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FORFEITING AS A FINANCING METHOD FOR INTERNATIONAL TRADE

by

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I N D E X

INTRODUCTION

For the past twenty-five years or so European banks have used a very simple, efficient method for financing trade to the less-developed world by discounting bills or notes that are guaranteed by a local bank. Such paper is easily negotiable and therefore traded, much like commercial paper, at a price representing the term and risk. Financing is usually arranged by the exporter as part of the deal, known as a "suppliers" credit.

Popularly called "forfeiting", this kind of trade finance on a non-recourse basis has not gained general usage in the United States for several reasons: our legal system, based on common law contracts and the Uniform Commercial Code ("U.C.C."), generally requires much more detailed documentation, and American companies have been perhaps less aggressive in combining financing with the purchase of goods and services to the third world. Instead, U.S. exporters relied more and more on providing importers with traditional "buyer" credits from large international banks.

With growing heavy debt repayment problems curtailing the availability of bank lines of credit to many less-developed countries ("L.D.C.'s"), forfeiting has become an increasingly important sales mechanism for many exporters, and about a dozen banks and independent forfeiting institutions have fairly recently established such operations in the U.S. (Banks may prefer the forfeit market, compared to using lines of credit, because the paper is securitized and their exposure can be more readily adjusted through purchase and sale in the secondary market).

Nonetheless there remain a number of obstacles in popularizing non-recourse finance in this country: (1) there have been few tests of the very simplified documentation under adverse conditions; (2) forfeiting will still not work where an acceptable local bank guarantee is unavailable, or for a country which is otherwise uncreditworthy for the size and maturity of the transaction; (3) it remains a relatively expensive, although very simple, method of trade finance; and (4) forfeited paper may not always be immune from the resche-duling process as in the past.

Export opportunities which do not meet current market standards for forfeit paper, often involving trade with seriously over-indebted countries, may still be possible to arrange through alternatives such as "substitution" or "replacement" financing with one of the major international banks. Or the exporter may need to explore countertrade and barter possibilities, a much more complex trading mechanism which has already been used extensively by European exporters as well as a few large U.S. petroleum and wholesale commodities trading firms.

Definition and Background

One of the most common methods of financing international trade in goods and services is so-called "a forfeit" or non-recourse paper. The technique is widely used in Europe to obtain financing for less-developed countries outside normal banking channels.[1] Although banks often arrange such transactions and may eventually keep some of the risks in their own portfolio, the "a forfeit" system essentially securitizes less-than-prime international credits, the "high risk/high yield bonds" of the export/import market, allowing investors to change their risk profile at will.

"A forfeit" describes a financing technique which combines the characteristics of many other kinds of trade instruments. It is generally classed as a "supplier" credit: that is, the <u>exporter</u> is required to provide financing as an integral part of his sale of goods or services. Assuming the exporter does not choose to retain this risk on his own books as a receivable, he may consider structuring the transaction to include negotiable notes which he can sell to a bank or private investor, hence the origin of "a forfeit" paper.

The market for non-recourse paper of this kind started in the 1950's and originally concentrated on East-West trade. Most transactions covered shipments of raw materials which could be rapidly converted into manufactured goods and re-exported, requiring a simple, short-term trade financing mechanism. The market for such paper is now virtually world-wide, and includes medium-term transactions as well.

Characteristics of A Forfeit Financing

Forfeiting can be described as follows:

(1) As in normal letter-of-credit operations, the obligation to pay is represented <u>solely</u> by underlying note or bill of exchange, and is completely separated from the

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1 "Normal bank channels" include lines of credit, term loans and commitments, either for a specific transaction or for a series of trades, arranged directly between banks. Aside from lines of credit which fall under banks' general business conditions, such facilities are usually the subject of lengthy inter-bank written agreements, especially in the case of facilities syndicated amongst a group of banks.

commercial transaction.[2]

(2) It is in the form of negotiable bills of exchange or promissory notes including only the most essential terms of a legal obligation to pay: fixed amounts and maturity dates, and the names of the obligor and, in most cases, his guarantor.[3]

(3) The note stands on its own, without recourse to either the exporter or any intermediary purchaser. An endorser can of course be held liable for fraud or misrepresentation, but not for non-payment.

(4) "A forfeit" paper is normally issued on a discount basis, that is, the interest rate is implied in the principal amount due; this practice means that most "a forfeit" notes do not indicate an interest rate on their face, and are sold "flat", i.e. for a fixed cash price. More recently some paper has been sold based on an explicit interest rate, using a fixed rate or some established floating rate benchmark.

(5) Interest is calculated on a 360 day basis, although the alternative 365 day basis is sometimes used, as agreed during the negotiations between the exporter and his forfeiter.

(6) The term is usually five years or less, and occasionally for less than one year. The interest rate calculation usually includes compensation for 5-10 days' grace after each payment date to allow for delays.

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[2] The original issue of an "a forfeit" obligation is usually, however, accompanied by a side letter from the seller to the financing party, holding him harmless both from failure to make payment, and related legal costs, in the event that the buyer refuses payment because of fault in the quality or quantity of the merchandise delivered. The benefits of this letter are usually available to subsequent holders in due course. Some forfeiters (e.g. Chase) have a standard agreement of several pages with certain representations and warranties, including, for instance, assurances of authentic signatures, approval to borrow etc.

[3] The notes or bills are preferably issued in a country which is a signatory to the International Convention for Commercial Bills (commonly known as the "Geneva Convention") of 1930, which established a common code for financial transactions of this nature. Neither the U.K. nor the United States have signed the convention.

(7) Amounts are generally \$ 1 million or less to facilitate easy marketability, but amounts of \$10-15 million are not unknown. One recent transaction involving a sale of DM 400 million in equipment by British Aerospace to Turkey was arranged by Midland Aval in London.

(8) There is generally no security, and the notes rank as junior obligations of the debtor. However, many importers who avail themselves of the "a forfeit" technique are sufficiently weak credit risks to require a guarantee or aval[4] from an established international bank, or government institution, to provide a marketable note. Most often the guarantee is from an institution in the importer's country, meaning that the commercial risk may be guaranteed but the country risk remains.

(9) Notwithstanding it junior status, "a forfeit" paper has generally been excluded from restructurings because of its special importance in everyday trade, the fact that the paper is often held by small investors with whom it would be difficult to negotiate new terms, and because of problems in reconstructing an interest rate on discounted notes.

(10) "A forfeit" notes are usually denominated in commonly traded convertible Eurocurrencies such as dollars, Deutschmark, Swiss Francs or Yen. But exotic currencies are not unknown depending on the size of the transaction and the confidence of local "a forfeit" traders to market the paper.

(11) The note or bill of exchange is expressed in the

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4 An aval is an irrevocable and unconditional obligation to pay on the due date, as if the endorser had been the original obligor. Because of its simple meaning in international trade practice, it is the most suitable form of security with respect to "a forfeit" paper. The aval is written directly on each promissory note or bill of exchange with the words "per aval" and the signature of the "avaling" party, together with the name of the original obligor. Under common law, there may be difficulty with the use of an aval because of lack of proof of consideration.

A guarantee is a promise to pay expressed in a separate document, signed by the guarantor, setting out in full all conditions relating to the transaction. Because a guarantee is (1) a separate instrument, and (2) contains terms and conditions which may weaken the absolute promise to pay of the original note, it is the less preferred method of security.

simplest terms, without the usual covenents and protections often found in bank loan agreements, such as representations and warranties (conditions precedent), acceleration and cross default provisions, restraints on issuing senior debt ("pari passu" clauses), and various restrictive financial ratios. An "a forfeit" note does not even indicate the law or courts ("jurisdiction") governing disputes -- not trivial matter with respect to a business transaction which may involve four or five different countries.

(12) Payment must be unconditional and without any reductions for fees or withholding taxes. Nonetheless taxes may be imposed by the government where the note is discounted or paid, and the investor should be aware of such potential levies.

The Market for Original Paper (the "Primary Market")

Although the market centered in Vienna, Zurich and Frankfurt for many years, it is believed that London -- because of the location of many international banks, and an active refinancing market -- is now the principal trading city for non-recourse paper. Another major advantage of London as a market is said to be the presence of branches of many L.D.C. banks; if one of these branches provide the aval, the Bank of England may be far tougher in forcing payment on maturity than if payment requires presentation in a home country.

London is now the largest secondary market for "a forfeit" paper, while Singapore appears to be the Asian center for this form of financing.

Parties to the Transaction

Forfeiting will normally include the following business partners: (a) the exporter; (b) his forfeiting intermediary; (c) the importer; (d) a guarantor of the importer's credit; and, very often, (e) financial investors interested in purchasing the forfeited paper from the intermediary.

