

**Bonding Strategies
(DEMLR's Mining Program)**

Bond Type	How it Works	Advantages and Disadvantages
Assignment of Savings Account	The operator puts money into a bank account, CD, or other bank-based financial instrument. This money is "frozen" in the account until the bond is either released or used by DENR.	<p><u>Advantages:</u> (1) If the bank releases the bond money prematurely, the bank is still responsible for paying the bond. (2) The money is already set aside for bonding purposes before a project begins. (3) If the operator goes bankrupt, DENR can still access the bonding money using the Attorney's General Office. (4) The operator can collect and keep all interest on the money in the account.</p> <p><u>Disadvantages:</u> (1) DENR must move quickly to obtain these funds if the operator goes bankrupt. Otherwise, other creditors might obtain the money first. (2) If the bank goes bankrupt, DENR must trace the money to whatever financial institution has taken over the account.</p>
Surety Bonds	The operator pays a financial surety company a monthly insurance premium to cover the respective bond. If the operator fails to make the payment, the bonding company must notify DENR at least 60 days before canceling coverage.	<p><u>Advantages:</u> (1) If the operation is limited in time duration, the operator does not have to pay for the entire bond up front, and may save money in the long term. (2) The bonding company provides a guarantee of payment.</p> <p><u>Disadvantages:</u> (1) The operator cannot recover the premium costs. (2) Late payments to the bonding company prompt threats of canceling coverage, which costs DENR a lot of staff labor to either prompt the operator to maintain payments, or to process paperwork to recover the bond.</p>
Bank Guaranty	The bank issues a guaranty of payment. In other words, a financial institution provides a letter to DENR stating that a given operator is "good" for the bond money. Obviously, this instrument is almost never used.	<p><u>Advantages:</u> (1) Bank guaranty that the bond will be covered. (2) Paperwork is easier to process, compared to other instruments.</p> <p><u>Disadvantage:</u> DENR must move quickly to obtain funds if the operator goes bankrupt. Otherwise, other creditors might obtain money first.</p>
Cash Deposits	A cashier's check or a certified check for the bonding amount is sent to DENR by the operator. (DEMLR's mining program discourages this instrument.)	<p><u>Advantage:</u> The money is "in-hand" and easily accessed by DENR.</p> <p><u>Disadvantages:</u> (1) The operator gains no interest from the bonding money. (2) DENR staff labor is extensive, as checks must be processed and deposited in a State-maintained account. (3) Releasing the bond back to the operator takes considerable time (roughly two months).</p>
Irrevocable Letter of Credit	Issued by a financial institution, often in the form of an equity line of credit. The operator pays a premium to the bank. If the operator fails to make the payment, the financial institution must notify DENR at least 60 days before canceling coverage.	<p><u>Advantages:</u> (1) If the operation is limited in time duration, the operator does not have to pay for the entire bond up front, and may save money in the long term. (2) The financial institution provides a guarantee of payment.</p> <p><u>Disadvantages:</u> (1) The operator cannot recover the premium costs. (2) Late payments to the bank prompt threats of canceling coverage, which costs DENR a lot of staff labor to either prompt the operator to maintain payments, or to process paperwork to recover the bond.</p>