

Export Documentary Letters of Credit



What's an Export Letter of Credit?

An export letter of credit is a written agreement from a bank. At the request of the buyer of goods or services. The bank agrees to pay the seller an amount of money within a specified time, provided the seller presents certain documents.

Letters of credit are usually issued subject to standards published by the International Chamber of Commerce.

Letters of credit are commonly used where the buyer or seller needs to mitigate payment or supply risk, to support the provision of finance for the transaction and to allow companies to do business with confidence. This tends to be when trading with a new country, trading with a higher risk supplier and/or country or establishing new trading relationships.

What's confirmation?

You can reduce the risk of non-payment by the buyer's bank and related country risks, by asking Santander to confirm payment in accordance with terms of the letter of credit.

What's discounting or negotiating?

Under the terms of the letter of credit, payment may be agreed at set future date i.e. 60 days from bill of lading date. Letter of credit discounting allows the seller to receive immediate payment before the set maturity/payment date, less any bank fees.

How does an export letter of credit work?

1. You arrange a purchase contract with your end buyer. Agree that a letter of credit will be used to settle the transaction.
2. You ask your buyer to issue the letter of credit. Providing details of the transaction. A list of the exact documents they want to be in place before payment is made. Plus, any other conditions. The documents can be an invoice, transport document and related commercial documents.
3. The buyers bank will issue the letter of credit. It will be sent to you via a local bank. Where possible this is digitally via a UK bank, known as an Advising Bank. This can be Santander or another bank in the UK.
4. Once you have delivered the goods or services as required. You present the specified documents to the Advising Bank.
5. The bank verifies the documents. If they comply with the letter of credit conditions, we will send the documents to your buyer's bank and arrange the payment according to the terms of the letter of credit. If there are any discrepancies which you are unable or do not wish to correct, these may be referred to your buyer to accept or decline. Only once accepted can payment be made in accordance to the terms of the letter of credit.

How much does it cost?

We'll charge a risk fee, discount fee, administration charges, costs and expenses. A discount fee is determined by our assessment of any risk of non-payment. Full cost details will be provided by your Relationship or Trade & Supplier Finance Director.

We'll also provide a copy of the Trade Service Pricing Tariff, which will detail the Trade Service fees and how they are charged.

Things to think about

If the goods are shipped and the presented documents don't comply with all terms and conditions within the letter of credit, they can be rejected by the buyer. Negotiate with the buyer and ensure the terms to be incorporated into the letters of credit are appropriate.

Consider where the documents need to be presented for verification and whether you want Santander add confirmation of payment to reduce payment risk.

For more information, please contact your local Relationship Director or Trade & Supplier Finance Director.

