

Spelling Out

Letters of Credit

History, Law, and Drafting

ALLISON BASTIAN-RODRIGUEZ

DENTON, NAVARRO, ROCHA, BERNAL, & ZECH, P.C.

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Texas Business and Commerce Code Sec. 5.102(a)(10)

"Letter of credit" means a definite undertaking that satisfies the requirements of Section 5.104 by an issuer to a beneficiary at the request or for the account of an applicant or, in the case of a financial institution, to itself or for its own account, to honor a documentary presentation by payment or delivery of an item of value.

2

Why A Letter of Credit?

- Credit enhancement/
funding support
- Alternative to surety
bond or guaranty
- Independent
- “Foolproof”



3

Two types:

- Documentary Letter of Credit
- Standby Letter of Credit



4

Governing law

- UCC Article 5
- Texas Business and Commerce Code Chapter 5
- Caselaw/contract interpretation
- International Chamber of Commerce

Uniform Customs and Practice (UCP)

International Standby Practices (ISP98)

Governing law

- UCC Article 5
- Texas Business and Commerce Code
 - Nearly all fifty states have adopted a version of Section 5 of the Uniform Commercial Code to govern letters of credit. In Texas, this is the statutory law found in Title 1, Chapter 5 of the Texas Business and Commerce Code.

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First appeared as part of the conference materials for the
55th Annual William W. Gibson, Jr. Mortgage Lending and Servicing Institute session
"Spelling Out Letters of Credit"