

## Prudent Credit Practices

An experienced exporting firm extends credit cautiously. It evaluates new customers with care and continuously monitors older accounts. Such a firm may wisely decide to decline a customer's request for open account credit if the risk is too great and propose instead payment on delivery terms through a documentary sight draft or irrevocable confirmed letter of credit or even payment in advance. On the other hand, for a fully creditworthy customer, the experienced exporter may decide to allow a month or two to pay, perhaps even on open account.

Other good credit practices include being aware of any unfavorable changes in your customers' payment patterns, refraining from going beyond normal commercial terms, and consulting with your international banker on how to cope with unusual circumstances or in difficult markets. It is always advisable to check a buyer's credit (even if safest payment methods are employed). A Department of Commerce International Company Profile (ICP) (see [Chapter 5](#)) provides useful information for credit checks. For a fee, an ICP may be requested on foreign companies in many countries. It contains financial information on the company and a discussion regarding its size, capitalization, years in business, and other information such as citing some U.S. companies that conduct business with the firm. The exporter can then contact the U.S. companies to find out about their payment experience with the foreign firm.

ICPs are not available in every country, and in these instances, EACs can provide a list of private credit reporting services. There are several U.S. companies that compile financial information on foreign firms (particularly larger firms) and make it available to their subscribers. Also, banks are sometimes able to provide credit reports on foreign companies, either through their own foreign branches or through a correspondent bank.

As being paid in full and on time is of the utmost concern to exporters, the level of risk in extending credit is a major consideration. There are several ways in which you can receive payment when selling your products abroad, depending on how trustworthy you consider the buyer to be. Typically with domestic sales, if the buyer has good credit, sales are made on open account; if not, cash in advance is required. For export sales, these ways are not the only common methods. Listed in order from most secure for the exporter to the least secure, the basic methods of payment are:

1. Cash in advance;
2. Documentary letter of credit;

3. Documentary collection or draft;
4. Open account; and
5. Other payment mechanisms, such as consignment sales.

### **Cash in Advance**

Receiving payment by cash in advance of the shipment might seem ideal. In this situation, the exporter is relieved of collection problems and has immediate use of the money. A wire transfer is commonly used and has the advantage of being almost immediate. Payment by check, may result in a collection delay of up to six weeks. Therefore, this method may defeat the original intention of receiving payment before shipment.

Many exporters accept credit cards in payment for exports of consumer and other products, generally of a low dollar value, sold directly to the end user. Domestic and international rules governing credit card transactions sometimes differ, so U.S. merchants should contact their credit card processor for more specific information. International credit card transactions are typically done by telephone or fax. Due to the nature of these methods, exporters should be aware of fraud. Merchants should determine the validity of transactions and obtain the proper authorizations.

For the buyer, however, advance payment tends to create cash flow problems, as well as increase risks. Furthermore, cash in advance is not as common in most of the world as it is in the United States. Buyers are often concerned that the goods may not be sent if payment is made in advance. Exporters that insist on this method of payment as their sole method of doing business may find themselves losing out to competitors who offer more flexible payment terms.

### **Documentary Letters of Credit and Documentary Drafts**

Documentary letters of credit or documentary drafts are often used to protect the interests of both buyer and seller. These two methods require that payment be made based on the presentation of documents conveying the title and that specific steps have been taken. Letters of credit and drafts can be paid immediately or at a later date. Drafts that are paid upon presentation are called sight drafts. Drafts that are to be paid at a later date, often after the buyer

receives the goods, are called time drafts or date drafts.

Since payment by these two methods is made on the basis of documents, all terms of payment should be clearly specified in order to avoid confusion and delay. For example, "net 30 days" should be specified as "30 days from acceptance." Likewise, the currency of payment should be specified as "US\$30,000." International bankers can offer other suggestions.

Banks charge fees - based mainly on a percentage of the amount of payment - for handling letters of credit and smaller amounts for handling drafts. If fees charged by both the foreign and U.S. banks are to be applied to the buyer's account, this should be explicitly stated in all quotations and in the letter of credit.

