
EE431: Lecture 6.2 (Spring 2012)

Banking 101,

Understand Bank's Products (2)

International Trade: Settlement Methods

- **Advance payment:** importer pays to foreign exporter in advance before shipment (sometimes even before production). Good for exporters, bad for importers....
- **Open account:** importer pays exporter after goods are shipped. Good for importers, bad for exporter...
- **Letter of Credit (L/C):** bank pays to exporter on behalf of importer before shipment. Importer then settles with bank after receiving goods. Win-win for exporter and importer. Bank carries risk with L/C fee as compensation.
- **Bill of Collection (B/C):** bank doesn't pay to exporter, but rather acts as 'collector' collecting money from importer before goods can be picked up from the port.

Products for International Trade

➤ For importers

- Letter of Credit (L/C)
- Bill for Collection (B/C)
- Trust Receipt (T/R)
- Shipping Guarantee (S/G)

➤ For exporters

- Letter of Credit-related (e.g., discount, advise etc.)
- Bill for Collection-related (same as L/C)
- Packing Credits

2 Types of Letter of Credit (L/C) -- Importers

➤ **Commercial L/C**

- For trade settlement

➤ **Stand-By L/C**

- For cross-border guarantee. E.g., a guarantee for client to foreign bank when client wants to borrow abroad.

Definition: L/C & Bill of Lading

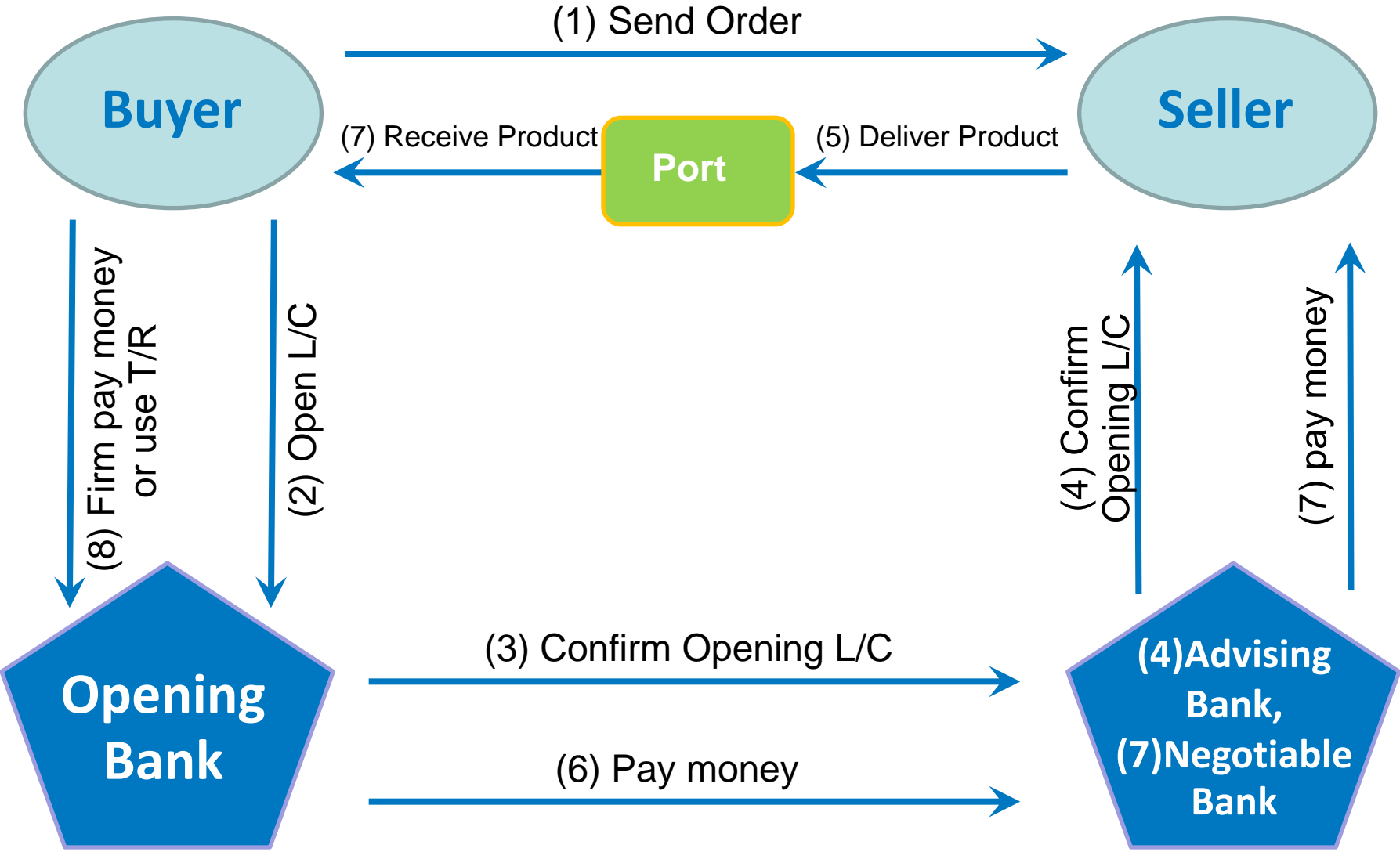
➤ Letter of Credit (L/C)

