IMPORTERS HANDBOOK

PAYMENT OPTIONS
LETTERS OF CREDIT
DOCUMENTARY COLLECTIONS
IMPORT FINANCING
BANKERS ACCEPTANCES
INCOTERMS
Bank of the West

Importers Handbook

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See the additional “Terms and Conditions”
https://www.bankofthewest.com/privacy-security/terms-conditions.html

Member FDIC Loans and other products are subject to credit approval. Equal Housing Lender

June 2010
Bank of the West

GLOBAL TRADE SERVICES

Bank of the West serves middle-market companies in the western United States, bringing the international resources of its parent, BNP Paribas, to its customers. BNP Paribas is one of the largest banks in the world and has an extensive overseas network of more than 90 Trade Centers around the world. At Bank of the West, Senior Trade Managers offer advice on a wide range of trade finance products to assist our customers’ importing and exporting activities.

IMPORT SERVICES

- Bank of the West Trade for Import L/Cs and documentary collections, a web-based product which allows customers to issue and track letters of credit and monitor incoming documentary collections directly from their files in Global Trade Operations.
- Advice on the terms and conditions of import letters of credit and the rules governing those letters of credit, the UCP 600.
- Advice on structuring a line of credit for import letters of credit and related financing.
- Advice on import documentary collections as an alternative to letters of credit.
- Advice on banker’s acceptances arising out of usance letters of credit.
- Using banker’s acceptances to finance payments under sight letters of credit.

EXPORT SERVICES

- Structuring export letters of credit to enhance timeliness of payment, while tracking presentations, payments, and amendments on Bank of the West Trade.
- Advice on export documentary collections as an alternative to export letters of credit.
- Advice on using the export usance letter of credit to extend terms to overseas buyers.
- Advice on the usefulness of a confirmation of an export letter of credit.
- Bank of the West Trade - DCL (Export Direct Collection Letter), a web-based product which allows customers to process their export collections directly to the buyer’s bank, speeding receipt of funds.
- BOW Trade – Export L/C, a web based product which allows customers to track incoming letters of credits, amendments, the status of submitted documents, and payments received.

EXPORT FINANCING

- Pre-export financing to provide working capital for exporters under 90% guarantee from Eximbank.
- Lending against eligible foreign receivables which are covered by foreign credit insurance.
- Providing medium-term financing to overseas buyers with their local bank guarantee for U.S. exports under 100% Eximbank guarantee.
- Providing medium-term financing to overseas buyers under qualified foreign credit insurance.
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STANDBY LETTER OF CREDIT

- Advice on the wording for standby letters of credit issued for our customers covering: unpaid invoices; leases; backing of credit facilities to related parties; bid and performance bonds on overseas contracts.

- Advice on the wording for standby letters of credit received in favor of our customers or in the bank’s favor to provide security for the bank extending a credit facility.

If you need general advice about letters of credit/collections or import/export finance, we encourage you to contact a Senior Trade Manager by calling toll free 1(888) 600-TRADE.

Our address and communication references for international transactions are:

BANK OF THE WEST
Global Trade Services
1977 Saturn St. (SC-MPK-02-G)
Monterey Park, CA  91755
SWIFT: BWSTUS66 LAX
### Import Payment Terms

<table>
<thead>
<tr>
<th>Relationship</th>
<th>Cash in Advance</th>
<th>Letter of Credit</th>
<th>Documentary Collection</th>
<th>Open Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>NEW</td>
<td>NEW</td>
<td>WELL ESTABLISHED</td>
<td>WELL ESTABLISHED</td>
<td></td>
</tr>
<tr>
<td>Type of goods</td>
<td>CUSTOM-MADE</td>
<td>CUSTOM-MADE</td>
<td>STOCK ITEMS</td>
<td>STOCK ITEMS</td>
</tr>
<tr>
<td>Credit Info/rating</td>
<td>UNKNOWN</td>
<td>MINIMAL</td>
<td>WELL KNOWN</td>
<td>STRONG</td>
</tr>
<tr>
<td>Timing payment &amp; goods receipt</td>
<td>NO</td>
<td>POSSIBLE</td>
<td>YES</td>
<td>YES</td>
</tr>
</tbody>
</table>

The payment term granted to the importer depends on the above and the amount of the sale. The ultimate goal is importing on open account.
## COMPARING PAYMENT TERMS

<table>
<thead>
<tr>
<th>METHOD OF PAYMENT</th>
<th>TIMING OF PAYMENT</th>
<th>GOODS AVAILABILITY</th>
<th>SELLER’S RISK</th>
<th>BUYER’S RISK</th>
</tr>
</thead>
<tbody>
<tr>
<td>CASH IN ADVANCE</td>
<td>Before shipment</td>
<td>At destination arrival</td>
<td>None</td>
<td>100% reliance on seller</td>
</tr>
<tr>
<td>SIGHT L/C</td>
<td>Presentation of documents after shipment</td>
<td>When L/C is paid</td>
<td>Minimal, Issuing/confirming bank obligation to pay if documents conform to L/C</td>
<td>Assurance of shipment, but depends on seller to supply goods ordered</td>
</tr>
<tr>
<td>USANCE (TIME) L/C</td>
<td>Maturity of B/A or at discount of the draft</td>
<td>At acceptance of draft drawn under the L/C</td>
<td>Minimal, bank obligation to pay if documents conform to L/C terms</td>
<td>Regardless of product quality, payment due at B/A maturity</td>
</tr>
<tr>
<td>D/P COLLECTION*</td>
<td>When documents received at the presenting bank</td>
<td>When payment made</td>
<td>Non-payment of draft</td>
<td>Assurance of shipment, but depends on seller to supply goods ordered</td>
</tr>
<tr>
<td>D/A COLLECTION**</td>
<td>When accepted Trade Draft matures</td>
<td>At time Trade Draft is accepted</td>
<td>Non-payment of draft, even though buyer has the merchandise</td>
<td>Minimal, may refuse to pay draft at maturity</td>
</tr>
<tr>
<td>OPEN ACCOUNT</td>
<td>Buyer's discretion</td>
<td>Upon arrival</td>
<td>100% reliance on buyer</td>
<td>Zero</td>
</tr>
</tbody>
</table>

* Also known as: Documents Against Payment, Cash Against Documents (CAD), and Sight Draft  
** Also known as: Documents Against Acceptance, Time Draft and Trade Acceptance.

Note: With Letters of Credit banks deal only with the documents not with the merchandise.

Resources for foreign credit checking may be found at: [http://www.creditworthy.com/providers/agency.asp](http://www.creditworthy.com/providers/agency.asp)
CONTROLLING TRANSPORTATION COSTS

Whatever the mode of transport, importers need to be very familiar with INCOTERMS, the terms of sale used in international trade. These terms are not the same as those used in domestic U.S. trade. For a more detailed explanation, see the INCOTERMS section in this manual.

Whenever possible, importers should consider avoiding acceptance of only a CFR or CIF price quote. Under both, the seller arranges the freight (also the insurance if CIF) and the buyer ultimately pays for it as part of the total purchase price.

By having the seller give an additional quote of either EXW, FCA, or FOB along with including the weight and dimensions in the pro forma invoice, the buyer is able to isolate freight costs.

Comparing the seller/exporter’s quoted freight rate with inbound rates obtained from local forwarders/brokers allows the importer to decide how to arrange transportation at the most advantageous rate. Rates are not always the same. The seller may have marked up the CIF price to inflate profits, or not bothered to shop for the best rates, or not contacted the carrier normally used by the importer.

Importers who get their own freight quotes on this end have the choice of arranging transportation on an EXW, FCA or FOB basis if it will save them money.

If the import purchase is via a letter of credit and the buyer decides on EXW, FCA, or FOB, then the letter of credit should specifically nominate the carrier. (“Full set original clean on board ocean bills of lading issued by ABC Steamship Lines....”).

The importer can easily arrange insurance through their customs broker.

It is strongly recommended that every import be insured.
WHAT IS AN IMPORT DOCUMENTARY COLLECTION?

This payment mechanism is the collection by a bank of funds due from a buyer against the delivery of documents. The seller (exporter) through their bank presents shipping documents to the buyer’s bank for delivery to the buyer in exchange for payment of the amount owed, or acceptance of a time draft for payment at a future date. Bank liability under a documentary collection is restricted to the bank’s following the seller's instructions in forwarding and releasing documents against payment or acceptance.

HOW IS A DOCUMENTARY COLLECTION DIFFERENT FROM A LETTER OF CREDIT OR OPEN ACCOUNT?

Unlike a letter of credit the bank does not assume any liability to pay if the buyer does not want or is unable to pay. Compared to open account sales, the documentary collection has less risk to the seller, but more risk than a letter of credit.

WHEN SHOULD A DOCUMENTARY COLLECTION BE USED?

Numerous criteria are applied by sellers when determining which payment instrument to offer as a term of sale. However, in general, a documentary collection would usually be appropriate when:

- The seller and the buyer know each other to be reliable
- There is no doubt about the buyer's willingness or ability to pay
- The political and economic conditions of the buyer's country are stable
- The importer's country does not have restrictive foreign exchange controls

WHAT ARE THE ADVANTAGES OF A DOCUMENTARY COLLECTION?

- Simple and inexpensive handling compared to letters of credit
- Often faster receipt of payment than open account terms
- Buyer does not need a line of credit from his bank
- Seller retains title to the goods until payment or acceptance is made

ARE THERE ANY DISADVANTAGES?

If the buyer refuses or is unable to pay, the seller has three options which could be expensive:

- Find another buyer
- Pay for return transportation
- Abandon the merchandise

WHO ARE THE PARTIES INVOLVED?

- **PRINCIPAL** - exporter, seller, remitter, drawer of the draft
- **REMITTING BANK** - Exporter's bank handling the collection
- **PRESENTING OR COLLECTING BANK** - usually the buyer's bank
- **DRAWEE** - importer, buyer, payee
WHAT TYPES OF DOCUMENTARY COLLECTIONS ARE THERE?

