

Letter of Credit, Letter of undertaking, Line of Credit

June 17, 2020

- A letter of credit (LoC) is a letter from a bank guaranteeing that a buyer's payment to a seller will be received on time and for the correct amount. In the event that the buyer is unable to make payment on the purchase, the bank will be required to cover the full or remaining amount of the purchase.
- A line of credit is a preset amount of money that a bank has agreed to lend you. You can draw from the line of credit when you need it, up to the maximum amount. You'll pay interest on the amount you borrow.
- Letter of Undertaking (LOU), in the international banking system, is a provision of bank guarantee, under which a bank allows its customer to raise money from another Indian bank's foreign branch in the form of a short term credit. The LOU serves the purpose of a bank guarantee.