The exporter usually expects the buyer to pay the charges for the letter of credit, but some buyers may not agree to this added cost. In such cases, the exporter must either absorb the costs of the letter of credit or risk losing that potential sale. Letters of credit for smaller amounts can be somewhat expensive since fees can be high relative to the sale.

## **Letters of Credit**

A letter of credit adds a bank's promise to pay the exporter to that of the foreign buyer *provided* that the exporter has complied with all the terms and conditions of the letter of credit. The foreign buyer applies for issuance of a letter of credit from the buyer's bank to the exporter's bank and therefore is called the applicant; the exporter is called the beneficiary.

Payment under a documentary letter of credit is based on documents, not on the terms of sale or the physical condition of the goods. The letter of credit specifies the documents that are required to be presented by the exporter, such as an ocean bill of lading (original and several copies), consular invoice, draft, and an insurance policy. The letter of credit also contains an expiration date. Before payment, the bank responsible for making payment, verifies that all documents conform to the letter of credit requirements. If not, the discrepancy must be resolved before payment can be made and before the expiration date.

A letter of credit issued by a foreign bank is sometimes confirmed by a U.S. bank. This confirmation means that the U.S. bank (the confirming bank), adds its promise to pay to that of the foreign bank (the issuing bank). If a letter of credit is not confirmed, it is advised through a U.S. bank and thus called an advised letter of credit. U.S. exporters may wish to confirm letters of credit issued by foreign banks if they are unfamiliar with the foreign banks or concerned about the political or economic risk associated with the country in which the bank is located. An Export Assistance Center or international banker can assist exporters in evaluating the risks to determine what might be appropriate for specific export transactions.

A letter of credit may either be irrevocable and thus, unable to be changed unless both parties agree; or revocable where either party may unilaterally make changes. A revocable letter of credit is inadvisable as it carries many risks for the exporter.

A change made to a letter of credit after it has been issued is called an amendment. Banks also charge fees for this service. It should be specified in the amendment if the exporter or the buyer will pay these charges. Every effort should be made to get the letter of credit right the first time since these changes can be time-consuming and expensive.

To expedite the receipt of funds, wire transfers may be used. Exporters should consult with their international bankers about bank charges for such services.

## A Typical Letter of Credit Transaction

Here are the typical steps of an irrevocable letter of credit that has been confirmed by a U.S. bank:

1. After the exporter and buyer agree 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, or opens, its irrevocable letter of credit includes all instructions to the seller relating to the shipment.
3. The buyer's bank sends its irrevocable letter of credit to a U.S. bank and requests confirmation. The exporter may request that a particular U.S. bank be the confirming bank, or the foreign bank may select a U.S. correspondent bank.
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 reviews carefully all conditions in the letter of credit. 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.
6. The exporter arranges with the freight forwarder to deliver the goods to the appropriate port or airport.
7. When the goods are loaded, the freight forwarder completes the necessary documentation.

8. The exporter (or the freight forwarder) presents the documents, evidencing full compliance with the letter of credit terms, to the U.S. bank.
9. 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.
10. The buyer (or the buyer's agent) uses the documents to claim the goods.
11. A draft, which accompanies the letter of credit, is paid by the buyer's bank at the time specified or, if a time draft, may be discounted to the exporter's bank at an earlier date.

## Example of a Confirmed Irrevocable Letter of Credit

The example of a confirmed irrevocable letter of credit in [figure 13](#) illustrates the various parts of a typical letter of credit. In this sample, the letter of credit was forwarded to the exporter, The Walton Building Supply Company (A), by the confirming bank, Megabank Corporation (B), as a result of a letter of credit being issued by the Third Hong Kong Bank, Hong Kong (C), for the account of the importer, HHB Hong Kong (D). The date of issue was March 8, 1997 (E), and the exporter must submit the proper documents (e.g., a commercial invoice in one original and three copies) (F) by June 23, 1997 (G) in order for a sight draft (H) to be honored.