- A document issued by a financial institution that provides a promise of payment for a trade transaction, implying that it can be redeemed if certain conditions are satisfied. They are mainly used in international trade for transactions between actors, such as a buyer and a seller, in different countries.

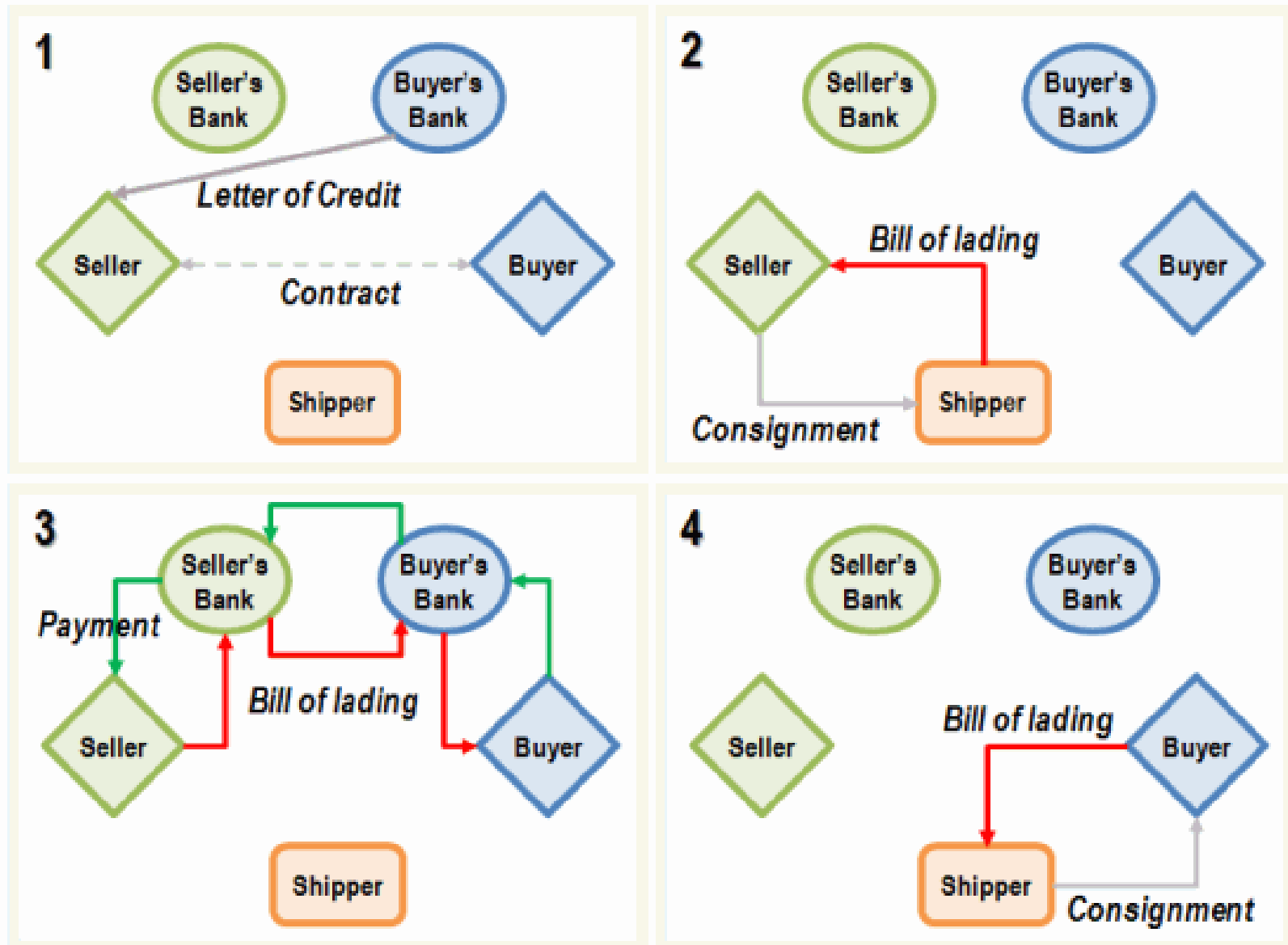
➤ Bill of Lading (B/L)

- A document that establishes evidence and the terms of a contract between a shipper, a transportation company and the agents providing and receiving the cargo. It serves as a document of title, a contract of carriage and a receipt for goods.

