

Common Reasons for Letters of Credit Failure

Reviewing letters of credit is a tedious but necessary task. A "best practice" for international sales is to review and approve letters of credit before a sale is consummated. However, most credit professionals reading this newsletter are not fortunate enough to have that much time, so they are stuck with the necessity of reviewing these documents after the fact.

Yet here's what can go wrong if this task is left to the last minute:

TIMING ISSUES

For starters, the letter of credit should have an expiration date that gives sufficient time to the seller to get all its ducks in a row. If the letter of credit expires, the seller is left with no protection, effectively selling on open account.

Even if there is adequate time in the letter of credit, it is important that it be examined early so that if there are discrepancy or compliance issues the seller will have enough time to negotiate with the buyer and arrange to have amendments made to the letter of credit to take care of these matters.

DISCREPANCY ISSUES

As those who are familiar with letters of credit know only too well, most letters of credit have discrepancies. Even a discrepancy as small as a missing period or comma can render the document invalid. Thus, the earlier in the process the letter of credit is examined, the more time is available to identify and fix the problems. It is not uncommon to hear stories of buyers who have a real or perceived quality issue with a seller using a discrepancy in the letter of credit to negate the payment and then renegotiate the price of the goods. The international credit professional that wishes to avoid such a problem should have the letters of credit examined for discrepancies early in the process.

COMPLIANCE ISSUES

Most credit professionals already know to look at letters of credit for timing issues and discrepancies. Few take it a step further to determine if it is possible to meet all the conditions mandated in the letter of credit. It does a company little good to have a perfect

letter of credit that contains terms it cannot meet. Since letters of credit are about documents and not facts, the inability to produce a given document at the right time will negate the letter of credit.

Often this is information that is beyond the scope of what the credit professional would normally come across in a business day. Thus, prudent credit managers send copies of the letters of credit to every department involved in the transaction to ensure that the conditions in the letter of credit can be met. This often includes the outside freight forwarder. Insist that each of the parties involved review the appro-

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appropriate sections and inform the credit department whether it will be able to uphold its portion of the requirements.

By compelling everyone involved to notify credit that they can or cannot meet the conditions, you will not be left holding the bag if someone falls short. Do not assume that those who haven't replied can meet their condition. They

simply may not have gotten around to reviewing the document. Checking letters of credit should not be a case of "Regrets Only," everyone should respond.

International credit professionals who begin their review of letters of credit early in the game will find that many of the letter of credit migraines will disappear, or at least appear early enough to get them fixed.

(Printed by permission of "IOMA's Report on Managing International Credit @Collections")

While timing issues are correctable by negotiating an amendment to a letter of credit, discrepancy issues and compliance issues are often correctable with the proper documentation. Bank of Oklahoma's Exporter's Plus, a document preparation service, is worthy of your consideration. Contact Bank of Oklahoma's International Banking Center today (Tulsa 918-588-6030; Oklahoma City 405-272-2099 or Nationwide 800-285-6829) for more information.

Meet BOk's International Staff



Bank of Oklahoma announces the promotion of Ms. Reta Penington as the International Banking Center Operations Manager. "Reta's knowledge of international trade services and operations will provide Bank of Oklahoma customers a valuable resource for their international banking needs," says Marta Morrow, International Banking Center Director. She will oversee the letter of credit and international collection areas at Bank of Oklahoma.

Reta joined Bank of Oklahoma in February 1997 with over 15 years of international experience. She began in 1980 with an Oklahoma City manufacturing firm, and also spent five years in the international department of an Oklahoma City bank handling all phases of trade services, specializing in export and import letters of credit.

Reta participates in letter of credit seminars and is a regular speaker at export conferences given by the

Oklahoma Department of Commerce, and Oklahoma Small Business Development Center. She also speaks to college international classes, and is an active member of different international trade organizations. "Don't be afraid to ask questions," says Penington, "I have been in the international business for over 16 years and I still learn something new everyday." She is a graduate of the University of Central Oklahoma with a Bachelor of Science Degree in Business and General Studies.

Asian Development Bank 1998 Asian Development Outlook

The Southeast Asian Economies:

The financial turmoil that affected Southeast Asia (in particular Indonesia, Malaysia, Philippines, Thailand, and Vietnam) dominated the last half of 1997.



increase in its inflation rate from 13 percent in 1996 to 19.5 percent in 1997.