Where neither exporter nor importer will provide financing for the transaction, the exporter will approach an intermediary, usually the foreign department of a major bank or a firm specializing in originating forfeit deals. Non-recourse paper of this kind is written in fairly standard and simple terms, with the object of establishing marketablity.

Traditionally the best known "a forfeit houses" were in Zurich, companies such as Finanz A.G. and Monaval. The multi-billion dollar market has since attracted many other institutions, including most of the major European commercial banks, directly or through subsidiaries (see a partial list in Appendix "One").

In the United States, there are about a half-dozen institutions who engage in forfeiting; these include principally subsidiaries of banks already active in the London market and a few independents. Many are relatively recent arrivals.

A local bank guarantor or "avalizer" will of course also need to pass on the merits of the transaction and the price for his endorsement, which will have to be acceptable to both the importer and the forfeiter. The forfeiting house will supply a list of local banks whose aval or guarantee it will accept; in most cases, these are the largest and best-known local institutions with some international standing. Payment and terms for this guaranty or aval is the responsibility of the importer, and does not concern the other parties to the transaction.

The exporter should coordinate his approach to the financing with the forfeiting institution very early in the transaction, <u>before concluding the price</u>, to assure that the terms are adequately covered in the offer, and to allow price adjustments to include forfeiting costs if possible.

Marketing Techniques

Most forfeiting institutions issue monthly rate sheets which give indications of the "spread" (interest add-on) over money-market (cost-of-funds) rates which the best borrowers of the country can obtain for a given maturity, in different currencies. Quotations are normally given on a "discount to yield" basis, to provide an easy comparison with refinancing costs soas to establish the "spread". Typical rate sheets are shown in Appendix Two,[5] which usually include indications of country "appetite" as well.

On the other hand, it is quite usual for the exporter to absorb some of the spread in his price -- either through an add-on (for relatively price-insensitive products) or as a reduction of his profit margin; this is why the price should not be finalized, or even negotiated before the exporter consults with the forfeiting institution. Some countries also do not permit their local importers to pay more than a stated interest rate, which naturally leads to price adjustments which obfuscate real cost of funds.

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[5] News of the forfeiting market may be found in the monthly publication, "Trade Finance", published by Euromoney Publications plc, Nestor House, Playhouse Yard, London EC4V 5EX, England, tel. (044) (01) 236 3288

Creditworthiness

Forfeited paper is basically a two-name obligation, involving a debt of the local importer and the unconditional guarantee of his bank. In most cases, only the guaranteeing bank's credit is involved in assessing the credit.[6] The forfeiting house will supply a list of local banks whose aval or guarantee it will accept for the amount and term required. In most cases, these are the largest and best-known local institutions with some international standing.

Through close business connections and published rate sheets, most forfeiting houses are in close contact with other forfeiting institutions, but there are often differences, both in price, appetite for term credit and country availability,[7] from one forfeiting house to another. As in other similar transactions, the largest deals should not be shopped in fairness to the forfeiters, and exporters are best advised to deal from the beginning with a single reliable partner.

Quite clearly, countries in a state of war (e.g. Iraq, Iran, Sri Lanka, Guatemala, Afghanistan), countries which have unilaterally suspended payments (e.g. Peru, North Korea, Cuba) and countries who are in a serious rescheduling difficulties (e.g. Poland, Romania, Nigeria) are not likely to be acceptable risks in the forfeit market. The Republic of South Africa may not be an acceptable risk in some countries, including the U.S., for political reasons.

With reschedulings occurring with more regularity and without acrimony, such countries may be acceptable risks albeit with somewhat curtailed maturities and limited amounts, e.g. Turkey and Venezuela. This may even include a few of the other large Latin American obligors such as Brasil, Argentina and Mexico, although the appetite as between different forfeiting

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6 An exception might be the German Democratic Republic, where the state-owned export monopolies may issue paper with only their own signature, and without the guarantee of the nationalized export credit institution, the Deutsche Aussenhandelsbank. While these state-owned companies are deemed to have sovereign backing, paper with a DAB aval commands a superior credit rating, i.e. it sells at a lower spread.

7 An example is Sri Lanka, where one U.S. forfeiter indicated a willingness to deal up to three years based on a Dutch bank aval, while two others declined to consider the credit altogether.

institutions may differ from time to time.

For countries with some international indebtedness but satisfactory repayment records -- e.g. Pakistan, Indonesia, Colombia, Israel, forfeiting can often be a very attractive financing alternative.

Countries without significant international indebtedness and high credit standing are frequently quoted in the forfeit market, but such paper is not often available. The exporter can usually buy on open account, or refinance more cheaply directly through his banks; two-name paper would add unneeded expense to transaction. This would include most of the major Western European countries, the U.S., Canada, Japan, Taiwan, South Korea, Singapore, Hong Kong, Australia and New Zealand amongst others.

In some countries, such as the major Arab nations, a bank guarantee is in any case necessary to the transaction because the companies are not well known abroad, so forfeiting is as viable as direct bank-to-bank deals.

<u>Pricing Considerations</u>

As for most debt instruments, price depends on length of maturity, country risk, obligor and currency, resulting in a "market-rate" interest rate quotation. The willingness to deal presumes that the obligation is delivered in good form, a relatively simpler matter in "a forfeit" business than for other lending transactions, as the technique avoids most the complicated trappings -- covenents, indemnities and representations-- found in many direct bank financings.

For virtually unquestioned credits such as Eximbank, U.S. D.A., C.C.C., Hermes or Coface-insured paper, the "spread" may be as little as 1/8%, but for questionable credits it may rise to as much as 5% (in addition to the cost of funds). For some countries with international payment difficulties there may be <u>no ready market whatever</u>, resulting in a total absence of business for these borrowers.[8]

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[8] Foreign subsidiaries and branch banks of such countries (e.g. Bank Handlowy, Jugobanka, Hungarian International Bank, to cite a few examples from countries which have occasionally experienced financing difficulties) often make a brisk market in their own paper: since they frequently benefit from investing their countries' reserve accounts, or have limited international lines of credit, they can rarely do better than buy their own paper at significant discounts. It is said, for instance, that Banco Real makes a ready market for Brazilian paper, and Banca Serafin for Mexican paper.

Almost all pricing used in the forfeit market quote off the "LIBOR" ("London Interbank Offerred Rate") benchmark, or its equivalent in other currencies, such as Eurodeutschmark or Euro-swissfrancs. Where a local currency basis is the standard, it must be so stated in the conditions agreed between exporter and forfeiter.

Despite its relative simplicity, non-recourse financing is relatively expensive because the lender has so little protection against loss, despite the presence of a guarantee. This is in contrast to the commercial paper market in the United States, which is very similarly structured but remains the cheapest source of funding for many large companies. The key difference is of course that prime American commercial paper borrowers are first-rate credits and the paper is rarely longer than 180 days, whilst a forfeit borrowers -- even with a guarantee of a local bank -- generally represent far less than a prime risk.

Refinancing Possiblities

The very odd amounts generated by discounting trade bills, and possibly uneven maturities, make swaps difficult for all but the largest sums, so the risk of a partially "un-matched" book often raises the risk and therefore the cost of forfeiting.

On the other hand, forfeiting may be the most convenient way of handling odd amounts and maturities, as banks would be unable to offer their most favorable rates (i.e. spreads) under lines of credit that are normally quoted for even amounts and 3,6 or 12 month terms or multiples thereof.

Whether the forfeiter matches maturities, and whether he decides to keep the paper in his portfolio, should not concern the exporter, nor may the exporter place restrictions on the full negotiability of the notes generated by the transaction.

Other Fees and Costs

Exporters should expect to pay commitment fees for transactions which will not be immediately consummated, compensating the financing institution for future credit risk. There may be other costs, "placement" charges etc. which frankly reflect the difficulties of the marketplace. A large, reputable exporter dealing in quantity with all but the least creditworthy L.D.C.'s should have considerable room to negotiate such fees.

Government Insurance Programs

If foreign competition can be shown, government export insurance may be available, even on an "a forfeit" basis: Eximbank, C.C.C. or F.C.I.A., amongst others, may cover some of the maturities and/or part or all of the interest. These programs differ widely from country to country and amongst different credit insurance institutions, and is beyond the scope of this paper. It may be more difficult to insure discounted non-recourse notes on a partial basis, because interest and principal are mixed together, but that is theoretically possible.

Participations

For very large transactions, or unusually difficult credits, it may be necessary to participate the risk amongst several investors. This is commonly arranged by the forfeiting institution, either as undivided notes (as in a loan syndication), or by selling individual notes to different investors. Because of the lack of the usual covenents in the underlying obligation, the preferred method is to sell each note separately.

