# Complete Guide to SBLCs

Everything You Need to Know About Standby Letters of Credit

This comprehensive guide explains Standby Letters of Credit (SBLCs) in detail — what they are, how they work, their uses in trade and project finance, the issuance process, costs, risks, and how Global Finance Guarantee (GFG) supports clients and partners in securing them.

## 1. What is an SBLC?

A Standby Letter of Credit (SBLC) is a guarantee issued by a bank that ensures the beneficiary will receive payment if the applicant fails to fulfil contractual obligations. It acts as a safety net for the beneficiary.

Difference from LC: A traditional Letter of Credit facilitates payment for goods/services, while an SBLC serves primarily as a guarantee.

## 2. When and Why to Use an SBLC

• Trade Finance – to secure payment obligations.  
• Project Finance – to guarantee performance or advance payment.  
• Credit Enhancement – to strengthen the borrower's credit profile.  
• Securing Contracts – to provide assurance to counterparties.

## 3. Types of SBLCs

• Financial SBLC – Guarantees payment obligations.  
• Performance SBLC – Guarantees completion of a project or service.  
• Bid Bond SBLC – Ensures the bidder will honour the bid.  
• Advance Payment Guarantee – Protects advance payments made to suppliers or contractors.

## 4. How SBLCs Work

Parties involved: Applicant, Beneficiary, Issuing Bank, Advising Bank.  
Process:  
1. Applicant applies to the bank.  
2. Bank conducts due diligence (KYC/AML).  
3. SBLC is issued and sent to the beneficiary's bank.  
4. If obligations are not met, the beneficiary claims under the SBLC.  
5. Bank pays upon compliant presentation.

## 5. Issuance Requirements

Banks require:  
• Full documentation of the underlying transaction.  
• Applicant’s financial statements.  
• Collateral or credit lines.  
• Compliance checks (KYC, AML, sanctions screening).

## 6. Costs and Fees

|  |  |
| --- | --- |
| Fee Type | Typical Range |
| Issuance Fee | 0.5% – 3% p.a. of SBLC amount (UP FRONT Fees) |
| Confirmation Fee | Varies by bank and risk profile |
| Amendment Fee | Flat or % based on changes |

## 7. Risks & Risk Mitigation

Risks to Applicant: Potential claim under SBLC, collateral requirements.  
Risks to Beneficiary: Non-performance by issuing bank, fraud.  
Mitigation: Work with reputable banks, ensure clear terms, and verify authenticity.

## 8. SBLC Monetization

Monetization refers to converting an SBLC into cash through financing arrangements. Many fraudulent schemes exist around 'leased SBLCs'. GFG works only with legitimate, regulated structures.

## 9. Common Misconceptions

• SBLC is not a loan.  
• 'Leased SBLCs' are high-risk and often fraudulent.  
• Genuine issuance requires due diligence and time; instant issuance is unrealistic.

## 10. GFG’s Approach to SBLCs

GFG provides compliant, transparent, and efficient SBLC solutions. We:  
• Work only with vetted banks.  
• Ensure full compliance.  
• Provide clear timelines and processes.  
• Focus on client education and risk prevention.

11. FAQs

Q: How long does it take to issue an SBLC?  
A: 1–7 business days depending on complexity.  
  
Q: Can I get one without collateral?  
A: Rarely; depends on creditworthiness.  
  
Q: What currencies are available?  
A: Major global currencies.  
  
Q: What sizes can GFG arrange?  
A: From €100k to €500M+.

Contact Global Finance Guarantee Today

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