- **Documents against Payment (D/P)** also known as "Sight Draft" or "Cash Against Documents (C.A.D.). The buyer must pay before the collecting bank releases the title documents.

- **Documents against Acceptance (D/A)**. The buyer accepts a time draft (IOU), promising to pay for the goods at a future date. After acceptance the title documents are released to the buyer.

WHAT IF SHIPMENT IS BY AIRFREIGHT?

An Air Waybill (AWB) is a straight consignment; it is not negotiable. The buyer does not need the AWB to pick up the goods. In other words, he can obtain the merchandise without paying for it. To avoid this possibility, the seller may consign the AWB to the buyer's bank. This prevents release of the merchandise until such time as the buyer's bank issues an Air Release to the carrier. Any bank's willingness to issue an Air Release depends on their experience with the buyer and the buyer's creditworthiness. In some instances the bank will only issue the Air Release after receipt of original documents from the seller's bank.

WHAT ARE THE STEPS IN A DOCUMENTARY COLLECTION?

1. The buyer (importer) and seller (exporter) agree on the terms of sale, shipping dates, etc., and that payment will be made on a documentary collection basis.

2. The exporter, through a freight forwarder, arranges for the delivery of goods to the port/airport of departure.

3. The forwarder delivers the goods to the point of departure and prepares the necessary documentation based on instructions received from the exporter.

4. Export documents and instructions are delivered to the exporter's bank by either the exporter or the freight forwarder.

5. Following the instructions of the exporter, the bank processes the documents and forwards them to the buyer's bank.

6. The buyer's bank, on receipt of documents, contacts the buyer and requests payment or acceptance of the trade draft.

7. After payment or acceptance of the draft, documents are released to the buyer, who utilizes them to pick up the merchandise.

8. The buyer's bank remits funds to the seller's bank or advises that the draft has been accepted and indicates the maturity date when payment will be requested from the buyer.

9. On receipt of good funds, seller's bank credits the account of the exporter less charges.
WHAT IS THE URC 522?

URC 522 stands for *The Uniform Rules for Collections, 1995 Revision*, International Chamber of Commerce Publication No. 522, the rules that banks apply to the handling of collections.

Any company importing or exporting on a documentary collection basis should be familiar with the URC 522, as it has a direct impact on how the collection is handled and what procedures the banks follow.

The URC 522 may be ordered from ICC Business Bookstore USA, 1212 Avenue of the Americas, New York, NY 10036 (212) 703-5066 – [www.iccbooksusa.com](http://www.iccbooksusa.com).
# Documentary Collection versus Letter of Credit

<table>
<thead>
<tr>
<th>Differences</th>
<th>Collection</th>
<th>Commercial L/C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Line of Credit</td>
<td>Not Needed</td>
<td>Required</td>
</tr>
<tr>
<td>Obligation to Pay</td>
<td>Buyer Only</td>
<td>Issuing /Confirming Bank</td>
</tr>
<tr>
<td>Risk to Seller</td>
<td>Usually More</td>
<td>Usually Less</td>
</tr>
<tr>
<td>Documentation</td>
<td>Not Checked, Only Counted</td>
<td>Complex, Checked for Discrepancies</td>
</tr>
<tr>
<td>Role of Banks</td>
<td>Passive – Acts as Agent Only</td>
<td>Active - Bank Substitutes Its Credit for That of Buyer</td>
</tr>
<tr>
<td>Receipt of Merchandise</td>
<td>At Time of Payment or Acceptance</td>
<td>At Time of Payment or Acceptance</td>
</tr>
<tr>
<td>Cost</td>
<td>Less Expensive</td>
<td>More Expensive</td>
</tr>
</tbody>
</table>
Bank of the West

COMMERCIAL LETTERS OF CREDIT

Importers need a dependable payment method, which helps to reduce risk. Bank of the West advises, confirms and issues commercial letters of credit, including sight, usance and deferred payment L/Cs.

Bank of the West provides a comprehensive range of Trade Services that offer sound business solutions for modern global commerce.

We are uniquely positioned to help you take advantage of new business opportunities wherever they arise in the world. Among our strengths is access to the global branch system of our parent, BNP Paribas with over 90 Trade Centers around the world, and our extensive correspondence network.

Our seasoned Senior Trade Managers take pride in finding the right solutions for customers of any size.

You're invited… to contact a Bank of the West Senior Trade Manager to discuss your needs in the global marketplace or to request additional information on the many services that we provide.

Call us toll-free at 1-888-600-TRADE, or visit our Web site at www.bankofthewest.com.

GUIDE TO COMPLETING THE BANK OF THE WEST APPLICATION & AGREEMENT FOR COMMERCIAL LETTER OF CREDIT

The following guide is intended as an outline and brief explanation to assist in completion of the Application and Agreement for Commercial Letter of Credit.

Terms and conditions established between the importer and exporter (applicant and beneficiary) may vary depending on the merchandise being imported. It is important that the applicant and beneficiary discuss and agree to the terms and conditions prior to completing this application.

Bank of the West reserves the right to include such revisions and changes of the language set forth in the application as deemed necessary or appropriate.

Commercial Letters of Credit are irrevocable and cannot be canceled prior to the expiration date without the written consent of the beneficiary. After the letter of credit is issued, changes can only be made by an amendment approved by the Bank with agreement of the beneficiary.

Another important principle underlying letters of credit is that all parties concerned deal with documents alone, and not with goods, services and/or other performances to which the documents may relate (UCP 600 Article 5). In practical terms this means that issuing banks make payments under letters of credit based on the examination of documents, not on the examination of the goods. The letter of credit does not protect the applicant from paying for the shipment of shoddy goods. The applicant cannot wait until the goods arrive, examine the goods, and then approve payment under the letter of credit.
Letters of credit to foreign beneficiaries are sent via SWIFT through another bank. If the beneficiary is domestic, the letter of credit may be sent via courier service directly to the beneficiary or as required through another domestic bank.

1. **Advising Bank:** Enter the name, city, and country of the beneficiary's bank that will advise the letter of credit. If left blank, Bank of the West's Global Trade Services will select a correspondent bank in the beneficiary's country.

2. **Beneficiary:** Give the complete name and address of the beneficiary (seller). Always include the country.

3. **Applicant:** Enter your business name and address as it appears on your Credit Agreement or existing approved line of credit documentation.

4. **Expiry Date/ Expiry Place:** Expiration Date - The last date on which the beneficiary is to present documents to the nominated bank. The expiry place for presentation of International Letters of Credit is usually in the country where the foreign beneficiary is located. Domestic Letters of Credit usually expire at the counters of Bank of the West Global Trade Services. Spell out the month (month, day, year) such as January 15, 2010.

5. **Amount:** Enter the amount of the Letter of Credit.

   **Currency Name:** Enter the name of the currency. If left blank, the Letter of Credit will be issued in U.S. dollars.

6. **Amount (Check as applicable).** Enter the percent, plus or minus on the Letter of Credit amount. If the "About" box is checked, the amount of the Letter of Credit may vary by plus or minus 10%. If this section is completed, additional collateral may be required to cover the percentage over the amount stated in section 5.

7. **Available by Drafts at:** Refers to the tenor of the drafts. Drafts at "sight" means the beneficiary is paid upon presentation of conforming documents. Or, space is provided to enter the number of "days after sight" or "days after shipment date." Space is also provided to insert other options such as "30 days after invoice date." This is also known as a usance (time) draft payable on a specified number of days in the future, such as 30, 60, 90 days from sight or from the bill of lading date. Maximum tenor is 180 days (six months). The tenor of a usance draft must be approved by the Bank.

   Also, enter the "percent of the invoice value." Generally, the amount of the draft represents 100 percent of the invoice value; however, at times a down payment of, say, 20 percent may have been made. In such case, the drafts would be drawn for 80 percent of the invoice value. The amount of the letter of credit in Section 5 would then correspond to 80 percent of the invoice value. If blank, 100% will apply to the invoice value.
8. **Documents required**: The documents required are determined by agreement between applicant and beneficiary. If there are questions, the seller or a Customs Broker should be consulted. Document requirement may vary depending on merchandise being imported and its country of origin or destination. An important document in any shipment is the bill of lading. The bill of lading evidences and controls shipment of the merchandise. Common ladings are ocean, multimodal, truck and air waybill.

8A. [ ] **Signed Commercial Invoice**: This document is always required. Original, duplicate, triplicate, etc. Evidences the debt owed by the buyer to the seller and contains the description of the merchandise.

8B. [ ] **Packing List**: Duplicate, triplicate, etc. The packing list enables the buyer to locate items when multiple packages are shipped.

8C. [ ] **Beneficiary Certificate**: The beneficiary's certificate acts as evidence that they have carried out the necessary instructions, such as certifying that one complete set of documents including one original bill of lading had been sent to the applicant.

8D. [ ] **Inspection Certificate**: If it does not precisely state who is to issue the certificate, then a document issued by any party, including the beneficiary, is acceptable.

8E. [ ] **Certificate of Origin**: A signed and dated document that certifies the origin of the merchandise. If the letter of credit does not precisely state who is to issue the certificate, then a document issued by any party, including the beneficiary, is acceptable.

8F. **Ocean Shipments**

[ ] Full set or [ ] _____ set original clean on board ocean Bills of Lading, issued to order of shipper, blank endorsed (or specify consigned to) marked freight: [ ] collect or [ ] prepaid and notify: Check this box to indicate a port to port ocean shipment. Check either "Full set" or enter partial set (such as "2/3 set original") to be presented to the Bank. If a partial set is presented, the disposition of the remaining bills of lading must be indicated. Enter the name, address and/or phone number of the contact person the ocean carrier can notify (your company or your Customs Broker). Clearly indicate whether freight is collect or prepaid.