Advantages and Disadvantages of Forfeiting

(1) Advantages

A forfeiting situation is likely to be successful when the exporter is unwilling to finance on open account or retain the importer's note on his books. This may be because he is unwilling to assume the risk, or needs the cash for his continuing business. Of course the exporter has to weigh the relatively high cost of forfeiting against his profit margin and his other exposure to the same obligor (many exporters will carry a certain amount of such risk on their own books, but they usually have internal limits).

Forfeiting is most advantageous to increase business with countries who remain creditworthy, but where the exporter does not wish to increase his exposure.

The documentation is relatively simple and transactions can be finalized with a minimum of legal complications.

(2) Disadvantages

Forfeiting <u>may</u> be more expensive if bank-to-bank lines are still available.

For the holder of the notes, the limited documentation may offer less legal protection in the event of default. But practice has shown that debtor countries are most unwilling to default such paper, or include it in reschedulings, because of its importance to their everyday export-import business.

A Typical Transaction

An exporter, such as General Motors, is preparing to offer to sell locomotives to Yugoslavia. The importer, under severe foreign currency restrictions, will not consider bids without certain financing terms, e.g. five years' maturity, 20% due annually in semi-annual payments. Sometimes the importer will also specify that financing costs cannot exceed a fixed percentage rate (in which case the excess needs to be factored into the overall price).

G.M. has the following alternatives: (1) keeping the obligations on open account, or in the form of notes, in its own portfolio of receivables; (2) selling the notes with recourse (to avoid expanding its balance sheet); or (3) selling the notes without recourse. For many less-developed countries, G.M. might only consider the latter alternative, for risk-control reasons.

Before making its offer, G.M. is then likely to approach several of its commercial banks to review their interest in financing the transaction, involving direct financing to the importer, or a transaction which includes the importer's bank, in either case a "buyer's" credit, usually a formal loan agreement which can be syndicated amongst several lenders. This form of financing was traditionally used for large, long-term projects. More recently such syndications have been established for shorter-term purchases of commodities such as oil or grain, as they provided more formal documentation than the open lines of credit which banks had previously relied upon for trade financing.

Alternatively, G.M. may consider structuring the notes in "a forfeit" form as a "supplier's credit", negotiated with one of the specialty forfeiting firms. The discount may be a steep one, making this kind of financing a relatively expensive arrangement for the buyer; consequently, the exporter may need to consider absorbing part of the cost in his profit margin, or raising price of the merchandise to make up for part of the interest expense.

In any case, to strike a deal, G.M. will have to accept a discounted price for the Yugoslav notes which reflects not only their maturity but the Yugoslav risk; once sold, G.M. is only required to indemnify the holder against suits rising from non-delivery or faulty workmanship.

Special Considerations.

(1) The appetite within the financial community for typical non-recourse risks fluctuates widely with economic and political considerations, but of course has become a

increasing problem since the 1981 surge in reschedulings. Eastern Europe (aside from Poland, Romania and Yugoslavia) has actually improved its ability to finance on an "a forfeit" basis as these countries have carefully repaid their obligations; many Latin American and African debtors have found these markets very thin, expensive and often closed.

(2) There is no assurance that the typical exclusion of "a forfeit" paper from reschedulings will continue. The practice is at the mercy of the general creditor community, and to the extent that this financing technique is increasingly used in place of bank financing, pressure could develop to include this kind of debt along with the others.

(3) The steep discounts of some rescheduled sovereign debt -- 50% or more in some instances -- leads one to suspect that without partial guarantees from the exporter, export insurance or other assistance, some L.D.C. paper will remain simply unmarketable.

(4) American financial institutions have generally avoided the use of "a forfeit" techniques in this market for several reasons:

(a) Burdensome legal documentation required under American contract law which precludes lending without very detailed agreements between borrower and lender-- the antithesis of the "a forfeit" idea. When protected by the laws of many European countries (which incorporate many of these safeguards by statute or banking practice), these same American institutions will often be more willing to enter into non-recourse business.

(b) Many U.S. banks do not have the legal power to guarantee; "a forfeit" transactions therefore may be structured in the style of more cumbersome stand-by letter-of-credit financings.

(c) American banks traditionally did not favor assuming straight lending risks (the purchase of a non-recourse note) without other benefits of a banking relationship: an account, other transactional or fee business. With the growing securitization of the debt markets, these traditions seem to be less important than in the past.

(d) In the past, the domestic U.S. dollar market was almost entirely based on a floating "prime" rate; except for the long-term bond market, there were no intermediate fixed rate terms as are prevalent in the Euro markets. With the creation of interest rate swaps and longer CD's over the last few years, the problem of "matching" maturities of non-recourse paper has declined.

Three Countries: Present Indications.

(a) Indonesia. According to most forfeiting sources, Indonesia represents a reasonable risk for up to seven years, at perhaps 1/2 to 1% over the prime rate for forfeited paper.[9] Apparently only two indigenous banks (Bank Nagara Dagang and Bank Ekspor Impor) may be permitted by law to avalize foreign credits.

(b) Pakistan. Pakistani paper appears to be acceptable to the market; amongst local banks whose aval is readily accepted are Habib Bank and National Bank of Pakistan. The "spread" over prime is possibly 2%.

(c) Sri Lanka. Several forfeiting institutions questioned about Sri Lanka were doubtful about its marketability at this time. One institution noted that perhaps for up to a year the Bank of Ceylon aval might be suitable; another accepted Sri Lankan paper only with a Dutch bank guarantee.

Possible Alternatives.

In the final analysis, financing L.D.C. risk comes down to spreading the burden amongst as many interested parties as can be arranged: this includes the exporter (with a lower profit); the importer (with a higher price); an intervening government insurer or private guarantor; and an investor who purchases the final piece of paper.

For all but the least creditworthy international borrowers, there may be variation on the "a forfeit" financing technique which allows an otherwise marketable transaction to succeed. These include:

(1) Partial government guarantees. In some instances the "commercial" risk may be separated from the "sovereign" risk, improving the creditworthiness of the underlying paper. However, this still does not eliminate the threat of rescheduling. In some instances, for instance, the U.S.D.A. (Department of Agriculture) or C.C.C. insures almost 100% of export paper covering American grain shipments plus interest up to a stated figure; the remaining risks should be manage with a sufficient spread.

(2) European governments and their major private

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[9] By "prime" rate is meant the cost for first-rated credits in the U.S., Switzerland, Japan and Germany.

commercial banks have traditionally arranged so-called "Rahmenkredite" -- "frameworks" of credit not dissimilar to lines of credit extended to specific countries for a whole range of merchandise trade. Because they are arranged with strong government support on both side, they carry a greater credit standing in the market.

(3) Another interesting new concept is "replacement " or "substitution" financing, where the third-country risk is shared between exporter and the financing institution. A typical case might be the following:

(a) An exporter of relatively price-insensitive (therefore, high-margin) goods has a contract to sell $ 10 million of machinery to an L.D.C. importer. The financing requires five year maturities and a 10% downpayment, and 70% government export insurance is available. Under normal circumstances, the 20% "uncovered" portion presents an unmarketable credit risk under current conditions.

(b) The exporter wants free himself of the 20% ($2 million) L.D.C. risk.

(c) Bank X is totally uninterested in increasing its exposure to the L.D.C. involved, of which it already has rescheduled/non-performing debt on its books. Such debt can be sold on the open market, in limited quantities, at a 50% discount.

(d) In order to reduce its L.D.C. loan loss, Bank X might consider the following arrangement:

[i] Sell $ 5 million of similar loan maturities into the market, taking a $2.5 million loss;

[ii] Purchasing the new $ 2 million export receivable from the exporter at a 50% discount, i.e. for $ 1 million. The exporter has to cover <u>his</u> $ 1 million loss through his profit margin (originally, perhaps, $ 2 million) or by grossing up the price of his merchandise to $ 11 million.

[iii] Bank X now has a new loan with a face value of $ 2 million but with a cost of $ 1 million, and an immediate tax write-down of $ 2.5 million (through its loan loss reserve). But its exposure to the L.D.C. country has gone from $ 5 million to $ 1 million, with a potential for recouping $ 1 million more <u>and</u> collecting current interest on the "new" financing on the full face amount, which may even avoid rescheduling.

If this transaction is consumated and payments are made as contracted, the following consequences would appear:

(a) The exporter has financed his sale, but at a reduced profit margin ($1 million instead of $2 million), assuming he could not recover part of this loss in the price.

(b) Bank X has suffered a $ 2.5 million pre-tax loss but recouped $ 1 million (plus current interest); its loss of $ 1.5 million only 30% of its original $ 5 million L.D.C. exposure, and it has reduced its L.D.C. exposure by 80% (from $ 5 million to $ 1 million).

