FORFAITING TO FOR-FACTORING: INCREASE INTERNATIONAL SALES, MITIGATE RISK AND IMPROVE CASH FLOW

LONDON FORFAITING

OBJECTIVE:

Define and describe Forfaiting and For-factoring. Explain how these techniques can increase sales to emerging Markets while IMPROVE YOUR CASH FLOW and Reducing PAYMENT RISK.

LONDON FORFAITING

FORFAITING

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FORFAITING DEFINITION

Forfaiting is a supplier credit oriented method of trade finance that allows exporters to satisfy their customers request for deferred payment terms while simultaneously selling the transaction to a forfeiter thereby accelerating the cash flow and transferring the repayment risk to the forfeiter for short, medium and long-term foreign sales.

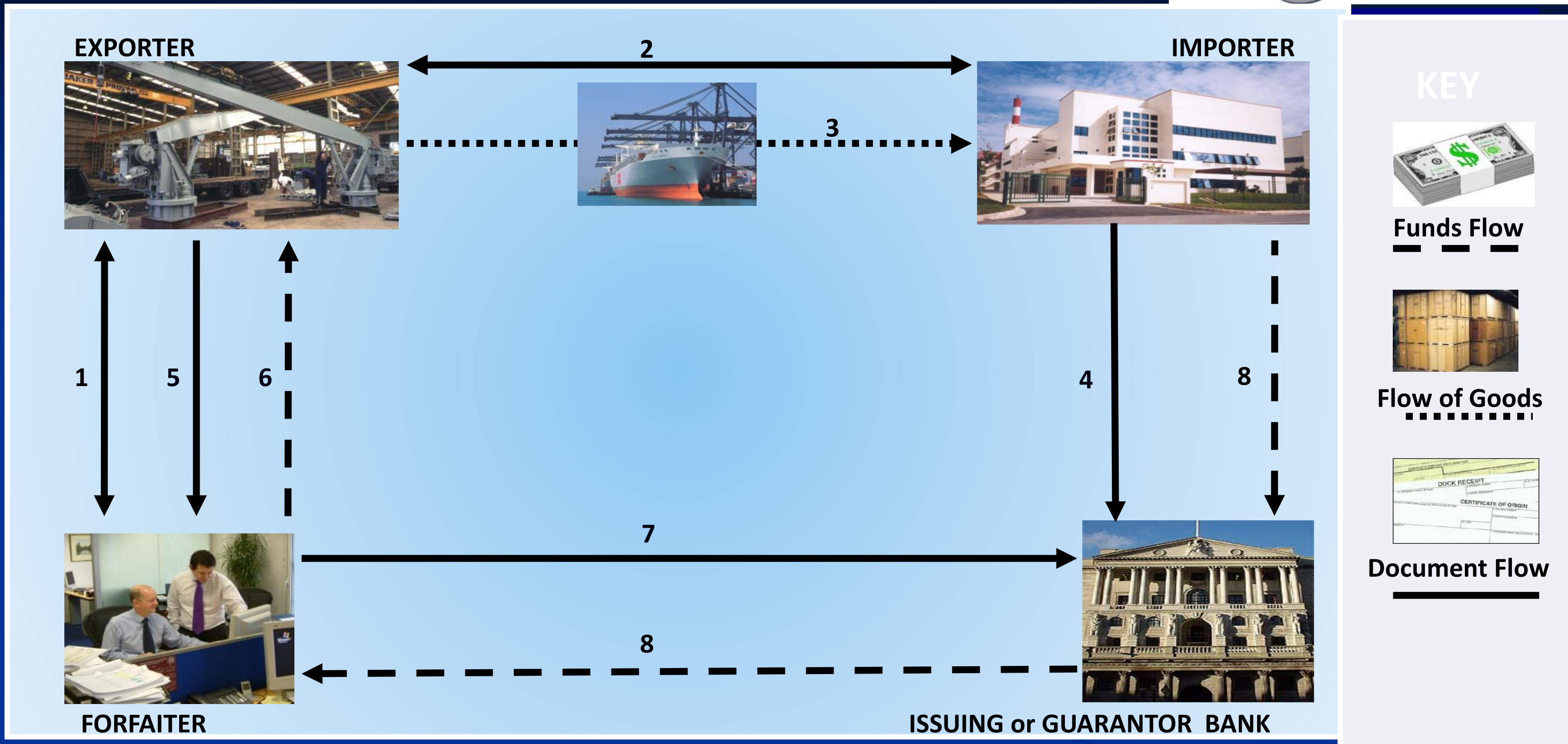
The cost is typically past on to the buyer through a contract uplift, interest rate or a seller subsidy.

