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INTERNATIONAL BANKING SERVICES

Donald M. Taylor
International Marketing Specialist
Cooperative Extension Service-Oregon State University

Export and import transactions are complicated by distance, language differences, and the need to exchange U. S. and foreign currency.

Waterborne commerce through the Oregon Customs District increased tenfold from 1948 to 1966. Many Oregon businessmen have found profitable market opportunities for their products overseas. Uncertainty and lack of knowledge are keeping many others from entering the export market.

There are many sources of assistance and advice for the beginning world trader, with Oregon banks among the most important of these sources.

The international trader's best friend is his banker, particularly when the banker is backed up by an experienced, knowledgeable international banking department. Such a department may offer services ranging from financing imports and exports to making hotel reservations abroad. Several banks in Oregon have excellent international banking departments.

There are three types of bank organization for handling international financial transactions: (1) Some of the nation's largest banks maintain branches overseas, just as a bank in Oregon may have branches throughout the state. (2) Other banks set up formal working arrangements with correspondent banks in countries with which most of their business is done. The correspondent bank overseas keeps dollar deposits in the U. S. bank, and in some cases the bank in this country will also hold deposits in the foreign bank. These deposits are in the local currency of the

country. (3) Smaller banks, which cannot maintain an international department, often have a working arrangement with larger banks through which they channel their customers' international business.

International banking departments range from small sections that specialize in a few services to full-service operations. The cost of the services provided by the international banking department is fairly uniform from bank to bank and in any case amounts to only a very minor percentage of the financial transaction. The following are some of the services typically offered by a full-service international banking department.

Market development

The international banking department helps develop market leads for customers by keeping in close touch with market countries through its correspondent banks and through a staff of bank officers who travel overseas extensively. A primary task is to spot potential sales and investment opportunities for bank customers. The international banking department keeps close watch on the political climate as well as economic conditions in market countries.

Market development activities also include advising potential exporters of prospective markets for their products. Through correspondent banks, the international department will also check the credit of overseas buyers at the request of the U. S. firm.

Imports

Overseas suppliers often request a letter of credit from a U. S. importer. An "irrevocable letter of credit" is a legal document that

substitutes the bank's credit for that of the importer. The bank guarantees to make payments to the seller if the terms of the credit are met, regardless of whether or not the bank collects from the importer.

Exports

The U. S. exporter can request payment in several ways, including payment in advance, selling on open account, on consignment, sight or time draft, or irrevocable letter of credit. If payment is to be made on the basis of an irrevocable letter of credit, the exporter must ask the importer to arrange for the letter of credit. The letter of credit will be issued by the foreign bank and forwarded either directly to the exporter or through the exporter's bank.

The terms of the letter of credit should be spelled out beforehand through a purchase order or pro forma invoice (a skeleton invoice made up in advance of a sale to show details of the sale, used in international trade to satisfy customs and other requirements, but not a binding document) for the merchandise. Once the letter of credit is issued, all of the documents relating to the sale should conform in wording to the terms of the letter of credit. The only way these terms can be changed is through an amendment to the letter of credit, and this can be done only by mutual consent of both buyer and seller.

While the letter of credit is the preferred method of guaranteeing payment, particularly if you have never dealt with a customer before, many sales are made on the basis of a collection. In this case the exporter turns his shipping documents over to his bank, accompanied by a draft

that requires payment from the customer. The documents necessary for the buyer to pick up his goods are checked and sent on to the foreign bank, which then collects payment. On a sight draft, payment must be made before the bank will give the documents to the customer.

With a time draft (which provides for delayed collection--usually 30, 60, or 90 days) the customer must accept the draft by signing it and agreeing to pay at the specified time. Upon signing the draft, he receives the documents needed to pick up the merchandise.

Shipping on consignment or open account is not recommended unless the exporter has dealt with the particular customer before and is completely confident of his integrity and ability to pay.

Foreign exchange

Buying and selling foreign exchange is an important function of the international banking department. The bank will make it possible for the U. S. exporter to collect his payment in U. S. dollars, through the bank's foreign exchange services.

When payment is to be taken in another currency at a future date, the exporter or importer can hedge against a change in the exchange rate between the U. S. currency and the foreign currency by buying and selling futures contracts. This is particularly useful in a time transaction. For example, if the exporter plans to take payment in pounds sterling in 90 days, he may wish to contract to sell the same amount of English pounds for U. S. dollars to be delivered in 90 days. Then if the value of pounds in relation to U. S. dollars drops (or perhaps rises) within the 90 days, the exporter will still get the same number of dollars that

could have been traded for the pounds at their old value. The bank makes a profit on foreign exchange transactions through the difference in its buying and selling rate for foreign currencies.