## Tips on Using a Letter of Credit

- When preparing quotations for prospective customers, exporters should keep in mind that banks pay only the amount specified in the letter of credit - even if higher charges for shipping, insurance, or other factors are incurred and documented.
- Upon receiving a letter of credit, the exporter should carefully compare the letter's terms with the terms of the exporter's pro forma quotation. This step is extremely important, since the terms must be precisely met or the letter of credit may be invalid and the exporter may not be paid. If meeting the terms of the letter of credit is impossible or if any of the information is incorrect or even misspelled, the exporter should contact the customer immediately and ask for an amendment to the letter of credit.
- The exporter must provide documentation showing that the goods were shipped by the date specified in the letter of credit or the exporter may not be paid. Exporters should check with their freight

forwarders to make sure that no unusual conditions may arise that would delay shipment.

- Documents must be presented by the date specified for the letter of credit to be paid. Exporters should verify with their international bankers that there will be sufficient time to present the letter of credit for payment.
- Exporters may request that the letter of credit specify that partial shipments and transshipment will be allowed. Specifying what will be allowed can prevent unforeseen last minute problems.

## **Documentary Drafts**

A draft, sometimes also called a bill of exchange, is analogous to a foreign buyer's check. Like checks used in domestic commerce, drafts carry the risk that they will be dishonored. However, in international commerce, title does not transfer to the buyer until he pays the draft, or at least engages a legal undertaking that the draft will be paid when due.

## **Sight Drafts**

A sight draft is used when the exporter wishes to retain title to the shipment until it reaches its destination and payment is made. Before the shipment can be released to the buyer, the original ocean bill of lading (the document that evidences title) must be properly endorsed by the buyer and surrendered to the carrier. It is important to note that air waybills of lading, on the other hand, do not need to be presented in order for the buyer to claim the goods. Hence, risk increases when a sight draft is being used with an air shipment.

In actual practice, the ocean bill of lading is endorsed by the exporter and sent via the exporter's bank to the buyer's bank. It is accompanied by the sight draft, invoices, and other supporting documents that are specified by either the buyer or the buyer's country (e.g., packing lists, consular invoices, insurance certificates). The foreign bank notifies the buyer when it has received these documents. As soon as the draft is paid, the foreign bank turns over the bill of lading thereby enabling the buyer to obtain the shipment.

There is still some risk when a sight draft is used to control transferring the title of a shipment. The buyer's ability or willingness to pay might

change from the time the goods are shipped until the time the drafts are presented for payment; there is no bank promise to pay standing behind the buyer's obligation. Additionally, the policies of the importing country could also change. If the buyer cannot or will not pay for and claim the goods, returning or disposing of the products becomes the problem of the exporter.

## Time Drafts and Date Drafts

A time draft is used when the exporter extends credit to the buyer. The draft states that payment is due by a specific time after the buyer accepts the time draft and receives the goods (e.g., 30 days after acceptance). By signing and writing "accepted" on the draft, the buyer is formally obligated to pay within the stated time. When this is done the time draft is then called a trade acceptance. It can be kept by the exporter until maturity or sold to a bank at a discount for immediate payment.

A date draft differs slightly from a time draft in that it specifies a date on which payment is due, rather than a time period after the draft is accepted. When either a sight draft or time draft is used, a buyer can delay payment by delaying acceptance of the draft. A date draft can prevent this delay in payment though it still must be accepted.

When a bank accepts a draft, it becomes an obligation of the bank and thus, a negotiable investment known as a banker's acceptance. A banker's acceptance can also be sold to a bank at a discount for immediate payment.

## Open Account

In a foreign transaction, an open account can be a convenient method of payment if the buyer is well established, has a long and favorable payment record, or has been thoroughly checked for creditworthiness. With an open account, the exporter simply bills the customer, who is expected to pay under agreed terms at a future date. Some of the largest firms abroad make purchases only on open account.

However, there are risks to open account sales. The absence of documents and banking channels might make it difficult to pursue the legal enforcement of claims. The exporter might also have to pursue collection abroad, which can be difficult and costly. Another problem is that receivables may be harder to finance, since drafts or other evidence of indebtedness are unavailable. There are several ways to reduce credit risk, through such means as export credit insurance and factoring (see [Chapter 13](#)).

Exporters contemplating a sale on open account terms should thoroughly examine the political, economic, and commercial risks. They should also consult with their bankers if financing will be needed for the transaction before issuing a pro forma invoice to a buyer.

