



UNDERSTANDING COLLATERAL TRANSFER FACILITY AND ASSET MONETIZATION

Collateral Transfer is the provision of transferring assets from one party (the Provider) to another party (the Beneficiary) often in the form of a Bank Instrument (BG or SBLC). This occurs whereby the Provider agrees (through his Issuing Bank) to issue a “Demand Guarantee” to the Beneficiary in return for a “rental” or “return” generally known as the “Contract Fee”. The parties agree to enter into a Collateral Transfer Agreement (CTA) which governs the issuance of the guarantee. “Leasing a Bank Guarantee” is a common phrase associated with Collateral Transfers. Since it is not possible to physically lease a Bank Guarantee, the term “lease” is loosely used as its structure resembles that of a commercial lease. However, these arrangements should be correctly referred to as “Collateral Transfer Facilities” since no leasing takes place effectively. A Bank Guarantee is specifically issued to the Beneficiary for the purpose and each contract is bespoke. It is effectively a form of “Securities Lending” and often a derivative of “re-hypothecation”. There is no reference to “leasing” when receiving a Bank Guarantee in this fashion.

The Guarantee is supplied by the Issuing Bank of the Provider to the Beneficiary’s account at the Beneficiary’s Bank and is transmitted inter-bank via the appropriate SWIFT platform (MT-760 in case of Guarantees). During the term of the Guarantee, the Beneficiary may utilize it for their own purposes which may include; security for



loans, credit lines or for trading purposes. At the end of the Term, the Beneficiary agrees to extinguish any encumbrance against the Guarantee and allow it to lapse (or return it) prior expiry and indemnify the Provider against any loss incurred by default of loans secured upon it.

A Provider would often be a collateral management firm, a hedge fund, or private equity company. Effectively, the Guarantee is “leased” to the Beneficiary as a form of investment since the Provider receives a return on his commitment, hence the misnomer of the term “leasing”

In recent times these facilities have become more popular since they enable the Beneficiary to have access to substantial credit facilities by using the Guarantee as loan security. Since the Guarantee is effectively imported to the account of the Beneficiary, the underwriting criteria is considerably less than that of conventional lending.

Bank Guarantees received in this way are in no way different from any other form of Demand Guarantee. The fact that there is an underlying agreement (the CTA) has no bearing on the wording or construction of the Guarantee. This allows the Beneficiary to use the Guarantee to raise credit, to guarantee credit lines and loans or to enter trade positions or buy/sell contracts. More competitive pricing by Collateral Providers have also made it available to a growing number of smaller size enterprises seeking urgent capital for a wide range of reasons.

Collateral Transfer Facilities are available from US\$/Euro 10 million to 100 million per contract. Amounts over US\$/Euro 100 million can



be achieved by entering multiple contracts. Collateral is of course limited and a Provider will only offer to their maximum limit which is dependent upon the status of the applicant and current market conditions.

Providers will issue the Bank Guarantee from rated International Banks making them widely acceptable; all Guarantees are issued inter-bank via SWIFT. Applicants can provide their own verbiage, although all Guarantees issued under these facilities contain standard credit facility guarantee wording (ICC758) which can be made available to the Applicant upon request.

Typically, terms can range from 1 year, renewable up to 5 years, depending on the willingness of the Provider and the strength of the Applicant. Longer terms are sometimes negotiable to 10 years, although this may only be available to very strong Applicants and longer term projects.

Bank Guarantee Contract Fees (the annual “rental” charges) also commonly known as “Leasing Fee” for amounts of US\$/Euro 10 million to 100 million, levied by the Providers are commonly between 05.50% to 08.50% per annum, depending on the term, amount, and current market demand. Multiple Bank Guarantee contracts will of course attract lower rates.

If the Applicant (Beneficiary) is not a listed company or has a trading history less than 4 years, the Provider may request that a Security Deposit contribution be paid against the Bank Guarantee Contract Fee upon acceptance of their Collateral Offer contract.



The deposits are paid to the Provider directly or to a mutually acceptable Escrow arrangement that the Provider will open specifically for the contract. At completion, the deposit is deducted from the Contract Fee.

