

Forfeiting as a Risk Mitigation Tool



Presented
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FORFAITING

IMPROVE YOUR CASH FLOW &
SECURE YOUR DEBTS



FORFAITING AGENDA

- What is forfaiting?
- How does it Work?
- Acceptable Risks?
- Advantages/Benefits
- How much does it cost?
- The Secret



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What is Forfaiting?

Discounting of export receivables without recourse to the exporter, evidenced by:

- Promissory Notes
- Bills of Exchange
- Sight or Deferred Payment Letters of Credit
- Receivables Covered by Private Insurance

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How Does Forfaiting Work?

1. The exporter should contact LFC for indicative pricing prior to price disclosure
2. The exporter should decide on how to present the financing at this time. (Contract Uplift, Synthetic Interest Rate or Disclose the True Rate.
3. The commercial contract is signed.
4. The exporter enters into a commitment with LFC.

How Does Forfaiting Work?

5. The exporter ships the goods.
6. The exporter presents shipping documents and the Bills of Exchange or Promissory Notes to the Importer.
7. The importer returns the Bills of Exchange or Promissory Notes to the exporter.
8. Bills of Exchange or Promissory Notes are endorsed without recourse and are forwarded to the Forfaiter.

How Does Forfaiting Work?

9. Signatures are verified by LFC and the exporter is notified of the 'value date' for payment.
10. Cash payment of face value less discount charges is made to the Exporter.

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Acceptable Risk

- Banks (L/C's, Avals, Letter of Guarantee, Standby L/C's)
- Governments - Sovereign Guarantees (eg. MOF)
- Corporate (Large)
- Other Corporates with Insurance Cover

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- Acceptable Risks?



■ Advantages/Benefits

- How much does it cost?
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Exporter's Advantages

- Non-recourse to exporter
- Converts credit sale to cash sale
- Offers fixed rates
- Provides 100 % financing
- Simple documentation
- Used or new equipment
- Not concerned about US origin of the goods

Exporter's Advantages

- Exporter generates good will, Importer does not know about Forfeiter
- Fast Turnaround
- Confidential
- Flexible

Importers Advantages

- Allows them to pay for the product from the revenue it generates
- Fixed or Floating rate extended term financing
- Grace periods
- They can offer the equipment as collateral to secure a guarantee, as LFC does not take lien's on the product!
- Simple documentation

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Cost of Finance

- Discount Rate (Libor + Risk premium)
- Days of Grace
- Option Fee (If applicable)
- Commitment Fee (If applicable)
- Arrangement Fee (If applicable)

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The Secret!

- Assume Financing will be required and build the cost it into your proposal.
- You always have the possibility to negotiate downward by offering discounts if your customer decides to pay cash or if there is a need to become more competitive on product price.

Option 1

Net Present Value	Interest Rate	Contract Price
1,000,000.00	6.00 %	1,000,000.00

Option 2

Net Present Value	Interest Rate	Contract Price
1,000,000.00	6.00 %	1,000,000.00
1,000,000.00	0.00 %	1,060,000.00

Option 3

Net Present Value	Interest Rate	Contract Price
1,000,000.00	6.00 %	1,000,000.00
1,000,000.00	0.00 %	1,060,000.00
1,000,000.00	3.00 %	1,030,000.00

Forfaiting vs Factoring

Exactly the Same but different in every way!

FORFAITING

- Medium to Long – over 180 days – 10 years
- Incremental Sales
- One off transaction
- Anonymous
- 100 % discounting
- Without Recourse
- Negotiable Instrument
- 100,000.00 plus

FACTORING

- Short Term – up to 120 days
- Ongoing relationship between buyer and seller
- Facility
- Notification required
- Up to 90 % advances
- With, Limited or Without Recourse
- Invoice based (Normally)
- No Minimum Size

THANK YOU



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