



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 payment.	None.	Complete. Relies on seller to ship exactly the goods expected, as quoted and ordered.	Seller's goods must be special in one way or another, or special circumstances prevail over normal trade practices (e.g., goods manufactured to buyer-only specification).
LETTER OF CREDIT (L/C) (See next two items)			Commercial Invoice must match the L/C exactly. Dates must be carefully headed. "Stale" documents are unacceptable for collection.		Letters of Credit require total accuracy in conforming to terms, conditions, and documentation. Consult your United Shipping Partner to determine feasibility of terms and conditions.
CONFIRMED IRREVOCABLE CREDIT	After shipment is made, documents presented to the bank.	After payment.	Gives the seller a double assurance of payment. Depends on the terms of the L/C.	Assures shipment is made, but relies on exporter to ship goods as described in documents. Terms may be negotiated prior to L/C agreement, alleviating buyer's degree of risk.	The inclusion of a second assurance of payment (usually a U.S. Bank) prevents surprises, and adds assurance that issuing bank has been deemed acceptable by confirming bank. Adds cost and an additional requirement to seller.
UNCONFIRMED IRREVOCABLE CREDIT	Same as above.	Same as above.	Seller has single bank assurance of payment and seller remains dependent on foreign bank. Seller should contact his banker to determine whether the issuing bank has sufficient assets to cover the amount.	Same as above.	Credit can be changed only by mutual agreement, as stipulated in a sales agreement. Becomes open account with buyer's bank as collection agent. Foreign bank may have problems making payment in sum or timeliness.
DRAFTS (See next two items)	Remittance time from buyer's bank to seller's bank may still take one week to one month.		Drafts, by design, 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), consult with your banker and freight forwarder to determine the most desirable means of doing business in a given country.
SIGHT DRAFT (with documents against acceptance)	On presentation of draft to buyer.	After payment to buyers 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.	A draft can 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)	On 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 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.	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 buyer's credit reliability, but the country's as well.

Terms ranked from LEAST RISK to MOST RISK for the seller.
 NOTE: When establishing international terms of payment, please consult your banker and your United Shipping Partner to determine the most beneficial method for you.



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