In some cases the Providers may add a Facility Fee of around 0.15% to 0.25% and this is often included in the Contract Fee

Some Providers may also levy Legal Fees or Assignment Fees which are payable at completion. However, a good broker may often successfully negotiate these fees to be included in the Contract Fee thereby offering “No Other Hidden Charges”.

Entrepreneurs may choose to adopt Collateral Transfer Facilities commonly known as the “Leasing Of Bank Guarantees”, as they often need to raise urgent business capital and do not always have adequate security to obtain it conventionally through standard commercial loans. Sometimes, it is also required that investors need to raise large sums of capital to enter trade positions. They may choose to leverage their capital to access a higher level investment platform or to temporarily underpin larger deal deals such as buy and sell commodity contracts or for use as corporate surety.

In comparison to normal asset lending and project finance, Collateral Transfer may be an easier solution for borrowing large amounts of funds quickly and without the time consuming need for extensive underwriting or credit searches.

These facilities suit financial requirements for terms under 5 years or where returns are high, allowing higher expenditure on annual rates. The longer the term, the less suited Collateral Transfer



Facilities are. Whilst these types of facilities are not suited to long term borrowings due to the annual costs, they can be seen as a very quick and simple solution to short-term capital requirements.

Entrepreneurs may utilize these facilities to kick-start projects quickly and re-finance on longer term secured debt as the exit strategy for repayment at the end of the term.

Bank Guarantees received under Collateral Transfer Facilities may be used by the Beneficiaries to secure lines of credit at their bank. Typically, a banker will have little or no objection to offering credit against Bank Guarantees received in this manner up to 100% of face value, less of course advance interest charges and bank fees. However, typical lending rates also referred to as “Loan to Value” or LTV, will be around 80% to 90% of the Face Value (FV). The total credit term can be for the duration of the Guarantee, i.e. 1 to 5 years, but of course will not exceed the term (or expiry) of the Guarantee.

The Guarantee that issued under these types of facilities are worded specifically to secure credit lines. Guarantees are issued under ICC758 (UPC 600) protocol and are readily accepted by almost all International as well as Private Banks. Often they are referred to as “Letter Of Guarantee”, “Credit Facilities Guarantee” or “Standby Letter Of Credit” (SBLC).

It is important to note that although the Bank Guarantee is obtained (or as many choose to say as “Leased”) through the Collateral Transfer Facility, this has no bearing on the quality of the Guarantee and can still be used to raise credit and loans. As the verbiage of the Guarantee will be ICC758 standard approved wording, there is no mention of “Lease” within the Instrument itself.



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It is also important to know however, that by using the Guarantee to secure lines of credit and loans, interest charges will apply in addition to the Contract Fee (the “rental” or “Leasing” fee of the Bank Guarantee). International bank lending rates for loans secured against such high quality security tend to be in the region of 3.00% per annum or possibly more. This will also differ in certain jurisdictions or currencies.

Monetizing a Collateral Transfer Facility such as Bank Guarantees (or SBL) means raising finance (or credit line) against it. In order to raise a credit line against a bank instrument, it is important that the bank instrument is worded specifically for the purpose of securing a credit line. Raising a credit line against a bank instrument issued for other purposes, may not be possible.

Banks CANNOT solicit clients directly for Issuance and MUST go through intermediaries, who also cannot solicit clients for Bank Guarantees. Many Banks will not issue Guarantees without a solid business plan. BGs are accepted by other banks and other businesses as proof that a company or transaction has backing, and is financially solvent. Bank Guarantees imply liquidity. They can also be traded, and can be used to fund projects or monetize assets if they are leveraged on “trading platforms”.

Banks cannot profit from buying/selling or leasing their own Guarantees. This would be akin to monetizing your reputation or words. Banks are prohibited from even soliciting anyone involved in Bank Guarantees at all by International Law. Consequently, there



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is a market created by demand. Bank Guarantees are valuable on the secondary and tertiary markets, and this also creates an environment for Intermediaries to profit on the leasing and selling of Bank Guarantees. Unfortunately, this also creates misunderstandings and opportunities for fraud. Anyone attempting to transact BGs should ALWAYS have a relationship with the Intermediary, and know that the intermediary has a solid working relationship with parties who know how to handle or transact these instruments.

This form of financing can be used in combination with cash backed stand by letter of credit (SBLC) or Bank Guarantee (BG) Program in order to monetize the newly created document to obtain the right funds for project financing.