Conclusion

Non-recourse financing has been very successful in Europe in promoting trade with less-developed countries; the technique offers a flexible yet clear alternative in many cases where government-sponsored credit or private insurance is either too expensive or unavailable. With the many reschedulings of recent years, however, some countries have simply been eliminated in using this financing method, whilst for more developed countries the competition has driven spreads to the same unacceptably fine terms as in the case of straight bank debt. This situation suggests that the time has come for risk-sharing between exporter and importer.

For the especially disadvantaged countries, it is unlikely that traditional "a forfait" financing is the solution, as the risks are simply too great for a financial intermediary to earn a reasonable profit. Even in Europe, forfeiting doesn't work anymore either for these particularly credit-poor nations. In such cases, guarantee programs sponsored in whole or part through government export risk agencies may be the only alternative.

Another interesting concept which should be considered in such circumstances is substitution financing, as described in alternative (3) above. Another perhaps even more attractive but complex solution eliminates the intermediary risk altogether: counter-trade and barter. This trade technique is equally unknown in this country as is forfeiting, although it is very commonly used in Europe and is a familiar trade mechanism for the largest commodities firms such as Cargill and Continental Grain.

The growth of non-recourse financing in Europe along with the proven success of their export companies, suggest that U.S. companies may need to become more knowledgable about supplier credits in planning their export strategies.

APPENDIX ONE

SELECTED FORFEITING INTERMEDIARIES

I. LONDON:

International Commercial Bank P.L.C.
9/10 Angel Court
London EC2R 7HP
(01) 606-7222
(affiliate of Hongkong & Shanghai Banking Corporation; First National Bank of Chicago; Commerzbank; Credit Lyonnais; Irving Trust Company; and Banco di Roma.

Kaines (U.K.) Ltd.
83 Pall Mall
London SW1Y 5ES
(01) 839-8800
(affiliate of British & Commonwealth Shipping PLC)

London Forfeiting Company Ltd.
International House
1 St. Katherine's Way
London, E1 9UN
(01) 481-3410

London Interstate Bank Ltd.
Bastion House
140 London Wall
London, EC2Y 5DN
(affiliate of Sparkassen SDS)

Midland Bank Aval Ltd.
Minerva House
Montague Close
London SE1 9DH
(01) 378-2121

LONDON AFFILIATES OF INTERNATIONAL BANKS WITH FORFEITING DEPARTMENTS:

ANZ Bank - Australia & New Zealand Banking Group Limited
Minerva House
Montegue Close
London SE1 9DH
(01) 378-2121

Badische Kommunale Landesbank Girozentrale
Princes House
95 Gresham Street
London EC2V 7NA
(01) 606-0891

(LONDON FORFEITING INSTITUTIONS -- continued)

<u>Barclay's Bank P.L.C.</u>
Fleetwood House
25 Farrington Street
London, EC4A 4LT
(01) 489-0969

<u>CCF- Credit Commercial de France</u>
Peninsular House
36 Monument Street
London EC3R 8LF
(01) 623-1131

<u>Chase Manhattan Ltd.</u>
Woolgate House
Coleston Street
London, EC2P 2HD
(01) 726-5763

<u>Citicorp Investment Bank Ltd.</u>
335 The Strand
London WC2R 1LS
(01) 438-0394

<u>Creditanstalt Bankverein</u>
29 Gresham Street
London EC2V 7AH
(01) 822-2600

<u>Hungarian International Bank Ltd.</u>
Princes House
95 Gresham Street
London EC2V 7LU
(01) 606-5371
(an affiliate of the Hungarian Foreign Trade Bank)

<u>Moscow Norodny Bank Ltd.</u>
24 King William Street
London, EC4
(01) 623-2500
(an affiliate of the Foreign Trade Bank of the U.S.S.R.)

<u>Security Pacific Trade Finance Ltd.</u>
Chronicle House
72-78 Fleet Street
London EC4Y 1HY
(01) 583-0153

(LONDON FORFEITING INSTITUTIONS -- continued)

Westpac Banking Corporation
Walbrook House
23 Walbrook
London EC4N 8LD
(01) 626-4500

OTHER INTERNATIONAL BANKS KNOWN TO BE ACTIVE IN THE FORFEITING MARKET IN LONDON:

AMRO Bank
Lloyd's Bank International
National Westminster Bank Int'l

(The following institution represents itself as expert in computerized calculations of discounts and yields on complex forfeit transactions):

Rohirst (Cleckheaton) Limited
7 Northgate, Cleckheaton
West Yorkshire BD19 3HH
(0274) 878 629

II. SWITZERLAND:

Dresdner Forfaitierungs A.G.
Faerberstrasse 6
Zurich
(01) 69 41 41
(a subsidiary of the Dresdner Bank A.G., Frankfurt, F.R.G.)

Finanz A.G.
Talacker 16
CH-8021 Zurich
(01) 27 28 30
(affiliate of Credit Suisse)

Forfaitierung und Finanz A.G.
Bahnhofplatz 5
Zurich
(01) 211 42 72
(a subsidiary of the Badische Kommunale Landesbank Girozentrale A.G., Mannheim, F.R.G.)

Interfin
Geneva

(SWISS FORFEITING INSTITUTIONS -- continued)

<u>Kaines S.A.</u>
82, Rue de Lausanne
P.O. Box 2526
1211 Geneva 2
(022) 32 81 11
(affiliate of Kaines [U.K.] Ltd.)

<u>Monaval Finanz A.G.</u>
Talstrasse 39
Zurich
(01) 27 56 36
(affiliate of Algemene Bank Nederland)

<u>SBV Finanz A.G.</u>
Talstrasse 70
CH-8001 Zurich
(01) 211 5656
(affiliate of Swiss Bank Corporation)

<u>SODETIC</u>
Lugano

<u>III. NEW YORK:</u>

<u>A.I. Trade Finance Inc.</u>
99 John Street
New York, New York 10038
(212) 770-8982
(affiliate of American International Group [A.I.G.])
Riccardo M. Soriano, Manager
Elizabeth M. Krahmer, Assistant Vice President
<u>Chase Manhattan Investment Bank</u>
1 Chase Manhattan Plaza
New York, New York 10004
(212) 552-2615
Stephen Marzo
Laura Goldhaar

<u>Citicorp Investment Bank</u>
399 Park Avenue, 4th Floor
New York, New York 10043
(212) 559-8925
Erwin K. Schuler, Vice President

(NEW YORK FORFEITING INSTITUTIONS -- continued)

Kaines (U.K.) Ltd.
21 West Street
New York, New York 10005
(212) 943-0200

Irving Trust Company
1 Wall Street
New York, New York 10015
(212) 635-1111
Scott Branch, A.V.P.

Midland Bank Aval Ltd.
560 Lexington Avenue, 11th Floor
New York, New York 10022
(212) 758-2100
Margaret Emmenegger
Patricia Jones

Security Pacific Trade Finance, Inc.
595 Madison Avenue
New York, New York 10022
(212) 644-0020
Michael Hendrych

IV. LOS ANGELES

Security Pacific Trade Finance, Inc.
P.O.Box 2097
Terminal Annex
Los Angeles, Ca. 90051
(213) 345-6273
Dana Symonds, Vice President

V. FRANKFURT:

(The forfeiting market appears to be limited to the major international commercial banks, the following most prominently:)

Bank fuer Gemeinwirtschaft (BfG)
Theaterplatz 2
D-6000 Frankfurt-am-Main 11
(0611) 2580

Berliner Handels-und Frankfurter Bank (BHF-Bank)
Bockenheimer Landstrasse 10
D-6000 Frankfurt-am-Main 1
(0611) 718-0

(FRANKFURT FORFEITING INSTITUTIONS -- continued)

Chemical Bank
Ulmenstrasse 30
D-6000 Frankfurt-am-Main 17

Citibank
Neue Mainzer Strasse 75
D-6000 Frankfurt-am-Main 17

Commerzbank A.G.
32-36 Neue Mainzer Srasse
D-6000 Frankfurt-am-Main 1
(069) 13621

Deutsche Bank A.G.
Taunusanlage 12
D-6000 Frankfurt-am-Main 1
(069) 171 500

Dresdner Bank A.G.
1 Juergen-Ponto Platz
D-6000 Frankfurt-am-Main 11
(0611) 2631

Morgan Guaranty Trust Company of New York
Mainzer Landstrasse 46
D-6000 Frankfurt-am-Main 17
(069) 71 24 483

Ost-West Handelsbank A.G.
Stephanstrasse 1
6000 Frankfurt-am-Main
(069) 20 141
(affiliated with the Bank for Foreign Trade
of the U.S.S.R.)

