

Standby Letter of Credit – Uses and Advantages

Sometimes people (most NON North American customers) think that Standby LC involves trust and that it is in respect to a 'standard LC' not as safe. However, just with the standard LC, a Standby is also a documentary credit, which means that payment is released against documents.

Like with the standard LC, the required documents in a Standby is also fully optional. In order to avoid a simple notice by the beneficiary to the Beneficiary's bank one can include several documents such as:

1. Properly signed letter by an authorized person of the Seller, certifying that our guaranteed (Buyer) has unfulfilled its obligation referring to the invoice number 123, and besides that:
2. Invoice 123
3. Purchase contract 123
4. packinglist 123
5. BL, mentioning invoice 123

The applicant – while not using the Standby – has fulfilled its obligation by transferring the invoice amount with a reference of 123. This way there is no possibility of the beneficiary 'just say' to his bank that he had not received the payment.

This way, a Standby is a very safe and cheap option for both parties also while shipping more than one shipment. Furthermore, to the contrary of a standard LC, a Standby credit limit depends on both the seller and the buyer, while a standard LC always refers to the value of the shipment. This means with various shipment, a standard LC has to cover the whole amount, even with partial shipments, while the standby is not. For example:

Buyer and seller agrees to buy/ sell 10 containers of ipe decking, to be shipped in two – three months time, worth U\$ 200,000. (U\$ 20,000 each). With a standard LC the seller needs to have a credit of at least U\$ 200,000 with his bank. (one can also open a standard LC for each shipment but this is more costly). With a Standby, the seller ships up to the amount of the Standby, the buyer pays correctly against a fax of the BL, the seller ships the following and so forth. If, the seller does not ship, there will not be a BL and the buyer does not pay. If the seller does ship, and the buyer does not pay, the seller can use his back-up standby LC.

In short: LC is simpler, faster, less time consuming at issuing/ advising bank, less bureaucratic and most important: cheaper (most international banks charge 1/1000 x month x \$ amount), while a standard LC is between U\$ 250 and U\$ 300 each (without discrepancies)

That's why Roque Valente SRL prefers to work with a Standby over a regular Letter of Credit. We hope you too!

Please see hereunder some examples of a Standby



Santa Cruz, 04 de October 2005

Dear Sirs,
Y (seller)
Santa Cruz, Bolivia

Ref: Letter of Credit Standby

Dear Sirs:

For our account and our client's order X (buyer), we, *your Bank's name*, with legal address at *your banks; address*, we emit our letter of irrevocable credit, standby at sight n°.1000-5012-xxx, under the following terms and conditions:

n°.	1000-5012-xxx
Adviser (Buyer)	X
Beneficiary (Seller)	Y
For the value up to	U\$
Concept	Compliance of purchase-contract
Utilizable	At sight, against delivery of: <ol style="list-style-type: none">1. Simple copy (s) of invoice (s) emitted by the beneficiary2. Copy of Bill of Loading3. Properly signed letter by an authorized person of the Seller, certifying that our guaranteed (Buyer) has unfulfilled its obligation
Place and expiration date	29 September 2005 in our agency
Last delivery date	26 September 2005
Partial deliveries	Allowed
Commission and expenses	To the account of the adviser

Payment commitment:

In the eventuality that our guaranteed X doesn't fulfill its obligation, we, *your Bank's name.*, we guarantee irrevocably that we will pay to you until the I mount maximum from this letter of credit standby to their first payment requirement in immediate form and according to your instructions, against the presentation of the required documents.

This letter of credit is subject to the rules and uniform uses for documental credits, revision 1993, pamphlet 500 of the ICS.

Certified by *your Bank's name*



Santa Cruz, 04 de octubre 2005

Señores,
Y(vendedor)
Santa Cruz, Bolivia

Ref: Carta de Credito Standby

Señores:

Por cuenta y orden de nuestro cliente X (comprador), nosotros Banco Santa Cruz SA, con domicilio legal Calle Junin 154, Santa Cruz de la Sierra, Bolivia, emitimos nuestra carta de crédito irrevocable, standby a la vista n°.1000-5012-xxx, baja los siguientes términos y condiciones:

n°.	1000-5012-xxx
Ordenante (comprador)	X
Beneficiario (vendedor)	Y
Por el valor de hasta	U\$
concepto	Cumplimiento de contrato-compra
Utilizable	A la vista, contra entrega de
	4. Copia(s) simple (s) de factura (s) fiscal (es) emitida (s) por el beneficiario
	5. carta debidamente firmada por un persona autorizada de Y, certificando que nuestro garantizado ha incumplido su obligación
Lugar y fecha de expiración	29 de setiembre de 2005 en nuestras oficinas
Ultima fecha de entrega	26 de setiembre de 2005
Entregas parciales	Permitidas
Comisiones y gastos	Por cuenta del beneficiario

Compromiso de pago:

En la eventualidad de que nuestro garantizado X no cumple con su obligación, nosotros, banco Santa Cruz SA., les garantizamos irrevocablemente que pagaremos a ustedes hasta el monto máximo de esta carta de crédito standby a su primer requerimiento de pago en forma inmediata y de acuerdo a sus instrucciones, contra la presentación de los documentos requeridos.

Esta carta de crédito esta sujeta a las reglas y usos uniformes para créditos documentarios, revisión 1993, folleto 500 de la CCI.

Carimbado por Banco Santa Cruz