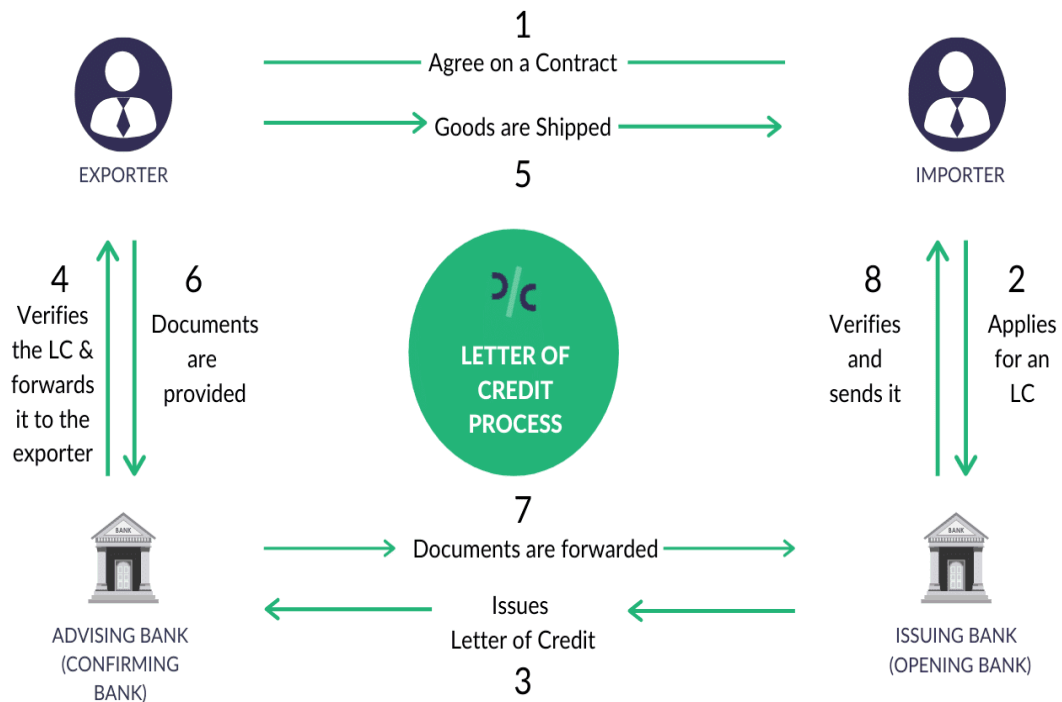


# ABOUT LETTER OF CREDITS

- 1) Study about Letter of Credits, How it works, what is the duration, maximum transfer limit.
  - 2) How can we include escrow in this process.
  - 3) How CIBIL score affects the issuance of a LC
- Firstly, it is a document issued by a bank that guarantees that a seller will receive funds on time.
  - Banks charge a fee for issuing LC's, they require a pledge of securities and cash as collateral for issuing a LC. **(0.75% -1.5% of Transaction value depending on the banks)**
  - LC's are transferred by SWIFT
  - Duration of LC depends on the agreement terms between the parties.
- Types of LC's:
    - 1) **Commercial LC**: direct payment upon presenting documents by the seller
    - 2) **Revolving LC**: allows customer to withdraw within a certain limit during a specific period of time. (used in frequent merchandise shipments)
    - 3) **Confirmed LC**: involves a bank other than the issuing bank guaranteeing the letter of credit. The second bank is the confirming bank, typically the seller's bank.
    - 4) **Standby LC**: Acts as a secondary payment method. It is used as a backup in case the primary payment method fails.
    - 5) **Red Clause LC**: The issuing bank makes an advance payment to the seller based on the presentation of certain documents.
    - 6) **Revocable LC**: can be modified or canceled by the issuing bank without prior notice to the seller
    - 7) **Irrevocable LC**: cannot be modified or canceled without the agreement of all parties involved. Provides a higher level of security for the seller.

- **Flow Chart of an LC: How it works:**



- There is no maximum money transfer limit in an LC
- Generally , it takes 10-15 days to get an approval of an LC from the bank.
- **How can we use escrow service in this process?**
  - 1) The buyer deposits the purchase amount into the escrow account. This can be done concurrently with the LC application or immediately after LC issuance.
  - 2) Once the Issuing Bank confirms that the documents are in compliance, it notifies the escrow agent.
  - 3) The escrow agent releases the funds to the seller, as per the conditions outlined in the escrow agreement.

Advantages: Increased Security, Dispute Resolution by escrow agent, Less costly than LC, more documentation in LC which varies by different banks, can be time saving

- How CIBIL score affects the issuance of a LC?
  - 1) Along with the CIBIL score, banks review the detailed credit report to assess payment history, outstanding debts, and other financial obligations.
  - 2) A higher credit score indicates lower risk, which makes the bank more comfortable issuing the LC.
  - 3) Customers with higher credit scores may benefit from more favorable terms, such as lower fees and interest rates.