[ ] Full set, [ ] _____ set original clean on board multimodal transport Bills of Lading issued to order of shipper, blank endorsed (or specify) marked freight: [ ] collect [ ] prepaid, and notify: Check this box to indicate that shipment will be made by a combination of more than one mode of transportation. Check either "Full set" or enter partial set (such as "2/3 set original") to be presented to the Bank. If a partial set is presented, the disposition of the remaining bills of lading must be indicated. Enter the name, address and/or phone number of the contact person the carrier can notify (your company or your Customs Broker.) Clearly indicate whether freight is collect or prepaid, and place of delivery.
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8G. Air Shipment
[ ] Original clean Airway consigned to (specify) marked freight: [ ] collect
[ ] prepaid, and notify (specify): Airway bills are straight consignments generally consigned to the buyer. Air Waybills, with the Bank's consent, may be consigned to the Bank.

8H. Other Shipment
Original Clean [ ] Truck bill of lading: or [ ] _____ Truck bills of lading are never consigned to the Bank. Enter the name, address and/or phone number of the contact person the carrier can notify (your company or your Customs House Broker). Clearly indicate whether freight is collect or prepaid.

8I. [ ] Insurance Policy or Certificate: Every shipment should be insured, either by the seller or buyer. Check this box if the seller (beneficiary) is providing insurance. Generally the seller provides the insurance when the terms and sale are CIF or CIP. Insurance coverage is outside the scope of this explanation, however consider the following:

Applicable coverage varies depending on requirements of the parties involved and goods being shipped. Questions on insurance should be directed to a Customs House Broker or insurance agent.

[ ] Institute Cargo Clauses Covering
[ ] W.A. = With Average
[ ] F.P.A. = Free from Particular Average
[ ] All Risk = Covers a multitude of hazards, but is less than all encompassing. The package of "All Risk" coverage issued by insurance companies may vary from county to country and may cover different risks and contain exclusions.

[ ] Institute War Clauses: The War Risk insurance clause covers only certain specified war risks and contains its own exclusions.

[ ] Strikes, Riots and Civil Commotions: Are specifically excluded from "All Risk." If coverage is desired, it can be added as an endorsement to the policy.

With claims payable at [named place] in the currency of the draft. Usually a city located in the importer's country.

8J. [ ] Insurance provided by the Applicant. Check here if the buyer (applicant) is insuring the shipment.

9. Additional Documents: A variety of other documents may be indicated. Such documents might include an import license, import declaration or other documents specific to the product or merchandise being imported. Contact your Customs Broker for assistance in determining any other documents that you should include.
10 **Covering:** The merchandise should be described as briefly as possible and may refer to a specific pro forma invoice, purchase order, or contract number. However, these documents are never attached to the application.

11. **Shipping/Price Terms:** *Terms of shipment and definitions*

Shipping terms indicate what shipping arrangements are included and paid for in the purchase price. These International Commercial Terms, "INCOTERMS," should be thoroughly understood by both buyer and seller. They determine which charges are paid by each party and also define the shipping duties and responsibilities of each.

There are 13 INCOTERMS; only the most commonly used have been included on the application. See the specific INCOTERMS section in this handbook.

- **FOB** means "Free on Board" (…named port of shipment) and is applicable only to Ocean shipments. Seller meets his obligations when the goods pass the ships rail at the named port of departure. The buyer is responsible for paying the freight; bills of lading being marked "Freight Collect." Insurance would be provided by the buyer/applicant (Item 8J).

- **FCA** means "Free Carrier" (…named place) and is applicable to air, ocean, truck and rail shipments. Seller meets his obligations when the goods have been handed over to the carrier named by the buyer at a named place or point of departure. The buyer is responsible for paying the freight; bills of lading would be marked "Freight Collect." Insurance would be provided by the buyer/applicant (Item 8J).

- **CFR** means "Cost and Freight" (…named port of destination). The seller must pay all costs and freight necessary to deliver the merchandise to the named port of destination. However, seller's risk ends at the departure point. Ladings would be marked "Freight Prepaid." Insurance would be provided by the buyer/applicant (Item 8J). CFR is used for ocean shipments. **CPT** "Carriage Paid To" (…named place of destination) is used irrespective of the mode of transportation.

- **CIF** means "Cost, Insurance, & Freight" (…named port of destination). Seller pays all costs, insurance and freight to deliver the merchandise at the named port of destination. Bills of lading would be marked "Freight Prepaid." The seller provides the insurance (Item 8I). This term is applicable only to ocean shipments.

- **CIP** means "Carriage & Insurance Paid to" (…named place of destination). Seller pays all costs, insurance and freight to deliver the merchandise at the named place of destination. Ladings would be marked "Freight Prepaid." The seller provides the insurance (Item 8I). CIP may be used irrespective of the mode of transport.

- **EXW** means “EX Works” (…named place). Seller delivers when he places the goods at the disposal of the buyer at the seller’s premises or another named place (i.e. works, factory, warehouse, etc.) not cleared for export and not loaded on any collecting vehicle.

**OTHER:** In addition to the above, there are eight (8) additional INCOTERMS used in international trade. Check with your Customs Broker for applicability to your import purchase.
Bank of the West

Shipments/Dispatch/Taking in Charge From ____ For Transport to ____ Refer to 8F, 8G, and 8H, the named point of departure of the shipment and the point of destination. To avoid amendments and depending on the method of shipment, buyers should always check to insure that there is indeed a port or airport at these named points.

12. Latest Shipment Date: Enter the latest date allowed for shipment to be made. Allow sufficient time for beneficiary to receive the Letter of Credit and make shipping arrangements. If left blank, the expiry date is the latest shipment date. If a date is indicated, it will not be extended by reason of an extension of the Expiry Date.

13. Partial Shipment: Under the UCP 600, partial shipments are allowed unless the letter of credit specifically prohibits them.

14. Transshipment: Transshipment means that the goods will be transferred and reloaded during the course of shipment from one vessel or means of transport to another. Under the UCP 600, containerized transshipment is allowed unless specifically prohibited.

15. All Charges Other than those of the issuing bank are for account of: The issuing bank is Bank of the West. Indicate who is responsible for the advising bank's (beneficiary's bank) charges. If the application is silent on this issue, the buyer/applicant is responsible for both the issuing bank's and advising bank's charges.

16. Documents must be presented to negotiating or paying bank within __days after… If this space is left blank, per the UCP 600, banks will reject documents presented more than 21 days after the date of the shipping document.

17. Special instructions to be included in the Letter of Credit: This space is provided to insert any special conditions or instructions that are not covered in the documents. Per UCP 600 non-documentary conditions are not acceptable and will be ignored by Banks.

18. Instructions to Bank of the West: This space is provided for you to indicate who should be contacted by Global Trade Services if there are any questions or if there are discrepancies in the documents.

Attachments: If there is not enough room on the application and additional attachment(s) must be included, please make sure that all the attachments are signed and they reference the application itself. Acceptable attachments DO NOT include copies of purchase orders or pro-forma invoices.

UCP 600 refers to the UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDITS, International Chamber of Commerce Publication No. 600 (2007 Revision). This publication governs a letter of credit when incorporated therein. Every party utilizing letters of credit should be familiar with the UCP 600, which may be ordered from ICC Business Bookstore USA, in New York City; (212) 703-5066 www.iccbooksusa.com
TO: BANK OF THE WEST – Global Trade Services, Monterey Park, California  
Please issue an irrevocable Letter of Credit as set forth below:

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<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>[1] ADVISING BANK (if blank, Bank will select advising bank)</td>
<td>[3] APPLICANT (Complete name and address)</td>
</tr>
<tr>
<td>[2] BENEFICIARY (Complete name and street address)</td>
<td>[4] EXPIRY DATE: Drafts and documents to be presented on or before (Spell out the month)</td>
</tr>
<tr>
<td></td>
<td>EXPIRY PLACE:</td>
</tr>
<tr>
<td></td>
<td>□ Country of Beneficiary □ Bank of the West’s Counters</td>
</tr>
<tr>
<td>Currency Name:</td>
<td>□ Exactly □ Plus / Minus ______ % □ About</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>[7] Available by drafts at: □ sight, □ _____ days after sight, □ _____ days after shipment date, □ other _______</td>
</tr>
<tr>
<td></td>
<td>drawn on you or your correspondent at your option, or you may waive draft requirement, for _____% [7A] of the invoice value</td>
</tr>
<tr>
<td></td>
<td>(100% unless otherwise specified), when accompanied by the following documents, as checked:</td>
</tr>
<tr>
<td>[8] DOCUMENTS REQUIRED</td>
<td></td>
</tr>
<tr>
<td>[8A] □ Signed commercial invoice in original and copies:</td>
<td></td>
</tr>
<tr>
<td>[8B] □ Packing list in: original and</td>
<td></td>
</tr>
<tr>
<td>[8C] □ Beneficiary’s certificate in: certifying that</td>
<td></td>
</tr>
<tr>
<td>[8D] □ Inspection Certificate dated prior to shipment date issued by</td>
<td></td>
</tr>
<tr>
<td>[8E] □ Certificate of origin in:</td>
<td></td>
</tr>
<tr>
<td>[8F] □ Ocean Shipment</td>
<td></td>
</tr>
<tr>
<td>□ Full set or □ set original clean on board □ ocean or □ multimodal transport Bills of Lading to order of shipper, endorsed or □ (specify consigned to)</td>
<td></td>
</tr>
<tr>
<td>marked freight □ collect or □ prepaid, and notify</td>
<td></td>
</tr>
<tr>
<td>Port of Loading</td>
<td>Port of Discharge</td>
</tr>
<tr>
<td>[8G] □ Air Shipment</td>
<td></td>
</tr>
<tr>
<td>Original clean air waybill consigned to</td>
<td></td>
</tr>
<tr>
<td>marked freight □ collect or □ prepaid, and notify</td>
<td></td>
</tr>
<tr>
<td>Airport of Departure</td>
<td>Airport of Destination</td>
</tr>
<tr>
<td>[8H] □ Other Shipment</td>
<td></td>
</tr>
<tr>
<td>Original clean □ Truck B/L or □ consigned to</td>
<td></td>
</tr>
<tr>
<td>marked freight □ collect or □ prepaid, and notify</td>
<td></td>
</tr>
<tr>
<td>Place of Taking in Charge / Receipt</td>
<td>Final Destination/Place of Delivery</td>
</tr>
</tbody>
</table>
Bank of the West