## **Other Payment Mechanisms**

### Consignment sales

International consignment sales follow the same basic procedures as in the United States. The goods are shipped to a foreign distributor who sells them on behalf of the exporter. The exporter retains title to the goods until they are sold, at which point payment is sent to the exporter. The exporter has the greatest risk and least control over the goods with this method. Additionally, receiving payment may take quite a while.

It is wise to consider risk insurance with international consignment sales. The contract should clarify who is responsible for property risk insurance that will cover the merchandise until it is sold and payment is received. In addition, it may be necessary to conduct a credit check on the foreign distributor.

### Countertrade

International countertrade is a trade practice whereby one party accepts goods, services, or other instruments of trade in partial or whole payment for its products. This type of trade fulfills financial, marketing, or public policy objectives of the trading parties. For example, a firm might trade by bartering because it or its trading partner lacks foreign exchange.

Many U.S. exporters consider countertrade a necessary cost of doing business in markets where U.S. exports would otherwise not be sold. One consideration for smaller firms is that this type of trade may cause cash flow problems. Therefore, many smaller exporters do not consider this an option as they wish to do business in U.S. dollars.

There are several types of countertrade, including counterpurchase and barter. Counterpurchase is quite common. In this situation, exporters agree to purchase a quantity of goods from a country in exchange for that country's purchase of the exporter's product. These goods are typically unrelated but have an equivalent value. Another form of this practice is contractually linked, parallel trade transactions that each involve a separate financial settlement. For example, a countertrade contract may provide that the U.S. exporter will be paid in a convertible currency as

long as the U.S. exporter (or another entity designated by the exporter) agrees to purchase a related quantity of goods from the importing country.

Barter arrangements in international commerce are not as common, because the parties' needs for the goods of the other seldom coincide and because valuation of the goods may be problematic. This type of countertrade occurs without money exchanging hands as merchandise is traded directly for other merchandise or services. Barter might occur by swapping (one good for another) or by switching (using a chain of buyers and sellers in different markets to barter).

U.S. exporters can take advantage of countertrade opportunities by trading through an intermediary with countertrade expertise, such as an international broker, an international bank, or an export management company. One drawback to this type of exporting is that there are often higher transaction costs and greater risks than with other kinds of export transactions.

The Department of Commerce can advise and assist U.S. exporters on countertrade requirements. The Financial Services and Countertrade Division of ITA's Office of Finance, monitors countertrade trends, disseminates information (including lists of potentially beneficial countertrade opportunities), and provides general assistance to enterprises seeking barter and countertrade opportunities. For more information, contact the Financial Services and Countertrade Division/Office of Finance, International Trade Administration, U.S. Department of Commerce, Washington, D.C. 20230; telephone 202-482-4471.

## **Foreign Currency**

A buyer and a seller who are in different countries rarely use the same currency. Payment is usually made in either the buyer's or the seller's currency or in a third mutually agreed-upon currency.

One of the risks associated with foreign trade is the uncertainty of the future exchange rates. The relative value between the two currencies could change between the time the deal is concluded and the time payment is received. If the exporter is not properly protected, a devaluation or depreciation of the foreign currency could cause the exporter to lose money. For example, if the buyer has agreed to pay 500,000 French francs for a shipment and the franc is valued at 20 cents, the seller would expect to receive US\$100,000. If the franc later decreased in value to be worth 19 US cents, payment under the new rate

would be only US\$95,000, a loss of US\$5,000 for the seller. On the other hand, if the foreign currency increases in value the exporter would get a windfall in extra profits. Nonetheless, most exporters are not interested in speculating on foreign exchange fluctuations and prefer to avoid risks.

One of the simplest ways for a U.S. exporter to avoid this type of risk is to quote prices and require payment in U.S. dollars. Then the burden of exchanging currencies and risk are placed on the buyer. Exporters should also be aware if there are problems with currency convertibility. Not all currencies are freely or quickly converted into U.S. dollars. Fortunately, the U.S. dollar is widely accepted as an international trading currency, and American firms can often secure payment in dollars.

