

# How do I get paid?

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What are the payment methods?

What currency should I be paid in?

How can an international bank help me?

Is there financing available for small business exporters?

How can I reduce my risk?

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# What are the payment methods?

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As with your domestic sales, there are several ways in which payment may be made that vary the risk to you, the seller. The payment method you choose may depend on how well you are familiar with the customer. For instance, if you know your foreign buyer has good credit, an open account may be satisfactory. Payment methods and risk are associated as shown below:

Low risk			High risk	
Cash in Advance	Commercial Letter of Credit	Documentary Collection - Drafts - Direct Collection Letters	Open Account	Consignment Sales

## Cash in Advance

The buyer sends you the payment before the merchandise is shipped. Although this payment method is advantageous to you, the exporter, realistically, most of your customers will not want to pay before you ship their order.

## Commercial Letter of Credit

This is a document which is a promise that the buyer's bank will pay you or your bank a specified amount of money upon receipt of certain documents. This payment method provides you some protection in that the buyer must have a line of credit or collateral in order to get credit from his/her bank. The buyer's bank is the issuing bank and you or your bank is the beneficiary. Keep in mind that this is a document and the terms on the document must be met EXACTLY for you to receive payment.

This payment method reduces the exporter's risk since he/she is assured of receiving payment from a bank rather than the foreign buyer. It also ensures the buyer that the exporter has complied with the conditions of sale.

Commercial letters of credit can cost between .25%-1.0 % of the amount of payment for the handling charges the bank incurs. Normally, this is charged to the buyer, but you should make this clear before the transaction is initiated.

**Irrevocable** letter of credit cannot be changed without the consent of all parties involved; the foreign

bank must pay the exporter, even if the buyer defaults.

**Revocable** letter of credit is not advisable since it may be altered or revoked without the exporter's permission.

**Confirmed** letter of credit if confirmed by a U.S. bank, the exporter is still paid, even if the foreign bank defaults (you don't have to worry about the foreign bank's credit rating). The cost for confirmation of a letter of credit varies, depending on the country risk.

With an **unconfirmed** letter of credit, a U.S. bank may wait until it receives payment from the foreign bank before paying exporter.

**Bill of Lading date** is the date shipment must be loaded.

**Expiration date** is the date you must get all documents to the negotiating bank.

## Summary of Steps for a Letter of Credit

1. You agree on terms of sale with your buyer.
2. The buyer arranges for his/her bank to open a letter of credit.
3. The issuing bank (importer's bank) prepares the letter of credit and sends it to the U.S. bank for confirmation.
4. You receive and confirm the letter of credit.
5. You contact your freight forwarder to arrange for transportation and send a copy of the letter of credit to the forwarder.
6. The freight forwarder completes necessary documents when the goods are shipped.
7. The freight forwarder presents the documents to a U.S. bank to check compliance.
8. U.S. bank issues you a check for payment (if confirmed letter of credit) and sends documents to the buyer's bank.
9. Buyer gets documents from the issuing bank and claims goods.

## Documentary Collection

Documentary collections are known as drafts or bills of exchange. Basically, they are a contract drawn by the seller on the foreign buyer. The contract is a promise that the buyer will pay the exporter a certain amount of money within a prescribed time limit against stipulated documents (e.g., commercial invoice, certificate of origin, certificate of insurance). Drafts are riskier to the exporter than letters of credit, because the buyer does not put any money up front. It is recommended that the exporter check the credit rating of the buyer before issuing a draft. There are several different types of drafts:

**Sight draft.** These drafts require the buyer to pay his/her bank before receiving the documents to claim the goods (similar to a domestic COD transaction):

1. Exporter ships merchandise, prepares all shipping documents, and draws a draft on the importer.
2. The exporter's bank sends these documents and the draft to the buyer's bank, requesting a release of funds.
3. The buyer's bank releases these documents to the buyer upon payment of the sight draft.

Keep in mind, if buyers change their mind, *you* are responsible for the goods because you have control of the merchandise (title) until payment is received.

**Time draft.** With a time draft, the exporter is really extending credit to the buyer because payment may be made after the goods are received.