[8] □ Insurance provided by **Beneficiary** as follows:

Insurance Policy or Certificate in duplicate endorsed in blank for at least 110% of the invoice value, including:

□ Institute Cargo Clauses covering: ( □ All Risk, □ W. A., □ F. P. A.)
□ Institute War Clauses, □ Institute Strikes, Riots, and Civil Commotion Clauses,

with claims payable at (named place) in the currency of the draft

[8J] □ Insurance provided by **Applicant**

[9] □ Additional Documents:

[10] Covering: Merchandise to be described in the invoice as (**Brief Description**)

[11] **SHIPPING / PRICE TERMS** (Check one) □ FOB □ FCA □ CFR □ CIF □ CIP □ EXW □ OTHER

[12] Latest shipment date (Spell out the month):

[15] Bank of the West’s charges are for account of: □ Applicant □ Beneficiary

Charges of any another bank are for account of: □ Applicant □ Beneficiary

[13] **PARTIAL SHIPMENTS** □ Allowed □ Not Allowed

[14] **TRANSSHIPMENT** □ Allowed □ Not

[16] Documents must be presented to the negotiating or paying bank within ___ * days after date of shipment, but within the validity of the letter of credit. (* Note: Number of days should coincide with latest shipping date and expiry date.)

[17] **SPECIAL INSTRUCTIONS TO BE INCLUDED IN THE LETTER OF CREDIT:**

[18] **INSTRUCTIONS TO BANK OF THE WEST:**

APPLICATION CONTINUES WITH FIVE PLUS PAGES OF AGREEMENT CONTAINING THE TERMS AND CONDITIONS UNDER WHICH BANK OF THE WEST WILL ISSUE A COMMERCIAL LETTER OF CREDIT. PLEASE CONTACT YOU BANK OF THE WEST RELATIONSHIP MANAGER FOR DETAILS.
IMPORT LETTERS OF CREDIT

PAYMENT AND WAIVER OF DISCREPANCIES

Commercial letters of credit issued by Bank of the West are subject to the UCP 600 (2007 Revision), Federal Law, and the laws of the State of California, specifically Article 5 of the California Commercial Code (“CCC”).

Under the UCP 600, issuing banks are obligated to make payment on letters of credit when complying documents (bill of lading, packing list, invoice, certificates, etc.) are presented. The documents are to be in compliance with the terms of the letter of credit, the applicable provisions of the UCP 600 and international standard banking practice. Historically, rulings in legal cases revolving around the issue of payment when discrepant documents are presented have generally come down on the side of strict compliance rather than substantial compliance. However, strict compliance does not demand oppressive perfectionism such as the obvious misspelling of a word.

Another important principle underlying letters of credit is that all parties concerned deal with documents alone, and not with goods, services and/or other performances to which the documents may relate (UCP 600 - Article 5). In practical terms this means that issuing banks make payments under letters of credit based on the examination of documents, not on the examination of the goods. The letter of credit does not protect the applicant from paying for a shipment of shoddy goods. The applicant cannot wait until the goods arrive, examine the goods, and then approve payment under the letter of credit.

The responsibility of the issuing bank under a letter of credit is to examine documents and to make a decision to honor or dishonor based upon that examination within 5 business days after receipt of the documents. Since the letter of credit is the legal obligation of the issuing bank, the decision to honor payment upon document presentation rests with the issuing bank which may, at its sole discretion, notify the applicant of receipt of documents or, in the event of discrepancies, seek a waiver from the applicant.

If the presented documents comply with the terms of the letter of credit, the applicant must pay the issuing bank upon demand. Under Bank of the West’s “Application and Agreement for Commercial Letter of Credit,” the applicant agrees to pay upon demand in immediately available funds the amount of the drawing under the letter of credit.

If the presented documents are not in compliance with the terms and conditions of the letter of credit, the issuing bank must give notice to that effect to the exporter’s negotiating bank by teletransmission (usually SWIFT) no later than the close of the fifth banking day following the day of receipt of the documents (UCP 600 - Article 14d).

Before giving notice to the exporter’s negotiating bank about discrepant documents, the issuing bank may contact the applicant to determine if the applicant wants to waive the discrepancies and make payment under the letter of credit. If the applicant decides not to waive the discrepancies, the consequences are serious. The issuing bank will give notice to the exporter’s bank, detailing all discrepancies and stating whether the issuing bank is holding the documents at the disposal of instructions from the exporter or is returning the documents to the presenter. Since the exporter retains title to the goods, the exporter may have to
arrange for disposal of the goods, clear customs, and pay demurrage charges. Once the applicant makes the decision not to waive discrepancies, the underlying import/export transaction becomes more costly with the result that the business relationship between buyer and seller will most likely not be a continuing one.

For Example: First National Bank ("FNB") issues a $200,000 letter of credit for the account of Otto’s Auto Parts ("OAP") in favor of Prosperity Motor Parts in Taiwan where the advising bank is China Overseas Bank ("COB"). The exporter makes a drawing of $100,000 through COB, and FNB receives the documents on Friday, October 17 at 10AM. Since the L/C is uncomplicated, FNB finishes the examination of documents on Monday at 11AM and notifies the applicant by fax on Monday at 1PM that there are two discrepancies: the goods were shipped from a different port than the one specified in the L/C and the bill of lading was issued to the order of the buyer, not to the bank as the L/C terms dictated. The outer time limit is five banking days following the day of receipt of documents or Friday, October 24, by which date FNB needs an answer from the applicant concerning its decision to waiving the discrepancies or not. The applicant faxes back on Wednesday at 9AM indicating that it waives the discrepancies. FNB will then make payment on or prior to Friday, October 24th. If the applicant had faxed back refusing the discrepancies, FNB would then send notice of refusal to the presenting bank.
BANKER’S ACCEPTANCE SCENARIOS  
(IMPORTS IN US DOLLARS)

IMPORT L/C - BUYER GRANTED TERMS BY SELLER

A. Letter of Credit text reads:
   1. “Available by drafts at XX days sight (or B/L date) on Bank of the West.”
   2. a) “Acceptance commission for buyer’s account. Discount charges, if any, for seller’s account.” OR
      b) “At maturity of the accepted draft we (Bank) will remit proceeds according to your instructions.”

   NOTE: Under 2.a) the seller may, at any time prior to draft maturity, request that the bank discount the draft and remit proceeds, less the discount amount which would be paid by the seller.
      Under 2.b) payment is made only at draft maturity.

B. Procedures when conforming documents are presented:
   1. Bank of the West accepts draft and debits buyer's account for acceptance commission.
   2. Buyer and seller's bank receive acceptance advice stating draft maturity date.
   3. At maturity, buyer's account is debited for the draft amount and funds sent to seller's bank.

IMPORT L/C - BUYER WANTS FINANCING BUT SELLER WANTS PAYMENT AT SIGHT

A. Letter of Credit text reads:
   1. “Available by drafts at XX days sight (or B/L date) on Bank of the West.”
   2. “Acceptance commission and discount are for buyer's account; therefore payment will be made on a sight basis.”

B. Procedures when conforming documents are presented:
   1. Bank of the West accepts and discounts draft, and debits buyer's account for acceptance commission and discount.
   2. Draft amount sent to the seller's bank, for credit to seller’s account.
   3. Acceptance advice sent to buyer stating draft maturity date.
   4. At draft maturity, the buyer's account debited for the draft amount.
Bank of the West

IMPORT L/C
MOTIVATED SELLER WANTS SIGHT PAYMENT
BUYER WANTS FINANCING BUT DOES NOT WANT TO PAY FOR IT.

A. Letter of Credit text reads:
   1. “Available by drafts at XX days sight (or B/L date) on Bank of the West.”
   2. “Acceptance commission and discount for seller's account.”

B. Procedures when conforming documents are presented:
   1. Bank of the West accepts and discounts draft and sends acceptance advice stating maturity date to the buyer.
   2. Draft amount less acceptance commission and discount is remitted to seller.
   3. At draft maturity, buyer's account is debited for draft amount only.

NOTE: Since nothing is free, under this scenario the seller would factor his interest expense into the selling price.

IMPORT CUSTOMER BUYING ON OPEN ACCOUNT, D/P COLLECTION, OR SIGHT L/C

A. Under an approved line of credit, buyer submits request for Bank of the West to accept and discount pre-signed drafts held by bank.

B. These drafts (B/As) are always discounted by Bank of the West. Proceeds of drafts accepted by Bank of the West less discount and acceptance are credited to customer's DDA account. Customer uses proceeds to pay off supplier.

C. Acceptance advice stating draft maturity date is sent to customer.

D. At B/A maturity, customer's account is debited for the draft amount.
FINANCING IMPORTED PURCHASES WITH USANCE LETTERS OF CREDIT

As an importer relying on letters of credit to purchase merchandise from overseas, you can use usance (time) letters of credit which call for drafts with tenors typically ranging from 30 days to 180 days from sight or bill of lading date. If your supplier is willing to extend terms to its domestic customers, it may be willing to extend you terms under a time letter of credit issued by your bank. Experienced sellers understand that a Banker’s Acceptance is the bank’s obligation to pay and not the buyers, thus they may be more willing to extend terms.

BENEFITS

- The importer only pays his bank a per annum commission to accept the importer’s credit risk during the tenor of the time draft. At maturity of the accepted time draft, the importer is obligated to pay its bank and the importer’s bank (whether or not they are reimbursed by the importer) is obligated to pay the supplier’s bank overseas.

