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The Finance, Credit & International
Business Association

Service, Development, Growth



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www.fcibglobal.com

E-mail: fcib_global@fcibglobal.com

Phone: +410-423-1840



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An Overview of Trade Finance and Letters of Credit

Presented By:

Amy Sahm, SVP and Manager
International Group
Fulton Financial Corporation



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Tools for Trade Finance in Banking

- Finding an experienced bank
- International correspondent bank relationships
- SWIFT (Society for Worldwide Interbank Financial Transactions)
- In house Software systems to support letter of credit processing
- Knowledgeable staff



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Risks in International Trade

- Can I trust my overseas vendor / customer?
- When will I receive payment? Before or after shipment?
- Am I guaranteed to receive what I ordered?
- What currency will I pay / receive in?
- How stable / volatile is the market?
- What is the sovereign risk?





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Import and Export via Documentary Transactions





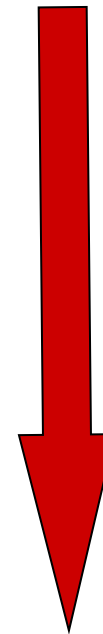
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Payment Methods and Risk Mitigation (As an Exporter)

- **Cash in Advance**
- **Letter of Credit – bank guarantee of payment**
 - **Confirmed**
 - **Unconfirmed**
- **Export Credit Insurance**
 - **SBA / EximBank**
 - **Private Export Insurance**
- **Documentary Collection**
- **Open Account**

More Favorable



Less Favorable



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What is a Commercial LC?

- Guarantee of payment by a bank for an international shipment based on presentation of correct shipping documents
- Bank to bank transaction
 - Removes credit concern from company
- Governed by the International Chamber of Commerce – Uniform Customs and Practices
 - UCP 600



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Purposes of L/C

- Guarantee payment of shipment
 - Bank's strength vs. customer's credit
- Compliance with shipping terms and conditions
- Timely payment
- Secure handling of Bill of Lading
- Financing abilities
- Payment mechanism of shipment



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Avoiding Discrepancies

- Reduce risk of non-payment (Exporters)
 - Bank review of LC language to ensure compliance
 - Utilizing freight forwarders for document preparation
 - Open lines of communication between importer and exporter



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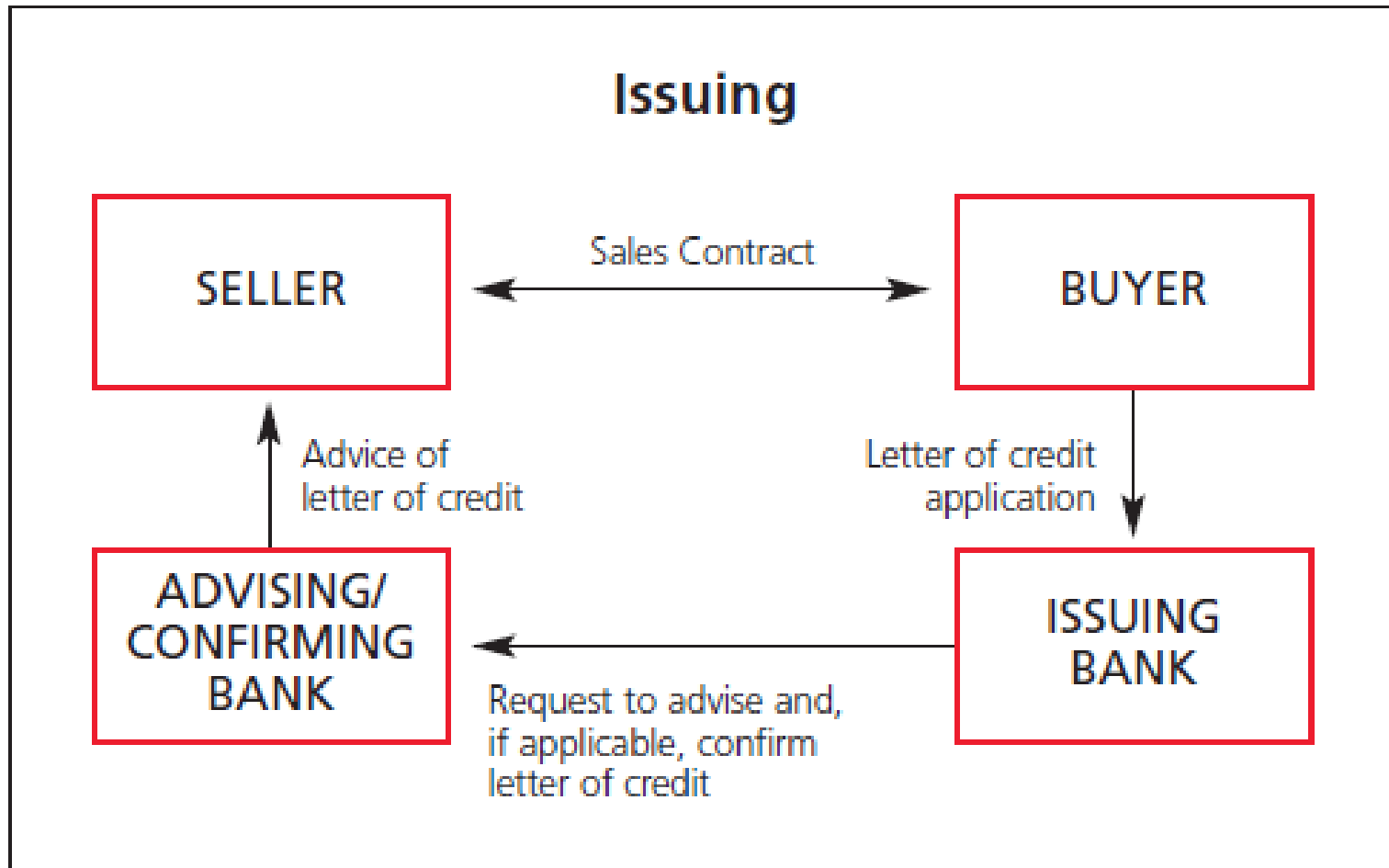
LC Issuance (Importer)