Futures trading in foreign exchange is handled by the international banking department. All the customer must do is ask his bank to buy or sell the currency. The bank, since it is forbidden to speculate in foreign exchange, will then buy or sell futures contracts to cover its own position, either through another bank customer or through the exchange futures market, which is carried on by commercial firms primarily located in New York or London.

Trade financing

When selling overseas on a collection basis, the exporter will not receive his payment until the overseas customer pays his own bank and this payment is transmitted in turn to the bank in this country. If the transaction is on a time basis, payment may not be received for 90 days or longer.

When the overseas customer accepts the exporter's draft by signing it, the draft is then sent to the bank in this country and in turn is given back to the exporter, who will present it in 90 days and collect his money. Depending on his credit standing, the exporter may borrow funds from his bank against the accepted draft. The bank will make a regular loan to the customer until he receives payment, depending on credit rating, availability of collateral, and the considerations that govern any bank loan.

Similarly, banks will loan money to U. S. importers to finance import transactions until the merchandise is sold by the importer.

Other services

The full-service international banking department will handle payments to foreign firms or individuals through mail or cable remittances or by bank drafts.

A mail remittance is an order from your bank to one of its correspondent banks in another country to make payment to some person in that country, in local currency. A cable remittance is the same thing except instructions are cabled for quicker action. The amount of payment will be charged against the balance held by the U. S. bank in the foreign bank or adjusted through still other banks in the foreign country which have a correspondent arrangement with some bank in this country.

The bank can also send a draft drawn on their account in the foreign bank, which then can be collected by the payee from an overseas bank. In some cases the draft may not be as safe a means of making payment as a remittance. In some foreign countries, the holder of a draft is automatically considered the owner and can cash the draft without further identification.

Do not send a domestic check drawn on a U. S. bank to another country in payment of an obligation. The check will have to be sent back to this country to clear. This means a long delay in payment, as well as considerable cost subtracted from the face amount of the check.

Collection of payments due you is another service offered by the international banking department through their correspondent bank overseas.

Also, if you receive a foreign check or currency, the international banking department either will purchase the check or currency from you at

the going rate, or send it back to the country of origination for payment. Canadian checks, which are received by many Oregonians, are commonly bought and sold.

For the traveler, the international banking department can write letters of introduction to banks in foreign countries and can issue travelers' checks or travelers' letters of credit. When you travel and take more than \$1,000 to another country, you may obtain a travelers' letter of credit, which allows you to draw money from a foreign bank up to a specified amount. If you plan to take less than \$1,000, you will find travelers' checks less costly than letters of credit.

The international banking department can provide you with foreign currency and coin, often in the form of convenient \$10 travel packs. This provides for taxi fare, tips, and incidentals until you can exchange your U. S. currency or travelers' checks.

The international banking department keeps close watch on exchange controls and changes in exchange values. In some cases the government of another country, because of shortages of foreign exchange, will prevent an importer from making payment in U. S. dollars. In other cases, currency fluctuation may mean a loss in the amount of dollars you receive for your merchandise.

A good international banking department can advise the exporter of these possibilities before he ships his merchandise. It will help find solutions, where possible, to some of the exchange restrictions.

Choosing a bank

Dealing with a bank that has overseas branches appeals to many businessmen. However, since most banks with overseas branches are located

in major cities such as New York, Chicago, or San Francisco, the services offered by your local Oregon bank (including more rapid payment on collections) will probably outweigh the benefits to be gained through transactions handled through the overseas branches of other U. S. banks.

In choosing an international banking department there are several considerations.

The bank which has many overseas correspondents is preferable to the bank which has few or none.

An active trade-development division is a sign the bank is committed to the customer's interests and probably is knowledgeable about trading conditions overseas. This is particularly true if the trade-development activity includes personal contact by bank officers in market countries.

Ability to provide most or all of the services outlined is an indication of depth in an international banking department. A complete knowledge of trade financing, including bankers' acceptances, collections, currency regulations and exchange, also is a sign of competency in the international banking department.

International transactions differ from domestic transactions in several respects. There are two simple rules that can help the businessman avoid problems. First, choose an experienced and competent international banking department. Second, rely on its counsel and assistance.