FORFAITING TO
FOR-FACTORING:
INCREASE INTERNATIONAL
SALES, MITIGATE RISK AND
IMPROVE CASH FLOW
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.
FORFAITING
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 passed 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
A GLOBAL FORCE IN TRADE FINANCE

FORFAITING FLOW CHART

1. Forfafter 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 Forfafter
6. Forfafter pays cash ‘without recourse’ to the Exporter after documents are validated
7. Forfafter presents documents for payment at maturity
8. Forfafter is repaid by Issuing or Guarantor Bank

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

<table>
<thead>
<tr>
<th>Net Present Value</th>
<th>Interest Rate</th>
<th>Contract Price</th>
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<tbody>
<tr>
<td>1,000,000.00</td>
<td>6.00 %</td>
<td>1,000,000.00</td>
</tr>
<tr>
<td>1,000,000.00</td>
<td>0.00 %</td>
<td>1,060,000.00</td>
</tr>
<tr>
<td>1,000,000.00</td>
<td>3.00 %</td>
<td>1,030,000.00</td>
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</tbody>
</table>
BILL OF EXCHANGE

Without Protest

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

........................................

Authorised Signatory
Stamp

Drawer:
name/address of drawer
<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>AMOUNT</th>
<th>INDUSTRY</th>
<th>OBLIGOR</th>
<th>GUARANTOR</th>
<th>TENOR</th>
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<tbody>
<tr>
<td>PAKISTAN</td>
<td>18 MILLION</td>
<td>RADIOS</td>
<td>MOD</td>
<td>NAT’L BANK</td>
<td>3 YEARS</td>
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<tr>
<td>VIETNAM</td>
<td>500K – 3 MIL</td>
<td>CHEMICALS</td>
<td>PRIVATE</td>
<td>VARIOUS</td>
<td>1 YEAR</td>
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<tr>
<td>MEXICO</td>
<td>12 MILLION</td>
<td>HELICOPTER</td>
<td>CFE</td>
<td>N/A</td>
<td>3 YEARS</td>
</tr>
<tr>
<td>BRUNEI</td>
<td>18 MILLION</td>
<td>TELECOM</td>
<td>NAT’L POLICE</td>
<td>BIDURI BANK</td>
<td>5 YEARS</td>
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<tr>
<td>ITALY</td>
<td>3 MILLION</td>
<td>SOCCER</td>
<td>SERIE A CLUB</td>
<td>NA</td>
<td>2 YEARS</td>
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<tr>
<td>PANAMA</td>
<td>10 MILLION</td>
<td>BANKING</td>
<td>TOP TIER</td>
<td>NA</td>
<td>3 YEARS</td>
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<tr>
<td>SRI LANKA</td>
<td>7 MILLION</td>
<td>RADIOS</td>
<td>MOD</td>
<td>BANK OF CEYLON</td>
<td>7 YEARS</td>
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<tr>
<td>COSTA RICA</td>
<td>1.8 MILLION</td>
<td>AG EQUIP</td>
<td>PRIVATE</td>
<td>TOP BANK</td>
<td>3 YEARS</td>
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</table>
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
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

- **Without Recourse**
- Up to 100 % Financed
- **Negotiable Instrument**
- Up to 7 years
- **Libor + (2 - 7) % pa.**
- **One off Sales**
- Local Bank Guaranteed

FACTORING

- With/Without Recourse
- **Up to 85 % Financed**
- Invoices
- Up to 90 days
- 1 – 2 % / month
- Portfolio Based
- **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-FACTORIZING 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. Forfeiter 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 by all the parties in accordance with the contract
5. Exporter delivers documents to the Forfeiter
6. Forfeiter pays cash ‘without recourse’ to the Exporter after validating the documents
7. Forfeiter delivers documents to the domicile Bank at maturity, IF APPLICABLE
8. Forfeiter is repaid by IMPORTER

FORFAITER

FLOW OF GOODS

DOCUMENT FLOW

DOMICILE BANK

IMPORTER

Funds Flow

A GLOBAL FORCE IN TRADE FINANCE
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.
<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>AMOUNT</th>
<th>INDUSTRY</th>
<th>OBLIGOR</th>
<th>GUARANTOR</th>
<th>TENOR</th>
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<tbody>
<tr>
<td>ECUADOR</td>
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<td>FERTILIZER</td>
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<td>PARAGUAY</td>
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<td>PERU</td>
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<td>SPANISH PARENT</td>
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<td>NICARAGUA</td>
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<td>COFFEE</td>
<td>PRIVATE</td>
<td>NETHERLANDS PARENT</td>
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<td>FACTORING</td>
<td>FORFAITING</td>
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<td></td>
<td></td>
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<tr>
<td>W/O Recourse</td>
<td>85 %</td>
<td>100%</td>
<td>Up to 90%</td>
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<td>Negotiable Instrument</td>
<td>Negotiable Instrument</td>
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<td>Tenor</td>
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<td>120 days – 7 yrs</td>
<td>Up to 360 days</td>
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<td>One Off</td>
<td>One Off related to Ongoing</td>
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<td>Agreement</td>
<td>1 year facility agreement</td>
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