- Credit requirement with bank
- Coordination on terms with exporter
- OFAC and sanctions concerns
- Advising through the right correspondent



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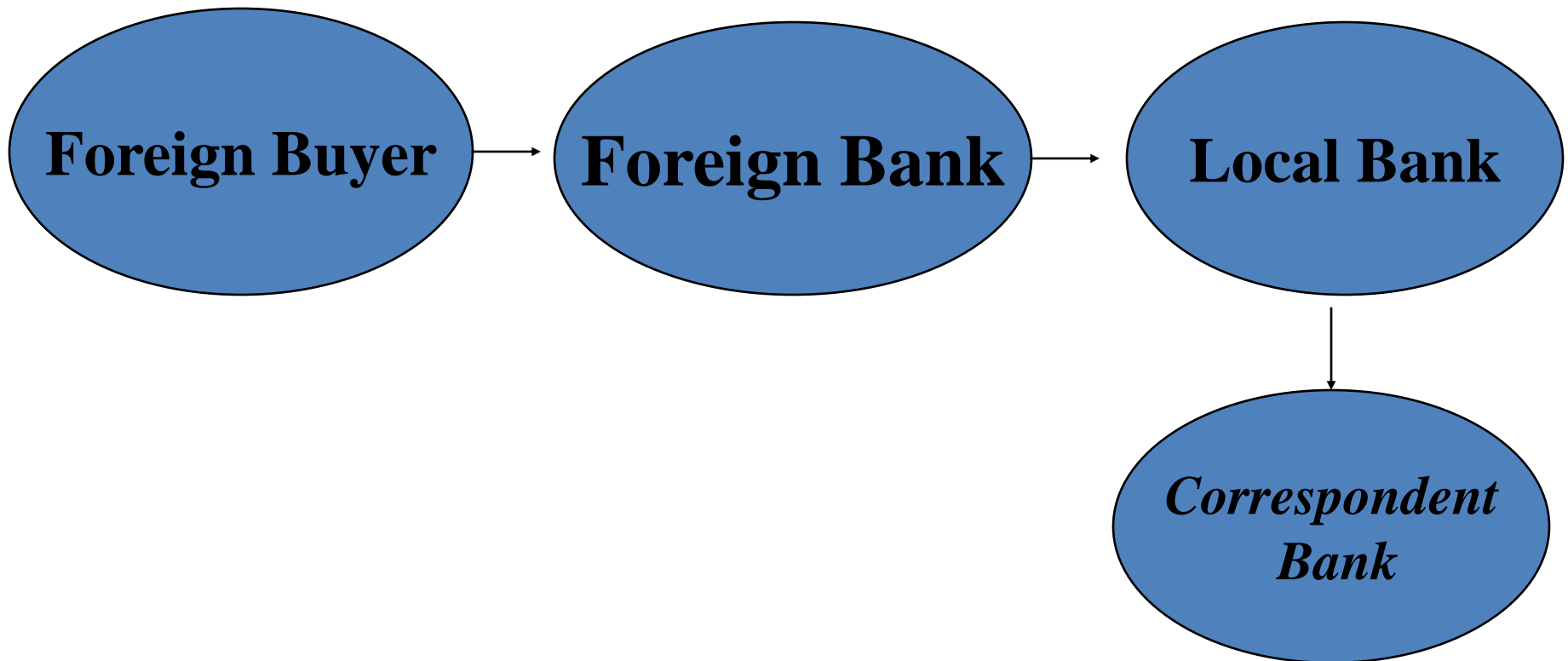




