Increase your overseas sales! Dealing with Discrepancies! Get Paid Quicker! we have all been through these seminars, and often walked away confused and bewildered. Exporters who are simply looking for ways to ship a product and get paid for it get barraged with a myriad of trade terms that each require their own seminar.
Having been on both sides of the podium, I am constantly looking for ways to provide exporters with tangible methods of improving the collection of their foreign receivables. After watching a popular Saturday morning Home Improvement television program, I observed similarities between a homeowner and an exporter. During a typical renovation, the program host walks the homeowner through the project and explains how to approach the various aspects of the remodeling. A term that the program host uses frequently is, *"Sweat Equity"*. This term refers to how much effort needs to be put forth by the homeowner to save time and money. A successful remodeling project is always accomplished through the partnership of the homeowner and the program host that coordinates the project.

Get Your Bank Involved Early!

Because of the complexity inherent in international trade, it is a good idea for the exporter to also get their bank involved at the very beginning of the transaction. This *"partnership"* between the exporter and the bank is essential since the bank will be collecting the foreign receivable. A certain amount of *"sweat equity"* on the exporters part is needed to research and understand the risks associated with each transaction. Trust and Risk are the two words that drive a good international sales plan. There is no magic formula. Knowing who and where you are selling to is the determent to how much risk is involved in the transaction, and the level of trust you have with your customer. Another key element (that is often overlooked) of an international sales plan is payment terms. Payment terms are negotiable and asking for a letter of credit may not always be the best approach. Asking for a letter of credit from a foreign entity that traditionally sells on open terms may cause an exporter to lose the sale. Many exporters feel that it is in their best interest to ask for a confirmed irrevocable letter of credit. That's fine if the terms and conditions of the letter of credit are also spelled out in the sales contract and all parties involved in the transaction know exactly which documents are needed to facilitate payment.

Find an Ally

Virtually all commercial banks have an international trade salesperson whose mission in life is to unravel complicated international transactions. This same individual may also assist relationship/ account managers in assessing the risks inherent in a particular trade transaction. By seeking out and working directly with your bank's international trade salesperson, you not only have tapped into the expertise needed for your transaction, but you also now have an ally who has taken the time to understand your business. This individual often has the resources available to effectively put in place an international sales plan that will serve as a blueprint for all your global business. Understanding the two major risks that foreign trade usually presents, can ease your international

anxiety. Country Risk is the risk associated with doing business in the buyer's country. This risk covers the country financial condition, stability of currency, social and political climate, and availability of foreign. Commercial risk is associated with the buyer and/or his bank.
Since the purchase is in another country, the exporter has less than reliable information regarding the financial integrity of the buyer. Risk and trust are two key elements in international trade and should be assessed with each new client.

