

TITLE 5: UNIFORM COMMERCIAL CODE
DIVISION 5: LETTERS OF CREDIT

§ 5114. Issuer's Duty and Privilege to Honor; Right to Reimbursement.

(1) An issuer must honor a draft or demand for payment which complies with the terms of the relevant credit regardless of whether the goods or documents conform to the underlying contract for sale or other contract between the customer and the beneficiary. The issuer is not excused from honor of such a draft or demand by reason of an additional general term that all documents must be satisfactory to the issuer, but an issuer may require that specified documents must be satisfactory to it.

(2) Unless otherwise agreed when documents appear on their face to comply with the terms of a credit but a required document does not in fact conform to the warranties made on negotiation or transfer of a document of title (5 CMC § 7507) or of a certificated security (5 CMC § 8306) or is forged or fraudulent or there is fraud in the transaction:

(a) The issuer must honor the draft or demand for payment if honor is demanded by a negotiating bank or other holder of the draft or demand which has taken the draft or demand under the credit and under circumstances which would make it a holder in due course (5 CMC § 3302) and in an appropriate case would make it a person to whom a document of title has been duly negotiated (5 CMC § 7502) or a bona fide purchaser of a certificated security (5 CMC § 8302); and

(b) In all other cases as against its customer, an issuer acting in good faith may honor the draft or demand for payment despite notification from the customer of fraud, forgery or other defect not apparent on the face of the documents but a court of appropriate jurisdiction may enjoin such honor.

(3) Unless otherwise agreed an issuer which has duly honored a draft or demand for payment is entitled to immediate reimbursement of any payment made under the credit and to be put in effectively available funds not later than the day before maturity of any acceptance made under the credit.

(4) When a credit provides for payment by the issuer on receipt of notice that the required documents are in the possession of a correspondent or other agent of the issuer:

(a) Any payment made on receipt of such notice is conditional; and

(b) The issuer may reject documents which do not comply with the credit if it does so within three banking days following its receipt of the documents; and

(c) In the event of such rejection, the issuer is entitled by charge back or otherwise to return of the payment made.

(5) In the case covered by subsection (4) of this section failure to reject documents within the time specified in subsection (4)(b) of this section constitutes acceptance of the documents and makes the payment final in favor of the beneficiary.

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Source: PL 3-56, § 1 (§ 5114).