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Supply Chain Finance

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Bank Payment Obligation (BPO) – For BOTH



Description:

- An irrevocable undertaking given by the buyer's bank to the seller's bank that payment will be made on an agreed date after a specified event has taken place for a transaction between buyers and sellers who chose not to use documentary instruments. The specified event is an exchange and validation of data (match report) or acceptance of mismatched data.

Features and Benefits:

- Combines some features of a documentary credit (irrevocable undertaking, exchange of documents and universally accepted rules – ISO 20022) and open account
 - Automated solution via SWIFT's Trade Service Utility (TSU) or equivalent transaction matching applications used by participating banks
 - Caution: Banks participating require a substantial BPO relationship - \$00,000,000 minimum
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Bank Payment Obligation (BPO)



Benefits for Buyer's:

- Demonstrates ability to pay and can (possibly) negotiate improved terms in future transactions
- Payment by bank is only made when seller complies with specific T&C's (I.E. 60 days after match) and produces the required data

Benefits for Seller's:

- Eliminates the physical document checking
 - Reduces the risk of buyer cancelling or changing the order
 - Non-payment risks shifts from buyer to buyer's bank (Obligor Bank)
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Bankers Acceptances (B/A) – For BUY SIDE



Description:

- Finances international or domestic US trade transactions of finished goods up to a maximum term of 180 days. Transaction must be “self liquidating”. Can finance storage and the eventual shipment and collection periods. Not for use to acquire raw materials and cover manufacturing costs (I.E. general working capital needs). Qualification subject to Federal Reserve reg’s.

Features and Benefits:

- Lower cost of borrowing – Hard dollar line of credit priced at BA rate plus spread; requires collateral
 - Shipment of inventory must be within 30 days
 - Short term financing alternative; off a sight documentary credit or D/P collection or cash purchase (AKA a clean B/A)
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Reverse Credit Insurance – For BUY SIDE



Description:

- Credit insurance covering non-payment of enforceable payment obligations resulting from Obligor insolvency or slow payment (and political events for foreign transactions). Insurance on payables in favor of Obligor's Vendor or Bank.

Features and Benefits:

- Typically single-buyer coverage structure written on a non-cancelable basis for 12 months with 90% indemnity; deductibles determined on case-by-case basis
 - Coverage is typically “shipments attaching” meaning shipments / funding made by the Vendor/Bank during the 12 month period are covered
 - Obligor's don't have to be the “big box” companies
 - Pre-approval capacity shared with Vendors; obtain longer terms, larger credit lines
 - Removes Vendor requirements for other credit enhancements like SBLC's
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Standby Letters of Credit (SBLC)



■ Description

Issuing Bank agrees to pay Beneficiary, through the advising bank, if the applicant, fails to perform as per the T&C's of the L/C.

■ Features and Benefits

Less expensive than insurance bonds when our customer, the applicant, is asked to provide a *performance bond*, construction bid, or backup for a financial obligation – i.e.. Unpaid invoices, lease coverage, workman's comp requirements or loans.

■ Requirements

- DDA
 - Commercial lending relationship providing a line of credit
 - Completion of SBLC application
 - L/C and Loan documentation; required language to be included in SBLC
 - Alternative - 100% collateralized; declining
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Standby Letter of Credit / Bank Guarantee



- Secondary Payment Vehicle drawn down in event of default
- Beneficiary obtains payment by presentation to a bank of a draft and some form of written demand, which may include a statement that the applicant is in breach of their contractual obligation(s).
- Conditions of default integral part of the language within a SBLC
- Uses include: Bid Bonds, **Performance Bonds**, **Advance Payment Guarantee**, Lease and Open Account Credit Guarantees
- Can be confirmed and can include “evergreen” clause – auto-renewal clause
- Pricing based on risk and term - % of L/C amount or minimum
- Subject to ISP 98 or UCP 600 (International vs. Domestic usage)

Bank Guarantee – if applicable

- Not a Standby L/C but similar usage
 - US Banks do not accept or issue Bank Gtees
 - Subject to URDG 758 (Uniform Rules for Demand Guarantees)
 - US Bank issues SBLC (Counter Guarantee) to Foreign Bank as support for that Bank’s issuance of their Bank Guarantee to the Beneficiary
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