APPENDIX TWO (a)

CREDIT SUISSE
SCHWEIZERISCHE KREDITANSTALT
CREDITO SVIZZERO

TRADE FINANCING

October 1987

CONDITIONS FOR EXPORT FINANCING IN SWITZERLAND

SHORT - TERM FINANCING

	SFr.	Remarks
Export bills: (3-6 months) Discount	5 1/2 % - 7 1/2 % p.a.	Discounting with recourse to the remitter
Foreign account receivable financing	6 % - 7 % p.a.	time loans: loan granted up to 70 % of claim

MEDIUM - TO LONG-TERM FINANCING

Export credits with Swiss ERG coverage:		(ERG = export risk guarantee Tel. 01/47 66 54)
Maturity 3-10 years or longer	5 1/2 % - 6 3/8 % p.a.	Interest fixed for 5 - 6 years; for longer period generally five-year roll-over
Beyond 6 up to 8 years with through financing	5 3/4 % - 6 5/8 % p.a.	Fixed rate of interest. commitment commission of 1/4 % per quarter when interest is fixed upon acceptance of offer;
Export finance credits.	6 % - 6 3/4 % p.a.	normally not over 25 % of ERG covered export credit, shorter maturities;

EUROMARKET

Short term rates (LIBOR). 3 months: US$ 7 5/8 / DM 4 — 6 months: US$ 8 / DM 4 1/2

Medium-term eurorates (middle rates)

	1 year	2 years	3 years	4 years	5 years
SFr.	4 1/4	4 5/8	4 3/4	4 7/8	5
US$	8 5/8	9 1/8	9 3/8	9 5/8	9 7/8
DM	4 5/8	5 1/8	5 3/8	5 3/4	6
£	10 1/2	10 7/8	11	11	11
Ecu	7 5/8	7 7/8	8	8	8

Euronotes.
Maturity 5-7 years. US$ 7 3/8 - 7 5/8 % p.a.
DM 6 - 6 1/4 % p.a.

Eurobonds.
Maturity 8-10 years: US$ 8 1/4 - 8 1/2 % p.a.
DM 6 - 6 1/2 % p.a.

FORFAITING

For forfaitings please contact FINANZ AG ZURICH - address see over!

- Mr. R. Heis, VP Tel. 01/215 4480
- Mr. F. Zanoonella, Dep. VP " 215 4495
- Mrs. H. Schneidegger, Asst. VP " 215 4255 or Tel. 01/211 28 30

INTEREST-TO-EXPORT RATIOS *

(scheduled interest payments as percent of exports of goods, services, and private transfers)

	1986	1987
Argentina	47	43
Brazil	40	39
Chile	30	28
Colombia	16	20
Ecuador	28	36
Mexico	35	31
Nigeria	15	14
Peru	31	35
Philippines	23	22
Venezuela	29	22

* Source WORLD FINANCIAL MARKETS of Morgan Guaranty Trust Company of New York.

FINANZ AG ZURICH
FINANCE SA ZURICH

CONDITIONS FOR FORFAITING

October 1987

We are at present buyers of Medium term trade paper without recourse (1/2 - 5 years). For shorter maturities ask special rate based on short term Euromarket.

For comparison purposes all rates are based on an average credit life of 2 3/4 years (10 semi-annual instalments).

	Debtor country (importer's territory)	1/2 yearly maturities months approx.	commitment fee (until pay-out)	discount p.a. SFr.*	US$*	DM*
Europe	Belgique	6-60	5/8 % p.a.	4 7/8	8 1/2	5 3/8
	Bulgaria	6-36	1 % p.a.	5 5/8	9 1/8	6 1/8
	CSSR	6-60	3/4 % p.a.	4 7/8	8 3/8	5 3/8
	DDR	6-36	3/4 % p.a.	5	8 1/2	5 1/2
	Denmark	6-60	3/4 % p.a.	5	8 1/2	5 1/2
	Deutschland BR	NL	1/2 % p.a.	4 5/8	8 1/4	5 1/8
	España	6-60	3/4 % p.a.	5	8 1/2	5 1/2
	Finland	6-60	5/8 % p.a.	4 7/8	8 1/2	5 3/8
	France	6-60	1/2 % p.a.	4 7/8	8 1/2	5 3/8
	Great Britain	NL	1/2 % p.a.	4 3/4	8 3/8	5 1/4
	Greece	6-36	1 %0 p.m.	5 5/8	9 1/8	6 1/8
	Hungary	6-60	3/4 % p.a.	5	8 1/2	5 1/2
	Iceland	6-36	1 % p.a.	5 3/8	9	5 7/8
	Ireland	6-48	3/4 % p.a.	5 1/8	8 3/4	5 3/4
	Italia	6-60	1/2 % p.a.	4 7/8	8 1/2	5 3/8
	Nederland	NL	1/2 % p.a.	4 3/4	8 3/8	5 1/4
	Norge (Norway)	6-60	1/2 % p.a.	4 7/8	8 1/2	5 3/8
	Oesterreich (Austria)	6-60	1/2 % p.a.	4 7/8	8 1/2	5 3/8
	Portugal	6-48	1 % p.a.	5 1/8	8 3/4	5 3/4
	Sverige (Sweden)	6-60	1/2 % p.a.	4 7/8	8 1/2	5 3/8
	Schweiz (Switzerland)	NL	1/2 % p.a.	4 5/8	8 1/4	5 1/8
	USSR	6-60	5/8 % p.a.	4 5/8	8 1/4	5 1/4
North America	Canada	NL	1/2 % p.a.	4 3/4	8 3/8	6 1/4
	USA	NL	1/2 % p.a.	4 5/8	8 1/4	5 1/8
Latin America	Colombia	6-12	1 %0 p.m.	6 5/8	10	6 3/4
	Trinidad + Tobago	6-24	1 %0 p.m.	5 7/8	9 1/2	6 1/2
Africa & Middle East	Bahrain	6-36	1 %0 p.m.	5 3/8	9	5 7/8
	Israel	6-24	1 %0 p.m.	6 5/8	10	7 1/8
	Jordan	6-24	1 %0 p.m.	5 7/8	9 1/2	6 1/2
	Kuwait	6-24	1 % p.a.	5 3/8	9	6
	Saudi Arabia	6-24	1 % p.a.	5	8 1/2	5 1/2
	Tunisie	6-36	1 %0 p.m.	5 3/4	9 1/8	6 1/4
	United Arab Emirates	6-24	1 %0 p.m.	5 3/8	9	6
Far East	Australia	6-60	3/4 % p.a.	5	8 1/2	5 1/2
	China	6-60	3/4 % p.a.	4 7/8	8 1/2	5 3/8
	Hong Kong	6-36	1/2 % p.a.	5 1/8	8 5/8	5 5/8
	India	6-36	1 % p.a.	5 1/8	8 7/8	5 5/8
	Indonesia	6-36	1 %0 p.m.	5 5/8	9 1/4	6 1/8
	Japan	NL	1/2 % p.a.	4 5/8	8 1/4	5 1/8
	Korea (South)	6-36	1 % p.a.	5 5/8	9 1/8	6 1/8
	Malaysia	6-60	1 % p.a.	5 1/8	8 3/4	5 5/8
	New Zealand	6-60	3/4 % p.a.	4 7/8	8 1/2	5 3/8
	Singapore	6-60	3/4 % p.a.	4 3/4	8 1/2	5 3/8
	Taiwan	6-60	1/2 % p.a.	4 5/8	8 3/8	5 1/8
	Thailand	6-36	1 % p.a.	5 3/8	9 1/8	6

Ecu
FF
£
Lit
ö. Schill.
Ptas

special rates upon request

We study forfaitings on other countries which show on a credit rating list of 100 points at least 33 points

We forfait L/C deferred payments!

NL = No limitation of credit life
* = Rate indications vary according to Euromarket

FINANZ AG ZURICH
Paradeplatz/Tiefenhöfe 10
CH-8021 ZURICH
Telex. 812 498 fzzh
Telefax. 01 / 211 99 66 ref.fz

Rue du Lion d'Or 5-7
CH-1002 LAUSANNE
C. Rochat, Vice President
Telex. 24 138
Telefax: 021/21 54 19 ref. R2

Via R. Lepetit 4
I-20124 MILANO
G.B. Castellucci
Telex: 315 022 castel
Telefax: 02/66 98 05 66

MONAVAL

APPENDIX TWO (b)

Indicative rates in % p.a. for the without recourse financing of debt instruments. For comparison purposes all rates are calculated on a period of 5 years with 10 half-yearly equal instalments.

