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U.S. Small Business
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For more information, please visit **www.sba.gov/international**



Export Letter of Credit (L/C)

- Export letters of credit carry the credit risk of the issuing bank and the political risk of the issuing bank's country.
 - Foreign issuing bank and country risk can be mitigated via confirmation of the letter of credit
 - International L/Cs are **irrevocable** and cannot be cancelled or changed without the consent of all parties involved (importer, exporter and the issuing bank)
 - May be payable upon presentation of certain documents (sight) or at a future date after documents have been accepted under the letter of credit (term or usance)
 - May be transferred to a third party if stipulated in the letter of credit
- The letter of credit should be consistent with the terms and conditions stipulated in the commercial contract



Export Letter of Credit (L/C)

1. Documents and only documents
 - Can be used for the export of goods or services
2. Between two banks
 - Applicant—buyer
 - buyer's bank is the **issuing bank**
 - Beneficiary—seller
 - You, the seller's bank is the **advising/negotiating bank**



UCP 600

Uniform Customs & Practice (UCP) for Documentary Credits”) is the official publication governing international letters of credit (issued by the International Chamber of Commerce (ICC)).

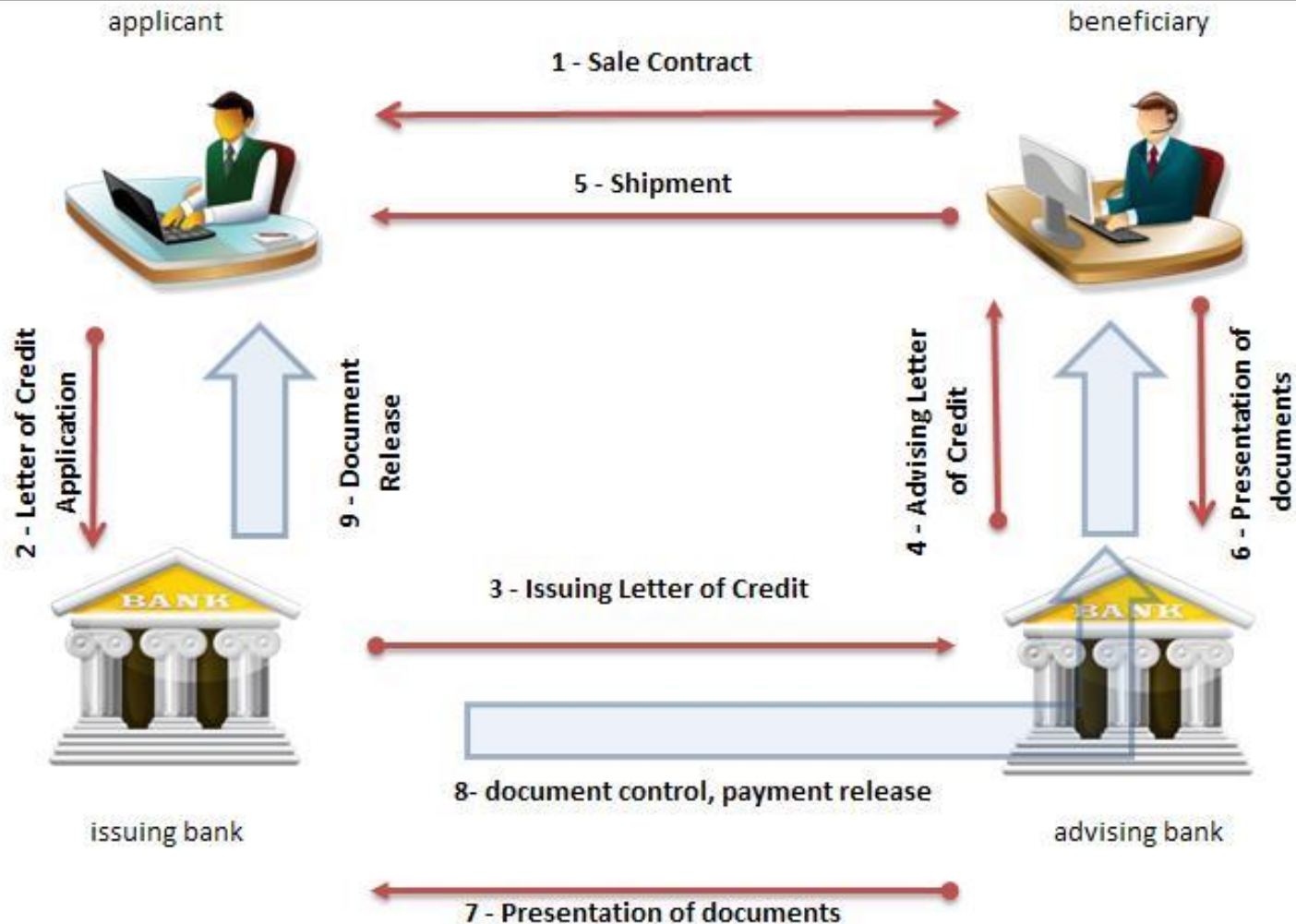
Recommend you review this document.



