

INTERNATIONAL TERMS OF PAYMENT



METHOD	USUAL TIME OF PAYMENT	GOODS AVAILABLE TO BUYER	RISK TO SELLER	RISK TO BUYER	COMMENTS
CASH IN ADVANCE	Before shipment.	After shipment.	None.	Complete. Relies on sell to ship exactly the good expected, as quoted and ordered.	Seller's goods are unique or special circumstances exist (e.g., seller's goods manufactured to buyer-only specifications).
LETTER OF CREDIT			Commercial invoice must match the L/C exactly. Dates much be carefully headed. "Stale" documents are unacceptable for collection.		Requires total accuracy conforming to terms, conditions, and documentation.
CONFIRMED IRREVOCABLE CREDIT	Documents are presented to the bank after shipment is made.	After payment.	Seller has double assurance of payment. Dependant on the terms of the L/C.	Assures shipment is made but still relies on exporter to ship goods as described in documentation. Terms may be negotiated prior to L/C agreement, alleviating buyer's degree of risk.	Adds assurance that the issuing bank has been deemed acceptable by the confirming bank. Adds cost and an additional requirement to the seller.
UNCONFIRMED IRREVOCABLE CREDIT	See above.	See above.	Seller has single bank assurance of payment and remains dependent on foreign bank. Seller should determine if issuing bank has sufficient assets to cover the amount.	See above.	Credit can only be changed by mutual agreement, as stipulated in the sales agreement. Open account with buyer's bank as collection agent. Foreign bank may have problems making payments in sum or timeliness.
DRAFTS	Remittance time from buyer's bank to seller's bank may take one week to one month.		Drafts should contain terms and conditions mutually agreed upon.		A draft may be written with virtually any term or condition agreeable to both parties. When determining draft tenor (terms and conditions), banker and freight forwarder should be consulted to determine most desirable means of doing business in a given country.
SIGHT DRAFT	Upon presentation of draft to buyer.	After payment to buyer's bank.	If draft not honored, goods must be returned or resold. Storage, handling and return freight expenses may be incurred.	Assures shipment but not content unless inspection or check-in is allowed before payment.	May be a collection instrument used to exchange possession and title to goods for payment. Seller is essentially drawing a check against the bank account of the buyer. Buyer's bank must have pre-approval, or seek approval of the buyer prior to honoring the check. Payable upon presentation of documents.
TIME DRAFT (with documents against acceptance)	Upon maturity of the draft.	Before payment, after acceptance.	Relies on buyer to honor draft upon presentation.	Assures shipment but not content. Time of maturity allows for adjustments, if agreed to by the seller.	Payable based upon the acceptance of an obligation to pay the seller at a specified time. Although a time draft has more collection leverage than an invoice, it remains only a promissory note, with conditions.
OPEN ACCOUNT	As agreed, usually by invoice.	Before payment.	Complete. Seller relies completely on buyer to pay account as agreed.	None.	All terms of payment, including extra charges and terms, should be mutually understood and agreed upon prior to open account initiation. Companies conducting ongoing business are candidates for open account terms of payment. Seller must measure not only the buyer's credit reliability, but the country's as well.