

# NACM

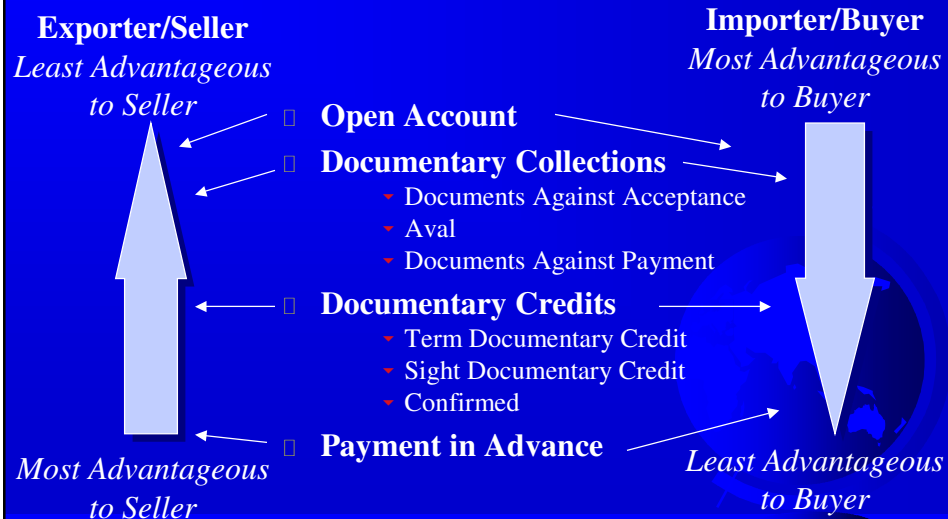
## I.C.E.

May 15, 2003

Letters of Credit



## Terms of Sale



## Documentary Credits (Letters of Credit)

- A written undertaking by a bank
- Given to a seller at the request of and in accordance with instructions of the buyer
- To effect payment up to a stated sum of money
- Within a prescribed time limit
- Against presentation of stipulated documents
- Cannot be amended or revoked without Beneficiary approval



## Types of Letters of Credit

- Commercial
- Standby

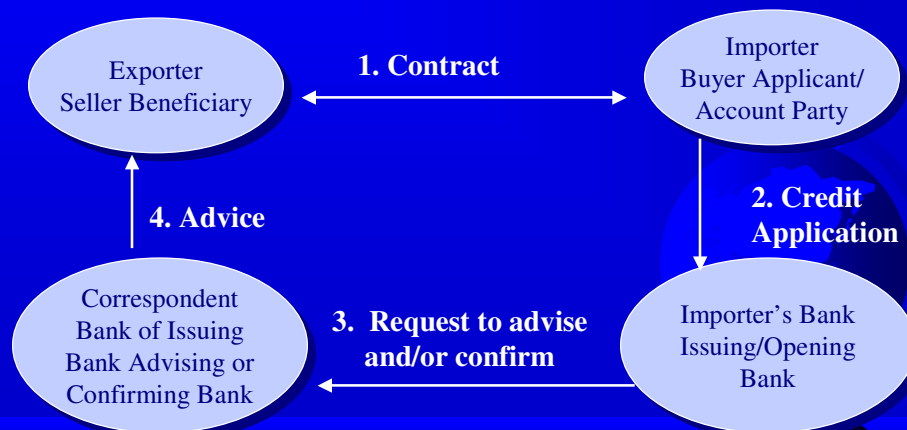


## Commercial Letter of Credit

- Requested by exporter
- Arranged by importer's bank
- Forwarded to international bank near exporter for authentication
- Reviewed and examined by exporter
- Exporter presents shipping documents to bank
- Payment made to exporter in accordance to terms

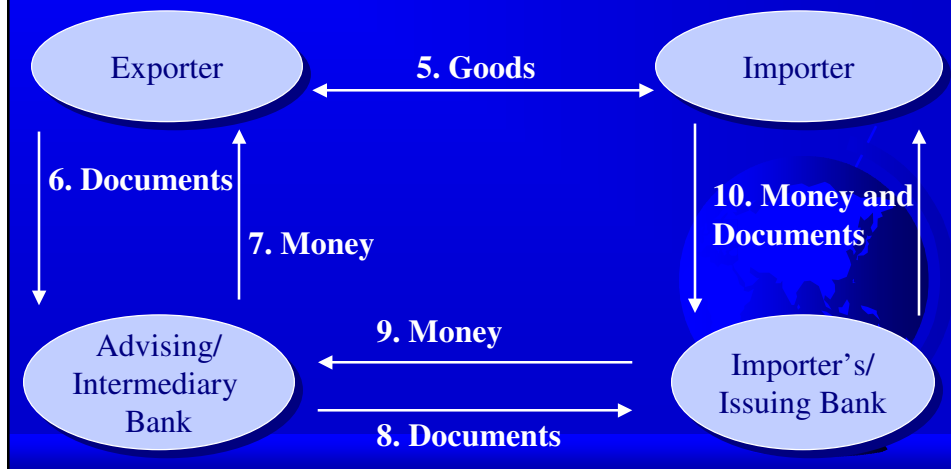
## Documentary Credits Flowchart

Parties and Steps in Issuance/Advice of a Credit



## Documentary Credits Flowchart

### Steps in Settling a Documentary Credit by Payment



## Confirmed Irrevocable Letters of Credit

- ❑ Commits confirming bank to honor beneficiary's drawings same as issuing bank
- ❑ Seller may request if issuing bank has doubts as to political/economic conditions in issuing bank's country
- ❑ Confirming bank assumes risk of issuing bank
- ❑ Confirming bank becomes source of payment for exporter

## Standby Letter of Credit

- Serves as assurance of fulfillment of contract by applicant
- Beneficiary only draws when applicant fails to meet obligations
- In trade used to back-up open-account transactions or down payments



## Standby Credits

- Bid bond
- Advance payment guarantee
- Performance bond
- Warranty bond