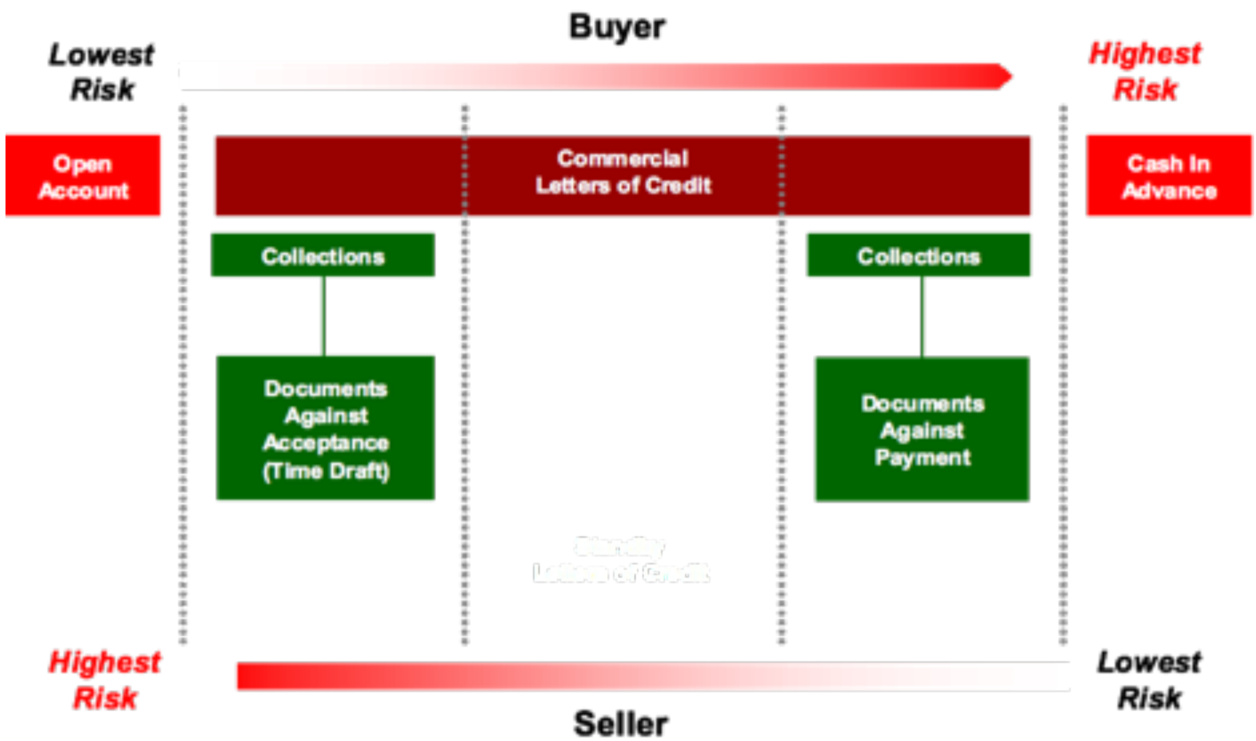
Methods Of Payment

An exporter may think that asking for a Confirmed Irrevocable letter of credit protects them against non-payment. However, a discrepancy on a any type of letter of credit may render the instrument useless. Having a confirmed letter of credit does not mean that you are immune from discrepancies. When a letter of credit contains a discrepancy that cannot be readily corrected by either the negotiating bank or the exporter, the documents are forwarded to the importers bank on a *"collection basis"*. The documents are held by the importers bank until they are either accepted or rejected by the importer. Sending documents out on a *"collection basis"* is a low-cost alternative way for an exporter to collect their foreign receivables. Commonly referred to as a *"Documentary Collection"*, this method of payment does not include an underlying commitment by a bank. A majority of letter of credit transactions are treated as *"Documentary Collections"*. An exporter may consider this method of payment if they have a good relationship with their foreign customer, or if they are competing with other exporters who require letters of credit.
Receiving payment in advance is obviously the best method of collection for an exporter. If an exporter feels that it is not in a competitive situation, this is the best way to go. However, many exporters may be at a competitive disadvantage by requesting "Cash in Advance" if their competition is offering terms.

Offering Cash in Advance terms in a currency other than US dollars is another alternative. Exporters may wish to quote prices in both US dollars and the buyers currency. By working with a financial institution that has a treasury department, the exporter can quote in the foreign currency and enter a "Forward Contract" with its bank. This "Forward Contract" protects the exporter from any fluctuation in the exchange rate. This method can also give a small exporter an edge over less sophisticated companies that limit their receivables to US Dollars.

The Sales Plan and Methods of Payment

Most companies international sales plan consists of asking for a confirmed letter of credit. Without specific terms, a letter of credit can be a nightmarish experience since the buyer's bank will typically structure the instrument to benefit their client (the importer) since you have neglected to ask for specific terms. Understanding basic payment terms is your first step in putting together an effective sale plan. The grid below illustrates the advantages and disadvantages for both the buyer (importer) and the seller (exporter).



