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A $50 million credit facility in China — and you need it *when*?

One would think, in the midst of a global financial crisis marked by tight credit conditions, that the odds of a U.S. corporation establishing a new $50 million credit facility in less than two weeks at year end would be somewhat slim. Factor in that the facility is needed to fund the company's operations in China and the task would appear to be daunting.

However, that wasn't the case at all recently for a globally diversified manufacturing company. The reason the company was able to obtain the credit it needed? It has the right banking relationship.

Working capital for expansion in China

"Near the end of 2008, the company determined it would require a $50 million credit facility to provide the working capital to support a significant expansion in its China operations," explains Jean Tremblay, managing director of RBS's Industrial and Manufacturing Group. "Normally, the company would look to its European treasury funding operation to provide the needed capital. However, in this case, there were regulatory hurdles obstructing immediate funding from Europe."

The company needed bridge financing, and it needed it fast. So it looked to RBS.

With a global footprint that closely matches that of the company, RBS is a major provider of credit and other banking services to the U.S. firm around the world. Late last year, when RBS received the client's new credit request, it immediately put its global banking network and product teams to work.

Cash-secured standby letter of credit

The company's China subsidiary needed the support of its U.S. parent to establish the credit facility as it lacked the balance sheet strength to obtain a local facility. The parent company activated a $50 million standby letter of credit, whereupon RBS Global Trade Finance in Chicago had to quickly negotiate a counter-guaranteeing standby letter of credit (L/C) on behalf of the company in favor of RBS in China.

"The only way we could do this quickly was to issue the letter of credit on a cash-secured basis," says Brendan Korb, director of portfolio management for industrial and autos at RBS.

RBS was able to move swiftly by modeling the standby L/C after one the bank had previously negotiated with one of the manufacturing company's other units. "The company was willing to accept the L/C in the same form to expedite the process," Korb says. "We had to establish a pledge agreement for the cash, and we did this all in a week or two."

The company placed the $50 million in collateral in a pledged time deposit for 90 days in accordance with the expiration of the standby L/C. RBS's Global Transaction Services (GTS) Liquidity Advisory unit and the bank's Treasury desk in Chicago were able to provide the client with an extremely competitive earnings rate on the time deposit.

The limit on the company's credit facility in China is in U.S. dollars but the funding is in Chinese renminbi (RMB). The actual limit is $45 million to allow for a 10% foreign exchange buffer.

Once the standby L/C expires in 90 days, the company expects that its treasury operation in Europe will have funding ready to replace the RBS credit facility.

Resources of a global network

This accelerated bridge-financing transaction illustrates that RBS has the flexibility to meet clients' time-sensitive needs by tapping into the resources of its global network.

"At the end of the day, what this client was looking for was speed, expertise and professionalism," Tremblay says. "And with our presence in Beijing and coordination between groups, that's what we were able to provide."