

Legislative Background

Minnesota Statute section 282.04 subd. 1, empowers the County Auditor, as directed and under terms set by the County Board, to accept an irrevocable bank letter of credit in the amount equal to any payment or deposit required for the selling of timber on tax forfeited lands as specified in subd. 1(b). If an irrevocable bank letter of credit is provided, the county may periodically allow the bank letter of credit to be reduced by an amount proportionate to the value of timber that has been harvested and for which the county has received payment, at the written request of the purchaser. The remaining amount of the bank letter of credit must not be less than 20 percent of the value of the timber purchased. If an irrevocable letter of credit or cash deposit is provided for the down payment as required, and no cutting of timber has taken place on a contract for which a letter of credit has been provided, the county may allow the transfer of the letter of credit to any other contract issued to the contract holder as requested in writing.

Irrevocable Letter of Credit Policy

Irrevocable Letter of Credit. A letter of credit is an obligation to St. Louis County by an issuing bank or other financial institution based on a third party agreement between the timber sale contract holder and the institution. St. Louis County is not a party to this agreement. Letters of credit are similar to cash deposits in that St. Louis County may draw cash from the issuing institution up to the amount stated in the letter of credit. A letter of credit will be accepted for a down payment, individual cutting blocks, or an entire timber sale for the amount(s) specified in the contract.

Letter of Credit transfers are not allowed. If a letter of credit is issued for the down payment of a contract, and no cutting of timber has taken place, the Land Department will **not** allow transfer of the letter of credit to any other contract issued to the contract holder. If a letter of credit is issued for a specific cutting block, and partial cutting of timber has occurred, the Land Department will **not** allow transfer of the letter of credit to any other block. Cutting may be allowed on a different block if a separate letter of credit is issued for that block.

Eligible Issuing Institutions. St. Louis County will only accept a letter of credit that is issued by one of the following financial institutions:

1. A bank that is a member of the Federal Reserve System or insured by the Federal Deposit Insurance Corporation.
2. A savings and loan association insured by the Federal Savings and Loan Insurance Corporation.
3. A Federal credit union insured by the National Credit Union Association.

Letter of Credit Contents. A letter of credit must include:

1. Letter of credit number.
2. A statement that the letter of credit is irrevocable.
3. The name of the issuing institution's customer (contract holder).
4. The total credit extended. This total must equal the 15 percent down payment; or the cutting block value for which it is being applied; or the timber sale contract value.

5. An authorization to draw sight drafts upon the issuing institution in favor of “St. Louis County Auditor.”
6. A statement that the letter of credit number appearing on the sight draft is sufficient identification for honoring the letter of credit. The letter of credit must specify only one identification number.
7. An unqualified expiration date for presentation of sight drafts for payment that is equal to the term of the timber sale contract plus one year past the contract expiration date.

Exhibit 1 illustrates an acceptable letter of credit containing each of the above elements. Issuing institutions may use letter of credit forms different from this example. These are acceptable provided they contain the required elements and are signed by an officer of the issuing institution.

Acceptance. Because there is no standard letter of credit format, printed or inserted qualifications deserve close scrutiny. If there are additions to or omissions from the required contents, the Land Department must work closely with the Auditor’s Office to determine whether or not the letter of credit is sufficient or acceptable.

Termination. The Letter of Credit shall expire on whichever of the following dates occurs first:

1. The date the contract holder makes full payment of all contract obligations (a letter should be sent to the issuing institution requesting termination (exhibit 3)); or
2. The date the bank makes full payment of its obligation herein if a draft has been drawn against it; or
3. No later than a date equal to the term of the timber sale contract plus one year past the contract expiration date (the expiration date listed on the letter of credit should be checked to ensure it meets this requirement).

Sight Drafts. The Land Department will retain a letter of credit until such time as the contract holder makes the required cash payment. A billing statement for the value of timber scaled plus any other required payments will be sent to the contract holder quarterly, or if the credit limit has been exceeded (currently \$15,000). A billing statement will also be sent to the contact holder after a cutting block closes for the value of the timber scaled on the block plus any other required payments. If the purchaser fails to furnish the required cash payment within 30 days, the Land Department may draw a Sight Draft (exhibit 2) or other form furnished by the issuing institution against the letter of credit.

Exhibit 1: Sample Letter of Credit

(Bank Letterhead)

Date:

Irrevocable Letter of Credit Number

St. Louis County Auditor
address

To Whom it May Concern:

The (bank name) has established an Irrevocable Letter of Credit in your favor at the request of and for the account of (purchaser), to the extent of (dollars spelled out) (\$000000), to secure a payment guarantee and fulfillment of contract number _____, effective immediately and expiring on _____ (one year beyond sale termination date).

This letter of credit secures payment for (*please select one of the following:* the down payment, Block(s) No. _____, the entire sale amount).

Said funds are available by presentation of your sight draft which clearly specifies the number of this credit, and are drawn in favor of the secured contract number cited above.

This letter of credit is valid until _____ (one year beyond sale termination date), and sight drafts drawn hereunder as specified above, will be duly honored if presented to us at our office on or before that date.

The (bank name) is a member of the Federal Deposit Insurance Corporation.

Sincerely,

(original signature, no stamp)

Title

Exhibit 2: Sample Letter of Credit Sight Draft

Sight Draft

Draft No. (optional) _____

Date _____

Contract No. C19 _____

Block No. _____

St Louis County Land Department

At sight upon presentation, pay to the order of St. Louis County Auditor \$ _____.

The sum of _____ dollars.

Drawn under irrevocable Letter of Credit No. _____ of the

Name of Issuing or Corresponding Bank

Signature: _____

Title: Deputy Auditor _____

Exhibit 3: Cover letter that can be used to terminate a letter of credit.



Saint Louis County

Land Department • 320 West 2nd St., Room 607, Gov't. Serv. Cntr. • Duluth, MN 55802
Phone: (218) 726-2606 • Fax: (218) 726-2600

Robert L. Krepps
Land Commissioner

Mark E. Reed
Deputy Land Commissioner

Date

Bank Name
Bank Address

RE: Termination of Irrevocable Letter of Credit Number _____

To Whom It May Concern:

The Irrevocable Letter of Credit issued to the St. Louis County Auditor for the account of (purchaser), for Contract Number (C19_____), Block _____ can be terminated as of (date). This is the date the contract holder made full payment of all contract obligations. Please close the letter of credit account of (purchaser) for this contract.

Sincerely,

Mark Weber
Resource Management Supervisor

cc: file