Monetizing bank instruments is the process of liquidating such instruments by converting them into legal tender. We can monetize or lend on just about any bank instrument to be used for project funding, move them into various trading platforms quickly and easily, as well as creatively incorporating them into financing certain development projects. CD's, SBLC's, DPLC's, BG's and MTN's can be monetized.

It is important that the Bank Instrument must be from a rated Licensed Bank and must contain the following 5 phrases:

- **Irrevocable**
- **Divisible**
- **Transferable**



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- **Assignable**
- **Unrestricted**

These are “Interest only loans”

The most important element of the documentary package is the documentation that acts as security and proof that the Applicant is the beneficiary to a debt that is collectable on a specified date. It is integral that trade firms and exports strive to only accept secure negotiable instruments, which are unconditional, irrevocable and freely transferable, as evidence of the debt. Instrument such as these are sold without recourse, which gives the Applicant the beneficial option of selling them and effectively removing themselves from any further involvement with the financial aspects of the transaction, eliminating risk and burdens of administration and collection. Thus in order to assist in the monetization of your Bank Instrument the Provider requires:

CIS

Account opened and funded

Board Resolution Copy

Initial Letter of Interest & Exclusive Request of Service

Asset/Funds Ownership Declaration

Non Solicitation Letter

Authorization To Verify & Authenticate

Funds Attestation

Affidavit of Funds History



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Letter of Exclusivity

Request For Information & Assistance

Letter Of Confirmation

Both Side of Passport Copy (Color Copy)

SWIFT MT 760/799/999/700/543/542 Confirmation Letter.

BCL Confirming Bank Instrument Issuing Terms

Bank Instrument Color Copy

BCL Confirming Authenticity Of The Bank Instrument

Geological Report [if asset backed]

Income Tax Paper

Valuation Report [if asset backed]

Legal Report [if asset backed]

Some instruments have no value because they are plain and simple forgeries. Sometimes the owners know this, and sometimes the owners/beneficiaries were victims themselves of a scammer. Some owners were aware of the forgeries and just withdraw their documents from consideration, only for the documents to end up back in another monetizer's desk. Some scammers keep trying, by imposing their "procedures" which in general, involve rushed deals with no hard copies to follow, advanced payments, and so on. This is why most serious lenders and monetizers will only release funds after the bank has received not only the MT-760, but the hard copies by courier as well, and had confirmed them in full with the sending bank.

Think who in this trade has not seen the "Euroclear" screenshots? Setting aside the eternal debate about if BGs and SBLCs can be



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loaded and traded in Euroclear; the fact is, Euroclear screenshots and documents showing that said instruments are in the Euroclear systems come to monetizer's desks fairly often too. Most of the times, the forgeries are so evident that monetizers do not even need to consult with the banks, a simple printing of the documents would reveal that what was visible on the screen is not the same as what was actually in the document but hidden by a simple software mask or by letters of the same color as the background. And the reality is, when any of these instruments actually gets into the Euroclear system, they never surface on the internet at the trade forums or business networks, because the owners will go to their bankers/brokerage house officers requesting a trade or a sell, and their bank/brokerage house will issue a sell ticket and they will trade these documents in the blink of an eye in the Euroclear system itself, and sometimes the owner does not even get to know who the buyer was, because it was a simple buy and sell ticket transaction. This reinforces the fact that many documents showing BGs and/or SBLCs on Euroclear are forgeries, and for this reason, cannot be monetized.

Some other documents have no value because they are issued by companies that are not licensed banks. It is very common nowadays, to hear about a "Bank Guarantee" or a "Stand-By Letter of Credit" issued by "General Equity Building Society" in New Zealand, "Suisse Credit Bancorp Ltd" in London, "Suisse Bancorp" in Hong Kong, "Trade Bancorp" in the USA and India, "Credit Boston International" in the USA, "Credit Lyonne Trade Finance Družstvo" in Slovakia, "Embank LLC" in the USA, "Soleil Chartered Bank" in the USA, Romania and Comoros, "Suisse Credit Capital Limited (New