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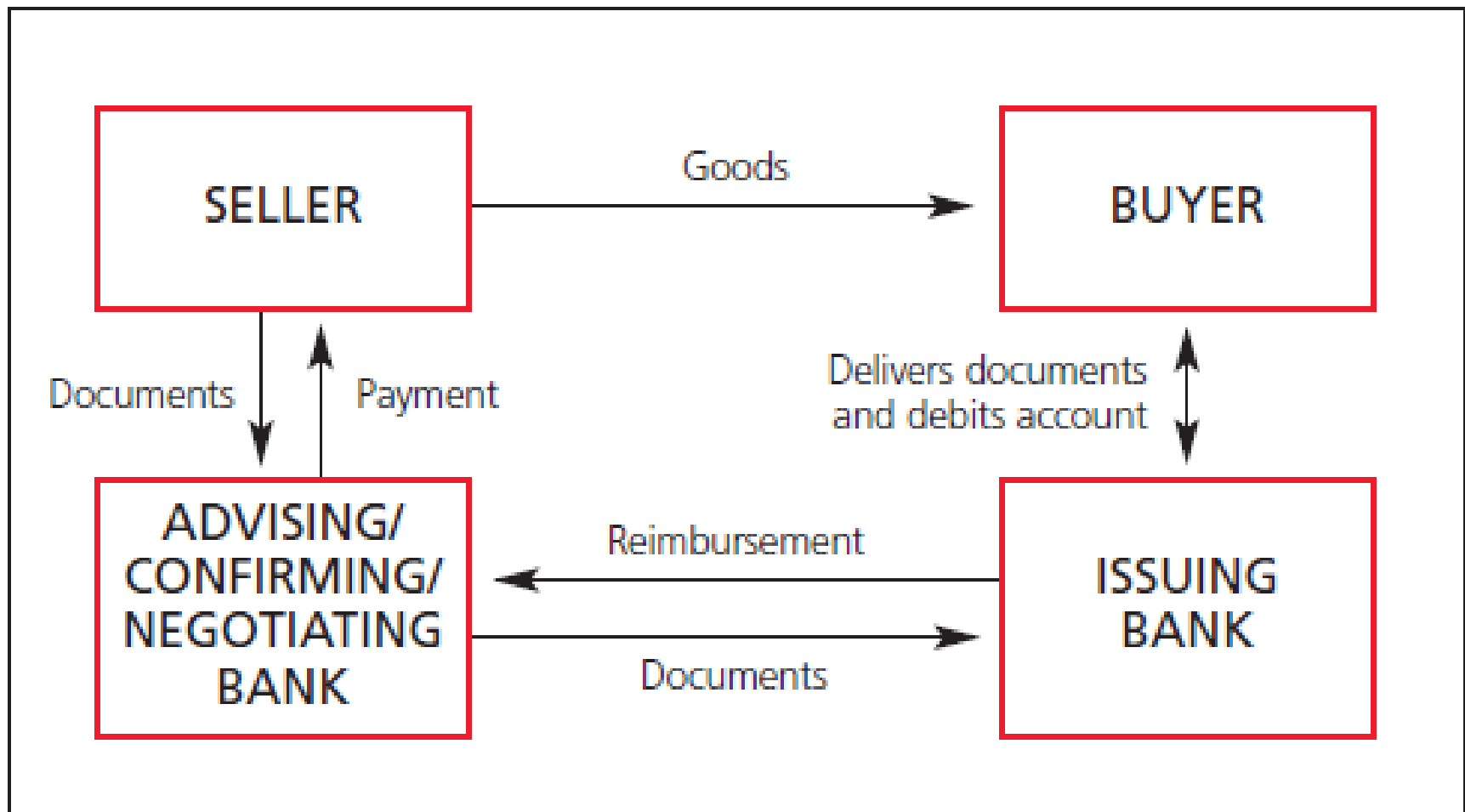
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Transferring Risk L/C Confirmations





Collecting Payment: Banks deal in documents, not in goods or performance





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Key Components of an LC

- Merchandise Description
- Shipping Terms
- Ship from and to ports
- Expiration Dates and Latest Ship Dates
- Place of Expiry
- Currency and Amount
- Fee structure