1. Exporter prepares all shipping documents and a draft.
2. Exporter's bank sends these documents and the draft to the buyer's bank.
3. The buyer's bank releases these documents to the buyer who now has title to the merchandise.
4. Once the buyer accepts the draft in writing, he must pay within a certain amount of time from the date of acceptance (buyer can delay payment by not accepting the draft right away).

**Date draft.** The same steps as a time draft except buyer must pay by the date specified on the draft (buyer cannot delay payment by not accepting the draft).

**Direct collection letters.** A problem with sight drafts is that by the time it passes from your office, to your bank, to the correspondent bank, to your buyer's bank, to your buyer, five to seven weeks can pass before you are paid. Thus, a relatively new payment instrument is becoming more popular, direct collection letters. With a direct collection letter, you can be paid within 10-15 days from the date the draft leaves your freight forwarder's office. It is called "direct" because your freight forwarder completes the paper work (on forms provided by your bank) and sends it directly (via international courier) to your customer's bank. You do need certain banking information on your customer such as the bank's name, street address, city and telephone.

Direct collection letters have been well received because the customer doesn't have to put any money up front as with a letter of credit. It benefits the exporter because of the fast turnaround time. Direct collection letters can't be used in certain countries. In addition, they are not recommended for a first time shipment to a customer.

## Open Account

You ship the merchandise, send the necessary documents to the buyer and wait for payment. You should check the credit rating of the buyer before agreeing to this payment method. Banks do not become involved in these transactions since the exporter is financing the transaction.

It is recommended that you use one of the following statements for an open account:

*Payment must be made by check drawn in U.S. Dollars and payable at a bank in the United States.*

*Payment is to be made by (mail or telegraphic) transfer to (name and address of your local bank or a bank with an international department) for credit to account (number) quoting the invoice number.*

## Consignment Sales

You ship the merchandise to a foreign distributor who will sell the goods. Once the goods are sold, the distributor will send you the payment (you do retain title to the goods until they are sold). You should check the reputation and credit rating of the foreign distributor before sending any merchandise.

## Some considerations when deciding on payment form

The payment method that is best for your export sale could also depend on which country you are exporting to. If you are exporting to Europe and do some credit check on your buyer first, a direct collection letter is probably your best choice. You should be aware that some importers will be insulted if you suggest that they open a letter of credit.

For shipments to the Far East, letters of credit are the norm. For shipments to Latin America, the Middle East and India, letters of credit are frequently used. Because of the volatile political climate, it is recommended that you obtain a confirmed letter of credit on a U.S. bank for shipments to Africa.

First time exporters should consult the international department of their bank, their local ITA office, freight forwarder, or other exporters to see what payment methods are recommended for their product to a specific country. Remember, it is important to know what is the acceptable form of payment in that country and which payment method makes selling your product most attractive. Also, the time period for payment, which is a critical part of the sale, can vary across different countries and for different products. While in the U.S. the norm for payment is about 30 days, in Europe it is sometimes 90 days. This should also be investigated before deciding on a payment method.

# What currency should I be paid in?

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**M**any U.S. exporters receive payment in U.S. dollars. When quoting prices and requiring payment in U.S. dollars, exporters are placing the burden and risk of foreign currency conversion on the buyer. U.S. exporters willing to accept only U.S. dollars can be at a competitive disadvantage, however. Management of foreign exchange is much easier and less costly than most companies realize. Some U.S. exporters hedge against foreign exchange risk by using tools, such as forward contracts, which “lock in” a specified exchange rate, thereby eliminating foreign exchange risk. Experienced international bankers can offer advice and tools to help manage foreign exchange risk. The Massachusetts Export Center’s *Export Services Guide* has listings of bankers that can help the exporter in this area.

# How can an international bank help me?

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**T**he international department of your bank will be very valuable to you in your export endeavors. If your bank does not have an international department, see if it has a relationship with a larger bank that will assist you with your export-related financial activities. Many of the larger banks with international departments are catering more to smaller businesses. Thus, you may choose to work either directly with the international department of a large commercial bank or indirectly through your own bank.

