



NEW YORK STATE SENATOR

John A. DeFrancisco

New York Senate Passes Legislation to Assist Small and Medium-Sized Businesses in Securing Government Contracts

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State Senator John A. DeFrancisco announced that the New York Senate passed legislation today, May 15, 2012, which would give state agencies the authority to determine whether a letter of credit is needed for a state contract, and would limit the amount of the letter of credit to 3 percent of the total contract award.

“A three percent cap on a letter of credit would help small and medium-sized businesses, because a letter of credit requirement adversely impacts a company’s ability to secure a loan, and it ties up resources that a company needs for operating expenses and growth,” said Senator DeFrancisco.

A letter of credit requires money to be set aside by a company to off-set any potential risk associated with performing a state project. A state agency has the option to require a letter of credit as a security interest in a project. Under current law, the amount and form of the security, whether it is a letter of credit or a bond, or both, is set at the agency's discretion, but there is no percent cap.

"Small and medium-sized businesses would be much more competitive when bidding on government contracts if this bill becomes law," concluded Senator DeFrancisco.

The bill has been sent to the New York State Assembly and is awaiting approval by that body.