



**Regional Municipality of Durham**  
Finance Department  
Policy Manual

<b>Title: Letter of Credit Acceptance</b>	
<b>Issued: June 28, 2023</b>	<b>Page #: 1 of 4</b>
<b>Revised:</b>	
<b>Approved by: Regional Council</b>	
<b>Responsibility: Finance Department</b>	<b>Section: Financial Services</b>

## **1. Policy**

- 1.1 The Region of Durham requires Letters of Credit to be submitted for Development Charges payable under Subdivision Agreements and will accept Letters of Credit as security for Regional works required under a Servicing Agreement for a Non-Subdivision Related Development.
- 1.2 Banks submitting Letters of Credit for acceptance by the Region of Durham must meet the credit rating criteria and submit the Letter of Credit in a form and content that matches the Region of Durham's Standard Letter of Credit format.
- 1.3 Under this policy, Surety Bonds cannot be submitted in place of a Letter of Credit as security for payment of Development Charges.

## **2. Definitions**

### **2.1 Letter of Credit:**

A document issued by a financial institution on behalf of their client to guarantee payment to the beneficiary (the Region). This security can be drawn against should the client fail to meet their obligations under an agreement.

### **2.2 Irrevocable:**

Letter of Credit cannot be revoked or amended without the agreement of both the beneficiary (the Region) and the issuing financial institution.

### **2.3 Automatic Renewal:**

A condition that states the Letter of Credit shall automatically extended without formal amendment for a specified period of time beyond the stated expiry date. Written notification must be received by the beneficiary (the Region) prior to the expiration if automatic renewal is to be terminated.

## 2. Definitions (cont'd)

### 2.4 Unconditional

The Letter of Credit is payable upon demand to the beneficiary (the Region) without further documentary evidence of obligation, without enquiry by the issuing financial institution as to the beneficiary's right to make the demand, and without recognizing any claim of their client.

## 3. Policy

3.1 Letters of Credit submitted to the Region must adhere to the standard format requirements detailed in Appendix "A".

### 3.2 Credit Rating Criteria

Letters of Credit will be accepted from the following Canadian Banks

#### a) Schedule I Banks

- Bank of Montreal
- Bank of Nova Scotia
- Canadian Imperial Bank of Commerce
- National Bank of Canada
- Royal Bank of Canada
- TD Canada Trust

#### b) Other Schedule I Banks and Schedule II Banks

- Must have a DBRS Morningstar credit rating of R-1 (Mid) or higher, or an equivalent rating by the rating agencies Fitch Ratings, Moody's Investor Services or S&P Global Ratings.
- Subject to approval by the Commissioner of Finance and Treasurer.
- The bank must maintain the minimum credit rating throughout the period of time the Letter of Credit is held by the Region. Should the bank's rating fall below the minimum level, the developer will be required, at their expense, to replace the Letter of Credit with one that meets the minimum rating.
- Should the Letter of Credit not be replaced within the time frame specified by the Region, the Region may at their discretion draw down the existing Letter of Credit.

#### c) Trust Companies and Credit Unions

Letters of Credit will not be accepted from Trust Companies or Credit Unions.

3.3 Letters of Guarantee, Guaranteed Investment Certificates, Term Deposits or any form of non-cash security will not be accepted in place of a Letter of Credit.

- 3.4 The Financial Administration fee will be charged for the acceptance or exchange of a Letter of Credit.
- 3.5 Letters of Credit may be required for other types of agreements at the discretion of the Commissioner of Finance.

#### **4. Roles and Responsibilities**

- 4.1 The Financial Services Section of the Finance Department is responsible for ensuring that Letters of Credit submitted meet the requirements of this policy.
- 4.2 The Financial Services Section is also responsible for processing all Letter of Credit draws, reductions, replacements and returns.
- 4.3 The Commissioner of Finance and Treasurer is responsible for approving any Letters of Credit submitted under section 3.2 b) of this policy.

## Appendix "A" Letter of Credit Standard Format Requirement

**LETTER OF CREDIT WILL BE ACCEPTED IN THIS FORM ONLY**

Date

The Treasurer,  
The Regional Municipality of Durham,  
605 Rossland Road East,  
Whitby, Ontario L1N 6A3

**IRREVOCABLE STANDBY LETTER OF CREDIT**

We hereby authorize you to draw on (bank) for account of (customer) up to an aggregate amount of (dollar value) available on demand as follows:

Pursuant to the request of our customers, (name) we, (bank) hereby establish and give you a letter of credit in your favour in the total amount of (dollar value) which may be drawn on by you at any time and from time to time upon written demand for payment made upon us by you which demand we shall honour without enquiring whether you have a right as between yourself and our said customers to make such demand and without recognizing any claim of our said customers.

Provided, however, that you are to deliver to (bank) at such time as a written demand for payment is made upon us a certificate signed by you agreeing and/or confirming that monies drawn pursuant to this letter of credit are being drawn because of the obligations of our customers, incurred or to be incurred with reference to an Agreement dated (date) between (customer) and The Regional Municipality of Durham.

The amount of this letter of credit shall be reduced from time to time as advised by notice in writing given to us from time to time by you.

This letter of credit will continue up to (one year from date of issue) and will expire on that date and you may call for payment of the full amount outstanding under this letter of credit at any time prior to that date should this letter of credit not be renewed. It is a condition of this letter of credit that it shall be deemed to be automatically extended without amendment for one (1) year from the present or any future expiration date hereof, unless thirty (30) days prior to any such date we shall notify you in writing by registered mail that we elect not to consider this letter of credit renewed for any such additional period. Any and all renewals to this letter of credit shall be for a period of not less than one year and without amendment to the original terms of this letter of credit.

Partial drawings are permitted.

We hereby covenant with drawers, endorsers, and bona fide holders of drafts drawn under and in accordance with the terms of this letter of credit that such drafts will be honoured if drawn and negotiated on or before (one year from date of issue) or any automatically extended date as hereinbefore set out.

DATED at                    this                    day of                    , 20XX.

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Name/signing capacity