The services that an international department of a bank offer include:

- **Providing foreign exchange services** — professional traders will provide current information regarding currency transactions and can help hedge against currency exchange risks
- **Helping you finance your export sales**
  - Letters of credit
  - Documentary collections
  - Direct loans and financial guarantees
  - Working capital guarantees
- **Participating in export insurance programs**
  - Private Insurance Companies
  - Overseas Private Investment Corporation
- **Making arrangements with overseas (correspondent) banks** to permit them to accept foreign currency checks for immediate payment to you, giving you improved cash flow and guaranteeing the current rate of exchange
- **Conducting credit investigations of foreign buyers**
- **Offering credit assistance to your foreign buyer**

In addition, check if the bank is oriented to helping small businesses, whether it participates in state programs and has any particular industry sector strengths. If you are looking to work with a bank for the first time, use your networking resources for recommendations/advice. These resources may include freight forwarders, trade associations, chambers of commerce, local business groups and other exporters.

# Is there financing available for small business exporters?

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**Y**ou might want to obtain financing to help expand your export operations or to extend credit to your foreign buyer. There are several programs available for exporters to obtain financing to conduct research and extend credit. Many of the programs described here are designed to work through commercial banks. Usually a bank will apply on the exporter's behalf for an international financing program. While you don't have to know all the details behind these programs, you should be aware that they exist in order to initiate discussions with your bank (your local ITA office has a free pamphlet, "A Guide to Financing Exports," which will also be helpful).

## **U.S. Small Business Administration**

The Small Business Administration (SBA) offers exporters and potential exporters financial assistance and business development assistance. SBA will guarantee up to 90% of a private lending institution's loan for amounts up to \$155,000, and up to 85% for amounts up to the maximum of \$750,000. The specific type of loan program to be used depends upon the purposes for which the funds will be used and the maturity necessary to ensure repayment. For more information on any of the following programs, contact the nearest SBA office.

**Regular Business Loan Program.** Funds from the regular business loan guarantee program can be used for fixed asset acquisition necessary for business start-up or expansion and for general working capital purposes. To be eligible, the firm must meet SBA size standards for the industry in which it is engaged.

**Export Working Capital Loan Program.** The Export Working Capital Loan Program can support single transactions or multiple export sales. The SBA will guarantee up to 85% of a bank loan up to \$750,000. Loan maturities are generally for 12 months with the option to renew twice, for a total of 36 months. Small businesses can use the proceeds to finance labor and materials for manufacturing goods for export, to purchase goods for export or to finance accounts receivable generated from export sales. Proceeds may not be used to acquire fixed assets or to pay existing debt.

**ExportExpress Program.** This guaranty is 85% for loans up to \$150,000 and 75% for loans more than \$150,000 up to a maximum of \$250,000. Lenders use their own loan analyses, procedures, and documentation and applications sent to SBA's processing center in Sacramento, California are usually responded to within 36 hours. This loan program is best used for participation in a foreign trade show,

translation of product brochures or catalogues for use in overseas markets, general lines of credit for export purchases, service contracts from buyers located outside the U.S., transaction-specific financing needs associated with completing actual export orders, and/or purchase of real estate and equipment to be used in production of goods or services which will be exported. Loan maturities are generally 5 to 10 years for working capital, and 10-15 years for machinery and equipment.

**International Trade Loan.** This loan helps small businesses engaged in exporting, preparing to export, or adversely affected by competition from imports. The SBA can guarantee as much as \$1.25 million in combined working-capital and equipment loans. The proceeds may be used for purchasing land and buildings; building new facilities; renovating or expanding existing facilities; purchasing or reconditioning machinery, equipment and fixtures; and making other improvements that will be used within the U.S. for producing goods or services. They may also be used for a permanent working-capital loan or as transaction-specific financing under the provisions of the Export Working Capital Loan. They may not be used for debt refinancing. For more information, visit SBA's website at [www.sba.gov](http://www.sba.gov), email [answerdesk@sba.gov](mailto:answerdesk@sba.gov), or call 1-800-USAASK SBA.

**Ex-Im Bank-SBA Joint Guaranty Program.** This is a program of co-guarantees to small business exporters and export trading companies. These guarantees cover 85% of loans ranging from \$200,000 to \$1,000,000. The proceeds are to finance labor and materials needed for manufacturing or wholesaling for export, and to penetrate or develop foreign markets (e.g., professional export marketing advice or services, foreign business travel, trade show participation, etc.). Request for this financing should come from the exporter's bank.

