforma purchase order to the DSCA (OBO) for its review, preferably before the Borrower obligates itself to a purchase which it desires to be financed with loan funds. Before the DSCA can give its final approval of loan financing, the commercial supplier must submit to the DSCA the "Contractor's Certification and Agreement with Defense Security Cooperation Agency" as illustrated in Exhibit B. The Borrower should allow at least 90 days for the DSCA's review of the contract for approval of loan financing. Each loan financing approval shall be separately communicated by the DSCA in writing to the Borrower by use of the "Loan Financing Approval" illustrated as an attachment to this exhibit.
- b. Loan financing shall be approved and made available only to finance the purchase of defense articles and services authorized for such financing by DSCA in accordance with policies and procedures in effect at the time such financing is approved. Current DSCA policies pertinent to approval of loan financing for purchase agreements are included in the Security Assistance Management Manual (SAMM).
- c. In addition to the approval mentioned above, the DSCA, at the time it approves requests for advances (disbursements) of funds pursuant to Annex II, also will require from the Borrower invoices properly executed by the commercial supplier, and bills-of-lading and statements, as may be applicable, substantially in the formats described in paragraph 4 of Exhibit B (DSCA Requirements for Documentation to Support Requests for Advances).
- d. For each commercial purchase agreement for which financing is approved, the DSCA (OBO) will assign a case identifier and will provide to the Borrower a Loan Financing Approval letter in the form of the Attachment to this Exhibit. This letter will provide the case identifier assigned to the case. For each case it approves for loan financing, the DSCA (OBO) will reserve loan funds in the amount requested. The loan funds so reserved will then be available only for payments on that case, unless the Borrower directs otherwise. Payments for deliveries, progress, or advance payments, will be processed by the DSCA (OBO) against the amount reserved for the approved purchase agreement.
- e. The DSCA (OBO) will also provide letters to the commercial firm informing it of conditions of loan financing and certifications required as prerequisites to the DSCA approving FMS loan financing for the purchase agreement, and indicating the DSCA approval of financing of the purchase agreement.