

# REDUCING RISK ON LETTERS OF CREDIT

---

EXIM's Letter of Credit policy offers commercial and political coverage against the failure of an international financial institution (issuing bank), sovereign or private, to make payment or reimbursement to the insured bank on an irrevocable letter of credit.

---

The policy applies to irrevocable letters of credit which conform with the Uniform Customs and Practice for Documentary Credits (UCP), 2007 revision, publication number 600 of the International Chamber of Commerce (as may be amended from time to time) where the insured has a relationship with the foreign issuing bank. The policy is not applicable to revocable, back-to-back, red clause, or conditional letters of credit.

*This is a descriptive summary to be used only as a general introductory reference tool. The complete terms & conditions of the policy are set forth in the policy text, applications, and endorsements.*

## Talk to an Expert

Contact your EXIM Registered Broker for more information.





# WHAT IS COVERED?

EXIM’s Letter of Credit policy covers goods produced in and shipped from the United States during the policy period, and for services performed by U.S. personnel either in the U.S. or in a host country.

## Term Length & Rates:

Terms up to 180 days from the date of first presentation of documents may be extended for consumer goods, spare parts and raw materials. On a case-by-case basis, agricultural commodities, fertilizer and capital equipment may be insured on terms up to 365 days.

Principal amounts are covered up to the maximum insured percentages stated below or as specified in the policy declarations. Documented interest is covered up to 180 days after the date of the issuing bank’s default (or fewer days when the claim is settled earlier). On L/Cs that are payable in USD, the insured interest rate is generally WSJ prime rate minus 0.5% or the rate stated in the credit agreement, whichever is less.

### Exclusions:

Receivables with less than 50% U.S. content (excluding mark-up) and specific defense products aren’t covered. The policy also excludes transactions with unresolved documentary disputes or if the issuing bank rejects documents and seeks a refund after reimbursement.

## Percentage of Cover

EXIM’s Letter of Credit policy provides coverage against losses caused by events such as war, revolution, foreign exchange inconvertibility, and commercial losses caused by events such as insolvency of the foreign issuing bank, and failure to reimburse.

## Comprehensive or Political-Only Cover

Coverage options and maximum percentages are as follows:

Type	Coverage
Sovereign Financial Institution	100%
Non-Sovereign Financial Institution	95%
Approved Agricultural Commodities	98%

The insured may arrange recourse or “pass back” to a third party, which cannot be the issuing bank, for all or any part of an uninsured amount.



## HOW THE POLICY WORKS

The insured bank submits an application in EXIM Online for the international financial institution and there is issuance by EXIM of a written credit approval in the form of a policy endorsement. The application requires disclosure of all relevant financial information on the issuing bank.

The approvals generally remain valid for a maximum period of 12 months. Once issued, the “IBCL” becomes a revolving credit approval for the approved issuing bank with specified terms and tenor.

The insured bank is required to obtain an EXIM Exporter Certificate, [Form EIB94-07](#), certifying, among other things, that a letter of credit has been established in support of goods that are manufactured or produced in and shipped-

from the United States. If the beneficiary of the letter of credit is an entity other than the exporter, an EXIM Beneficiary Certificate, [Form EIB92-37](#), is required.

### Pre-Presentation Agreement

Prior to the presentation of documents to the issuing bank under a letter of credit and at the time an insured bank commits to finance or pay, the insured bank may obtain a pre-presentation agreement under which EXIM agrees not to withdraw coverage, add, delete, or amend any policy condition, credit limit or other limitation for a period of up to 360 days.

# WHAT THE INSURED BANK AGREES TO:

On a monthly basis, report and pay premium in EXIM Online for all insured bank commitments.

Report all amounts past due (insured and uninsured) from the issuing bank, in EXIM online.

Make written demands for payment on the foreign issuing bank within 30 days after default.

Not to enter into an insured transaction with an issuing bank that is already 30 days or more past due.

Obtain EXIM's prior written approval for rescheduling or accelerating any insured transaction.

## Claims and Payments

Claims may be filed no earlier than 60 days and no later than 120 days after the date of default. Prior to claim submission, the insured is required, within 30 days of default, to make written demand for payment on the issuing bank.

EXIM will pay claims within 60 days of receiving a satisfactorily completed and documented proof of loss.

## Risk-Based Premium Rates

A risk-based pricing system is used that reflects the major elements of each transaction. Applicants may obtain a non-binding rate indication by referring to the [Short-Term ELC & ESS Calculator](#). Premiums specified in writing by EXIM Underwriters are firm.

An advance deposit of \$2,000 is paid to activate the policy. This deposit is collected upon issuance of the policy, and refunded upon cancellation of the policy.