## Massachusetts State Government

### MassDevelopment

Massachusetts enacted legislation designated MassDevelopment as program administrator for the Massachusetts Export Finance Guarantee Fund. The Fund is targeted to small to medium-sized companies that typically have experienced difficulties obtaining export financing. The state-backed initiative provides loan guarantees and mortgage insurance to private lenders that make loans to qualified exporters. Eligible borrowers are companies that currently sell or are planning to sell any good, commodity or service to customers located outside the U.S. The buyer must be located in a country that is approved by Ex-Im Bank. Proceeds of the guaranteed loan may be used to purchase finished products, materials, services and labor to produce goods or services for current or future export sales.

MassDevelopment is also the designated Massachusetts agent for Ex-Im Bank's Working Capital Guarantee Program. The purpose of this program is to encourage banks and other lenders to make working capital loans to small and medium-sized businesses by guaranteeing repayment of the loan. Guaranteed financing may be used to purchase finished products, or materials or labor to produce goods

or services for export; to cover standby letters of credit, and bid or performance bonds; or fund certain marketing activities.

For more information on either program, contact:

MassDevelopment

75 Federal Street, 10th Floor • Boston, MA 02110 • Tel: (617) 451-2477

## **Export-Import Bank of the United States**

The Export-Import Bank of the United States ([www.exim.gov](http://www.exim.gov)) is a small, independent federal agency which promotes the overseas sales of U.S. goods and services through loans, guarantees and export credit insurance. It does not compete with commercial lenders, but assumes risks they will not accept.

For further information contact:

Export-Import Bank of the U.S.

Northeast Regional Office

20 Exchange Place, 40/F • New York, NY 10005 • Tel: (212) 809-2650

**Working Capital Guarantee Program.** Ex-Im Bank's Working Capital Guarantee Program encourages lenders to make short-term loans to U.S. businesses for various pre-export related activities. The program facilitates the expansion of U.S. exports that otherwise would not occur. It helps small and medium-sized businesses that have exporting potential, but need working capital funds to produce or market goods or services for export. Ex-Im Bank will consider applications from exporters directly or from lenders where the lender certifies that the loan would not be made without Ex-Im Bank's guarantee and Ex-Im Bank determines that the exporter is creditworthy and has an ability to perform. Ex-Im Bank covers 90% of principal and interest for all transactions effective October 1, 1994. The exporter may use the guaranteed financing to purchase finished products, or materials or labor to produce goods or services for export; to cover standby letters of credit, and bid or performance bonds; or fund certain marketing activities when sufficient collateral and cash flow exist.

**Direct Loan Program.** Ex-Im Bank offers fixed-rate loans directly to foreign buyers of U.S. goods and services to help U.S. exporters compete against foreign suppliers offering officially supported subsidized financing and to fill in gaps in the availability of private export financing.

Ex-Im Bank will consider extending to a company's foreign customer a fixed-rate loan covering up to 85% of the U.S. export value. The buyer must make a cash payment to the U.S. exporter of at least 15% of the U.S. export value. At the preliminary stage, Ex-Im Bank frequently offers the option of guarantee support or a direct loan. Capital equipment, large-scale projects and related services—generally over \$10 million—are eligible for direct loan financing.

**Export Credit Insurance Program.** This program helps U.S. exporters develop and expand their overseas sales by protecting them against loss should a foreign buyer or other foreign debtor default for political or commercial reasons. With an Ex-Im Bank policy, exporters can also obtain export financing more easily because with prior approval, the proceeds of the policy can be assigned to a financial institution as collateral.

To encourage the export of U.S. goods and services, Ex-Im Bank tailors its policies to the insurance needs of exporters and financial institutions. For example, insurance policies may apply to shipments to one buyer or to many buyers, insure comprehensive credit risks or only specific political risks, or cover short-term as well as medium-term sales. Eligibility criteria differ for each type of policy.

**Export Credit Insurance Policies.** For information on specific Ex-Im Bank export credit insurance policies, refer to the next section, “How can I reduce my risk?”.