SEPTEMBER 1987	[illegible]	SFr in p.a Straight Discount	Simple Interest	DM in p.a Straight Discount	Simple Interest	US$ in p.a Straight Discount	Simple Interest	DGL in p.a Straight Discount	Simple Interest
Abu Dhabi	5	5	5 1/2	5 1/4	6	8 1/4	9 3/4	6 1/4	7
Australia	10	4 1/2	5	4 3/4	5 1/4	7 3/4	9	5 3/4	6 1/2
Austria	10	4 1/2	5	4 3/4	5 1/4	7 3/4	9	5 3/4	6 1/2
Bahrain	5	5	5 1/2	5 1/4	6	8 1/4	9 3/4	6 1/4	7
Belgium	7	4 1/2	5	4 3/4	5 1/4	7 3/4	9	5 3/4	6 1/2
Bulgaria	5	4 3/4	5 1/4	5	5 1/2	8	9 1/4	6	6 3/4
Canada	10	4 1/2	5	4 3/4	5 1/4	7 3/4	9	5 3/4	6 1/2
China	7	4 3/4	5 1/4	5	5 1/2	8	9 1/4	6	6 3/4
Cyprus	3	5 1/4	6	5 1/2	6 1/4	8 1/2	10	6 1/2	7 1/4
Czechoslovakia	5	4 3/4	5 1/4	5	5 1/2	8	9 1/4	6	6 3/4
Denmark	7	4 1/2	5	4 3/4	5 1/4	7 3/4	9	5 3/4	6 1/2
Dubai	5	5	5 1/2	5 1/4	6	8 1/4	9 3/4	6 1/4	7
Fiji Islands	3	5	5 1/2	5 1/4	6	8 1/4	9 3/4	6 1/4	7
Finland	7	4 1/2	5	4 3/4	5 1/4	7 3/4	9	5 3/4	6 1/2
France	10	4 1/2	5	4 3/4	5 1/4	7 3/4	9	5 3/4	6 1/2
Gabon	1	7	8	7 1/4	8 1/2	10 1/4	12 3/4	8 1/4	9 3/4
Germany (GFR)	10	4 1/2	5	4 3/4	5 1/4	7 3/4	9	5 3/4	6 1/2
Germany (GDR)	5	4 3/4	5 1/4	5	5 1/2	8	9 1/4	6	6 3/4
Greece	5	5	5 1/2	5 1/4	6	8 1/4	9 3/4	6 1/4	7
Hongkong	7	4 3/4	5 1/4	5	5 1/2	8	9 1/4	6	6 3/4
Hungary	5	4 3/4	5 1/4	5	5 1/2	8	9 1/4	6	6 3/4
Iceland	5	4 3/4	5 1/4	5	5 1/2	8	9 1/4	6	6 3/4
India	5	5	5 1/2	5 1/4	6	8 1/4	9 3/4	6 1/4	7
Ireland	7	4 1/2	5	4 3/4	5 1/4	7 3/4	9	5 3/4	6 1/2
Italy	[illegible]	4 1/2	5	4 3/4	5 1/4	7 3/4	9	5 3/4	6 1/2
Japan	10	4 1/2	5	4 3/4	5 1/4	7 3/4	9	5 3/4	6 1/2
Jordan	5	5 1/4	6	5 1/2	6 1/4	8 1/2	10	6 1/2	7 1/2
Kenya	3	6 1/2	7 1/2	6 3/4	7 3/4	9 3/4	12	7 3/4	9
Kuwait	5	5	5 1/2	5 1/4	6	8 1/4	9 3/4	6 1/4	7
Luxembourg	10	4 1/2	5	4 3/4	5 1/4	7 3/4	9	5 3/4	6 1/2
Malaysia	7	4 3/4	5 1/4	5	5 1/2	8	9 1/4	6	6 3/4
Netherlands	[illegible]	[illegible]	5	4 3/4	5 1/4	7 3/4	9	5 3/4	6 1/2
New Zealand	[illegible]	4 1/2	5	4 3/4	5 1/4	7 3/4	9	5 3/4	6 1/2
Norway	[illegible]	[illegible]	5	4 3/4	5 1/4	7 3/4	9	5 3/4	6 1/2

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SEPTEMBER 1987	[illegible]	SFr in [illegible] p a Straight Discount	Simple Interest	DM in p a Straight Discount	Simple Interest	US$ in p a Straight Discount	Simple Interest	DGL in % p a Straight Discount	Simple Interest
Oman	5	5	5 1/2	5 1/4	6	8 1/4	9 3/4	6 1/4	7
Papua New Guinea	3	5	5 1/2	5 1/4	6	8 1/4	9 3/4	6 1/4	7
Portugal	5	4 3/4	5 1/4	5	5 1/2	8	9 1/4	6	6 3/4
Saudi Arabia	7	4 3/4	5 1/4	5	5 1/2	8	9 1/4	6	6 3/4
Singapore	7	4 3/4	5 1/4	5	5 1/2	8	9 1/4	6	6 3/4
South Korea	5	5 1/4	6	5 1/2	6 1/4	8 1/2	10	6 1/2	7
Soviet Union	5	4 3/4	5 1/4	5	5 1/2	8	9 1/4	6	6 3/4
Spain	7	4 3/4	5 1/4	5	5 1/2	8	9 1/4	6	6 3/4
Sweden	10	4 1/2	5	4 3/4	5 1/4	7 3/4	9	5 3/4	6 1/2
Switzerland	10	4 1/2	5	4 3/4	5 1/4	7 3/4	9	5 3/4	6 1/2
Taiwan	7	4 3/4	5 1/4	5	5 1/2	8	9 1/4	6	6 3/4
Thailand	5	5	5 1/2	5 1/4	6	8 1/4	9 3/4	6 1/4	7
Trinidad & Tobago	5	5 1/4	6	5 1/2	6 1/4	8 1/2	10	6 1/2	7 1/4
Tunisia	3	5 1/4	6	5 1/2	6 1/4	8 1/2	10	6 1/2	7 1/4
U.A.E. (others)	5	5	5 1/2	5 1/4	6	8 1/4	9 3/4	6 1/4	7
United Kingdom	10	4 1/2	5	4 3/4	5 1/4	7 3/4	9	5 3/4	6 1/2
U.S.A.	10	4 1/2	5	4 3/4	5 1/4	7 3/4	9	5 3/4	6 1/2

For periods other than five years, please ask for the corresponding rates.

Special:

Please note that we are in a position to finance also in the following currencies: Belgian Fr., Danish Fr., European Currency Unit (ECU), Finnish Marks, French Fr., Lira, Norwgn. Kr., Austrian Schillings, Sterling, Ptas., Yen, Swedish Kr.

APPENDIX F10(e)

The following LIBOR rates have been used in the calculation of the discount rates.

LIBOR	*USD*	*DM*	*SWFR*
1 yr	8 1/4	4 15/16	4 3/8
2 yrs	8 7/8	5 1/4	4 3/4
3 yrs	9 5/16	5 7/8	5
4 yrs	9 5/8	6	5 1/4
5 yrs	9 3/4	6 1/4	5 3/8

Equivalent yields on an approximate compound semi-annual basis are as follows:

USD		*DM*		*SWFR*	
SDR	*DIY*	*SDR*	*DIY*	*SDR*	*DIY*
5 Years Tenor					
7 7/8	9 7/16	5 5/16	6	4 11/16	5 3/16
8	9 9/16	5 7/16	6 1/8	4 13/16	5 5/16
8 1/16	9 11/16	5 9/16	6 1/4	4 7/8	5 7/16
8 1/8	9 13/16	5 5/8	6 3/8	5	5 9/16
8 1/4	9 15/16	5 11/16	6 1/2	5 1/16	5 11/16
8 5/16	10 1/16	5 13/16	6 5/8	5 3/16	5 13/16
8 3/8	10 3/16	5 7/8	6 3/4	5 5/16	5 15/16
8 9/16	10 7/16	6 1/16	7	5 1/2	6 3/16
8 3/4	10 11/16	6 1/4	7 1/4	5 11/16	6 7/16
9 1/16	11 3/16	6 5/8	7 3/4	6 1/16	6 13/16
9 11/16	12 3/16	7 3/8	8 3/4	6 13/16	7 15/16

For further information please contact your local Chase Office or

Chase Investment Bank Limited
Woolgate House
Coleman Street
London EC2P 2HD
Tlx 8924 01 CMHLD G