- Once the importer’s bank has accepted the draft, the supplier knows that payment will be made by the U.S. bank at the maturity of the draft, or the supplier can request through his bank that the time draft, accepted by the U.S. bank, be discounted by the supplier’s bank.

EXAMPLE

On June 1 Bank of the West ("BOW") issues a $500,000 usance letter of credit for the account of Wilder’s Toy Company ("WTC") in favor of its Hong Kong supplier, Wong & Sons ("W&S"). The time letter of credit calls for 90-day drafts drawn on BOW. BOW advises the letter of credit through W&S’ bank, Hong Kong & Shanghai Banking Corporation ("Hongkong Bank") in Hong Kong.

When W&S presents documents on July 15 to the Hongkong Bank, the L/C examiners in Hong Kong note two discrepancies. The documents are then couriered to BOW for our examination. WTC waives the document discrepancies on July 20 and the 90-day time draft is accepted. BOW “accepts” the draft, thereby creating a banker’s acceptance which, matures in 90 days on October 18.

When BOW accepts the 90-day draft, the resulting banker’s acceptance is shown on BOW’s balance sheet as a contra-account: The asset side is $500,000 owing to the bank from WTC and the liability side is $500,000 owing to the Hongkong Bank. On WTC’s balance sheet, the $500,000 is shown as owing to BOW under the bank debt category. WTC would not show this $500,000 as owing to W&S, the Hong Kong supplier.

Since BOW has the credit risk of guaranteeing the $500,000 payment to the Hongkong Bank on October 18, assume BOW charges WTC a per annum commission of 2.0%. This calculates as ($500,000 x 2.0% x 90) ÷ 360 = $2,500.
Since the supplier has agreed to extend 90 day terms under the letter of credit, the importer only has to pay financing charges of $2,500. If WTC had imported the toys under a sight letter of credit, WTC would have had to finance the negotiation of the letter of credit under its line of credit. Assuming a 9% rate for 90 days, WTC would have to pay $12,250 versus the $2,500 commission.

On October 18 at the maturity of the banker’s acceptance, BOW debits WTC’s checking account with BOW for $500,000 and wires the funds to the Hongkong Bank for payment to W&S.

If W&S needed the funds prior to October 18, it could request the Hongkong Bank to discount the banker’s acceptance. For example, 60 days prior to maturity W&S requests the Hongkong Bank to discount the draft. Since the Hongkong Bank will have the credit risk of BOW, it should be able to discount the banker’s acceptance at a favorable rate. For example, at a rate of 9% the discount would be $7,500.00 ($500,000 x 9% x 60 ÷ 360) and W&S would receive $492,000.00. On October 18 the Hongkong Bank will receive the $500,000 from BOW.
FINANCING IMPORTED PURCHASES WITH BANKER’S ACCEPTANCES

A typical situation giving rise to the creation of a banker’s acceptance is an importer’s request to its bank to finance a drawing under a sight letter of credit by a banker’s acceptance. This example illustrates the fact that banker’s acceptances typically finance international trade.

The creation of banker’s acceptances is governed by a set of rules established by the Federal Reserve. Although acceptances can be used to finance the storage of domestic commodities under a warehouse receipt arrangement, the usual transaction which acceptances are designed to finance is the import or export of goods. Banker’s acceptances must finance a “current” transaction meaning that the value date of the financing should occur within thirty (30) days of the bill of lading date.

Banker’s acceptances always have a tenor, which typically ranges from 30 days to 180 days. The maximum maturity for a banker’s acceptance, which is eligible for discount with the Fed, is six (6) months. The tenor of the acceptance is tailored to the importer’s trade cycle, i.e. if the importer’s inventory has an average months supply of three (3) months and its average day sales in receivables is 30 days, the importer’s trade cycle is 120 days. Since banker’s acceptances are designed to be “self liquidating”, the trade cycle of 120 days in this example should give the importer the time to convert its overseas purchase to cash received from the sale of the goods. With this cash, the importer can “liquidate” the acceptance at the 120-day maturity.

Benefits

- The banker’s acceptance all-in rate is usually cheaper than a bank’s Prime Rate.
- Since the banker’s acceptance rate is a fixed rate for the specific tenor, it allows the importer to protect its financing costs in a rising rate environment.

Example

On June 1 Bank of the West (“BOW”) issues a $500,000 sight letter of credit for the account of Wilder’s Toy Company (“WTC”) in favor of its Hong Kong supplier, Wong & Sons (“W&S”). WTC has a 120-day trade cycle. BOW advises the letter of credit through W&S’ bank, Hongkong & Shanghai Banking Corporation (“Hongkong Bank”) in Hong Kong.

When W&S presents documents on July 15 to the Hongkong Bank, the L/C examiners there note two discrepancies. The documents are then couriered to BOW for our examination. BOW informs WTC of the discrepancies on July 19, and WTC, recognizing the reasonable time parameters of the UCP 600, waives the discrepancies on July 20.

WTC has a choice of three borrowing options under its line of credit: BOW’s Prime Rate, which we’ll say is 9%; the banker’s acceptance discount rate + 2%; or LIBOR + 2%. The banker’s acceptance discount rate for a 120-day tenor is 6.05% versus LIBOR for 120 days at 6.35%. Including the borrowing margin of 2%, the all-in acceptance rate is 8.05% versus 8.35% for the all-in LIBOR option. On the face of it, the banker’s acceptance option appears to be the cheapest by 30 basis points. However, the banker’s acceptance rate is a discounted rate, which has a higher effective cost.
If WTC were to borrow the $500,000 on a banker’s acceptance basis, WTC would draw a draft on BOW for the 120-day period, and BOW would accept the draft. BOW would then discount the draft at the 8.05% rate for total discount charges of $13,416.67 ($500,000 x 8.05 x 120 \div 360 = $13,416.67). WTC would receive $500,000 - $13,416.67 = $486,583.33. The annualized effective interest rate on this transaction is 8.27% ($13,416.67 x 3 \div $486,583.33). Since the all-in banker’s acceptance rate on an annualized effective basis is 8.27%, at this point in time the LIBOR option is 7 basis points or $1,167 more expensive ($500,000 x .007 x 120 \div 360). At the 120 day maturity of the banker’s acceptance WTC will pay its bank $500,000.

The banker’s acceptance discount rate, like LIBOR, varies with the tenor and the amount borrowed. Generally, the shorter tenor rates are lower than the longer tenor rates. Since banks can sell banker’s acceptances in the financial markets to provide funding for this type of financing, it is more efficient to sell larger amounts rather than smaller amounts. Thus, the acceptance discount rate is higher for small amounts. For example, in the Wall Street Journal under “Money Rates”, the banker’s acceptance discount rates generally track amounts of $1 million and over.

Importers can take advantage of the size criteria in banker’s acceptances by bundling several negotiations of sight letters of credit into one large banker’s acceptance. However, the underlying import transactions must all have a bill of lading date within 30 days of the value date of the creation of the banker’s acceptance. For example, WTC negotiates four sight letters of credit in June for $100,000; $200,000; $150,000; and $250,000 for a total of $700,000. It can finance the first three negotiations on its prime rate option and when the fourth L/C is negotiated, it can bundle all four negotiations and create a banker’s acceptance for $700,000.

When BOW creates the $700,000 banker’s acceptance, it appears on its balance sheet as a contra account. On the asset side $700,000 due from WTC and on the liability side $700,000 due to the investor which has bought the banker’s acceptance. Although BOW has “sold” the acceptance to an investor, the acceptance does not disappear from its balance sheet. WTC shows the acceptance on its balance sheet as owing to BOW.
STANDBY LETTERS OF CREDIT

WHAT IS A STANDBY LETTER OF CREDIT?

A standby letter of credit is similar to a commercial letter of credit used for import/export transactions in that a bank substitutes its credit worthiness for that of its customer. The commercial letter of credit facilitates trade through the use of documents evidencing performance. The standby credit, however, often represents an obligation of the issuing bank to the beneficiary to: 1) repay money borrowed by or advanced to or for the account party, or 2) make payment on account of any indebtedness undertaken by the account party, or 3) make payment on account of any claimed default by the account party in the performance of an obligation.

Note that in each of these cases, payment is effected against the beneficiary's claim that a default has occurred. In no case does the issuing bank agree to guarantee the completion of any project or contract, nor is it bound to make determination of fact regarding the underlying transaction. The bank's liability is financial only.

WHAT ARE STANDBY LETTERS OF CREDIT USED FOR?

TRADE SUPPORT

When a trading relationship is established between buyer and seller on a "cash in advance" or "open account" basis, a standby can be used as financial security. In these situations payments are made directly between buyer and seller, but the seller has recourse to the issuing bank in the event of default by the buyer.

BID BONDS

Contracting parties involved in sizable projects frequently request contractors bidding on the project to post a bond or standby letter of credit for a percentage of the contract amount. These are used for the bidding process to assure the contracting party that the original bid will be honored by the contractor they selected.

ADVANCE PAYMENT BONDS

When the contractor, who has been awarded the project, begins work, an advance payment may be required for materials, start up costs, or general working capital. The contracting party generally requires a bond or standby letter of credit to be assured that the advance payment will be used for the project. In the event of contract default, the payment can be recovered from the bank which issued the standby credit. These standby letters of credit can be issued to progressively decrease in amount through the life of the credit.

PERFORMANCE BONDS

Throughout the life of the project, the contracting party is interested in ensuring that the project will be completed in accordance with contract terms and conditions. A standby credit may be required to provide financial reimbursement in the event of default by the contractor. These are generally designed to decrease in amount over the life of the project.
OTHER USES FOR STANDBY LETTERS OF CREDIT

- to back equity contributions
- to secure earnest money or liquidated damages
- to secure promissory notes
- to secure rental & lease transactions
- in lieu of appeal & attachment bonds
- in settlement of civil litigation
- credit rating enhancement for debt securities
- coverage of airline tickets for travel agencies
- installment payments & sales

WHO DETERMINES THE LANGUAGE IN A STANDBY?