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Zealand)", "Suisse Credit Bancorp Ltd" in the UK, "Suisse Bancorp Ltd" in Hong Kong, and the list keeps going; the problem with all of the entities mentioned above is that, NONE OF THEM IS A BANK. A bank is a financial institution or corporation, authorized by a government, to provide banking services to the general population, often by allowing them to receive deposits, extend credit, and other financial services restricted to be provided only by banks. Not one of the entities mentioned above currently holds a banking license from any country in the world. Do not get confused by words like "bancorp", "credit", "finance", "trade", or my favorite "embank"; not a single one of the mentioned entities is a bank, that is why none of the is using the words BANK, BANCO, BANQUE, BANKA, БАНК and some other translation for it, because said words are restricted in almost all countries, to be used only by licensed BANKS, not consulting firms or other type of businesses. Now, by its own nature and definition, a "BANK GUARANTEE" can only be issued by a BANK. This is not only common sense, but actually regulated by banking laws in most countries. A similar situation happens with "Stand-By Letters of Credit", which are also debt obligations issued by BANKS, and regulated as such by banking laws in most countries as well. The bottom line is, only banks can legally issue Bank Guarantees and Stand-By Letters of Credit. If you happen to have a BG or an SBLC issued by any of the entities cited by name and country above, you have a document that legally and commercially has no value, and because of that, no commercial bank in the world will accept it as method of payment, or even as collateral for a loan or a credit line.

Leaving aside for a moment the laws of each country, which can be said to apply or not to a particular issuer of a Bank Guarantee or a



Stand-By Letter of Credit; we cannot ignore the always invoked by everyone and their dogs, yet mostly unknown by everyone “Uniform Customs and Practice for Documentary Credits, 2007 Revision, ICC Publication no. 600 (“UCP”), which are rules that apply to any documentary credit (including, to the extent to which they may be applicable, any standby letter of credit) when the text of the credit expressly indicates that it is subject to these rules. Since Article 2 clearly defines what a bank is, and their roles as “issuing bank”, “advising bank”, “confirming bank”, “nominated bank”, and so on, we can only deduct from said rules, that they only apply to instruments issued by BANKS. So if you need to get a BG or a SBLC that must be UCP-600 compliant, it must be issued by a licensed bank, otherwise, it will not be UCP-600 compliant, regardless of the wording of the document. And since it will not be UCP-600 compliant, no bank will ever accept it as collateral or even as a documentary credit, which is what the thing is supposed to be in its more pure and natural form. While it is true that URDG-758 changed this from banks to “a bank, other institution or person” may act as a guarantor, the fact is that URDG-758 rules implied that financial stability of the guarantor is obligatory, and that the issuance of said documents shall be governed by the internal legislation of each country. Regardless, most banks will only accept documentary credit from other banks, due to their financial stability and their full compliance with local laws.

Unfortunately, most people confused the term NOT RATED with the fact that said entities are not real banks, but private companies offering consulting services, and sometimes, issuing documents that are beyond their legal and financial capacity, hiding themselves



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behind the excuse that because they are an “offshore bank” or a foreign corporation or because they only deal with foreigners, they do not need to hold a banking license or comply with reserve deposits with the Central Banks of the jurisdictions from where they operate. The reality is, a rating is just an opinion given by one person or company, about the credibility of the bank or institution what the rating is about; but this has almost nothing to do with the truth, that the documents in question are worthless not because of the credit rating of the issuer, but because the issuer is not a bank. Always disregard the “we are not a rated bank”, and check if they are actually a licensed bank, then if they are not, just walk away and keep your money in your pocket.

Whatever way you want to see how they operate, the reality is, no commercial bank in the world will accept a BANK GUARANTEE or a STAND-BY LETTER OF CREDIT issued by any of the entities listed above, because they are not banks, and therefore their documents have no value for the banks. Perhaps some private company (out of ignorance more than anything else) will accept such a document as collateral for a private credit line with them, but that is about it, no commercial bank in the world will, and that is a fact. And because no commercial bank will ever accept those documents as collateral, no real monetizer will be able to work with said documents as well.

Yet other similar type of instruments often surface, but with a twist. The documents in question are often huge in their face values, and they are issued by the “Central Banks” of Venezuela, Brazil, Egypt, some African countries and so on. There is just a small problem with that, most Central Banks do not offer financial services directly to the public, they only dictate general economic policy for their



countries and local banks; but as a general rule, they do not issue Bank Guarantees and Stand-By Letters of Credit. Most Central Banks had made public knowledge this fact of them not issuing BGs and SBLCs, by issuing statements to the press, in their web sites, and in their governments' gazettes and newspapers. Despite this well-known fact, monetizers keep receiving documents from "Central Banks" from time to time.