If the buyer asks to make payment in a foreign currency, the exporter should consult an international banker before negotiating the sales contract. Banks can offer advice on the foreign exchange risks that exist with a particular currency. Some international banks can also help hedge against such a risk, by agreeing to purchase the foreign currency at a fixed price in dollars, regardless of the currency's value at the time the customer pays. Banks will normally charge a fee or discount the transaction for this service. If this mechanism is used, the bank's fee should be included in the price quotation.

## **Payment Problems**

In international trade, problems involving bad debts are more easily avoided than rectified after they occur. Credit checks and the other methods that have been discussed in this chapter can limit the risks. Nonetheless, just as in a company's domestic business, exporters occasionally encounter problems with buyers who default on their payment. When these problems occur in international trade, obtaining payment can be both difficult and expensive. Even when the exporter has insurance to cover commercial credit risks, a default by a buyer still requires the time, effort, and cost of the exporter to collect a payment. The exporter must exercise normal business prudence in exporting and exhaust all reasonable means of obtaining payment before an insurance claim is honored. Even then there is often a significant delay before the insurance payment is made.

The simplest (and least costly) solution to a payment problem is to contact and negotiate with the customer. With patience, understanding, and flexibility, an exporter can often resolve conflicts to the satisfaction of both sides.

This point is especially true when a simple misunderstanding or technical problem is to blame and there is no question of bad faith. Even though the

exporter may be required to compromise on certain points - perhaps even on the price of the committed goods - the company may save a valuable customer and profit in the long run.

However, if negotiations fail and the sum involved is large enough to warrant the effort, a company should obtain the assistance and advice of its bank, legal counsel, and other qualified experts. Since arbitration is often faster and less costly, this step is preferable to legal action if both parties can agree to take their dispute to an arbitration agency. The International Chamber of Commerce handles the majority of international arbitration and is usually acceptable to foreign companies because it is not affiliated with any single country. For information contact the vice president for arbitration, U.S. Council of the International Chamber of Commerce, telephone 212-354-4480.

Figure 12 - [Sample Draft Transmittal Letter](#)

Figure 13 - [Sample Confirmed Irrevocable Letter of Credit](#)

Figure 12

Sample Draft/Transmittal Letter

U.S. \$	<div style="display: flex; justify-content: space-between;"> <span><b>1</b></span> <span><b>2</b> 19__</span> </div>
Pay to the Order of <b>3</b> _____ of this <b>4</b> <i>FIRST</i> of Exchange (Second unpaid)	
United States Dollars	
for Value received and charge the same to account of <b>5</b> _____	
To	<div style="display: flex; justify-content: space-between;"> <span><b>6</b></span> <span><b>8</b></span> </div>
No.	<div style="display: flex; justify-content: space-between;"> <span><b>7</b></span> <span><b>10</b></span> </div>
Date _____	

Gentlemen:

We enclose Draft Number **11** \_\_\_\_\_ and documents listed below

for collection,  
 for \_\_\_\_\_  
 for payment/negotiation under L/C

BILLS OF LADING	B/L COPY	COMM. INV.	INS. CTF.	CTF. ORIG.	CONS. INV.	PKNG. LIST	WGT. CTF.	OTHER DOCUMENTS
Please handle in accordance with instructions marked "X"								
<input type="checkbox"/> Deliver all documents in one mailing.				IN CASE OF NEED refer to: Name _____ <b>20</b> Address _____ who is empowered by us: a <input type="checkbox"/> To act fully on our behalf, i.e., authorize reductions, extensions, free delivery, waiving of protest, etc. b <input type="checkbox"/> To assist in obtaining acceptance or payment of draft, as drawn, but not to alter its terms in any way.				
<input type="checkbox"/> Deliver documents in two mailings.								
<input type="checkbox"/> Deliver documents against payment if sight draft, or acceptance if time draft.				<b>15</b>				
<input type="checkbox"/> All charges for account of drawer.								
<input type="checkbox"/> Do not waive charges.				<b>16</b>				
<input type="checkbox"/> Do not protest.								
<input type="checkbox"/> Protest for <u>non-payment</u> by <u>airmail</u> giving reasons.				<b>17</b>				
<input type="checkbox"/> Do not protest.								
<input type="checkbox"/> Present on arrival of goods.				<b>18</b>				
<input type="checkbox"/> Advise <u>non-payment</u> by <u>airmail</u> giving reasons.								
<input type="checkbox"/> Advise <u>non-acceptance</u> by <u>cable</u> .				<b>19</b>				
<input type="checkbox"/> Advise <u>payment</u> by <u>airmail</u> .								
<input type="checkbox"/> Advise <u>acceptance</u> by <u>cable</u> .				<b>21</b>				
OTHER INSTRUCTIONS:								

