

Export letters of credit



What is an export letter of credit?

A letter of credit (L/C) is a document issued by a bank guaranteeing payment by a foreign buyer of goods or services upon presentation of the required documents. With export letters of credit, Erste Group advises the beneficiary of the L/C, examines the documents and processes payment. Erste Group may also be called on by the issuing bank or the beneficiary to assume payment risk or to discount the L/C amount.

- **L/C confirmation:** Erste Group assumes the payment risk of the issuing bank. This is known as a 'silent confirmation' if requested by the beneficiary.
- **L/C forfait:** With term letters of credit, the beneficiary can sell the receivable to Erste Group once the documents required in the L/C have been submitted and accepted – meaning that payment is received immediately.
- **L/C postfinancing:** The issuing bank uses the L/C as a basis for securing financing from Erste Group, who settles the bill and sets the issuing bank a term of payment.



What are the benefits of an export letter of credit?

- The exporter has an **independent and absolute** guarantee of payment from a bank thereby ensuring payment of the goods upon delivery and presentation of the documents required in the L/C – irrespective of the importer's position.



Which parameters need to be considered for an export letter of credit?

- Erste Group has a corresponding limit available for the issuing bank for confirmation, forfaiting or refinancing. It is also possible to insure the risk in another way:
 - Confirmed reimbursement by a third-party bank acceptable to us (reimbursing bank)
 - Counter guarantee by IFC, EBRD, ADB through their trade facilitation programmes
 - OeKB federal guarantees G3 or G9 (for silent confirmation).
- For beneficiaries such as trading companies in particular, the L/C may form the basis of the purchase order. This may happen in a number of different ways:
 - Transferable L/C: The issuing bank permits the beneficiary to transfer the L/C (with a small amount) to a third party (goods supplier).
 - Back-to-back L/C: If a letter of credit is not transferable, a back-to-back L/C is issued in favour of the supplier to cover the same shipment as stipulated in the credit already held by the buyer. Terms of both L/Cs, except for the amount and expiration date, are so similar that the same documents presented under the back-to-back credit are subsequently applied against the credit in favour of the buyer. However, the buyer/beneficiary of the first credit substitutes this draft and invoice for those presented by the supplier. In rare cases, interim financing may be necessary.
 - Note: The beneficiary instructs Erste Group to confirm to a third party that a certain portion of the incoming payment from the export L/C is to be forwarded directly to this third party.



Are you interested in an export letter of credit?

For further information about export letters of credit, please contact:

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