

Standby Letters of Credit

– improving your international trade

Secure against the unexpected.

The Standby Letter of Credit (Standby LC) is, like the guarantee, commonly used to cover the risk of a contract party not fulfilling agreed obligations, for instance failure to pay or deliver. Standby LCs can be used in open account trade as well as a complement to collections and documentary credits (DCs).

Common uses for Standby LCs

- Advance payment guarantees
- Payment guarantees
- Performance guarantees

A bank guarantee in a DC format

As the name indicates, a Standby LC takes the form of a DC (Documentary Credit/Letter of Credit) while its function and content is that of a guarantee. Like a DC and a bank guarantee, a Standby LC is a very flexible instrument, covering anything ranging from an ordinary guarantee commitment to more sophisticated financial instruments.

Secure the payment

If you as a seller trade on an open account basis or use collections, you rely on the buyer's willingness and ability to pay as agreed. A Standby LC in your favour securing the buyer's payment obligation will provide you with compensation should the buyer fail to pay. In order for you as a seller to further reduce your risk, if you and your buyer so agree and at the request of your buyer's bank, Nordea can confirm¹ the Standby LC for you. In this way your risk is placed on Nordea instead of on the buyer's bank.

1) Subject to credit approval.

Secure the delivery

As a buyer you rely on the seller's willingness and ability to fulfil his obligations, for instance to deliver the right goods, at the right time and at the right place.

Again, a Standby LC covering the seller's obligation will provide you with compensation should the seller fail.

How it works

First you and your trading partner agree on the contractual terms (1). In this example you are the buyer and have agreed to provide the seller with a Standby LC covering your payment. You will then apply to Nordea for the Standby LC (2). Nordea issues the requested Standby LC, based on the terms of the contract between you and the seller, and sends the Standby LC to the seller's bank (3). The seller's bank then advises the Standby LC to the seller (4) and the seller makes the shipment and sends you the invoice etc. (5).

If you fail to pay the invoice as agreed, the seller can claim payment under the Standby LC.

Contact us to find out more about how we can assist you with your trade finance transactions. You can also find us at nordea.com/tradefinance.

CONTACT

Please contact us and find out more about our trade finance solutions.

[NORDEA.COM/TRADEFINANCE](https://nordea.com/tradefinance)

SHORTCUTS

More tools to help you improve your international trade:

[NORDEA.COM/TF-PUBLICATIONS](https://nordea.com/TF-PUBLICATIONS)

FACTS

Nordea offers a full range of trade finance services and is the largest trade finance bank in the Nordic region. We offer trade finance services including collections, documentary credits and guarantees as well as related e-solutions.

Located in Denmark, Finland, Norway, Sweden, Germany, China, Estonia, Latvia, Lithuania, Russia, Singapore, the UK and USA.

How it works

First you and your trading partner agree on the contractual terms (1). In this example you are the buyer and have agreed to provide the seller with a Standby LC covering your payment. You will then apply for the Standby LC to Nordea (2). Nordea issues the requested Standby LC, based on the terms of the contract between you and the seller, and sends the Standby LC to the seller's bank (3).

The seller's bank then advises the Standby LC to the seller (4) and the seller makes the shipment and sends you the invoice etc. (5).

If you fail to pay the invoice as agreed, the seller can claim payment under the Standby LC.