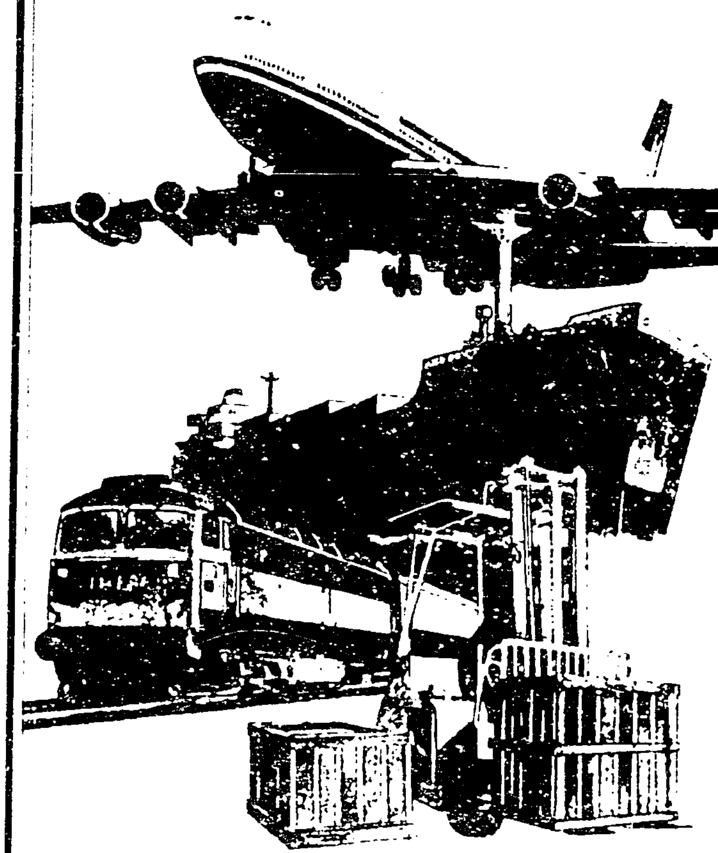
Peter D. Griffiths
Managing Director Tel 726 5763

Jill Penny
Associate Tel 726 5939

Judith Lockhart Smith
Associate Tel 726 3498

David Locking
Associate Tel 726 7898

Chase Investment Bank



NOVEMBER 1987

Forfaiting Rates

We have pleasure in detailing below our current list of indicative rates. Please contact us for any country that does not appear, as the list is not necessarily inclusive.

Country	*Tenor*	*USD*	*DM*	*SWFR*
Comecon				
Bulgaria	7-10 years	8	$5\frac{7}{16}$	$4\frac{15}{16}$
Czechoslovakia	7-10 years	8	$5\frac{7}{16}$	$4\frac{15}{16}$
East Germany	7-10 years	8	$5\frac{7}{16}$	$4\frac{15}{16}$
Hungary	5 years	$8\frac{1}{8}$	$5\frac{5}{8}$	5
Romania	1 year	*	*	*
USSR	7-10 years	$7\frac{7}{8}$	$5\frac{5}{16}$	$4\frac{11}{16}$
Europe				
Austria	7-10 years	$7\frac{7}{8}$	$5\frac{5}{16}$	$4\frac{11}{16}$
Belgium	7-10 years	8	$5\frac{7}{16}$	$4\frac{15}{16}$
Cyprus	5 years	$8\frac{3}{4}$	$6\frac{1}{4}$	$5\frac{11}{16}$
Denmark	7-10 years	8	$5\frac{7}{16}$	$4\frac{15}{16}$
Finland	7-10 years	$7\frac{7}{8}$	$5\frac{5}{16}$	$4\frac{11}{16}$
France	7-10 years	$7\frac{7}{8}$	$5\frac{5}{16}$	$4\frac{11}{16}$
Greece	5 years	$8\frac{3}{4}$	$6\frac{1}{4}$	$5\frac{11}{16}$
Iceland	7-10 years	$7\frac{7}{8}$	$5\frac{5}{16}$	$4\frac{11}{16}$
Ireland	7-10 years	8	$5\frac{7}{16}$	$4\frac{15}{16}$
Italy	7-10 years	$7\frac{7}{8}$	$5\frac{5}{16}$	$4\frac{11}{16}$
Luxembourg	7-10 years	$7\frac{7}{8}$	$5\frac{5}{16}$	$4\frac{11}{16}$
Netherlands	7-10 years	$7\frac{7}{8}$	$5\frac{5}{16}$	$4\frac{11}{16}$
Norway	7-10 years	$7\frac{7}{8}$	$5\frac{5}{16}$	$4\frac{11}{16}$
Portugal	7-10 years	$8\frac{1}{4}$	$5\frac{11}{16}$	$5\frac{1}{16}$
Spain	7-10 years	$8\frac{1}{8}$	$5\frac{5}{8}$	5
Sweden	7-10 years	$7\frac{7}{8}$	$5\frac{5}{16}$	$4\frac{11}{16}$
Switzerland	7-10 years	$7\frac{7}{8}$	$5\frac{5}{16}$	$4\frac{11}{16}$
Turkey	5 years	*	*	*
UK	7-10 years	$7\frac{7}{8}$	$5\frac{5}{16}$	$4\frac{11}{16}$
West Germany	7-10 years	$7\frac{7}{8}$	$5\frac{5}{16}$	$4\frac{11}{16}$
Middle East				
Abu Dhabi	5 years	$8\frac{5}{16}$	$5\frac{13}{16}$	$5\frac{5}{16}$
Bahrain	5 years	$8\frac{5}{16}$	$5\frac{13}{16}$	$5\frac{5}{16}$
Dubai	5 years	$8\frac{5}{16}$	$5\frac{13}{16}$	$5\frac{5}{16}$
Jordan	5 years	$8\frac{9}{16}$	$6\frac{1}{16}$	$5\frac{1}{2}$
Kuwait	5 years	$8\frac{5}{16}$	$5\frac{13}{16}$	$5\frac{5}{16}$
North Yemen	2 years	*	*	*
Oman	5 years	$8\frac{5}{16}$	$5\frac{13}{16}$	$5\frac{5}{16}$
Qatar	5 years	$8\frac{5}{16}$	$5\frac{13}{16}$	$5\frac{5}{16}$
Saudi Arabia	5 years	$8\frac{5}{16}$	$5\frac{13}{16}$	$5\frac{5}{16}$

*Available on request

Country	*Tenor*	*USD*	*DM*	*SWFR*
Africa				
Cameroon	3 years	*	*	*
Gabon	3 years	*	*	*
Kenya	3 years	*	*	*
Tunisia	3 years	*	*	*
Australia and Asia				
Australia	7-10 years	$7\frac{7}{8}$	$5\frac{5}{16}$	$4\frac{11}{16}$
Burma	3 years	$9\frac{11}{16}$	$7\frac{3}{8}$	$6\frac{13}{16}$
China	7-10 years	$7\frac{7}{8}$	$5\frac{5}{16}$	$4\frac{11}{16}$
Hong Kong	7-10 years	$7\frac{7}{8}$	$5\frac{5}{16}$	$4\frac{11}{16}$
India	7-10 years	$8\frac{5}{16}$	$5\frac{13}{16}$	$5\frac{5}{16}$
Indonesia	7-10 years	$8\frac{3}{8}$	$5\frac{7}{8}$	$5\frac{5}{16}$
Japan	7-10 years	$7\frac{7}{8}$	$5\frac{5}{16}$	$4\frac{11}{16}$
Malaysia	7-10 years	$7\frac{7}{8}$	$5\frac{5}{16}$	$4\frac{11}{16}$
New Zealand	7-10 years	$7\frac{7}{8}$	$5\frac{5}{16}$	$4\frac{11}{16}$
Pakistan	7 years	$9\frac{11}{16}$	$7\frac{3}{8}$	$6\frac{13}{16}$
Papua New Guinea	5 years	$8\frac{3}{4}$	$6\frac{1}{4}$	$5\frac{11}{16}$
Singapore	7-10 years	$7\frac{7}{8}$	$5\frac{5}{16}$	$4\frac{11}{16}$
South Korea	5 years	$8\frac{9}{16}$	$6\frac{1}{16}$	$5\frac{1}{2}$
Sri Lanka	2 years	*	*	*
Taiwan	5 years	$7\frac{7}{8}$	$5\frac{5}{16}$	$4\frac{11}{16}$
Thailand	7-10 years	$7\frac{7}{8}$	$5\frac{5}{16}$	$4\frac{11}{16}$
North America				
Canada	7-10 years	$7\frac{7}{8}$	$5\frac{5}{16}$	$4\frac{11}{16}$
USA	7-10 years	$7\frac{7}{8}$	$5\frac{5}{16}$	$4\frac{11}{16}$
South America				
Case by case				

*Available on request

The above rates are indicative straight discount rates for immediately available paper denominated in equivalent US dollars, Deutsch marks and Swiss francs and for comparative purposes based on the average life of a transaction of 5 years tenor with 10 semi-annual equal repayments (average life – $2\frac{3}{4}$) except for those countries with tenors under 5 years in which case the indicative straight discount rates are based on the average life of the tenor indicated.