Customers, as applicants for a standby letter of credit, are encouraged to ask the beneficiary what language they want in the standby. Most beneficiaries, who regularly accept standbys, will provide the applicant with an example of their format. Before the standby is issued, the customer, bank, beneficiary, and confirming bank, if any, should all agree on the language to be included. This prevents delays and saves amendment expense.

WHEN / HOW IS PAYMENT MADE?

To be paid, the beneficiary must comply with the standby's terms and conditions and submit the required statement and documents. When paying, the bank is interested only in the conforming documents required by the letter of credit. In no instance would a bank investigate the accuracy or correctness of any statement made by the beneficiary. Also, the bank is not interested in the underlying transaction's terms and conditions.

Standby credits can be governed by the same rules as commercial letters of credit, the UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDITS, International Chamber of Commerce Publication 600, 2007 Revision (UCP600). However, it is preferable to have standby credits governed by the International Standby Practices 1998 (ISP98) also issued by the International Chamber of Commerce as Publication No. 590, which as its name implies is a set of rules specific to standby letters of credit.

Standby Letters of Credit are used in a variety of situations where you need to provide a secondary, independent source of payment to support a financial obligation or an obligation to perform under a contract.

Our staff of seasoned international trade professionals takes pride in dealing with the standby letter of credit needs of our customers, regardless of size. You're invited… to contact a Bank of the West Senior Trade Manager to discuss your standby letter of credit needs. Call us toll-free at 1-888-600-TRADE, or visit us at www.bankofthewest.com
IMPORT STANDBY LETTERS OF CREDIT
COVERING UNPAID INVOICES

IF AN EXPLANATION OF THE LEGAL IMPLICATIONS OF THE TERMS AND CONDITIONS FOR THIS TYPE OF
STANDBY LETTER OF CREDIT IS REQUIRED, THE CUSTOMER SHOULD CONSULT THEIR OWN LEGAL
ADVISORS. THIS GENERIC SAMPLE ASSUMES THAT THE APPLICANT/BUYER IS A CUSTOMER OF BANK OF
THE WEST, BUYING FROM EITHER A DOMESTIC OR FOREIGN VENDOR/BENEFICIARY.

DATE: (of issuance)

BANK OF THE WEST
GLOBAL TRADE SERVICES
1977 SATURN STREET
MONTEREY PARK, CA 91755 USA

ADVISING BANK:
(Seller's Beneficiary's bank name & address)

BENEFICIARY:
(Seller's name & street address)

APPLICANT
(Buyer's name & address)

AMOUNT: [in words and figures] (1)

EXPIRY/ PLACE: [expiry date] (2) / AT 5:00 P.M. IN MONTEREY PARK, CA AT OUR ABOVE ADDRESS

WE HEREBY ISSUE IN BENEFICIARY'S FAVOR THIS IRREVOCABLE STANDBY LETTER OF CREDIT
NO.____ WHICH IS AVAILABLE BY PAYMENT WITH  OURSELVES AGAINST PRESENTATION OF
BENEFICIARY'S DRAFT(S) AT SIGHT DRAWN ON BANK OF THE WEST, MONTEREY PARK,
CALIFORNIA BEARING THE CLAUSE: "DRAWN UNDER CREDIT NO.____ OF BANK OF THE WEST,
ACCOMPANIED BY THE FOLLOWING DOCUMENT(S):

[Refer to next page for examples of text commonly used for transactions involving unpaid
invoices. This text, itemizes the specific documents to be presented for payment.]

PARTIAL AND MULTIPLE DRAWINGS ARE [allowed or not allowed]. (3)

ALL BANK CHARGES OTHER THAN ISSUING BANK CHARGES ARE FOR ACCOUNT OF [applicant or
beneficiary, as agreed] (4)

AMOUNTS NEGOTIATED MUST BE ENDORSED ON THE REVERSE OF THIS CREDIT BY THE
NEGOTIATING BANK. IN REIMBURSEMENT WE SHALL REMIT PROCEEDS ACCORDING TO YOUR
INSTRUCTIONS ON RECEIPT OF DOCUMENTS IN CONFORMANCE WITH THE TERMS AND
CONDITIONS OF THIS LETTER OF CREDIT.

WE HEREBY ENGAGE WITH BENEFICIARY THAT DRAFTS DRAWN AND PRESENTED IN
CONFORMITY WITH THE TERMS OF THIS CREDIT WILL BE DULY HONORED IF PRESENTED ON OR
BEFORE THE EXPIRATION DATE OF THIS CREDIT.

EXCEPT SO FAR AS OTHERWISE EXPRESSLY STATED, THIS STANDBY LETTER OF CREDIT IS
SUBJECT TO THE INTERNATIONAL STANDBY PRACTICE 1998 (ISP98), INTERNATIONAL CHAMBER
OF COMMERCE PUBLICATION NO. 590.

1) In U.S. Dollars and most foreign currencies.
2) A specific fixed future date.
3) Determined prior to issuance by agreement of applicant and beneficiary. If the credit is silent
   on these issues, partial drawings are allowed.
4) Determined prior to issuance by agreement of applicant & beneficiary. If the credit is silent, the
   charges of both banks are for the applicant's account.

(28)
IMPORT STANDBY LETTERS OF CREDIT COVERING UNPAID INVOICES

THIS INFORMATION IS PROVIDED WITHOUT LIABILITY OR RESPONSIBILITY ON THE PART OF BANK OF THE WEST. IT REPRESENTS GENERIC, SAMPLE STANDBY LETTER OF CREDIT LANGUAGE COVERING UNPAID INVOICES. TEXT MAY VARY SIGNIFICANTLY DEPENDING ON THE UNDERLYING AGREEMENT AND THE REQUIREMENTS OF THE PARTIES INVOLVED.

EXAMPLE I
Beneficiary’s signed and dated statement worded as follows: “This certifies that payment to [name of beneficiary] by [name of applicant] has not been made according to the terms of sale.”

EXAMPLE II
Beneficiary’s signed and dated statement worded as follows: “This certifies that the amount drawn represents amounts invoiced to [name of applicant] and that [number of days] days have elapsed from the date of invoice(s) and billing(s) remain unpaid by [name of applicant].

EXAMPLE III
A. Beneficiary’s signed and dated statement worded as follows: “This certifies that the amount drawn represents amounts invoiced to [applicant] which are past due and remain unpaid as of the date hereof.”

B. Copy of invoice(s) marked: "UNPAID", addressed from beneficiary at the above address to applicant at the above address.

EXAMPLE IV
A. Beneficiary’s signed and dated statement worded as follows: “This certifies that funds under the accompanying invoice copy(ies) are for the full commercial value of products and/or services and/or charges arising or accruing from orders placed by and accepted from [name of applicant] and are past due and remain unpaid as of the date hereof.”

B. Copy of invoice(s) marked: "UNPAID" addressed from beneficiary at the above address to applicant at the above address.

Presented copy of invoice(s) must be dated at least [number of days] days prior to the date of statement and draft presented.

EXAMPLE V
A. Beneficiary’s signed and dated statement worded as follows: “This certifies that the accompanying invoice copy(ies) are past due and that [name of applicant] has failed to make payment in accordance with the [number in words] (XX) day terms extended to them by [name of beneficiary]

B. Copy of invoice(s) marked: "UNPAID".

Presented copy of invoice(s) must be dated at least [number of days] days prior to the date of statement and draft presented.

Addresses of both applicant and beneficiary on invoice(s) may be other than those shown on this letter of credit.

Due to their vagueness, phrases similar to the following should not be included in the text of this type of standby letter of credit:
- copies of relevant shipping documents
- copies of bills of lading
- proof of shipment and/or other evidence of past due billings
- documents to support charges
GUIDE TO COMPLETING BANK OF THE WEST'S APPLICATION AND AGREEMENT FOR STANDBY LETTER OF CREDIT

The following guide is intended as an outline and brief explanation to assist in the completion of the Application and Agreement for Standby Letter of Credit.

Every Standby Letter of Credit is unique to the underlying agreement between applicant and beneficiary. Terms and conditions established between the parties may vary depending on the terms and conditions of the underlying contract. It is important that the applicant and beneficiary discuss and agree to the terms and conditions and that a sample of the letter of credit language required by the beneficiary is obtained prior to completing this application. This language will be the basis for your completion of the Standby Letter of Credit application.

Bank of the West reserves the right to include such revisions and changes of the language set forth in the application as it deems in its sole discretion to be necessary or appropriate.

Standby Letters of Credit are irrevocable and cannot be canceled prior to the expiration date without the written consent of the beneficiary. After the letter of credit is issued, changes can only be made by an amendment approved by the Bank with agreement of the beneficiary.

1. Check the box indicating the preferred method of transmission. **SWIFT or Express Courier.** Most domestic standby letters of credit are sent directly to the beneficiary by courier. Letters of credit can only be sent by SWIFT (cable) if an advising bank is named, or if the beneficiary is a bank.

2. **Advising Bank:** Enter the name of the beneficiary's bank. If left blank, Bank of the West's Global Trade Services will select a correspondent bank in the beneficiary's country. If the beneficiary is within the United States, Global Trade Services will forward the letter of credit directly to the beneficiary unless an advising bank is named.

3. **Applicant:** Enter name with complete address. The applicant’s name and address must be the same as that in the existing approved line of credit.

4. **In Favor Of:** The complete name and address of the beneficiary. Most domestic standby letters of credit are issued directly to the beneficiary by courier service. It is important that the complete street address be used, not a P.O. Box, and the use of "C/O" is not permitted.

5. **Expiry Date:** (Expiration Date) The date on which the Letter of Credit expires. International and domestic standby letters of credit usually expire at the counters of Bank of the West in Monterey Park, California. Spell out the month (month, day, year) as in January 15, 2010.
Bank of the West

6. **Amount:** Enter the amount of the Letter of Credit.

