

# FAQ's about FOB Terms

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1. **What are FOB terms?** These are one part of the contract you establish with every vendor whenever you issue a purchase order.
2. **What does FOB stand for?** The term stands for Free On Board, sometimes called Freight on Board, which is the term originally used by ships to specify the point at which a buyer was not responsible for shipping charges.
3. **And who cares?** Your FOB terms are important for two reasons: 1) they control the passage of title from seller to buyer, thus determining risk of loss if goods are damaged or stolen in transit. 2) They also determine who pays shipping costs, which may amount to a significant number of dollars on large items.
4. **What are my standard 'choices'?**
  - a. **CF Pay Freight to Destination** indicates that the seller will pay for shipping, but the buyer assumes all risk of loss or damage during transit.
  - b. **FOB Destination** indicates that the seller is responsible for shipping charges and assumes all risk of loss or damage during transit.
  - c. **FOB Shipping Point** indicates that the buyer is responsible for shipping charges and assumes all risk of loss or damage during transit.
  - d. **Pay Insurance and Freight to Destination** indicates that the seller is responsible for the item until it arrives, and responsible for the cost of insurance on the item.
5. **What if I haven't been selecting any terms on my PO's?** If you don't specify, your shipment terms may have been specified by the vendor, or may be subject to various transportation laws or may even require court interpretation to determine. A worst case scenario is that you order an expensive item, FOB Ship, and have no insurance on it and it becomes lost or damaged. Your department is then liable for paying for a damaged or non-existent item.
6. **Does RHIT have insurance to cover this loss?** Rose-Hulman's existing policies do not cover damage or loss of goods in transit.
7. **Is there any good news in this?** Most vendors are reputable and want to earn repeat business, so they will work with you to insure mutually agreeable terms are established. They don't want an uninsured loss, either. It is, however, the responsibility of a departmental buyer to insure that RHIT's interests are protected, so be sure that shipping charges and risk of loss are covered.
8. **How do I put FOB terms on a PO?** The terms are on drop-down menus on the first page of your purchase order. If you need other terms specified, don't select any terms from the menu and then specify your terms as text as part of your purchase order.