

# WHAT IS A BANK GUARANTEE? (BG)

A [Bank Guarantee](#) (BG) is very similar to a [Standby Letter Of Credit SBLC](#) as they both are used for many types of business transactions (financial or performance based). The real difference between the two is that a Letter Of Credit (LC) ensures that a business transaction goes as planned, whereas a Bank Guarantee (BG) reduces losses if a business transaction doesn't go as planned. A Bank Guarantee (BG) guarantees a certain sum to the beneficiary if the opposing party doesn't fulfill its specific obligations under their agreed upon contract. Bank Guarantees (BG) ensure both sides in a contractual agreement from credit risk.

- A construction company and its steel beam supplier may enter into a contractual agreement to build a new complex.
- Both sides might have to issue [Bank Guarantees](#) (BG) in order to prove their credit-worthiness to each other.

In a case that the steel beam supplier fails to deliver steel beams to the job site per their agreed contractual agreement, the construction company would notify the issuing bank of the breach of terms agreed up in the Bank Guarantee (BG) and the bank would then pay the construction company the amount agreed upon in the Bank Guarantee (BG).

## HOW DOES THE BANK GUARANTEE (BG) PROCESS WORK?

### [Bank Guarantee Process](#)

#### **Step 1: Application**

Fill out and return the Bank Guarantee (BG) application with the documents for your deal. (Contract, Agreement, etc.) to the bank guarantee lender.

#### **Step 2: Issuing of Draft**

A SWIFT MT760 draft of the Bank Guarantee (BG) will be created for you and your beneficiary to review.

#### **Step 3: Draft Review and Opening Payment**

- a) Finalize the draft between you and your beneficiary and sign off on the draft (changes are free of cost).
- b) We issue you a payment invoice for the BG, which you arrange to pay.
- c) Once we receive your wire payment, we will release the finalized Bank Guarantee (BG) to the bank for issuance and delivery.

#### **Step 4: Issuance**

More often than not, the bank will issue the Bank Guarantee (BG) within 48 hours of release. Once issued, a copy of the BG will be emailed to you as it is transmitted by a MT760 SWIFT message to the beneficiary, including the reference number of the BG. Your seller's bank will be able to receive and confirm the [Bank Guarantee Letter](#) (BG) transmission soon thereafter from the bank guarantee lenders offer department.

## WHAT ARE TYPES OF BANK GUARANTEES? (BG)

There are a number of different [types of bank guarantee](#) and we have listed a number of them below for you?

### **1. Bid Bond Guarantee:**

Is issued as part of the bidding process between a contractor and the project owner, in order to guarantee that the winning bidder will undertake the contract under the term and conditions that they bid.

### **2. Performance Bond Guarantee:**

A surety bond usually issued by a bank to guarantee the satisfactory completion of a project by a contractor. This is known as a [performance bank guarantee](#).

Also known as a contract bond.

### **3. Advance Payment Guarantee:**

Is utilized whenever a contract includes advance payment to be made to the seller.

It guarantees that this advance payment will be returned to the buyer if the seller happens to not fulfill its obligation to the seller.

### **4. Warranty Bond Guarantee:**

A type of security bond that states that the contractor has a history of trustworthiness.

It also protects the client should the work completed be subpar or unethical in any way.

### **5. Payment Guarantee:**

A financial commitment that requires a debtor to make a repayment due to terms outlined in the debt agreement.

### **6. Rental Guarantee:**

A type of insurance used to protect landlords against loss of rent.

### **7. Letter of Indemnity:**

A letter that guarantees certain contractual provisions will be met or financial reparations will be made.

Guarantees that losses will not be suffered if the contractual provisions aren't met.

### **8. Confirmed Payment Order Guarantee:**

A guarantee of payment on a certain due date on top of the letter of credit issuing bank's own commitment to pay the supplier.