Please refer all questions concerning this collection to:

Shipper

Freight Forwarder: **22** \_\_\_\_\_

\_\_\_\_\_ **23**  
 Authorized Signature

1. **U.S. DOLLARS** - Enter the entire amount to be collected; if not in U.S. dollars, specify currency.

2. **DATE** - Enter the date the Draft is issued.

3. **OF THIS FIRST EXCHANGE (SECOND UNPAID)** - Enter the terms of payment (also called the Tenor of the draft): at 45 Days, at Sight, At 30 days B/L, etc. "Second Unpaid" refers to the duplicate copy of the draft (OF THIS SECOND EXCHANGE, FIRST UNPAID); once payment has been made against either copy, the other becomes void.

4. **PAY TO THE ORDER OF** - Enter the name of the party to be paid (Seller, "Payee"); this may be the the Seller of the Seller's bank, and will be the

party to whom the foreign Buyer's bank will remit payment.

**5. UNITED STATES DOLLARS** - Enter the amount from Field 1 in words; if payment is not to be made in U.S. Dollars, block out "United States Dollar" and enter correct currency.

**6. CHARGE TO ACCOUNT OF** - Enter the name and address of the paying party (Buyer, "Drawee"). For Letter of Credit payments, enter the name and address of the Buyer's opening bank as well as the L/C number and issue date.

**7. NUMBER** - Enter an identification, or Draft, number, as assigned by the Seller to reference the transaction.

8. **AUTHORIZED SIGNATURE** - The signature of the authorized individual for the Seller or the seller's agents ("Drawer").
9. **FORWARD DRAFT TO** - Enter the name and address to whom the Draft is being sent. Unless this is a letter of credit being negotiated in the U.S., this should be the name and address of a foreign bank.
10. **FORWARDING DATE** - Enter the date the Draft is being sent to the bank in Field 9.
11. **DRAFT NUMBER** - Enter the Seller's Draft number, as noted in Field 7 above.
12. **PURPOSE OF DRAFT** - Check the applicable box if the draft is part of letter of credit negotiation, a collection, or an acceptance.
13. **LIST OF DOCUMENTS** - Enter the number and type of each original and duplicate document to be included with this Transmittal Letter. Any document attached will eventually be released to the Buyer.
14. **DELIVER ALL DOCUMENTS** - Check either "Deliver all documents in one mailing" or "Deliver documents in two mailings." Generally, documents are delivered in one mailing.
15. **DELIVER DOCUMENTS AGAINST** - Ensure that the type of Draft attached (Block 3) is compatible with the "deliver against" instructions. Sight Drafts should accompany "Deliver against Payment" instructions, while Time Drafts should accompany "Deliver against Acceptance" instructions.
16. **BANK CHARGES** - The correspondent bank will not pay unless all charges are collected. Based on your agreement with the Buyer, indicate which party is responsible for both the remitting and presenting bank's charges. By checking "all charges for Account of Drawee," the Buyer is responsible for these charges; if the Buyer does not pay (or is not to pay) these charges, and id "Do Not Waive Charges" has *not* been checked, the Seller will be billed for expenses incurred.
17. **PROTEST** - Check "Protest" (specify "for nonpayment" or for "non-acceptance," depending on the type of draft attached - see instruction, Field 15) if you wish the correspondent bank to process written, notarized documentation in event that the Buyer refuses to pay or accept the Draft. Additional Bank expenses associated with a protest are usually charged to the Seller.
18. **PRESENT ON ARRIVAL** - Check if you wish the Draft to be presented on the arrival of the goods to the Buyer.
19. **ADVISE** - Check the appropriate blocks, and block-out the non-applicable terms, if you wish to be advised of payment/acceptance or non-payment or non-payment/non-acceptance.
20. **IN CASE OF NEED** - Enter the representative of the Seller in the country to which the Draft and documents are going, if one exists; check the block which describes the representative's authority.
21. **OTHER INSTRUCTIONS** - Enter any instructions to either the remitting or correspondent banks, such as remittance instructions, clarification of protest procedures, multiple-draft instructions, etc.