   **Currency Name:** Enter the name of the currency and the country of the currency. The actual value indicated can vary significantly between U.S., Australian, Hong Kong, or Canadian "Dollars."

7. **Partial Drawings:** Indicate whether partial drawings are allowed or not allowed. If this section is left blank, partial drawings will be allowed.

8. **Available by drafts at sight drawn,** at your option, or your correspondent when accompanied by the following documents:

   - Beneficiary's signed statement:
     - in the form shown below or
     - attached (attachment must contain applicant's authorized signature).

Statement language is determined by agreement between the applicant and beneficiary. As the bank is not a party to the underlying transaction, it is inappropriate for the bank to suggest language. However, the bank will review proposed language to determine its conformance with ISP 98 or the UCP 600 and bank policy.

It is important that it be clear and specific. It is often preferable that required statements be in quotes as in the following example:

"This certifies that XYZ Corporation is in default under the terms and conditions of a certain contract dated December 2010 between XYZ Corporation and ABC, Inc."

When more space is required, attachments may be included, in which case, the box under item 8 stating, “attached (attachment must contain applicant's authorized signature)” would be checked. Every attachment needs to include: 1) The applicant's name, 2) the beneficiary's name, 3) the amount, and 4) the applicant's signature and at minimum clearly reference the application.

9. **Instructions to Bank of the West:** This space is provided for you to indicate who should be contacted by the Global Trade Services if there are any questions or to indicate instructions about delivery of the original letter of credit to the beneficiary. **Original letters of credit should not be given to the applicant for delivery to the beneficiary.**

The Standby Letter of Credit will be issued subject to and governed by the International Standby Practice 98 (ISP98), International Chamber of Commerce Publication No. 590, unless the Uniform Customs and Practice for Documentary Credits, International Chamber of Commerce Publication No. 600 (2007 Revision) is specifically indicated. Questions about the applicability of either set of rules to your specific transaction should be addressed to your own legal counsel.
Please type this application to ensure legibility and accuracy.

TO: BANK OF THE WEST – Global Trade Services, Monterey Park, California

Please issue an irrevocable Standby Letter of Credit as set forth below and forward same to your correspondent for delivery to the beneficiary by: □ SWIFT □ Express Courier [1]

<table>
<thead>
<tr>
<th>ADVISING BANK (If blank, Bank will select advising bank)</th>
<th>APPLICANT (Complete name and address)</th>
</tr>
</thead>
<tbody>
<tr>
<td>[2]</td>
<td>[3]</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>BENEFICIARY (Complete name and street address)</th>
<th>EXPIRY DATE: Drafts / documents to be presented on or before (Spell out the month):</th>
</tr>
</thead>
<tbody>
<tr>
<td>[4]</td>
<td>[5]</td>
</tr>
</tbody>
</table>

Amount: _________________________________ [6]


Available by drafts at sight drawn, at your option, on you or your correspondent when accompanied by the following documents:

1. The original standby letter of credit (at the Bank’s option)
2. Letter of Credit language: □ in the form shown below or □ as attached [8]
   
   (Attachment must contain Applicant’s authorized signature on each page).

Instructions to Bank of the West:

[9]

075-40006 (Rev 08-08)
Retention 5Y

Applicant’s Initials: ____________________

Bank of the West Application & Agreement for Standby Letter of Credit

APPLICATION CONTINUES WITH SEVERAL PAGES OF AGREEMENT CONTAINING THE TERMS AND CONDITIONS UNDER WHICH BANK OF THE WEST WILL ISSUE A STANDBY LETTER OF CREDIT. PLEASE CONTACT YOUR BANK OF THE WEST RELATIONSHIP MANAGER FOR DETAILS.
ATTACHMENT TO APPLICATION FOR STANDBY LETTER OF CREDIT
FOR ACCOUNT OF:  ABC, INC., USD 1,000,000.00
IN FAVOR OF:  XYZ CORPORATION
LETTER OF CREDIT WHEN ISSUED IS TO BE WORDED AS FOLLOWS:

IRREVOCABLE STANDBY LETTER
OF CREDIT NO. ______________________
BANK OF THE WEST
GLOBAL TRADE SERVICES
1977 SATURN STREET
MONTEREY PARK, CA 91755
(323) 727-6339

DATE: (of issuance)

BENEFICIARY:
XYZ CORPORATION
1234 FIFTH STREET
OUR TOWN, PA  54321

APPLICANT:
ABC, INC.
5432 FIRST STREET
BIG CITY, CA  12345

AMOUNT:  USD 1,000,000.00 (ONE MILLION AND NO/100 U.S. DOLLARS)
EXPIRY DATE/ PLACE: APRIL 15, 1997 AT 5:00 P.M. / IN LOS ANGELES AT OUR COUNTERS

WE HEREBY ISSUE IN YOUR FAVOR THIS IRREVOCABLE STANDBY LETTER OF CREDIT NO.______ WHICH IS AVAILABLE BY PAYMENT WITH OURSELVES AGAINST PRESENTATION OF YOUR DRAFT(S) AT SIGHT DRAWN ON BANK OF THE WEST, MONTEREY PARK, CA. BEARING THE CLAUSE: “DRAWN UNDER CREDIT NO._____ OF BANK OF THE WEST, MONTEREY PARK, CALIFORNIA” ACCOMPANIED BY THIS ORIGINAL LETTER OF CREDIT, AMENDMENTS HERETO (IF ANY), AND THE FOLLOWING DOCUMENT:

Beneficiary's signed and dated statement, worded as follows:
"This certifies that as of the date hereof, XYZ Co. is in default under the terms and conditions of a certain contract dated December 1, 2008 between XYZ Co. and ABC, Inc."

PARTIAL AND MULTIPLE DRAWINGS ARE ALLOWED.

ALL REQUIRED DOCUMENTS MUST BE PRESENTED TO BANK OF THE WEST, GLOBAL TRADE SERVICES, 1977 SATURN STREET, SC MPK 02 G, MONTEREY PARK, CA 91755.

WE HEREBY ENGAGE WITH YOU THAT DRAFTS DRAWN UNDER AND IN CONFORMITY WITH THE TERMS OF THIS CREDIT WILL BE DULY HONORED UPON PRESENTATION.

EXCEPT SO FAR AS OTHERWISE EXPRESSLY EXPRESSLY STATED, THIS STANDBY LETTER OF CREDIT IS SUBJECT TO THE INTERNATIONAL STANDBY PRACTICE 1998 (ISP98) INTERNATIONAL CHAMBER OF COMMERCE PUBLICATION NO.590.

XXXXXXXXXXXXXXXXXXXXXXXX
BANK OF THE WEST
AUTHORIZED OFFICER

XXXXXXXXXXXXXXXXXXXXXXXX
BANK OF THE WEST
AUTHORIZED OFFICER

X______________________________  X______________________________
Relationship Manager’s Signature  Applicant’s Authorized Signature
BASICS OF STANDBY LETTERS OF CREDIT

- Banks in the United States historically have not been allowed to issue guarantees. U.S. banks issue standby letters of credit which act as a substitute in part for a guarantee.
- The drawing under the standby letter of credit is triggered by the beneficiary’s statement of non-performance of the underlying transaction.
- Under letters of credit, banks only deal in documents. Banks do not research the “truth” of the non-performance (i.e. unpaid invoices, late delivery of product, etc.) nor do they make determinations of fact.
- The “trigger” language in the standby is the critical element of the standby letter of credit, and it is basically a statement by the beneficiary that non-performance has occurred. Most beneficiaries, who regularly accept standbys, have their own preferred text for the standby letter of credit.
- The applicant and the beneficiary of the letter of credit provide the bank with the standby letter of credit language as it relates to the underlying transaction, keeping in mind that the legal jargon in any underlying contract should not be repeated in the letter of credit.

DRAFTING THE L/C

There are three (3) parties (at minimum) that must agree on the text of the letter of credit: 1) the applicant, 2) the beneficiary, and 3) the issuing bank.

Once we receive the requested language, we will prepare a draft of the proposed L/C for your consideration based on your language yet in conformance to the rules of letters of credit - the ISP98 or UCP 600 and our own internal requirements.

We provide the applicant an “attachment” to accompany the completed Standby Letter of Credit Application. The Standby Letter of Credit “attachment” has the essential boilerplate and “trigger” wording for the letter of credit. **BOTH THE APPLICATION AND THE ATTACHMENT MUST BE REVIEWED CAREFULLY TO ENSURE THEY MEET REQUIREMENTS AND MATCH THE PARAMETERS OF THE UNDERLYING TRANSACTION, WITHIN THE STRUCTURE OF THE ISP98 or UCP 600.**

A copy of the attachment should be sent by fax or e-mail to the beneficiary **before the letter of credit is issued** to obtain the beneficiary’s concurrence that the text is satisfactory. It is better to find out if the beneficiary has any objections prior to the standby L/C being issued. **After the L/C is issued**, changes to the L/C text must be done through costly and time consuming process of amendments to the letter of credit.

TIMELINESS OF DRAFTING AND ISSUANCE PROCESS

Since the text is custom drafted for each standby letter of credit, sufficient time must be allowed: to draft the text; and to obtain applicant’s consent as well as the approval of the beneficiary. The time frame must also take into account applicant’s internal approvals as well as the bank’s credit approval process. The final steps, which also take time, are the preparation of the actual L/C by Global Trade Services, sending out of the L/C by courier to the beneficiary or by authenticated teletransmission to the beneficiary’s advising bank.

We recommend that at least **ten (10) business days** be allowed for the entire standby letter of credit process, from drafting and credit approval to receipt by the beneficiary of the issued L/C.
CREDIT APPROVAL

The issuance of a standby letter of credit requires specific credit approval, especially with regard to the length of time (validity) the standby L/C will be outstanding. Many standby letters of credit involve a validity in excess of a year which exceeds the maturity of the annual line of credit. This may be solved by an automatic extension clause which gives the bank the option of extending or not extending the standby L/C for another year at each expiry date anniversary.