# Whats The Process

Institutions currently offer a Non-Recourse Loan against a Bank Guarantee (BG/SBLC) [stand by letter of credit](#) as collateral with Monetization Programs. The Program allows you to generate Investments Funds which can be used for trade finance, constructions, credit enhancement, government funding, property investment and all round range of funding. Institutions can provide 100% LTV Non-recourse loan with BG Leased Monetization Programs. Find below the transactional procedures and bank transmission charges for the delivery of BG/SBLC monetization programs from BG/SBLC financial institutions.

## BG/SBLC PROCEDURE:

- 1:** The Lender shall carry our Financial, Corporate and Due diligence investigations on the Borrower's company after the successful investigation and confirmation of the authenticity Borrower's company/ identification by our legal department, the Lender and Borrower execute, sign and initiate this Deed of Agreement, which thereby automatically becomes a full commercial recourse contract to be lodge by both parties initiation of Swift Transmission.
- 2:** Within Three (3) Banking Days after the Legal department has successful verified the authenticity of the Borrower's document, Our financial department shall send a copy of Letter Of Intent to Complete, Sign and Stamp.
- 3:** Within Two (2) Banking Days after the financial department has received and Confirm the Borrower's sign and stamp Letter of Intent, Lender will issue a copy of Signed Contract to the Borrower to Complete and stamp then send back Countersigned to the Borrower to complete contract.
- 4:** Within One (1) Banking day after the Lender receives from the Borrower, the Countersigned Contract, The Lender will send a copy of Advance payment guarantee APG or payment refund guarantee PRG that will be duly be signed and stamped by the lender's bank which guarantees that any delay or default from the Lender side, on Borrower's first request to our bank any payment made in advance will be refunded along with 1% penalty fees and the signed and seal Payment Invoice. The Borrower will make only 50% payment of the Bank Transmission, Administrative & Handling charges for the Non-Recourse Loan via Swift MT103 by direct wire transfer into the Lender's provided Banking .
- 5:** Within Three (3) banking days after confirmation of receipt of payment for 50% of the Bank Transmission, Administrative & Handling charges for the Non-Recourse Loan via Swift MT103 in Lender's nominated bank account, the Lender will deliver Non-Recourse Loan (Cash Loan) via Swift MT103 to the Borrower's Provided Bank Account. Borrower sends out leasing fees 5% LTV per annul by Swift MT103 to the Lender's nominated

Bank account with the initially 50% balance of Bank Transmission, Administrative & Handling charges by wire transfer

**6:** Within Five (5) Banking days upon delivery and confirmation of the Non-Recourse Loan via Swift MT103 in the Borrower's nominated Bank account

Any unauthorized calls by any party or its representative lawyers to probes or communication in an improper way to bank(s) in this transaction shall be prohibited and contract terminated  
The 5% LTV will only be paid for 10 years and after which the Loan becomes Non-Recourse.

**NOTE:** You are only to pay in advance 50% of the required processing fees in order to complete and successfully acquire the loan from our financial institution.

### **Why you Should Choose BG and SBLC Monetization Providers?**

- 1). Guarantee: BG and [SBLC monetization](#) providers guarantee the ultimate successful Funding of your Projects. In the case of fail, we return 100% of the swift Fee Paid with 1% penalty fee.
- 2). Speed: It takes up to 5-10 business days to fund your Project.
- 3). Reliability: Trust is important for providers. They fund entrepreneurs to run their businesses successfully already since 2012.
- 4). Experience: Providers experienced professionals will consult you about all the steps that should be done after contacting their Legal Department. They have developed and time-tested approaches for all the operations.
- 5). No risk: The Advance payment guarantee APG or payment refund guarantee PRG will be duly signed and stamped by the Lender's bank which means the Fee is 100% secured, providers are helping clients get funded with minimum cost.
- 6). Insurance: Set up insurance right for you and your business and this helps client insure their projects, even if their projects fails they have no worries as the insurance company covers the Loss.

