

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

House Bill 236 (Chairman, Economic Matters Committee)
(Commission on Uniform State Laws)
Economic Matters

Uniform Commercial Code - Letters of Credit

This bill revises Title 5 - Letters of Credit of the Uniform Commercial Code. The revised provisions are applied to letters of credit issued on or after October 1, 1997. They do not apply to transactions, events, obligations, or duties connected with a letter of credit issued prior to that date.

Fiscal Summary

State Effect: None. Assuming that the Consumer Protection Division will receive fewer than 50 complaints per year stemming from this bill, existing resources should be adequate to handle any additional workload.

Local Effect: None.

Small Business Effect: Minimal impact on small businesses as discussed below.

Fiscal Analysis

Small Business Effect: This bill revises State rules governing letters of credit to conform with current customs and practices, technological changes, and recent court rulings. A letter of credit is an extension of a bank's credit to a customer to insure that certain commercial business transactions are carried out. Letters of credit are commonly used in the import-export industry, whereby a seller of goods would require the buyer to take out a letter of credit to insure prompt payment for the products at the time of delivery. If at the time of delivery, the buyer cannot make payment for the products delivered, the seller can "cash in" the letter of credit and receive payment from the bank. In turn, the letter of credit is transformed into a bank loan for the buyer. According to industry experts, the revision to the

rules governing letters of credit is not intended to benefit any particular entity. Accordingly, small businesses that use letters of credit should not be significantly affected.

Information Source(s): Office of the Attorney General (Consumer Protection Division), Department of Fiscal Services, Maryland Banker's Association

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