STACKING EXPOSURE MAY BE AFFECTING YOUR CUSTOMS BOND

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Most people, even many industry professionals, are not very familiar with this term. Learn more about stacking exposure to ensure that you avoid delays in your supply chain, as well as unforeseen and costly changes to your customs bond.

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WHAT IS STACKING EXPOSURE?

Stacking exposure, or stacking liability, occurs when a surety company has open exposure over multiple bond periods for a particular importer. In addition to the current bond that is on file with Customs, there can be prior bonds or bond periods that have unliquidated entries keeping that liability open.

A bond period remains open as long as there are unliquidated entries from that bond. The liability adds up, or stacks, and creates significantly more risk to the surety company issuing the bonds.

WHY IS STACKING EXPOSURE IMPORTANT TO CONSIDER?

Sureties are liable for the full bond limit until all entries for that bond period have been liquidated for 90 days (subject to no open claims).

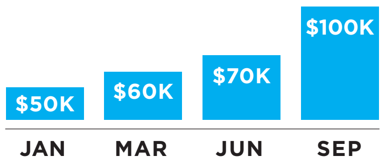
This means that for a minimum $50,000 bond that was terminated five years ago, but still has one measly unliquidated entry on it, the surety could still be on the hook for the full $50,000!

It is important to consider liquidation patterns when making changes to a bond. Most entries liquidate within a year. By keeping a consistent 12 month bond period cycle, an importer will minimize the stacking of their bond periods.

Think about this simple example.

An importer gets a basic $50,000 importer bond effective January 1st.

Let's imagine that the importer is growing, and thus they must increase their bond to $60K on March 1st, then to $70K on June 1st, and finally to $100K on September 1st.



The total stacking exposure to the surety for that importer is now at $280,000!

Had the importer forecasted more accurately and requested a $100K bond to begin with, the total exposure would only be $100,000, as that bond amount would be sufficient for the activity of the entire 12 month period, based on our example.

HOW CAN YOU PROTECT YOURSELF?

As an importer, it is critical to forecast duty volumes as accurately as possible for the year to ensure you get a bond large enough to last the entire year.

Working with a reputable broker to determine the proper bond amount at each renewal will help alleviate unforeseen and untimely changes to your bond after the renewal.

Otherwise, with multiple mid-term bond increases, the exposure to the surety could stack up, and additional requirements could be needed to get a bond increase approved. This could lead to supply chain delays and unexpected costs as underwriters mull over the bond approval.

Thinking ahead will save you time and money in the long run.

For further questions regarding stacking exposure and how it may affect your supply chain, please reach out to your local Expeditors representative.