## **Leasing a Bank Guarantee is Collateral Transfer**

The phrases 'Lease' or 'Leasing' of Bank Guarantees stem from the way a Collateral Transfer transaction is structured. This guide explains why misleading phrases such as 'leasing a bank guarantee' or 'bank guarantee lease' – or other form of demand guarantee including a Standby Letter of Credit – has been confused with Collateral

Transfer facilities. So, why do they call it 'Leasing' Bank Guarantees? The phrases 'Lease' or 'Leasing' of Bank Guarantees originate from the basis a Collateral Transfer transaction is structured (as we shall discuss in detail later on this website). The word 'leasing' in direct respect to a Bank Guarantee, Standby Letter of Credit or other form of 'demand guarantee' is a total misnomer and should really be avoided; although we all accept that people use this layman terminology when referring to finance facilities involving the implementation of bank instruments such as these bespoke funding contracts. As we have discussed, Leasing Bank Guarantees or Leasing Standby Letters of Credit (or other types of Demand Guarantees for that matter) are common mis-phrases associated with Collateral Transfer facilities. Therefore, words

such as 'Lease', 'Leasing' or 'Rent' are not really the correct terms to use as it is not possible to actually lease a Bank

## What's in it for the BG/SBLC Applicant?

A large percentage of applicants that apply to receive a Bank Guarantee or SBLC [Letter of Credit and Bank Guarantee](#) through a Collateral Transfer facility are doing so with the intention of raising credit or securing loans. It is often the case that applicants do not have sufficient existing security to allow them to borrow the level of funds they require from their own bank or it may be that they have simply extended their credit too far. Sometimes the objective is to raise funds for new start companies, trade positions and large projects. As Collateral injected under Collateral Transfer facilities is worded to support credit facilities, it is possible to use it to secure credit lines and loans, either directly from the Recipient Bank holding the Collateral or another third-party lender. In these events, Our lenders are happy to offer credit line facilities that we can secure and facilitate for our clients. Collateral Transfer facilities ('leasing') may also be used to enhance financial positions, enter trading programs, secure documentary letters of credit, issue contract guarantee, guarantee supplier's payments and many other uses.

## So, why do they call it 'Leasing' Bank Guarantees?

The phrases 'Lease' or 'Leasing' of Bank Guarantees originate from the basis a Collateral Transfer transaction is structured (as we shall discuss in detail later in this series). The word 'leasing' in direct respect to a Bank Guarantee, [irrevocable Standby Letter of Credit](#) or other form of 'demand guarantee' is a total misnomer and should really be avoided; although we all accept that people use this layman terminology when referring to finance facilities involving the implementation of bank instruments such as these bespoke funding contracts. As we have discussed, Leasing Bank Guarantees or Leasing Standby Letters of Credit (or other types of Demand Guarantees for that matter) are common mis-phrases associated with Collateral Transfer facilities. Therefore, words such as 'Lease', 'Leasing' or 'Rent' are not really the correct terms to use as it is not possible to actually lease a Bank Guarantee in the exact meaning of the word 'lease'. Equally, it is not possible to lease a Standby [SBLC Letter of Credit](#), Documentary Letter of Credit (DLC) or any other form of demand guarantee (as defined by the Uniform Rules for Demand Guarantees Publication (No. 758 – 'URDG758')).

It is also not possible to buy or purchase Bank Guarantees, Standby Letter of Credit [SBLC full form](#) or other forms of demand guarantees (as defined by URDG 758). Likewise, it is not possible to sell them, as we explain later on this webpage.

Hence, the phrase to 'lease a bank guarantee' is a misnomer. As we have over 150 years of experience within this industry, we see inexperienced brokers, intermediaries and suspicious entities claiming to be 'providers' of these facilities, using this wrong terminology in formal documents. We assume that inexperienced middle-men have grasped these incorrect terms as the Collateral Transfer process mirrors almost exactly that of the process of commercial leasing. In effect, the Provider offers temporary ownership of his assets to the Recipient in return for a

fee and at the end of the term the assets revert back to the ownership of the Provider. The assets are used to raise specific and non-transferable bank indemnities which the Recipient may utilise.

