INTERNATIONAL BUSINESS

PART 1: TRADE AND EXPORT FINANCE

SECTION 4: EXPORT FINANCE

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WHY USE EXPORT FINANCING?

Export financing is a key competitive factor for exporters and may increase their opportunities of signing a contract. There are several advantages for both importers and exporters in having Northern Bank to handle and finance the transaction.

Advantages for Exporter	Advantages for Importer
Can gain a competitive edge by offering financing to prospective buyers	Can use long-term financing to match expected revenues with expenditures, making cash flow more efficient
Receives cash payment upon shipment or commissioning	Obtains financing that can be less expensive than local financing, which is also usually subject to restrictions
Does not tie up assets	Possible additional savings on financing because exporters can use export credit programs that make financing available at favorable prices
Can avoid credit, currency and interest-rate risks in the settlement period	
Does not need to use administrative resources to collect the debt	Can obtain fixed-rate financing and be certain of the size of future payment

Documentary Credit Rules

Uniform Customs and Practice for Documentary Credits 2007 ICC Publication No 600.

Requirements For Export Financing

The exporter’s bank can assist with financing of capital equipment and project-related goods and services. They normally require that the importer's bank or another acceptable bank guarantees the importer's payment obligation.

In order to provide financing to exporters and make financing as inexpensive as possible, banks will often take out guarantees with an export credit agency. The purpose of an export credit agency is to support exports by issuing guarantees for export financing at favorable prices.

The issuance of such guarantees is subject to certain general conditions set forth by the Organization for Economic Cooperation and Development (OECD).

These are the most important:

- The sale must involve capital equipment and project-related goods and services.
- The importer must pay at least 15% of the contract amount in advance.
- While 85% of the contract amount may be export-financed, the guarantee may also cover certain expenses for establishing the financing, such as the guarantee premium paid to an export credit agency.
- The maximum period between installments is six months.
- The portion of the export from the exporter’s home country must be at least 20%-50%, depending on the importer’s country and the export credit agency involved.

The local part of the contract must be covered by the down payment.

TYPES OF EXPORT FINANCING

Obtaining an order often depends on the exporter's ability to finance the importer, especially for exports to emerging markets. Northern Bank offers several financing options.

D/C with Deferred Payments

With a documentary credit with deferred payments, the importer obtains financing and your payment is guaranteed by the bank.

Bills of Exchange

Bills of exchange and promissory notes also let the exporter offer credit to the importer while ensuring that you receive payment.

D/C, Bank-To-Bank Financing

With a documentary credit with bank-to-bank financing, the exporter leaves the financing arrangements to the importer and the banks and gets paid in cash.

Buyer Credits

Financing is negotiated between the importer and your bank, and the commercial contract is settled on a cash basis.

Documentary Credits With Deferred Payments

A documentary credit enables an exporter to offer the importer deferred payment. The exporter and importer must negotiate the terms and conditions of the documentary credit, including the expenses that the importer will bear.

The exporter and importer must agree on the following:

- The rate of interest that the importer will pay on the deferred payment
- The length of the credit period and the payment dates

Exporter Bank's Role

The importer's bank issues the documentary credit at the request of the importer. Exporter's bank makes a financial commitment to the exporter and accepts the documentary credit issued by an acceptable bank. A guarantee from an export credit agency may also be required.

Expenses

Documentary credits entail the following expenses:

- Margin, management and commitment fees
- Documentary credit charges
- Guarantee premium to an export credit agency, if applicable

Exporters should be aware that they bear an interest rate risk from when the contract is signed with the importer until their bank finances the documentary credit. Exporters can also arrange with their bank to cover this interest rate risk.

Bills Of Exchange And Promissory Notes

When exporters negotiate the payment terms of commercial contracts, they may offer an importer a credit period by means of bills of exchange or promissory notes.

Bills of exchange can be used in most countries in eastern Europe, Asia and Latin America.

The exporter and importer must agree on the rate of interest the importer shall pay, and this can be considered a component of the price.

The contract terms that must be determined include the following:

- The interest rate applied to the bills of exchange
- The length of the credit period and the payment dates
- Guarantee of payment of the bills of exchange

Exporter Bank's Role

This type of financing is an arrangement between the exporter and their bank. Exporter's bank will make a commitment to buy the bills of exchange with an aval or guarantee from an acceptable bank. A guarantee from an export credit agency may also be required.

Expenses

Bills of exchange usually entail the following expenses:

- Margin, management and commitment fees
- Collection commission
- Guarantee premium to an export credit agency, if applicable

Exporters should be aware that they bear an interest rate risk from when the contract is signed with the importer until their bank finances the bills of exchange. Exporters can also arrange with their bank to cover this interest rate risk.

Documentary Credits – Bank-To-Bank Financing

An exporter may offer an importer the option of financing by means of a documentary credit with bank-to-bank financing. In this case Northern Bank lends funds to the importer’s bank. A (short) loan or interbank agreement is then added to the documentary credit text.

Exporter Bank’s Role

At the importer's initiative, the importer's bank requests financing from the exporter’s bank, and if this is acceptable, a commitment will be forwarded to the importer’s bank.

Exporter’s bank accepts the documentary credit issued by an acceptable bank. Exporter’s bank may require a guarantee from an export credit agency.

The exporter is not a party to the financing arrangements as payment has been made under the documentary credit. If there are additional payments under the documentary credit, exporter’s bank increases the loan to the importer’s bank.

Expenses

Documentary credits with bank-to-bank financing usually entail the following expenses:

- Margin, management and commitment fees
- Documentary credit charges
- Guarantee premium to an export credit agency, if applicable

The financing costs are normally borne by the borrower (the importer's bank). The documentary credit charges are usually paid by the exporter.

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- Margin, management and commitment fees
- Collection commission
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Exporters should be aware that they bear an interest rate risk from when the contract is signed with the importer until Northern Bank finances the bills of exchange. Exporters can also arrange with Northern Bank to cover this interest rate risk.

Buyer Credits

In some markets and for certain large or complicated transactions, buyer credits might offer the best financing solution.

A buyer credit is a financing arrangement between Northern Bank and a foreign importer or its bank that is separate from the commercial contract.

Exporter Bank’s role

The advantage for the exporter is that the commercial contract can be settled on a cash basis as the financing is negotiated between the exporter’s bank and the importer or, more often, the importer's bank. Exporter’s bank may require a guarantee from an export credit agency.

Disbursements are made directly to the exporter upon shipment or the completion of the work, and they can take the form of a qualifying certificate or a documentary credit.

Expenses

Because of the size and complexity of these transactions, the arrangement of the financing often requires external legal assistance.

Normally, the borrower bears the financing costs, including set-up costs. Buyer credits usually entail the following expenses:

- Margin, management and commitment fees
- Legal fees
- Guarantee premium to an export credit agency, if applicable
- Documentary credit charges, if applicable

TRADE FINANCE IN BUSINESS EBANKING

Business eBanking is a powerful but easy-to-use online banking system for companies that want to streamline their finances. Some banks offer a Trade Finance module where you can create and process the following services:

- export and import documentary credits
- export and import collections
- international guarantees

You can use several options on all of these products:

- online monitoring of each facility from beginning to end
- great flexibility in a very user-friendly system
- quick overview of your transactions and financial position
- two-way communication
- automatic e-mail when we send an advice

Additional features:

- detailed history of transactions
- function for copying previous facilities
- options for creating your own customer and supplier lists, using references and adding comments to individual facilities