THE KEY: SUPPLIER CREDIT STRUCTURE

WHEN FORFAITING APPLIES?

- Banks (L/C's, Avals, Letter of Guarantee, Standby L/C's)
- Governments - Sovereign Guarantees
- Large Foreign Corporations
- Negotiable Instruments
  - L/C's
  - Drafts or Bills of Exchange
  - Promissory Notes
- Tenor 120 days up to 7 years

FORFAITING FLOW CHART



The flowchart assumes that there has been a dialogue between the exporter and forfeiter to quantify the cost associated with financing. This cost has been incorporated into the exporter's proposal.

1. Forfaiter provides a commitment to purchase the receivables from the Exporter
2. Commercial contract between Exporter and Importer is signed
3. Exporter delivers goods to Importer
4. Documentation is drawn and accepted under the LC or by the Guarantor Bank and held by the bank or returned to the exporter
5. If applicable, Exporter delivers documents to the Forfaiter
6. Forfaiter pays cash 'without recourse' to the Exporter after documents are validated
7. Forfaiter presents documents for payment at maturity
8. Forfaiter is repaid by Issuing or Guarantor Bank

WHO USES FORFAITING?

- Manufacturing Companies
- Trading Companies
- Service Providers
- Transactions $400,000.00 and above.
- New Or Used Goods
- Deliveries up to 2 years out
- Exporters/Traders of U.S.A. or Foreign Sourced Product

WHAT DOES IT COST?

- Discount Rate (Libor + Risk premium)
- Days of Grace (anticipated days late - if applicable)
- Option Fee (if applicable)
- Commitment Fee (if applicable)

BENEFITS

- 100 % Non-recourse to exporter
- Exporter generates good will as they are seen to be providing the financing
- Converts deferred payment sale to a cash sale
- Simple documentation
- Fast turnaround
- FLEXIBLE

FLEXIBILITY

Sample Transaction
NPV: 1,000,000.00 (What the exporter would like to receive net of cost)
Tenor: 1 year bullet
Forfaiting Discount Rate: US$ Libor + 3.5% (assume Libor at 2.5%) = 6% pa.

Net Present Value	Interest Rate	Contract Price
1,000,000.00	6.00 %	1,000,000.00
1,000,000.00	0.00 %	1,060,000.00
1,000,000.00	**3.00 %**	**1,030,000.00**

Simple Documentation
Sample Bill of Exchange

BILL OF EXCHANGE
Without Protest

Guaranteed Per Aval
For account of the Drawee:

....
Authorised Signatory

Issue date, place of issue
Bill Ref No:.......................

Amount USD ....

At/On *maturity date*, for value received, pay against this Bill of Exchange to the order of ...., the sum of ....*in words*......

Effective payment to be made in US Dollars, without deductions for and free of any taxes, duties, imposts of any nature.

This Bill of Exchange is payable at *domicile bank*.

Drawn on and accepted by:
For acceptance
Name/address of drawee

....
Authorised Signatory
Stamp

Drawer:
name/address of drawer

....
Authorised Signatory
Stamp

SAMPLE FORFAITING TRANSACTIONS

COUNTRY	AMOUNT	INDUSTRY	OBLIGOR	GUARANTOR	TENOR
PAKISTAN	18 MILLION	RADIOS	MOD	NAT'L BANK	3 YEARS
VIETNAM	500K – 3 MIL	CHEMICALS	PRIVATE	VARIOUS	1 YEAR
MEXICO	12 MILLION	HELICOPTER	CFE	N/A	3 YEARS
BRUNEI	18 MILLION	TELECOM	NAT'L POLICE	BIDURI BANK	5 YEARS
ITALY	3 MILLION	SOCCER	SERIE A CLUB	NA	2 YEARS
PANAMA	10 MILLION	BANKING	TOP TIER	NA	3 YEARS
SRI LANKA	7 MILLION	RADIOS	MOD	BANK OF CEYLON	7 YEARS
COSTA RICA	1.8 MILLION	AG EQUIP	PRIVATE	TOP BANK	3 YEARS

