

LETTER OF CREDIT

How Letter of Credit Works?

A Letter of Credit (LC) provides a definite commitment to pay the Beneficiary (Exporter/Seller), provided all terms and conditions of the LC have been strictly adhered to.

LCs are common in international trade because the bank acts as an independent party between both Buyer and Seller, providing protection. To better understand LCs, it may help to know the following:

- Abbreviations for 'Letter of Credit' include L/C, LC, or LOC
- Applicant - the Importer/Buyer in a transaction
- Beneficiary - the Exporter/Seller or ultimate recipient of funds
- Issuing bank - the bank that promises to pay
- Advising bank - helps the Beneficiary use the Letter of Credit

Executing a Letter of Credit

A Seller gets paid after performing specific actions that the Buyer and Seller agree to.

For example, the Seller may have to deliver merchandise to a shipyard in order to satisfy requirements for the Letter of Credit. Once the merchandise is delivered, the Seller receives documentation proving that he has made delivery. The LC must now be paid as the Seller has fulfilled the terms and conditions. If something happens to the merchandise after delivery, for instance if a crane falls on the merchandise or the ship sinks, the Seller will not be liable for the damage.

To pay on a Letter of Credit, banks review documents proving that a Seller has performed his required actions. They do not take into consideration the quality of goods or other factors that may be important to the Buyer and Seller.

As a Seller, you should take note of the following:

- Review with care all requirements for LC
- Ensure completeness of all the documents required for LC
- Factor in the time your service providers (shippers, etc) require to produce documents for you
- Ensure timeliness in sending the documents to the bank.

How do I apply for Letter of Credit?

How do I obtain an Import Letter of Credit if I do not have existing trade facilities?

The bank may issue a LC based on the credibility of the Buyer. Buyer will need to place a Letter of Credit margin deposit of approximately 110% to 130% with the bank. The LC margin deposit percentage will be dependent on the Trade Incoterms that you are applying.

How do I obtain an Import Letter of Credit from United Overseas Bank Ltd?

Import and Standby Letters of Credit are an extension of credit, like a loan. The Bank must make a decision to grant you credit, just as it would for any commercial loan. If you currently do not have any facilities with UOB, but wish to Open an LC / establish facilities with the Bank, please contact us at:

UOB Transaction Banking - Email: TransactionBanking@UOBgroup.com / Tel: (65) 6539 8704

How do I apply for Import Letter of Credit?

You can simply download and print out the LC Application Form from the following link:
www.uob.com.sg/corporate/commercial/useful/business_resource.html

Alternatively, you can visit any [UOB Group Branch](#) to obtain the Application Forms.

Submit the completed LC Application Form bearing signatures of the Company Signatories and Company stamp to any [UOB Group Branch](#).

You will need to have a pre-arranged Trade Facility to facilitate the processing of your application. If you do not have existing Trade facilities, you will need to submit a LC application Form together with a LC Margin Deposit Form.