MILLER STARR REGALIA

SEPTEMBER 7, 2023

Independent Assurance: Standby Letters Of Credit As Collateral In Commercial Transactions

Related Lawyers:

Related Practices: **Commercial & Residential Development**, **Real Estate Finance**

The letter of credit has evolved from being a tool to facilitate international commercial transactions involving the sale of goods to a preferred form of collateral in a range of commercial transactions. While historically a commercial letter of credit was used to assure the seller of goods of the buyer's payment, the standby letter of credit has emerged as a means of guaranteeing or securing a monetary obligation owed by the issuing bank's customer to a third party. The popularity of using standby letters of credit as a type of guaranty in commercial transactions is mostly due to a unique feature of the letter of credit known as the "independence principle," which holds that the obligation of the issuing bank to honor a drawing request under a letter of credit is independent from the transaction that the letter of credit supports. Courts and legislators have worked to preserve the independence principle by establishing that letters of credit in commercial transactions constitute a security interest or claim against the property of the issuer and not of the debtor.

READ ARTICLE

© 2026 Miller Starr Regalia. All Rights Reserved. Attorney Advertising.