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APPENDIX THREE

A.I.D.-QUALIFYING COUNTRIES WITH BANKING AFFILIATES IN THE UNITED STATES

Country	Bank	Address
Egypt	Arab-African Int'l Bank	645 Fifth Avenue, 18th Fl New York, New York 10022 (212) 755-4810
India	Bank of Baroda	One Park Avenue New York, New York 10016 (212) 578-4550
	Bank of India	277 Park Avenue New York, New York 10172 (212) 753-6100
	State Bank of India	460 Park Avenue New York, New York 10022 (212) 735-9600
Indonesia	Bank Central Asia	535 Madison Avenue New York, New York 10022 (212) 750-9100
	Bank Dagang Negara	45 Broadway New York, New York 10006 (212) 809-8600
	Bank Ekspor Impor Indonesia	100 Wall Street New York, New York 10005 (212) 809-5050
	Bank Negara Indonesia	55 Broadway New York, New York 10006 (212) 578-4550
Ireland	Allied Irish Banks PLC	405 Park Avenue New York, New York 10022 (212) 223-1245
	Bank of Ireland	640 Fifth Avenue New York, New York 10019 (212) 397-1700

Israel	Bank Hapoalim, B.M.	75 Rockefeller Plaza New York 10019 (212) 830-2600
Israel	Bank Leumi Trust Company of New York	579 Fifth Avenue New York, New York 10017 (212)382-4400
	First International Bank of Israel, Ltd.	375 Park Avenue, Suite 3504 New York, New York 10152 (212) 319-5811
	Israel Discount Bank of New York	511 Fifth Avenue New York, New York 10017 (212) 551-8644
Lebanon	Bank Almashrek (rep office)	500 Park Avenue New York, New York 10022 (212) 759-3550
	Bank Audi (U.S.A.)	600 Fifth Avenue, 23rd Fl New York, New York 10020 (212) 307-5577
Pakistan	Habib Bank Limited	44 Wall Street New York, New York 10005 (212) 422-9720
	National Bank of Pakistan	100 Wall Street New York, New York 10005 (212) 344-8822
	United Bank Ltd.	30 Wall Street New York, New York 10005 (212) 943-1275
Panama	Banco Nacional de Panama	900 Third Avenue, 27th Fl New York, New York 10022 (212) 486-1515
Peru	Banco de Credito del Peru	410 Park Avenue New York, New York 10022 (212) 644-6644
Philippines		
	Bank of the Philippine Islands	805 Third Avenue New York, New York 10022 (212) 644-6700

	Philippine Commercial and Industrial Bank	One World Trade Center New York, New York 10048 (212) 466-0960
	Philippine National Bank	Five World Trade Center New York, New York 10048 (212) 466-6600
Portugal	Banco Espirito Santo e Comercial de Lisboa (rep. office)	9 West 57th Street New York, New York 10019 (212) 223-0370
	Banco Portugues do Atlantico	2 Wall Street New York, New York 10005 (212) 306-7800
	Banco Totta & Acores	299 Park Avenue New York, New York 10171 (212) 888-0900
South Afr	Barclays National Bank Ltd. (rep.office)	200 Park Avenue, Suite 3709 New York, New York 10166 (212) 370-0990
	Nedbank Limited	535 Maidson Avenue New York, New York 10022 (212) 758-5550
	Volkskas (rep. office)	350 Park Avenue New York, New York 10022 (212) 751-3614
Spain	Banco Atlantico, S.A.	62 William Street New York, New York 10005 (212) 422-3400
	Banco Central, S.A.	245 Park Avenue New York, New York 10167 (212) 557-8100
	Banco de Bilbao	767 Fifth Avenue, 6th Fl New York, New York 10153 (212) 10153
	Banco de Santander	375 Park Avenue New York, New York 10152 (212) 826-4350

	Banco de Vizcaya, S.A.	400 Park Avenue New York, New York 10022 (212) 826-1540
	Banco Exterior de Espana (rep. office)	645 Fifth Avenue New York, New York 10022 (212) 688-7500
	Banco Hispano Americano	645 Fifth Avenue New York, New York 10022 (212) 486-8170
Thailand	Bangkok Bank Limited	40 Wall Street New York, New York 10005 (212) 422-8200
	Bangkok Metropolitan Bank Ltd.	One World Trade Center New York, New York 10048
	Krung Thai Bank	452 Fifth Avenue New York, New York 10018 (212) 704-0001
	The Siam Commercial Bank Limited	One Battery Park Plaza New York, New York 10004 (212) 344-4101
	Thai Farmers Bank	One World Trade Center New York, New York 10048 (212) 432-0890
Turkey	Akbank (rep. office)	400 Park Avenue New York, New York 10022 (212) 832-1212
Uruguay	Banco de la Republica Oriental del Uruguay	1270 Avenue of the Americas, 30th Fl. New York, New York 10020 (212) 307-9609

APPENDIX FOUR

PROMISSORY NOTE

______________ the ______________
Place and date of drawing (Name of month in letters)

Place of payment	Date of maturity

I / (We) promise to pay against this / promissory note on ______________
(Name of month in letters)

the amount of ______________

say: ______________

to the order of ______________

Payable at:

Signature and full address of maker

F. Honsack & Co Ffm Lg.-Nr. 108720 (872)

A P P E N D I X   F I V E

Information Necessary for Forfeiter to Process a Bid

1. Name and Address of the Manufacturer

2. Name and Address of Exporter, if different from (1)

3. Description of Merchandise

4. Total cost of merchandise

    a. Downpayment
    b. Shipping, insurance, other non-financed costs
    c. Amount to be Financed

5. Statement that all export licenses, if necessary, have been obtained or will be forthcoming

6. Name and Address of the Importer

7. Importer's bank which will provide aval or guarantee

8. Statement that all import licenses, if necessary have been obtained or will be forthcoming

9. Shipment and Estimated Delivery Dates and Method of transportation

10. Requested financing period

    (a) Repayment schedule

    (b) Schedule of amounts, if uneven

11. Limits on interest rate, if any, by local law

12. Insurance coverage

13. Government guarantees available, if applicable

A P P E N D I X   S I X

CALCULATION OF DISCOUNT AND/OR MULTIPLIER*

Assumptions: 360 day year

Straight (commercial) discount

(I) Payout from a Series of Notes

The calculation of discount to be deducted from a series of notes or bills is made simpler by totalling the interest from the entire transaction:

If V = nominal value of note (face amount)

t = maturity in days

N = "interest number" (total interest paid)

d = discount rate in percent per annum

D = amount discounted (proceeds)

then,

$$D = V \times \frac{t}{360} \times \frac{d}{100} = N \times \frac{d}{360}$$

On this basis, the forfeiter would pay out an amount D in order to receive V over the life of the transation.

Another simple method of calculating interest is to use an "average life", applicable where the nominal values of the notes are all equal and repayments evenly spaced:

$$\text{Average Life} = \frac{\text{(first maturity) + (last maturity)}}{2}$$

Using an average life, a series of maturities can be treated as a single note, resulting in an approximation of the discount:

$$D = \frac{aL}{360} \times \frac{d}{100} \times V$$

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* Finanz A.G. London Limited, "The Forfeiting Manual", February, 1977, pp. 25-29. For discount-to-yield calculation, see Chase Investment Bank, Forfeiting, p. 14.

If the exporter has established amounts and maturities for a series of notes to be forfeited, but wishes to increase the original price for the merchandise in order to cover the costs of forfeiting, the multiplier (effectively, a gross up) can be calculated as follows:

d = discount rate as a percent

aL = average life of the notes in years

i = interest rate as a percent per annum

al = average life of the credit in years

X = multiplier

$$X = \frac{1}{\left(1 - \frac{d.aL}{100}\right)\left(1 + \frac{i.al}{100}\right)}$$

If a downpayment is made to reduce the total amount of the credit, and commitment fees are charged which may be included in the total price, the multiplier becomes:

DP = down payment (as a percent of the total)

c = commitment fee (as a percent per month)

M = commitment period (months)

$$X = \frac{1}{\left(1 - \frac{d \times aL}{100} - \frac{c \times M}{100}\right)\left(1 + \frac{i \times al}{100}\right)\left(1 - \frac{DP}{100}\right) + \frac{DP}{100}}$$

Use of straight interest, rather than present value, considerably increases the interest cost to the trading partners, and conversely increases the yield to the financing institution. Further calculations need to be made to convert simple interest to a present value basis.

The formula for discount-to-yield is as follows:

$$DV = \frac{FV}{1 + \left(\dfrac{(DTY \times d) \times (c)}{360 \times 100} \right)}$$

where: DV = discounted value
FV = face value
DTY = discount to yield rate
d = number of days in compounding period
c = compounding frequency

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