22. **REFER ALL QUESTIONS** - Enter the name of the contact, and his/her address & telephone number, in the Seller's country; specify if this contact is employed by the Shipper (Seller) or the Seller's agent (Freight Forwarder).

23. **AUTHORIZATION** - Enter the person authorized to sign the Transmittal Letter (see Field 8 above), the date prepared, and the authorized person's signature.

## Figure 13

### Sample Irrevocable Letter of Credit

INTERNATIONAL BANKING GROUP  
**Megabank Corporation**  
P.O. BOX 1000, ATLANTA, GEORGIA 30302-1000  
CABLE ADDRESS: MegaB  
TELEX NO. 1234567  
SWIFT NO. MBBABC 72

ORIGINAL

OUR ADVICE NUMBER: EA00000091  
ADVICE DATE: 08MAR97  
ISSUE BANK REF: 3312/HBI/22341  
EXPIRY DATE: 23JUN97

\*\*\*\*AMOUNT\*\*\*\*  
USD\*\*\*\*25,000.00

BENEFICIARY:  
THE WALTON SUPPLY CO.  
2356 SOUTH N.W. STREET  
ATLANTA, GEORGIA 30345

APPLICANT:  
HHB HONG KONG  
34 INDUSTRIAL DRIVE  
CENTRAL, HONG KONG

WE HAVE BEEN REQUESTED TO ADVISE TO YOU THE FOLLOWING LETTER OF CREDIT AS ISSUED BY:

THIRD HONG KONG BANK  
1 CENTRAL TOWER  
HONG KONG

PLEASE BE GUIDED BY ITS TERMS AND CONDITIONS AND BY THE FOLLOWING:  
CREDIT IS AVAILABLE BY NEGOTIATION OF YOUR DRAFT(S) IN DUPLICATE AT SIGHT FOR 100 PERCENT OF INVOICE VALUE DRAWN ON US ACCOMPANIED BY THE FOLLOWING DOCUMENTS:

1. SIGNED COMMERCIAL INVOICE IN 1 ORIGINAL AND 3 COPIES.
2. FULL SET 3/3 OCEAN BILLS OF LADING CONSIGNED TO THE ORDER OF THIRD HONG KONG BANK, HONG KONG NOTIFY APPLICANT AND MARKED FREIGHT COLLECT.
3. PACKING LIST IN 2 COPIES.

EVIDENCING SHIPMENT OF: 5000 PINE LOGS – WHOLE – 8 TO 12 FEET  
FOB SAVANNAH, GEORGIA

SHIPMENT FROM: SAVANNAH, GEORGIA TO: HONG KONG  
LATEST SHIPPING DATE: 02JUN97

PARTIAL SHIPMENTS NOT ALLOWED TRANSHIPMENT NOT ALLOWED

ALL BANKING CHARGES OUTSIDE HONG KONG ARE FOR BENEFICIARYS ACCOUNT.  
DOCUMENTS MUST BE PRESENTED WITHIN 21 DAYS FROM B/L DATE.

AT THE REQUEST OF OUR CORRESPONDENT, WE CONFIRM THIS CREDIT AND ALSO ENGAGE

**AT THE REQUEST OF OUR CORRESPONDENT, WE CONFIRM THIS CREDIT AND ALSO ENGAGE WITH YOU THAT ALL DRAFTS DRAWN UNDER AND IN COMPLIANCE WITH THE TERMS OF THIS CREDIT WILL BE DULY HONORED BY US.**

**PLEASE EXAMINE THIS INSTRUMENT CAREFULLY. IF YOU ARE UNABLE TO COMPLY WITH THE TERMS OR CONDITIONS, PLEASE COMMUNICATE WITH YOUR BUYER TO ARRANGE FOR AN AMENDMENT.**