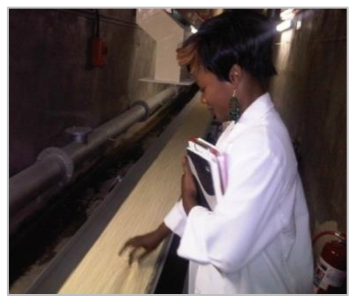
WAREHOUSE RECEIPT FINANCING






NON-NEGOTIABLE & NEGOTIABLE WAREHOUSE RECEIPTS

A Warehouse Receipt is evidence of the relationship which exists among the parties to a storage transaction. A storage transaction is a commercial relationship just as is a sale or a loan.

NEGOTIABLE

The use of Negotiable Warehouse Receipts is usually limited to the storage of goods which are traded on the commodity exchanges. A negotiable warehouse receipt is one that can be given, for value, to another without the need for any formal assignment of right or transfer of interest.

Such negotiable receipt may act as documents of title (signed or certified by the warehouseman) guaranteeing <u>existence and availability</u> of a <u>specified quantity and quality</u> of a commodity, and used as an instrument of transfer in cash (spot) and/or futures transactions on a specified exchange. If releases are to be made, the Receipt is required to be presented to the warehouseman and the new balance is duly recorded and certified on the back of the receipt by the warehouseman.

NON- NEGOTIABLE

A Non-Negotiable Warehouse Receipt is made out in the name of the lender and indicates specifically that the goods called for are deliverable only to the order of the party named thereon; presentation of the warehouse receipt is not required. If partial releases are to be made, a release order from the registered holder of the Receipt is always required.

A Non- Negotiable Receipt is NOT a certificate of, or proof of ownership in the stored goods. It is merely evidence of the fact that the warehouseman has received the goods and is holding them subject to the instructions of the named party.

TABLE 1: ADVANTAGES OF WAREHOUSE RECEIPT FINANCING

	ADVANTAGES TO BORROWERS	ADVANTAGES TO LENDERS
1	Obtain maximum credit at reasonable rates of interest	The loans are self-liquidating; they are paid as and when the goods are sold.
2	Repay loans in an orderly manner through proceeds realized through sale of commodities pledged	The loans are sound because they are well secured.
3	Take advantage of cash and quantity discounts and buy commodity at most advantageous times	The loans can be made to meet the eligibility requirements of the Reserve Banks and are readily discountable
4	Raise capital for business at periods when production and operating costs are at peak and working capital is the lowest	Ability to take and maintain constructive possession of pledged goods
5	Maintain adequate inventories and avoid forced liquidation	Accurate reporting and accounting of "all movements and balances" through collateral controller
6	Bridge the financial gap between completion of production and sale of finished product	Deliveries to the borrower and releases made only in accordance with the lender's instruction
7	Carry commodities such as wine and whiskey or other relevant commodity for the period necessary to age them properly	Accurate reporting over the "condition" of the goods described in the Warehouse Receipts
8	Obtain more working capital than ordinarily be available by most other sound financing programs	Lender as the holder of the Warehouse Receipts is protected against professional negligence and fraud under comprehensive professional indemnity insurance
9	Permit year-round employment of competent help in the manufacture of a seasonal product	
10	Convenient deposit and withdrawal of goods for processing or sale, a condition which may be essential to the proper conduct of the business	

TABLE 2: DIFFERENCES BETWEEN WAREHOUSE RECEIPTS & CHATTEL MORTGAGES

	WAREHOUSE RECEIPTS	CHATTEL MORTGAGES
1	A warehouse receipt serves as evidence of possession of pledged goods – reinforces constructive possession of goods on behalf of lender	Records must be checked in order to be assured of the first lien.
2	Acknowledgment before a notary and recordation not necessary	Signatures must be sworn to before a notary and documents recorded against other creditors
3	A warehouse receipt delivers actual possession in the pledged goods	The chattel mortgage is a lien on the goods with no physical possession or control over the goods
4	Delivery of Warehouse Receipt confirming goods are held for account of the lender sufficient to enforce and take custody in event of default by borrower. Foreclosure an removal of goods under possession possible without legal action - (however this may be required for subsequent sale / auction)	Legal proceedings are necessary to acquire title. A lawyer, notice and sale are required
5	Possession and control of goods lies in a disinterested third party	Borrower may not have the right to misuse the goods but the power to do so because they remain in his possession
6	Property under pledge may be sold without Reference to bankruptcy court, unless local applicable law otherwise requires. Sale cannot be restrained except by showing that sale jurisdiction of the Bankruptcy court would dissipate equity in goods	In bankruptcy, goods secured by chattel mortgages automatically come into the jurisdiction of the Bankruptcy court resulting in delay
7	Loans secured by warehouse receipts are acceptable for rediscount	Loans secured by chattel mortgages are not eligible for rediscount unless supported by a financial statement and by proof that funds are to be used for agricultural or commercial purposes
8	Warehouse receipts, except those titled as non-negotiable, may be negotiable; Non-negotiable warehouse receipts can be assigned and the assignment made effective upon notice to the warehouse company.	Chattel mortgages lack this quality of negotiability

SELECTION OF COLLATERAL CONTROL COMPANY

A warehouse receipt depends largely upon the character of the company concerned issuing it and whether the issuing body treats the receipt being issued as a mere storage receipt or as a financial instrument. Therefore it is imperative that some of the following key qualifications of the issuing company be subjected to most careful scrutiny:

1. Its integrity and track record
2. Its experience and expertise in bank products and its understanding of the notion of bailment and pledge.
3. Its internal processes and procedures and ability to identify, manage and mitigate risks within the supply chain and transaction flow and to operate transparently and with accountability at all times.
4. Its ability to assist the middle and back office of the lender institution in managing the commodity being financed and specifically the market, operational and legal risks associated therewith.
5. Its ability to act as a true custodian of the goods with the intent and ability to protect and enforce the lenders interests during the financing and in the event of default.
6. Its ability to understand the commodity being financed and taken into custody and to be a master of the commodity specifications in order to effectively manage and supervise the pledged goods for the duration of the financing and to raise alerts to the lender as soon as possible, if any event jeopardizing the interests of the lender arises.
7. Its legal authority and operational capacity to act as a collateral controller on ground securing possession of the goods on behalf of the lender at the designated warehouse.
8. Its financial ability to meet and fulfill the obligations imposed upon it by the underlying tripartite contract and to indemnify holders of his receipts for any failure or negligence in performance through professional indemnity and fraud insurance which is of sufficient standing.