L/C & Domestic L/C: Flowchart



International Trade Steps: 1 to 4



Bill of Collection (B/C) -- Importers

➤ Same structure as L/C, but with less commitment from banks:

- B/C: bank merely facilitates money exchanges;
L/C: bank is liable to pay out on behalf of importers.
- B/C: do not require clients to have credit line from bank
- L/C: require credit line. (more documents needed)
- B/C: cheaper for businesses
- B/C: credit risk lies with exporters (sellers)
- L/C: credit risk lies with bank (bank will collect with importers (sellers)).

Trust Receipt (T/R) -- Importers

- Is considered as 'Revolving Credit' used with L/C.
- Importers (buyers) 'borrow' from banks to pay off their L/C-liabilities, using goods as collateral.
- Given T/R, banks will release bill-of-lading (legitimate 'order receipt' from sellers) to buyers, transferring the claiming right on goods to buyers.
- Importers (buyers) use money from the goods sell-off to repay to the bank.

Note: Right of ownership of goods belongs to bank until importers (buyers) pay back T/R.

Shipping Guarantee (S/G) -- Importers

Note: importers need bill-of-lading to claim goods from shippers.

- **In case that bill-of-lading isn't yet available (due to technical problems), importers can get S/G from bank to redeem goods from shippers.**
- **To obtain S/G, importers have to either pay for goods in full to the bank or apply for T/R with the bank.**
- **S/G poses as collateral for shippers that importers will pay or have paid for goods and will have B/L available.**
- **When B/L becomes available, importers will provide B/L to shippers in return for S/G. S/G is then returned to the bank.**

Products for Exporters (1)

- **Linked with products of importers**
- **Receives & discount L/C (Advising L/C, Negotiation of Export Bill under L/C)**

- **L/C confirmation**
 - In case exporters (sellers) are not 'confident' in received L/C from buyers.
- **L/C Transfer**
 - In case exporters (sellers) want to transfer the claims to other parties (e.g., trading companies)
- **Back to Back L/C**
 - In case exporters bring in L/C to be posted as collateral to open for L/C themselves (they might need to import (buy) something).

Products for Exporters (2)

➤ **Export Bills for Collection**

- Same structure as L/C, but banks as mere exchanger.

➤ **Packing Credit: P/C**

- Pre-Shipment Finance
 - Against L/C
 - Against Purchase Order/Contract
 - Against Stock/Warehouse
- Post-Shipment Finance
 - Against Bill of Exchange

Risk Management Products

- **FX Forward**
- **FX Swap**
- **FX Option**

How banks compute interest?

- ธนาคารอาจกำหนดดอกเบี้ยได้ 2 รูปแบบ คือ ดอกเบี้ยคงที่ และดอกเบี้ยลอยตัว
 - การกำหนดอัตราดอกเบี้ยลอยตัวธนาคารจะต้องมีอัตราดอกเบี้ยอ้างอิงเป็นฐานในการกำหนด
- **ALCO (Asset and Liability Committee)** เป็นผู้กำหนดทิศทางดอกเบี้ยของธนาคารโดยพิจารณาจาก
 - ต้นทุนเงินฝากรวม
 - Profit Margin
 - การแข่งขันในตลาด
 - ข้อกำหนดของรพท.

Different Interest Quotes

- MOR (Minimum Overdraft Rate)
 - MLR (Minimum Loan Rate)
 - MRR (Minimum Retail Rate)
 - Interbank Rate
 - LIBOR (London Interbank Offer Rate)
 - BIBOR (Bangkok Interbank Offer Rate)
 - Thai Baht Fixed
- **Two ways to quote rates to clients:**
- Fixed rate (throughout the term) or Floated rate (reset to new index rate, say MLR, every 3 months).
- **ALCO (Asset and Liability Committee) – decides upon rates.**

What are criteria for credit approval?

➤ **5C**

- Characteristics
- Capacity
- Capital (Leverage)
- Collateral
- Condition

➤ **3P**

- Purpose
- Payment
- Protection (Recovery)

What Banks Take for Collateral

- **Deposits**
- **Bonds**
- **Common stocks**
- **B/Es**
- **P/Ns**
- **Goods Warrants**
- **Real estates**
- **Stand-By L/Cs**
- **Guarantors**
- **Etc.**