

Import Documentary Letters of Credit

What are they?

A Documentary Letter of Credit ("L/C") is a written undertaking from a bank at the request of the buyer of goods/services to pay the seller an amount of money within a specified time, provided the seller presents documentation, which is in conformity with the terms of the Letter of Credit.

Letters of Credit are usually issued subject to internationally recognised standards published by the International Chamber of Commerce, which provide robust standard customs and practices for handling transactions.

For us to issue a L/C on your behalf to one of your suppliers, an approved credit facility will need to be in place.

How does it work?

Please see diagram on the following page.

1. You arrange a purchase contract with your supplier in which it may be agreed that a L/C will be used to settle the transaction.
2. You send an application to Santander requesting us to issue the L/C, providing details of the transaction, a list of the exact documentation you require to be in place before payment can be made and any additional conditions. The documents typically consists of an invoice, transport document and related commercial documents.
3. Santander issues the L/C and sends it to your supplier, usually by electronic means via a bank in their country.
4. Once the supplier has delivered the goods/services as required, they arrange and present the specified documents to the bank nominated in the L/C.
5. The bank verifies the documentation and if it complies with the L/C, payment is made (or the bank gives a commitment to pay at a later date according to the L/C payment terms). If there are any discrepancies between the documents and the L/C and the seller is unable to correct them, these may be referred to you so you can accept or decline to pay.

6. The verified documentation is sent to you and upon payment by Santander, the amount paid is reimbursed by you.

When are they used?

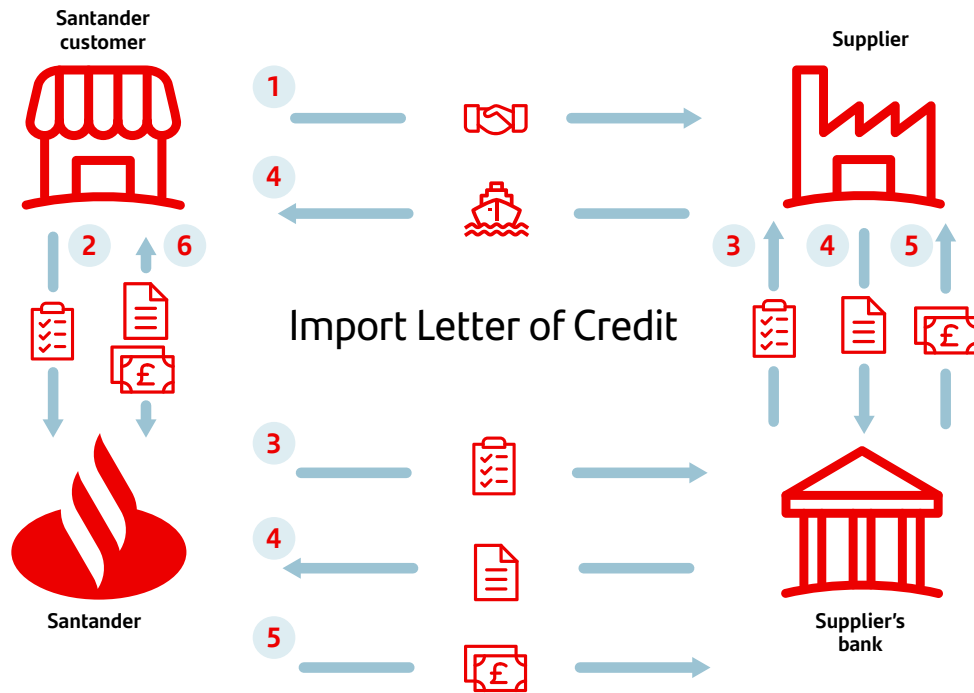
L/C are commonly used where there is a need for the buyer or seller to mitigate payment/supply risk, to support the provision of finance for the transaction and to allow companies to do business with confidence, especially when trading with a new country, trading with a higher risk supplier/country or establishing new trading relationships.

Benefits

- You are able to stipulate the exact documentation that the seller must provide in order to be paid, giving some assurance that the goods or services ordered will be delivered on the agreed terms before you are required to make payment.
- For your supplier, the L/C replaces your payment risk profile with that of Santander, which may provide additional comfort to your supplier and support the security of your supply chain. This is because the supplier may be more comfortable that they will be paid. As a result, this means you may be able to negotiate improved payment terms, boosting your cashflow.
- By demonstrating that you are able to issue L/C's through Santander, your credibility in the eyes of your supplier may be increased.

Considerations

- To issue a L/C, you need to have an approved credit facility in place with Santander. You may be required to provide security to cover this facility.
- L/C's operate based on documents, not the underlying goods/services. Therefore payment under the L/C is made provided the seller presents the documents in accordance with the terms of the L/C, regardless of the condition of the goods themselves.



- There is additional cost and administration required to conduct transactions through L/C's.

What does it cost?

Santander will charge a risk fee determined by our assessment of any risk of non-payment, as well as administration charges and costs/expenses. You will be required to pay an arrangement fee for the establishment of the credit facility. Full details will be provided by your Relationship or Trade & Supplier Finance Director.

Next steps

If you are an existing Santander client and would like to know more about Import Documentary Letters of Credit, speak to your Relationship Director or one of our dedicated Trade & Supplier Finance Directors to discuss your specific requirements and how Letters of Credit can support you.

Or visit santander.co.uk/solutions/finance/specialised-finance/trade-finance

All lending is subject to status and our lending criteria. The right to decline any application is reserved.