Blades International, Inc.

TIME DRAFT ARBITRAGE

180 Day Time Draft Idea.

Often a Buyer/Client is a Borrower from their bank, and if they can get 180 days to pay a Time Draft, it can be a lower cost of funds for them. Bank Capital required for a straight loan is higher than for a time draft obligation under an Import Letter of Credit Trade transaction. Therefore, in these times, when banks are under pressure to have more capital, this use of a Time Draft may be of interest to various clients.

Proposal.

Advise the Buyer that you will allow an expert Letter of Credit to be structured such that instead of Seller presenting a "Sight Draft "that the Seller will present a 180 day "Time Draft" from sight to give them extended terms. Explain that you as the Seller can only do this if they will **"Gross Up"** the contract, and the L/C value, by an amount to compensate you for the **Discount Charges and providing this financing**.

$10,000,000 L/C Example.

If you have a South Korean Bank Export L/C for $10,000,000, for example, a bank can "Accept and Discount a 180 day draft" all in at say 1% per annum (Assume Libor of 40bps + 60 bps of spread = 100 bps). Then 1% of $10,000,000 is $100,000, and for a 180 day period it is only $50,000. Therefore, the difference, or cost to you if you Accept & Discount a 180 day draft, and discount it immediately, is $50,000.

Gross Up.

Explain to the Buyer that to give them the 180 Day Time Draft option you would require a "**Gross up"** in the contract of $100,000. This would cover your $50,000 cost, and allow your Finance "cost center" to earn $50,000. The Buyer may come back and say it is a good idea, but the Gross Up is just too much, they would like to do it as the cost of that type of L/C is cheaper than borrowing the money. If they really like it, you could then quibble and say only a $75,000 Gross Up (3/4% flat), and still earn $25,000 extra, and do "a good service for your client".

What is happening is the Korean bank will charge a fee to the Buyer for the "Acceptance Period", or the 180 day draft, **but that should be cheaper than a straight loan.** Thus, the South Korean Bank may earn less, but deem it less risk as it is a time draft obligation versus a loan advanced. In turn, a US Bank may Discount/Accept at only 1%, as the Credit of a South Korean Bank is relatively good. Thus, the US bank earns a modest return, and if we have banks compete we can get very good terms.

The Seller has to go through the financial work to make sure the draft process allows them to discount, and get paid, and has to do some extra work. However, if this accommodates the client and saves money, and allows the South Korean Bank to have less capital required to finance this transaction, and the U.S. bank can get a nice piece of business, then the Seller earns the extra amount by helping facilitate the Time Draft financing. In essence, by using the lower bank capital required to Finance Trade, the Seller may be able to offer another service.....**180 day time draft financing**............and earn a better return.

Summary.

If you already have export letter of credit terms, this may be a "Sale after the Sale".... as you have weeks to work this out and have the L/C wording changed or amended, and have an Agreement from a U.S. Bank, to Accept and Discount the Draft. If you can add value with another service to your client, and deepen the dialogue about how they do their financing, and earn some money as well, it is worthwhile to have these talks.