UNDERSERVED SEGMENT

Forfaiting failed to serve sales to small and medium sized customers. It relied on letters of credit and Avals from local banks to support these applications.

A solution was needed to service this segment.

For-Factoring was created.

FOR-FACTORING

LONDON FORFAITING

FOR-FACTORING DEFINITION

For-factoring is a hybrid trade finance product that incorporates elements of forfaiting and factoring which enables a forfeiter to consider exporters sales to small and medium sized buyers that would not have been previously viable. It is built around the strength of the ongoing commercial relationship between the buyer and seller.

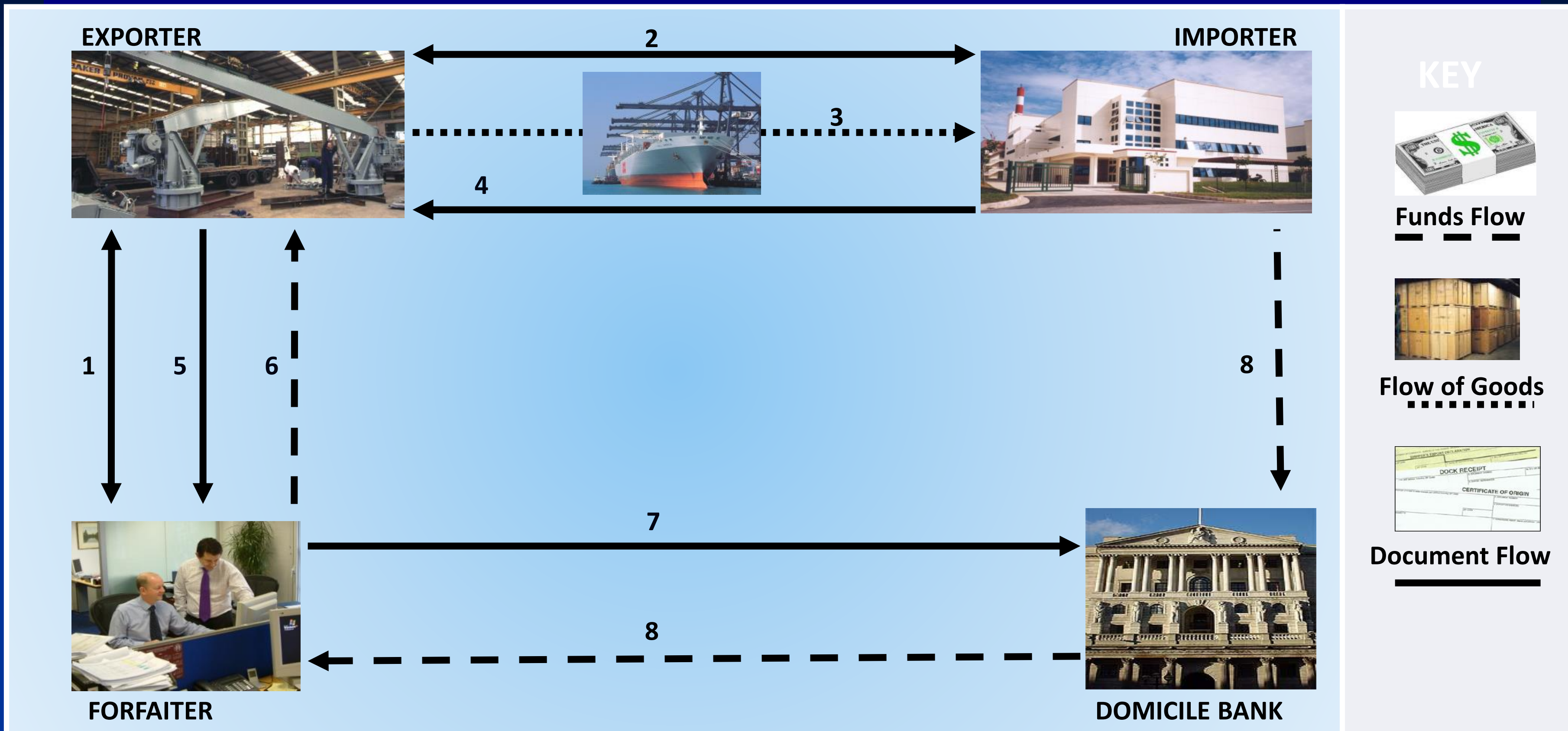
BUILDING THE HYBRID

FORFAITING	FACTORING
Without Recourse	With/Without Recourse
Up to 100 % Financed	**Up to 85 % Financed**
Negotiable Instrument	Invoices
Up to 7 years	Up to 90 days
Libor + (2 - 7) % pa.	1 – 2 % / month
One off Sales	Portfolio Based
Local Bank Guaranteed	**Corporate Risk**

FOR-FACTORING

- Without Recourse
- Up to 90 % Financed
- Negotiable Instruments (Bills of Exchange or Promissory Notes)
- Up to 360 days
- Libor + (3 - 7) % pa.
- One off Sales related to Ongoing Flow
- Corporate Risk

FOR-FACTORING FLOW CHART



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4. Documentation is drawn and accepted by all the parties in accordance with the contract
5. Exporter delivers documents to the Forfaiter
6. Forfaiter pays cash 'without recourse' to the Exporter after validating the documents
7. Forfaiter delivers documents to the domicile Bank at maturity, IF APPLICABLE
8. Forfaiter is repaid by IMPORTER

WHO USES FOR-FACTORING?