UCP 600

- Definition of key terms which are prevalent in international trade (e.g. honoring [of payments], applicants, banking days, presentation)
- How international trade documents (Letters of Credit) can be signed and acknowledged by all parties
- The difference between documents, goods and services (and which parties deal with these)
- Which parts of a Letter of Credit are negotiable and non-negotiable
- How credit works, and how payment is made
- How banks can communicate the confirmation of goods (teletransmission)
- transportation of the goods, modes of transport, and who bears responsibility
- How to deal with discrepancies, waivers and giving notice
- The provision of original documents or electronic copies bills of Lading
- Insurance and covering the cost of goods
- Loss of shipping documents in transit

Basic Letter of Credit Transaction





Basic step by step

1. After the exporter and the buyer have agreed on the terms of a sale, the buyer arranges for its bank to open a letter of credit that specifies the documents needed for payment. The buyer determines which documents will be required.
2. The buyer's bank issues (opens) its irrevocable letter of credit and includes all instructions to the seller relating to the shipment.
3. The buyer's bank sends its irrevocable letter of credit to a bank it may indentifies or the seller's U.S. bank for advising, negotiating or confirmation.



Basic step by step (continued)

4. The U.S. bank prepares a letter of confirmation to forward to the exporter, along with the irrevocable letter of credit.
5. The exporter carefully reviews all conditions in the letter of credit.
6. The exporter's freight forwarder is contacted to make sure that the shipping date can be met. If the exporter cannot comply with one or more of the conditions, the customer is alerted at once because an amendment may be necessary.
7. The exporter arranges with the freight forwarder to deliver the goods to the appropriate port or airport.
8. When the goods are loaded aboard the exporting carrier, the freight forwarder completes the necessary documentation.



Basic step by step (continued)

9. The exporter (or the freight forwarder) presents the documents, evidencing full compliance with the letter of credit terms, to the U.S. bank.
10. The bank reviews the documents. If they are in order, the documents are sent to the buyer's bank for review and then transmitted to the buyer.
11. The buyer (or the buyer's agent) uses the documents to claim the goods.
12. A sight or time draft accompanies the letter of credit. A sight draft is paid on presentation; a time draft is paid within a specified time period.



Is your bank L/C ready?

Large regional, super regional and money center banks

- Most have large, international trade services dept
- Many will spend time with you reviewing a draft of the L/C for free

Community banks

- Be sure that they have a correspondent relationship with a larger bank with a trade services department and able to advise, negotiate or confirm export L/Cs



Use letters of credit with confidence

Discrepancies in documents provide an opportunity for the buyer to refuse payment even though the goods meet specifications.

Risk of discrepancies can be reduced or eliminated by using your freight forwarder to fully document the letter of credit



Now or later

Sight L/C

Issuing bank honors L/C upon receipt of acceptable docs

Term L/C

Issuing bank honors L/C upon receipt of acceptable docs and remits funds at a later date (30, 60, 90 days)



Now or later

Confirmed L/C

Your bank has a correspondent relationship with the issuing bank and assumes the credit risk and country of the issuing bank and pays you immediately upon receipt of documents

Unconfirmed L/C

Standard L/C processing by your bank and issuing bank.



Fees and costs

Banks charge fees (Usually as a percentage of the amount of payment)

Important: If fees charged by both the foreign and U.S. banks are to be applied to the buyer's account, this must be explicitly stated in all quotations and in the letter of credit.

Exporter usually expects the buyer to pay the L/C charges. If the buyer does not agree to this added cost, you must either absorb the costs of the letter of credit or risk losing the sale.

Letters of credit for smaller amounts can be somewhat expensive because fees can be high relative to the sale.



International Methods of Payments: Their Impact on Financing Needs

1. Cash in Advance—wire transfers, credit cards
2. Documentary Letters of Credit
 - Applicant—buyer
 - Beneficiary—seller
 - Advising/confirming banks
3. Documentary Collections
 - Cash against documents
4. (Insured) Open Account Terms



Export Terms of Sales

Costly for importer, most secure for export

- Cash in advance
- Letter of Credit

Middle of the road

- Documentary collection

Costly/risky for Exporter, most secure for importer

- Open account
- Using credit insurance secures against non-payment
- Financing AR prevents cash flow issue of open account terms



SBA Export Financing Programs

• Export Express

- 90% guarantee for amounts up to \$350,000 (for up to 7 years)
- 75% guarantee for amounts between \$350,000 and \$500,000 (for up to 7 years)
- Lender uses its own loan approval process and documents
- For financing of inventory, accounts receivable and export development activities

• Export Working Capital Program

- 90% guarantee for amounts up to \$5,000,000
- Use of funds for purchase order financing, accounts receivable and inventory financing

• International Trade Loan Program

- 90% guarantee for amounts up to \$5,000,000
- For working capital term loans for financing and refinancing of fixed assets used for exporting (loan tenures up to 10 years for plant & equipment and 25 years for real estate)

• Developing an Export Business Plan



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Questions?