Cash in Advance is by far the most desirable method of payment for the exporter. However, the advance payment situation for the buyer creates cash flow problems and increases the buyer's risk. Your competitors may be offering more relaxed terms of payment thus shutting you out of the deal. This method may be more effective if the exporter is willing to accept payment in the buyer's currency. The exporter may hedge their foreign exchange exposure through a forward contract.

Open Account requires a great deal of trust on behalf of the exporter. Failure of payment may mean the exporter has to pursue payment abroad, and the lack of documents and participation by banks makes legal enforcement of claims difficult. In a very competitive market, this may be the only method for an exporter to secure the deal.

Documents against payment/ acceptance utilized the strength and influence of the bank's acting on behalf of its respective clients. Although a good low-cost alternative to letters of credit, this method of payment assumes no obligation on behalf of the banks involved. Most letter of credit

transactions fall into this category once discrepancies cannot be corrected or resolved prior to collection.
The exporter may opt for payment later once the documents are accepted by the buyer. The buyer's bank accepts these documents for a payment obligation later.

Letters of Credit carry the obligation of the exporter's bank if, and when, documents are found to be in order. Letters of Credit may be “advised “to the exporter without any obligation on behalf of the exporters bank. The exporter's bank will review the letter of credit and ensure that the instrument received is authentic. If the exporter presents documents in accordance with letter of credit terms, the advising bank will affect payment. However, if discrepancies are found the exporter's bank will send the documents out to the buyer's bank for collection. When the exporter's bank adds their “confirmation” to the letter of credit, payment is affected immediately when documents are found to be in order. This protects the exporter from foreign payment risk. If documents are presented with discrepancies under a confirmed letter of credit, the exporter's bank is under no obligation to honor the documents.

The most effective way to utilize a letter of credit, is to negotiate the terms and conditions with the buyer prior to issuance. Requesting that a “sample” letter of credit be sent to your bank for examination will reduce the need for amendments. The terms should be simple enough for the exporter to obtain the necessary documents for collection of payment.

Other points such as shipping terms, expiration/shipping dates, exact merchandise description and any other special terms and conditions that are required to facilitate the payment and shipment should be included in your sales plan. By involving your bank, a local freight forwarder and your local trade organization, you have assembled a team that will have you well on your way to global success.

It is in the exporter's best interest to understand the various methods of collection and their applicability. More importantly, the exporter should view these methods of payments as opportunities to negotiate a mutually beneficial deal with the importer and to cultivate long-term international business relationships. Another advantage and useful tool for an exporter, is the Export Import Bank of The United States.

The Ex-Im Advantage

Trade finance can accurately be described as the “final frontier” of international business. Virtually all financial institutions can process trade transactions, however, providing an exporter with working capital for a foreign transaction, can be somewhat more challenging. The challenge is more of a perception issue than reality. Extending credit to foreign entities is rightfully a frightening exercise for any bank to undertake. Typical of any type of loan, a bank agrees to extend credit to its customer with specific terms and conditions of repayment. The loan is granted upon an approval process that reasonably assures the bank of repayment. If additional collateral is required, the bank may ask for a guarantee or consignor. This same principal can be applied to loans that support export trade finance.

History and Purpose

The Export - Import Bank of the United States (Ex-Im Bank) acts as an intermediary -- a guarantor or consignor- to enhance the bank's lending position. Ex-Im Bank is not a grant agency. It is a government held corporation, managed by a Board of Directors, consisting of a Chair, Vice Chair and three additional Board Members. Members serve for staggered terms and are chosen and serve at the discretion of the President of the United States. The structure and loan approval process are like that of your local commercial bank with the exception of including a larger percentage of foreign risk in the borrowing base. Before Ex-Im Bank approves a deal, it must have a reasonable assurance of repayment. What Ex-Im Bank does, is to provide guarantees of working capital loans for U.S. exporters, guarantees the repayment of loans or makes loans to foreign purchases of U.S. goods and services and provides credit insurance against non-payment by foreign buyers for political or commercial risk. The Bank was created in 1934 to aid in financing and to facilitate U.S. exports. As now, as in the early 30's, exports are the stimulus to economic growth and employment. For most U.S. companies, exports are the key to continued growth and profitability. The ability to compete and succeed in a global marketplace often depend upon the exporter and their bank's willingness to provide creative financing in an expeditious manner.