## **U.S. Department of Agriculture**

There are also special loans to assist exporters of agricultural products. These loans are issued through the Department of Agriculture’s Commodity Credit Corporation. For further information contact:

Foreign Agricultural Service  
U.S. Department of Agriculture  
South Building, Room 4071  
14th & Independence Avenue, SW • Washington, DC 20250  
Tel: (202) 720-5173  
[www.fas.usda.gov/excredits/exp-cred-guar.html](http://www.fas.usda.gov/excredits/exp-cred-guar.html)

The **Export Credit Guarantee Program and the Intermediate Export Credit Guarantee Program** underwrite credit extended by the private banking sector for up to three and ten years, respectively, on exports of food and agricultural products.

The **Supplier Credit Guarantee Program** is also administered by the USDA and provides short-term guarantees (up to 180 days) on a portion of credit exporters have directly extended to the importers for the purchase of U.S. agricultural commodities and products.

# How can I reduce my risk?

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This section will discuss two types of risks: commercial risks (nonpayment by your buyer) and currency exchange risks.

## Commercial Risks

### SOURCES TO CHECK THE CREDIT RATING OF YOUR FOREIGN BUYER

- ITA Boston Office
- The Massachusetts Export Center's Export Services Guide also has a listing of Foreign credit reporting agencies that may be of help to you.
- Ask your customer for a financial recommendation from his/her bank. Also, ask the customer if they are doing business in the U.S. now and with whom (you can contact U.S. firms who are currently exporting to this foreign company). Not all companies will provide this information, but the insights that you do receive could be very helpful.
- For foreign credit reports, write or call:  
*Dun & Bradstreet Information Services*  
1 Diamond Hill Road • Murray Hill, NJ 07974 • Tel: (201) 665-5750; or  
Liberty Street Building A, 31st Floor • New York, NY 10281 • Tel: (212) 978-3107

### PARTICIPATE IN AN EXPORT CREDIT INSURANCE PROGRAM

**Export Credit Insurance Programs.** There are several programs to provide exporters with *political* (e.g., nonpayment due to war, revolution, cancellation of import or export licenses and currency inconvertibility) and *commercial* (insolvency of the issuing bank and failure to reimburse or pay for other reasons) insurance when they have to extend credit to a foreign buyer. These programs are administered by Ex-Im Bank (see previous section on obtaining financing).

**Policies for small business exporters** afford enhanced protection for short-term sales of smaller U.S. companies. Applicants must meet export sales volume criteria and must meet the U.S. Small Business Administration's guidelines for definition of a small business. This includes the Small Business Policy and the Umbrella Policy.

**Multi-buyer policies** provide regular coverage for short-term export sales to many different buyers. This includes the Short Term Multi-Buyer Policy.

**Single-buyer policies** insure short, medium or combined short and medium term sales to one buyer. These include Short and Medium-Term Single-Buyer Policies.

**Financial Institution Buyer Credit Policy** protects financial institutions against losses on short-term direct credit loans or reimbursement loans to foreign entities for importing U.S. goods and services.

**Bank Letter of Credit Policy** protects banks against losses on irrevocable letters of credit issued by foreign banks in support of U.S. exports.

For more information on these insurance policies, call the automated Ex-Im Bank Small Business Automated Advisory Line at (800) 565-3946 or the Northeast Regional Office at (212) 466-2950.

#### **FACTOR YOUR FOREIGN RECEIVABLES**

Certain companies (“factoring houses” or “factors”) and banks will purchase your export receivables at a slight discount (2% - 4% less than face value) and assume responsibility for receiving payment from your foreign buyer. These factors act as your credit department and the importer pays the factor, not the exporter. Arrangements may be made either “with recourse” (exporter liable for repaying factor if foreign buyer defaults) or “without recourse” (exporter is free from all responsibilities).

Factoring your export sales allows you to receive immediate payment, thus avoiding the time and expense associated with foreign receivables. For more information on factoring contact the international department of a commercial bank.

#### **Currency Exchange Risks**

If you are paid in a foreign currency, you should be aware that this currency may devalue or depreciate in terms of U.S. dollars before you convert it. You should consult with the international department of your commercial bank. Banks can provide you with up-to-date information and advice regarding currency exchange rates. In addition, most banks will help you “hedge” against this risk by agreeing to purchase the foreign currency at a fixed price in U.S. dollars.