PROCEDURAL MECHANICS

On the Standby Letter of Credit Application in the space for the beneficiary’s address, please use a street address (not a P.O. Box) as all correspondence to the beneficiary or a domestic advising bank are typically send out the standby by courier. It is also good practice to include under the beneficiary’s address an attention party, such as name of the department at the beneficiary’s company, as well as phone/fax numbers. These communication details are especially important for communicating on non-extension notices for standbys with automatic extension clauses.

An authorized officer of the applicant signs the application and the attachment. Applicant’s Bank of the West Relationship Manager must also sign the application.

Once the Bank of the West Relationship Manager has signed both the application and attachment, they may be faxed to Global Trade Services at 323-727-6405. The Relationship Manager will follow up by sending the original application and attachment via interoffice mail to Global Trade Services, Mail Sort SC-MPK-02-G. The Relationship Manager is also responsible to see ensure that credit authorization and all required documentation is in place with Bank of the West, Commercial Lending Services.

Questions about the issuance of Standby letters of credit should be directed to Global Trade Services at 323-727-6339.

FEES

Compensation for the credit risk is set by your Relationship Manager based on internal guidelines and is reflected in the per annum percentage issuance fee paid at the time of issuance. The minimum fee and processing charge, as well as other out-of-pocket expenses, are detailed in the International Schedule of Fees and Charges. Depending on the complexity of your standby there may be a charge of $100/hour assessed for special handling to construct a standby L/C which properly conforms to the ISP98 or UCP 600.
INTERNATIONAL COMMERCIAL TERMS (INCOTERMS)

Trade terms are key elements of international contracts of sale, as they tell the parties what to do with respect to:

- Carriage of the goods from the seller to the buyer and
- Customs clearance.

They also explain the division of costs and risks between the parties such as:

- who should pay the costs of loading and unloading the goods;
- who is responsible for the risk of loss or damage to the goods;
- who should take out insurance as a protection against these risks?

Incoterms were first published by the International Chamber of Commerce (ICC) in 1936. Periodically, these terms are amended to bring them in line with current trade practices. The current version is Incoterms 2000 to be superseded by Incoterms 2010.

All sellers and buyers in international contracts want their deals to be completed successfully. Sending goods from one country to another, as part of a commercial transaction, can be a risky business. If, when negotiating their contract, the buyer and seller specifically refer to one of the Incoterms, they can be sure of defining their respective responsibilities mitigating a significant portion of the risk.

While Incoterms specifically deal with questions of division of risk of loss or of damage of the goods between the seller and buyer, they do not involve questions relating to title or ownership of the goods. Therefore, the contract between buyer and seller should specifically address when title or ownership transfer occurs.

Incoterms do not deal with a breach of contract and its consequences. A breach should be resolved by specific contract provisions. There is an interrelation between the trade term and a breach of contract, since the trade term determines when the goods shall be considered to have been delivered from the seller to the buyer.
Incoterms 2000 range from the minimum obligation of the seller (Ex-Works) to the maximum obligation of Group D Delivered terms. The complete range of terms is listed below:

<table>
<thead>
<tr>
<th>Group</th>
<th>Type</th>
<th>Term</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>E</td>
<td>Departure</td>
<td>EXW</td>
<td>Ex Works</td>
</tr>
<tr>
<td>F</td>
<td>Main Carriage Unpaid</td>
<td>FCA</td>
<td>Free Carrier</td>
</tr>
<tr>
<td></td>
<td></td>
<td>FAS</td>
<td>Free Along Ship</td>
</tr>
<tr>
<td></td>
<td></td>
<td>FOB</td>
<td>Free On Board</td>
</tr>
<tr>
<td>C</td>
<td>Main Carriage Paid</td>
<td>CFR</td>
<td>Cost and Freight</td>
</tr>
<tr>
<td></td>
<td></td>
<td>CIF</td>
<td>Cost, Insurance and Freight</td>
</tr>
<tr>
<td></td>
<td></td>
<td>CPT</td>
<td>Carriage Paid To</td>
</tr>
<tr>
<td></td>
<td></td>
<td>CIP</td>
<td>Carriage and Insurance Paid To</td>
</tr>
<tr>
<td>D</td>
<td>Arrival</td>
<td>DAF</td>
<td>Delivered at Frontier</td>
</tr>
<tr>
<td></td>
<td></td>
<td>DES</td>
<td>Delivered Ex Ship</td>
</tr>
<tr>
<td></td>
<td></td>
<td>DEQ</td>
<td>Delivered Ex Quay</td>
</tr>
<tr>
<td></td>
<td></td>
<td>DDU</td>
<td>Delivered Duty Unpaid</td>
</tr>
<tr>
<td></td>
<td></td>
<td>DDP</td>
<td>Delivered Duty Paid</td>
</tr>
</tbody>
</table>

**THE ABBREVIATIONS: E-, F-, C- AND D- TERMS**

There are four (4) categories of trade terms with the first letter of the term indicating the category. The first group has only one trade term namely Ex - Works (EXW). In the other three groups, there are multiple terms.

**EXW** represents the seller’s minimum obligation, since the exporter only has to make the goods available at its premises.

The letter **F** signifies that the seller must hand over the goods to a nominated carrier free of risk and expense to the buyer. Under the **F**- terms the seller has to arrange any necessary pre-carriage to reach the agreed point for handing the goods to the carrier. It is the buyer’s responsibility to arrange and pay for the main carriage and associated costs.

The letter **C** signifies that the seller must bear certain costs even after the critical point where title or ownership may have passed. Under the **C**-Terms the seller arranges and pays for the main contract of carriage and in some instances associated costs including insurance coverage.

The letter **D** signifies that the goods must arrive at a stated destination. Under the **D**-Terms the seller undertakes to arrange and pay for the main contract of carriage and associated costs including insurance coverage.

**C**-Terms differ from **D**-Terms as the seller fulfills its obligation by shipping the goods from its country under the **C**-Terms. Under the **D**-Terms the seller fulfills its obligation only when the goods reach a stated destination.
EXAMPLE OF A SPECIFIC INCOTERM 2000:

One of the most common terms of sale in international transactions is **CFR** or Cost and Freight. Under this term the seller must arrange and pay the costs and freight necessary to load the goods on board and deliver them to the named port of destination. The risk of loss or damage to the goods after the time the goods have been loaded on the vessel is with the buyer. Under the **CFR**-Term:

**THE SELLER MUST**
- Provide the goods and a commercial invoice conforming to the contract of sale.
- Arrange and pay for the carriage of the goods to the named port of destination on or before the agreed date.
- Arrange and pay for loading the goods on the vessel and for freight, and unloading if for seller’s account under the contract.
- Pay the necessary costs associated with customs in order to export the goods.
- Give sufficient notice to the buyer and provide transport documentation.
- Pay any costs associated with checking, packaging and marking the goods in accordance with the contract of sale.

**THE BUYER MUST**
- Pay the price as stated in the contract of sale.
- Obtain and pay for any import licenses and duties.
- Accept delivery of the goods from the carrier at the named port of destination.
- Bear all risks of loss after the goods have been loaded on the vessel.

Key elements of the CFR term are:

1. The CFR term should only be used for sea and inland waterway transport.
2. Since the point of destination is mentioned after the CFR term (i.e. Hong Kong) the critical point where risk shifts from seller to buyer is usually omitted (i.e. Oakland).
3. In order to be consistent with the CFR term, the sales contract should not specify that delivery at destination take place by a specific date, but rather a departure date. The seller has fulfilled its contract upon shipment, not upon arrival.
4. All Incoterms are based on the same principle that the risk of loss or damage to the goods is transferred from seller to buyer when the seller has fulfilled its delivery obligation. The CFR term specifies that the risk is transferred when the goods have passed the ship’s rail at the named port of shipment.

**THE ICC GUIDE TO INCOTERMS IS AVAILABLE FROM:**

ICC Business Bookstore USA
1212 Avenue of the Americas
New York, NY 10036
(212) 703-5066 – [www.iccbooksusa.com](http://www.iccbooksusa.com)

The “Guide” is a detailed examination of each Incoterm and should be a required reading for any company engaged in international trade.
Bank of the West

BANK OF THE WEST TRADE
FOR
IMPORT LETTERS OF CREDIT

Bank of the West Trade for Import L/Cs is a software program which allows Bank customers to send letter of credit applications from their PC to Global Trade Services via the Internet.

The benefits of Bank of the West Trade/Import L/C are:

FULLY COMPLETED APPLICATION

The program provides prompts to insure that the application is fully completed according to your specifications.

CUSTOMIZED TEMPLATES

Bank of the West Trade/Import L/C’s flexibility allows you to design your own templates. It eliminates repetitive typing when completing letter of credit applications. Also, any application may be saved as a model for future use. Text clauses can be created for merchandise descriptions, documents required, special instructions, and for user defined needs.

SECURITY

The program allows for numerous levels of security; such that the application is not transmitted to the bank until it has been approved by the appropriate individual(s) in your company. The security level for each of your staff can be defined to meet your specific organizational needs.

IMMEDIATE TRANSMISSION

By sending the letter of credit application electronically, there is no lost time due to mail delays. As opposed to fax transmission, the application will always be received in a readable and legible format. As long as the applicant has a P. C. with internet access, a letter of credit application can be submitted to the Bank from anywhere in the world.

NO RETYPING OF APPLICATION BY THE BANK

The received application is electronically reformatted into a letter of credit ready for issuance by SWIFT or courier. This eliminates the possibility of errors or omissions by the bank and speeds your supplier’s receipt of the L/C.

If you have any questions about installation requirements, please contact Global Trade Services at 1-(888) 600-TRADE.