How Can Ex-Im Help?

U.S. Exporters are often at a disadvantage when foreign competitors are subsidized by their local governments. U.S. Exporters may also be requested to provide foreign buyers with financing when private financing is unavailable. Ex-Im Bank can help in both cases if the product/service is a least 50 percent US content. Ex-Im Bank's two primary goals are to increase the export of goods and services among developing nations, and to expand the number of U.S. small business using Ex-Im Programs.

Programs

Working Capital Guarantees cover 90 percent of the principal and interest on commercial loans to creditworthy small and medium -- sized companies that need funds to buy or produce US goods or services for export. Exporters may apply for a Preliminary Commitment that is a letter from Ex-Im Bank outlining the terms and conditions under which it will provide a guarantee. This guarantee can be used to obtain the best financing terms from a private lender. The lender also may apply directly for a final authorization. Guarantees may be for a single transaction or a revolving line of credit. Guarantees may be for a single transaction or a revolving line of credit. Guaranteed loans generally have maturities of twelve months and are renewable. Certain Lenders, experienced in the program (and have attended the required in -- house Ex-Im Bank training) have been given delegated authority which enables them to commit Ex-Im Bank's guarantee. Working with a lender that has been granted delegated authority, under the Priority Lending Program (PLP) improves processing time and ensures that the lender is an experienced user of the programs. Under the PLP, lenders who have made at least two transaction's operatives under The Working Capital Guarantee Program may submit a complete write -- up of the exporter and transaction and be given a 10 -- day turnaround on their application. Since most of the work has already been done, Ex-Im can make its decision sooner.

Guarantees of commercial loans to foreign buyers of U.S. goods or services cover 100 percent of principal and interest against both political and commercial risks of nonpayment. Medium - term guarantees cover the sale of capital items such as trucks and construction equipment, scientific apparatus, food processing machinery, medical equipment, or project - related services -- including architectural, industrial design and engineering services. Long term guarantees are also available for major projects, large capital goods and/or project related services. Credit guarantee facilities also can be used to extend medium -- term credit to buyers of U.S. capital goods and services through banks in certain foreign markets.

Export Credit Insurance policies protect against both the political and commercial risks of a foreign buyer defaulting on payment. Policies may be obtained for single or repetitive export sales and for leases. Short --term policies generally cover 100 percent of the principal for political risks and 90 - 95 percent for commercial risks, as well as a specified amount of interest. They are used to support the sale of consumer goods, raw materials, and spare parts on terms of up to 180 days, and bulk agricultural commodities, consumer durables and capital goods on terms of up to 360 days.

Capital goods may be insured for up to five years, depending upon the contract value, under the medium - term policy which covers 100 percent of principal and interest on the financed portion.

Insurance policies may also be assigned to lenders which allow exporters to finance their foreign receivable

Ex-Im Bank along with private insurance agents and brokers offer exports insurance programs.

Direct Loans provide foreign buyers with competitive, fixed -- rate financing for their purchases from the United States.

Ex-Im Bank’s loans, guarantees and medium -- term insurance covers 85 percent of the contract price (100 percent of the financed portion). The foreign buyer is required to make a 15 percent cash payment. The fees' charges by Ex-Im Bank for its programs are based on the risk assessment of the foreign buyer or guarantor, the buyer’s country, and the term of the credit.

Ex-Im Bank prefers to work with exporters and their bank, rather than directly with exporter.

The Result

Ex-Im programs are constantly changing, and new programs are added to accommodate our growing export market. Ex-Im Bank and The Small Business Administration offers programs like those described for the small and start - up exporter. Visit the Ex-Im Bank web page at; WWW.Exim.gov. This website offers links to other export related sites and resources.

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