Thailand's crisis manifested itself in the first half of 1997, when the Thai baht repeatedly came under strong speculative pressure. During the second half of the year other Southeast Asian

ment and review of large infrastructure projects in the hope that such actions would improve their fiscal positions and restore investors' confidence.

The economic outlook for 1998 is extremely uncertain and will depend largely on the extent to which governments can implement the various IMF rescue packages. Projections indicate that Southeast Asia can expect negative growth of 0.4 percent, with the Philippines performing the least badly. The huge private sector debt burden in Indonesia and Thailand in particular will have a major impact on Southeast Asia's economic performance in 1998 and 1999. As a result of depreciation and the rapid increase in

In 1996 growth stood at 7.1 percent, but in 1997 this fell to less than 4 percent, the lowest figure in two decades. The inflation rate also declined from 6.6 percent to 5.6 percent over the same period, but is projected to rise in 1998 when retail price indexes will fully reflect the substantial depreciations. In 1997 price controls, postponed increases in electricity and gas prices, and wage and salary cuts all helped to moderate the increase in prices in the subregion temporarily. Only Lao PDR experienced a large

currencies, such as the Indonesian rupiah, the Malaysian ringgit, and the Philippine peso, also came under severe speculative pressure. Subsequently, the currencies in these economies depreciated substantially.

Several of the economies had to raise interest rates to high levels during the course of the crisis to stem the outflow of capital and further depreciation of their currencies. Governments announced the postpone-

import prices, inflation is expected to increase to 12.9 percent in 1998. Indonesia is projected to be particularly hard hit, with an inflation rate of about 20 percent. Current account imbalances are likely to improve in 1998, partly because of the slower growth, and partly because of the improved competitiveness of exports.

Excerpts from the Asian Development Bank, 1998 Asian Development Outlook.

Foreign Exchange Focus

Currency Exchange Rates

To the right, is a current list of the top 10 export markets in which currency exchange rates play a key role in the volume of Oklahoma trade. The exchange rates listed are recent indication rates. Please call a BOK Foreign Exchange Trader at (918) 588-6264 for current quotes as rates change continuously.

- Canada 1.5390/US\$
- United Kingdom 1.6784/£
- Japan 134.70/US\$
- Mexico 10.10/US\$
- Singapore 1.7540/US\$
- France 5.7865/US\$
- Germany 1.7250/US\$
- Italy 1704/US\$
- Australia 0.5825/A\$
- Netherlands 1.947/US\$

The Euro: Challenges and Opportunities

Within the next six months the Euro currency will be introduced on January 1, 1999. The creation of the "euro-zone" is a major step forward in the process of European integration. The euro-zone merges the monetary policy of Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain.

It appears many American firms operating in or exporting to Europe have not yet begun to identify the range of challenges EMU may create, or to adequately address them. By developing a strategy to minimize the cost of transition to the euro, U.S. firms can focus their energies on taking advantage of the new opportunities it may bring.

Some analysts predict that a sizable share of world trade transactions eventually will be invoiced in euros. Many large businesses operating in Europe (Daimler-Benz, Siemens and others) have announced to adopt the single currency not only for internal transactions, but also to pay and invoice their business partners as well. Small businesses may soon be faced with invoices and payments in euro.

The Commerce Department will also hold a series of seminars on EMU preparedness in cities across the country. Seminars are scheduled for Minneapolis/St. Paul, Cleveland, Nashville, Philadelphia, St. Louis, Mobile, New Orleans, Boston, Charleston, Orlando/Ft. Lauderdale, Cedar Rapids, Charlotte and Dallas. Contact the Bank of Oklahoma (405-272-2099 or 800-285-6829) for more details.

Source: U.S. Department of Commerce. Next quarter Bank of Oklahoma continues its series on the Eurodollar addressing issues confronting US exporters and the Euro.

Olympic Highlight

The 1968 Olympics held some unforgettable moments. An athlete who made the longest – lasting impression was marathon runner John Stephen Akhwari from Tanzania. As he was running, he stumbled and fell, severely injuring a knee and ankle. After medical attention, Akhwari got up and back into the race. The huge stadium had only a few thousand spectators left when Akhwari finished the race before a cheering crowd. Akhwari was asked why he finished the race with no chance of a medal. He replied, "My country did not send me 7,000 miles to begin a race... they sent me to finish the race."

Story submitted by Mark Landes, Midwest Trophy, Oklahoma City


Bank of Oklahoma's International Banking Center provides the central United States with complete and comprehensive international financial services.

For information regarding BOK's International Banking Center, call (405) 272-2099 or (800) 285-6829.

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