It is therefore a misnomer as in effect no leasing takes place. Through a Collateral Transfer Contract (the underlying agreement to a Collateral Transfer facility), a Provider will agree to place his assets with a facilitating bank. That bank will be the bank the Provider nominates to issue the Collateral and is referred to as the 'Issuing Bank'. Typically, that asset being pledged to the Issuing Bank as the underlying substance of the Collateral, will be physical cash or a form of instantly liquid-able stock or commodity such as listed shares or gold bullion or an asset the bank can immediately liquidate. The Issuing Bank will lien (charge or 'block' in their own favour) the asset and will raise a bank indemnity (guarantee) against it in favour of the Recipient (referred to as the Beneficiary in reference to the Bank Guarantee verbiage), in accordance with the instructions of the Provider. The bank indemnity in this case being the Collateral.

As we have learned earlier, this Collateral will commonly take the form of a Banker's Letter of Guarantee (a Bank Guarantee) issued to the Recipient, specifically for the purpose to which the Collateral Transfer facility refers. Sometimes, the Collateral may be in the form of a Standby Letter of Credit or another form of specific demand guarantee, depending on jurisdiction of the transaction and the parties. It will also be dependent upon its purpose and the specific bespoke terms of the underlying Collateral Transfer Contract or Agreement.

Collateral Transfer facilities are extremely practical when a company or corporation needs to import, enhance or create additional security to support further credit lines or loans. A corporation may seek to introduce secondary or additional 'collateral' through these types of facilities to enable it to offer the necessary loan security to their bankers and lenders.

Borrowing funds using a Bank Guarantee or other form of bank indemnity or demand guarantee as security is often referred to as 'monetizing the guarantee'. One who lends funds against a bank instrument or collateral of this type is often called 'a Monetizer'. These terms are very much broker speak or slang that one may find surfing the internet. In a professional environment, loans secured against bankable collaterals of this type are traditionally and correctly called 'Lombard Loans'.

# Clients Need This Facility to Secure a Loan

Most of those who seek a 'Lease Bank Guarantee' (or standby letter of credit) have the objective to raise hard, physical cash, either by using the Bank Guarantee (BG) as security for a loan or to 'discount', 'monetize' or 'credit line' the Guarantee. Most commonly, those seeking to lease a Bank Guarantee or Standby Letter of Credit (SBLC) are effectively seeking a loan where they have little or no established security (e.g. real estate, bonds or investment deposits) to offer conventional lenders such as their bank or other lending companies. [SBLC providers](#) vary and range across a wide range of different lending types and institutions.

Particulars	LOC	BG
Nature	LOC is an obligation accepted by a bank to make payment to a beneficiary if certain services are performed.	BG is an assurance given by the bank to the beneficiary to make the specified payment in case of default by the applicant.
Primary liability	Bank retains the primary liability to make the payment and later collects the same from the customer.	The bank assumes to make the payment only when the customer defaults to make payment.
Payment	Bank makes the payment to the beneficiary as and when it is due. It need not wait for a default to be made by the customer.	Only when the customer defaults the payment to the beneficiary, the bank makes the payment.
Way of working	LOC ensures that the amount will be paid as long as the services are performed as per the agreed terms.	BG assures to compensate for the loss if the applicant does not satisfy the specified conditions.
Number of parties involved	There are multiple parties involved here – LOC Issuing bank, its customer, the beneficiary (third party), and advising bank.	There are only three parties involved – banker, its customer, and the beneficiary (third party).
Suitability	Generally, this is more appropriate during the import and export of goods and services.	Suits any business or personal transactions.
Risk	Bank assumes more risk than the customer.	Customer assumes the primary risk.