- Trading Companies
- Service providers
- Manufacturing Companies
- Transactions over $ 400,000
- New or Used Goods
- Deliveries up to 6 months in the future

WHEN FORFACTORING APPLIES?

- Small to Medium Sized Companies
- Strong relationship between buyer and seller
- Good payment history
- Tenor: 120 days to 1 year
- One off sales related to ongoing deliveries
- Negotiable Instruments
  - Bills of Exchange
  - Promissory Notes

BENEFITS

- 75 -90 % non-recourse to seller
- Converts credit sale to cash sale for portion sold
- Simple Documentation
- Exporter generates goodwill
- Fast turnaround
- Flexible

WHAT DOES IT COST?

- Discount Rate (Libor + Risk Premium)
- Retention Percentage (10-25%)
- Commitment Fee: If Applicable
- Past Due Interest Coverage: Past due interest to be paid by the seller up to agreed number of days. May be recouped from buyer.

SAMPLE FOR-FACTORING TRANSACTIONS

COUNTRY	AMOUNT	INDUSTRY	OBLIGOR	GUARANTOR	TENOR
ECUADOR	10 MILLION	FERTILIZER	PRIVATE	N/A	180 DAYS
PARAGUAY	5 MILLION	FERTILIZER	PRIVATE	N/A	270 DAYS
PERU	3 MILLION	CAPITAL GOODS	PRIVATE	SPANISH PARENT	1 YEAR
DOM REP	2 MILLION	SOFTWARE	BANK	N/A	3 YEARS
NICARAGUA	5 MILLION	COFFEE	PRIVATE	NETHERLANDS PARENT	1 YEARS

SUMMARY

	FACTORING	FORFAITING	FORFACTORING
W/O Recourse	85 %	100%	Up to 90%
Evidenced by	Invoices	Negotiable Instrument	Negotiable Instrument
Tenor	Up to 120 days	120 days – 7 yrs	Up to 360 days
Shipments	Ongoing	One Off	One Off related to Ongoing
Risk	Corporate	Bank, Government and Large Corporate	Small and Medium Sized Corporate
Amounts	10,000 + invoices	400,000 +	400,000 +
Agreement	1 year facility agreement	Term Sheet	Term Sheet