And of course, another problem monetizers have when trying to monetize instruments is the fact that for political reasons, most Eurozone regulated banks avoid as much as they can, to work with banks of certain countries. Trying to monetize an instrument issued by a Latin American country, or even China is almost impossible!! Even Europe is not free of that problem; for example, while the list of embargo banks from Russia and Ukraine is very small, most Eurozone regulated banks prefer to not accept as collateral instruments issued by any Russian or Ukraine based banks, they say it is to reduce their risks as much as possible, and to avoid working with banks that while not currently on the embargo list, can be included in said list at any time. Some other countries have strong, reliable and highly praised banks with excellent credit ratings, like Azerbaijan, yet almost no Eurozone regulated bank wants to work with instruments issued by them; this limits the ability of most monetizers to work with instrument from banks of these countries regardless of the credit rating of the bank. And of course, there are always small banks from Eurozone regulated countries, which for some strange reason, issue instruments which seem to be well beyond their financial ability to cover in case of default, and for this



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reason bigger banks who are aware of this problem, simply will not work with these smaller banks' instruments.

Now you know the main reasons why some documents that are supposed BGs and SBLCs, keep surfacing on the net and been promoted by different intermediaries every time the surface, because they are either plain forgeries, or because they are worthless documents issued by entities that are not banks, or because they are issued by banks from countries that for political reasons, Eurozone regulated and American banks do not like to work with. These "instruments" are seen around often, but there is nothing anyone can do about them, and this is why they keep circulating month after month. This is why, if you are looking to purchase or lease an instrument, make sure you are getting your instrument from a government licensed commercial bank, and not from one of those shoddy companies that just want your money and do not care if you will be able or not to legally use the document, by using it to cover your import/export needs, and perhaps selling it, using it as collateral, or monetizing it in any other form.

Many brokers think that if they have an instrument, then someone who is involved in monetizing bank instruments will automatically give them several million in cash and it's all over. In reality however, the truth is much different.

People who purchased a Bank Guarantee, a Standby Letter of Credit, or other bank instrument are often shocked to learn that their newly purchased instrument was never designed to be monetized and is therefore worthless for their intended purposes.



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Bank Guarantees can be worded specifically for monetization, i.e. to secure credit lines. Not all Bank Guarantees are intended for monetization so it is important to understand what you are paying for and what you are getting to ensure that it will work for your intended purpose.

The truth of the matter is that having the money to buy an instrument doesn't mean that your project will get funded or that your bank instrument can or will be monetized. Of the limited providers who work with Monetizing Bank Instruments, it is very possible that none of them will be interested in monetizing your Bank Guarantee.

First things first. You should know who will be monetizing your instrument before you purchase it. You should also understand that **not all BG's or SBLC's are the same**.

Pay attention to where the BG is coming from. Is it from Europe, Africa or Asia? The jurisdictions and legal ramifications are not the same and you should know and understand the differences. This will also affect the instrument's cost and acceptability to third parties.

Read the language and text of your SWIFT MT-760, Bank Guarantee or SBLC carefully. Pay attention to every word and have it reviewed by professionals and the beneficiary prior to paying for anything. Verify if the bank instrument is intended for monetization and find a supplier who will monetize it in advance.

Several factors contribute to the success of monetizing a Bank Instrument. A robust business plan and solid relationships are a



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good start. In other words, you must have an actual project and a professional business plan.

The key is that you must have your paperwork together and you must have a tangible way to make money from your project or investment. Ultimately the investor must like and believe in your project. Anyone can purchase a Bank Guarantee but only those who have done the hard work will actually get it monetized.

Be prepared to submit a full CIS (or Bio/Application) on your company and its officers along with a complete business plan and the text of your BG or SBLC. Explain how you acquired the BG and why you need it monetized.

Go into detail about how you plan to exit this strategy and how you intend to return the instrument at the end of the term. Be aware that you may need to show POF (bank statements, not blocked funds) in many cases.