The Letter of Credit Process

Participants in LC Process

- Buyer
- Issuing Bank
- Advising Bank
- Seller (Beneficiary)

Steps in the Letter of Credit Process

I. Buyer and seller agree to terms including means of transport, period of credit offered (if any), and latest date of shipment acceptable.
II. Buyer applies to bank for issue of letter of credit. Bank will evaluate buyer's credit standing, and may require cash cover and/or reduction of other lending limits.
III. Issuing bank issues LC, sending it to the Advising bank by airmail or electronic means such as telex or SWIFT.
IV. Advising bank establishes authenticity of the letter of credit using signature books or test codes, then informs seller (beneficiary).
V. Seller should now check that LC matches commercial agreement and that all its terms and conditions can be satisfied.
VI. Seller ships the goods, then assembles the documents called for in the LC (invoice, transport document, etc.).
VII. The Advising bank checks the documents against the LC. If the documents are compliant, the bank pays the seller and forwards the documents to the Issuing bank.
VIII. The Issuing bank now checks the documents itself. If they are in order, it reimburses the seller's bank immediately.
IX. The Issuing bank debits the buyer and releases the documents (including transport document), so the buyer can claim the goods from the carrier.

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