

Structural Comparison of a Surety Bond and a Letter of Credit

	Surety Bond	Letter of Credit (LOC)
Definition	A guarantee by a surety (insurance company) that the developer's obligation will be fulfilled, or the surety will pay.	A guarantee issued by a bank, committing to pay the city on demand if the developer defaults.
Parties Involved	1. Principal (Developer) 2. Obligee (City) 3. Surety (Bonding Company)	1. Applicant (Developer) 2. Beneficiary (City) 3. Issuer (Bank)
Claim Process	Requires the City to prove default and follow a formal claim process. The surety may contest or delay payment depending on terms.	City can demand payment immediately if terms are met. Bank has no discretion once compliant documentation is presented.
Security Type	Unsecured (usually not backed by collateral); relies on surety's credit assessment.	Fully secured by developer assets or funds, or with a bank line of credit.
Cost to Developer	Typically lower annual premium; no cash tie-up.	Higher fees plus capital lock-up (collateral or line of credit used).
Impact on Developer Cash Flow	Positive: No immediate cash requirement; frees capital for other project needs.	Negative: Ties up credit capacity or funds.
Typical Use Cases	More common for insurance-backed obligations, low-risk development, or where cities wish to reduce barriers to entry.	Standard in most municipalities for high-assurance financial security.
Expiry & Renewal	Typically 1–3 year term; requires monitoring for renewal or continuity.	Generally evergreen (auto-renewing) or fixed-term with clear expiry dates and notice terms.