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Players

Applicant: Importer, buyer

Beneficiary: Exporter, seller

Freight Forwarder: Prepares docs, arranges shipment

Issuing Bank: Bank holding credit

Advising Bank: Bank which verifies and forwards LC to
Beneficiary

Negotiating Bank: Bank which handles documents and
payment processing

Drawee Bank: Bank which pays out LC proceeds



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LC Example

- SWIFT Format (MT 700 Message)
- Receiving / Sending banks
- Shipment details

- F46A: Documents Required
- +AVAILABLE BY YOUR ENDORSED DRAFT(S) DRAWN AT 60 DAYS SIGHT ON FULTON BANK, N.A. BEARING THE CLAUSE ' ' DRAWN UNDER FULTON BANK, N.A. LETTER OF CREDIT NO. IOXXXXX DATED JANUARY 18, 2017 ' ' AND ACCOMPANIED BY THE FOLLOWING DOCUMENTS:
 - + SIGNED COMMERCIAL INVOICE IN 1 ORIGINAL AND 2 COPIES
 - + PACKING LIST IN 1 ORIGINAL AND 2 COPIES
 - + CERTIFICATE OF ORIGIN IN 1 ORIGINAL AND 2 COPIES
 - + FULL SET CLEAN ON BOARD OCEAN BILLS OF LADING CONSIGNED TO THE ORDER OF FULTON BANK, N.A., MARKED NOTIFY ABC CO., AND ALSO MARKED "FREIGHT PREPAID"



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As an Exporter - Why offer payment terms?

- **Time Drafts in LCs**
 - **Discounting opportunity**
- **Increase Sales**
- **Remain Competitive**
- **Increase Margins**
- **Diversify Target Markets**
- **Strategic Alignments**

Fulton Bank
International Department
Person must sign all documents pertaining to the Letter of Credit.

Signature

Fulton Bank
International Department
Person must sign any and all documents pertaining to the Letter of Credit.

Signature





Methods of Financing International Trade

Method	<u>Usual Payment Time</u>	<u>Goods Available to Buyers</u>	<u>Risk to Exporter</u>	<u>Risk to Importer</u>
<i>Cash in Advance</i>	Before Shipment	After Shipment	None	Completely Relies on Exporter to ship as Ordered
<i>Letter of Credit</i>	When Shipment is Made	After Payment	Very Little or None, Depending on Credit Terms	Is Assured Shipment is Made but Relies on Exporter to Ship Goods Described in Documents
<i>Sight Draft Documents Against Payment</i>	On Presentation of Draft to Buyer	After Payment	If Draft Unpaid, Must Dispose of Goods. Many Side Risks such as Exchange Availability, etc.	Same as above Unless He can Inspect Goods Before Payment
<i>Time Draft, Documents Against Acceptance</i>	On Maturity of Draft	Before Payment	Relies on Buyer To Pay Draft	Same As Above
<i>Consignment</i>	After Sale	Before Payment	Relies Completely on Buyer to Pay His Account as Agreed	None
<i>Open Account</i>	As Agreed	Before Payment	Relies Completely on Buyer to Pay His Account as Agreed	None



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Using FX in Import / Export





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Import Letter of Credit Example

EUR100,000 Letter of Credit issued to cover a shipment of espresso makers from Italy.

Tenor: 90 Days after B/L Date

Estimated Date of Shipment: 12/1/16

**Book forward contract for EUR100,000 purchase to deliver
3/1/17 - 3/31/17**

Forward Rate: 1.0595

Spot Rate: 1.1050 (+/- Forward points)



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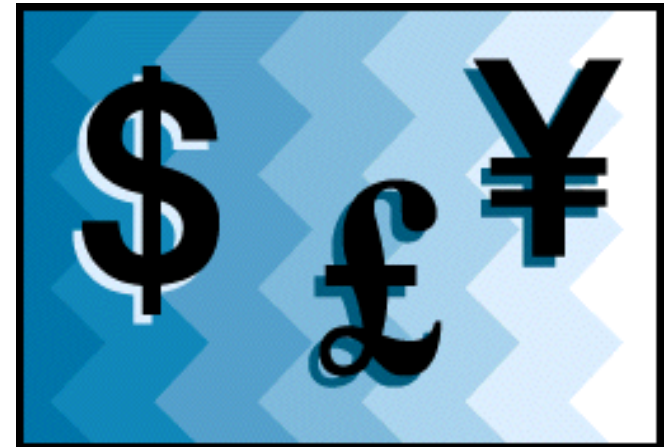
Why import in foreign currency?

Benefits

- Pay “true” price of product
- Control the payment
- Incentive to supplier
- Price Stability

Disadvantages

- Unavailability of funds
- USD cost instability





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Why export in foreign currency?

Advantages

- Offer stable price to customer
- Expand market
- Possible gains in exchange

Disadvantages

- Determining invoice rate
- Possible loss in exchange





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International Trade



- Be proactive, not reactive
- Be aware of market factors
- Use all tools available
- Prepare for markets to turn
- Don't panic



*As an international trader, you are playing a role
in contributing to the global economy.*



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NAMASTE

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Merci

Danke

Xie xie

Arigato

Kamsa hamnida

Grazie

Gracias

Doje

Thank you!

Spasibo

Fulton International Group

*Bringing our global reach to
your local markets.*

