Standby Letters of Credit (SBLC)

Standby Letters of Credit are used as a form of guarantee to cover default by a Buyer.

The Buyer pays directly for goods ordered and only in the event of non-payment by the Buyer does the Seller claim under the Standby Letter of Credit.

Standby Letters of Credit are used to support regular supply contracts with Exporters.

The Importer arranges for their bank to provide the Exporter with a Guarantee that, in the event that goods have been shipped and the Exporter has not been paid, the Importer’s bank will guarantee payment for a pre-determined amount.

It is issued subject to usual International Chamber of Commerce rules and is usually payable against a written declaration of non-payment supported by a copy of the unpaid invoice and relevant shipping documentation.

Benefits

- Importer can secure a regular supply of goods.
- Enables the Importer to establish a pre-determined credit line with the Exporter.
- Utilization of the Importer’s credit facility with their bank is limited to the maximum amount due to the Exporter.
- Enables the Importer to negotiate better price or credit terms with the Exporter.

Disadvantages/Restrictions

- It is necessary for the Importer to have a facility with a bank before the bank is able to issue a Letter of Credit.
- The amount outstanding under each Letter of Credit issued is applied against this line of credit from the date of issuance until final payment.
- The Importer cannot cancel a Standby Letter of Credit or change it without everyone involved agreeing.
- The decision to pay is in the hands of the issuing bank, not the buyer.
- Standby Letters of Credit do not guarantee the quality or quantity of the goods.
Standby Letter of Credit sample Wording

FROM: SHELTER AFRIQUE. TRADE FINANCE SERVICES, NAIROBI.

TO: ........................................................................................................ (BENEFICIARY’S BANKERS)

WE HEREBY OPEN OUR IRREVOCABLE STANDBY LETTER OF CREDIT NO............

APPLICANT: ...........................................................................................
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BENEFICIARY: ...........................................................................................
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CURRENCY & AMOUNT: .......................................................... (IN FIGURES AND WORDS)

THE PURPOSE OF THIS STANDBY LETTER OF CREDIT IS TO COVER THE EVENTUALITY OF GOODS BEING SHIPPED TO................................................................................. AND THEIR FAILING TO EFFECT PAYMENT IN ACCORDANCE WITH THE AGREED TERMS (Applicable payment terms e.g. 30 days from Shipment/60 days from invoice date).

PARTIAL SHIPMENTS ALLOWED

OUR STANDBY LETTER OF CREDIT IS AVAILABLE WITH SHELTER AFRIQUE BY PAYMENT UPON PRESENTATION BY THE BENEFICIARY OF THE FOLLOWING DOCUMENTS:

1. COPY OF RELATIVE UNPAID INVOICE.
2. BENEFICIARIES SIGNED DECLARATION STATING THAT THE APPLICANTS HAVE FAILED TO EFFECT
PAYMENT IN ACCORDANCE WITH THE AGREED TERMS.

3. COPY OF RELATIVE TRANSPORT DOCUMENT EVIDENCING DESPATCH OF GOODS TO APPLICANT.

CLAIMS IF ANY, MAY BE MADE AT THE COUNTERS OF SHELTER AFRIQUE UP TO AND INCLUDING

...../...../..... AFTER WHICH DATE OUR STANDBY LETTER OF CREDIT MAY BE CONSIDERED CANCELLED.

ALL CHARGES OUTSIDE IRELAND ARE FOR THE ACCOUNT OF THE....................... (APPLICANT or BENEFICIARY).

THIS LETTER OF CREDIT IS SUBJECT TO THE UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDITS (2007 REVISION) INTERNATIONAL CHAMBER OF COMMERCE PUBLICATION NO. 600.

THIS IS THE OPERATIVE INSTRUMENT AND NO MAIL CONFIRMATION WILL FOLLOW.