BUSINESS TIP 0007

COLLECTING A BILL OF EXCHANGE

If a customer presents a bill of exchange as payment for items, a Vendor may wait until the bill of exchange is paid before executing a contract and delivering or transferring ownership.

Or, to help a customer and accelerate being able to be paid for items and have a healthier cash flow, a Vendor might send the bill of exchange to its bank for collection.

If the bill of exchange has been presented as payment of an existing contract or debt, the receiving party most likely will want to send it for collection!

Conversely, when presenting a bill of exchange for payment, a buyer may wish to pre-negotiate collection thereof in conjunction with or on behalf of the Vendor that it is being presented to.

A 'Google' of "bill of exchange" can provide extensive information, but a bill of exchange is a privately issued check that may or may not specify the bank or location at which it is collectable.

As is the case with any check, it might be issued to be payable upon annotated conditions being fulfilled.

However, in the case of a check a bank might ignore any annotated conditions, whereas a bill of exchange would not be collectable unless the annotated conditions are satisfied.

Because bills of exchange are extensively used in the world for international trade, legal teeth that could bite an issuer for non-payment are much stronger than with any type of bank check.

A bill of exchange might be payable when another underlying larger bill of exchange is paid. Or, it might be guaranteed payable by the legal worth of the issuer and/or of an AVAL (guarantor).

It might also stipulate that the legal worth presented to guarantee payment includes a specific asset. The "specific asset" might be, for example, USA Tax Credits.

However, unless otherwise stipulated, the disclosure of the asset would only be for purposes of providing evidence that the issuer or AVAL has wherewithal with which to arrange payment.

In other words, unless otherwise indicated, an asset disclosed could not be directly encumbered nor could a lien be placed upon it in order to assure payment.

In fact, the asset presented, such as USA Tax Credits, may not be presented in a form that could be used to provide a loan.

I.e., Tax Credits may be represented only by IRS forms, legal opinions, assignment documents, etc., indicating their existence and their ties to a specific person/entity.

Similarly, limited representations might be made for other types of assets that might be presented.

In short, assets disclosed solely to evidence legal worth, to specifically avoid misuse, may not be represented in a form that a lender might be prepared to loan against.

So, do not try and get a loan against assets presented as included in 'legal worth' – that is not the objective for which they have been disclosed!

Thus, 'due diligence' related to such assets, as they may not be presented as collateral for a loan, legally MUST be limited only to verification of documentation presented!

Irrespective of payment conditions or evidence of 'legal worth', a bill of exchange presented as payment may be held until all conditions stipulated are met and then payment may be demanded.

Or, a beneficiary or assignee may deposit a bill of exchange with an accepting bank (or bank auxiliary, such as an escrow firm) for collection.

If the bill of exchange is deposited with an escrow firm, the escrow firm might submit it to its bank for collection, or the escrow firm might itself perform the collection service.

The collection process, as discussed hereinafter, would provide payment irrespective of stipulated conditions being met, in effect 'buying' the bill of exchange at full value, to be held as an asset.

As with a check that is too large for a customer to cover in case collection is not possible, no funds should be expected to be provided by the depository to the account holder until payment is received.

With a large check, acceptance of the check by a depository may constitute a defacto internal 'loan approval' for the depositor once collection has progressed to a certain point determined by the depository.

For example, watching an account balance, a depositor might find that a portion of a check deposited is approved for disbursal, then more, and finally the entire amount.

Similarly, when a bill of exchange is sent for collection, the collecting bank must present as part of the process a "Bank Commitment Letter", i.e., a loan approval.

The Bank Commitment Letter would state that a loan has been approved (for the depositor/beneficiary) and will be funded once an acceptable guarantee (for repayment) has been received by the bank.

Examples of Bank Commitment Letters structure and wording may be reviewed in DOCUMENTS within www.businesscannons.info; the password to review each example is "123ABC".

In other words, the collecting bank would issue a letter approving a loan of funds up to the amount of the bill of exchange (or less!) upon receipt of an acceptable guarantee.

In the case of a check, receipt of funds from the account the check was drawn on would repay the bank for a loan made to a depositor by the bank making funds available prior to receiving the payment funds.

In the case of a bill of exchange, receipt of a negotiable guarantee by the bank would trigger the release of funds being loaned and would, simultaneously, provide payment thereof to the bank.

<u>Thus, from the standpoint of the depository bank executing the collection process, the roles of a bill of exchange are that:</u>

1) It is the instrument to be paid through the collection process.

2) It serves as the basis for the loan approval (Bank Commitment Letter) to be provided. To arrange acceptable guarantees and facilitate the process, a beneficiary or assignee member of the BUSINESS CANNONS BUSINESS GROUP may engage a CENTER to provide, 'A GOLD RESERVES, TAX CREDITS, & OTHER ASSETS BUSINESS EXCHANGE SERVICE'.

The CENTER SERVICE would facilitate processing of the Bank Commitment Letter so that a guarantee could be received.

The bank issuing the guarantee and a bank that issues a Bank Commitment Letter would ultimately interface to arrange for the funds loaned to be transferred vis-à-vis the guarantee.

Thereafter, the CENTER SERVICE would arrange for funds equal to the full amount of the Bank Commitment letter to be deposited in the account of the member collecting the bill of exchange.

Upon that deposit being made, with funds made available to the account holder, the collection process would have been completed. If the amount collected (because the Bank Commitment Letter was for less) was not the entire bill of exchange amount, the process could be repeated as many times as needed for full payment.

<u>There are two additional matters that may be important when doing business with bills of exchange.</u>

First, for a bank to approve a loan and issue a Bank Commitment Letter, additional acceptable collateral may have to be presented to initiate the process… …As part of its service a CENTER might be able to arrange this, or to arrange another bank, but either of these might increment the processing cost.

Second, a bill of exchange that is being processed, or a bank that is asked to undertake collection, may not be large enough to merit a stand-alone guarantee to be obtained… …In this instance it might be possible to use an escrow firm that might be accumulating bills of exchange and/or Bank Commitment Letters so that appropriate guarantees might be obtained in the aggregate.