TARIFF TRENDS

Preparing for Tariff Impacts:

Insights for Secured Lenders on Managing Customs Bond Challenges

BY SALVATORE STILE

SALVATORE STILE
Alba Wheels Up International Inc.

The Evolving Trade and Financial Landscape

The global trade environment is facing a seismic shift with the imposition of new tariffs on imports from China, Mexico, and Canada—with reciprocal tariffs likely to follow. Historically, duty-free trade agreements under USMCA helped U.S. businesses optimize their supply chains. However, as of the reference point date of March 4, 2025 (tariffs are changing frequently), the United States has imposed tariffs that fluctuate frequently and could likely change at the time of article publication.

In response, trading partners such as China, Mexico, and Canada are considering reciprocal tariffs, which could further tighten liquidity for importers and escalate financing risks for lenders. As borrowing costs rise and customs bond obligations increase, secured lenders must assess the cascading risks these policies pose.

Customs Bonds: The Hidden Financial Risk for Lenders

Customs bonds guarantee the payment of duties, taxes, and fees to U.S. Customs and Border Protection (CBP). These bonds are 10% of the duties, taxes, and fees of an importer's rolling past 12 months. With rising tariffs, importers will see:

- Significant increases in bond values, tightening liquidity.
- Strained credit availability, impacting loan terms.
- Delays in securing bonds, disrupting supply chains.

Reciprocal Tariffs: A New Layer of Financial Risk

If Mexico, Canada, and China impose retaliatory tariffs on U.S. exports, the financial impact will spread beyond importers. Lenders must prepare for:

- Reduced cash flow for exporters facing reciprocal duties.
- Weakened collateral positions for businesses reliant on international markets.
- Potential defaults from businesses facing lower sales and higher costs.

These combined tariff pressures will affect both importers and exporters, creating a ripple effect in financial markets.

Case Studies: Tariff Increases and Bond Implications

(Editor's Note: These examples are meant to be illustrative. Take into account tariffs in effect at the current time)

China Duties Increase

- A company importing $50 million annually from China previously paid $5 million in duties (10%), requiring a $500,000 customs bond.
- With the tariff increase to 20%, the company now owes $10 million in annual duties.
- To remain compliant, the importer must terminate the existing $500,000 bond and secure a new $1 million bond.
- However, financial exposure under the original bond remains active until all goods imported under that bond are liquidated by CBP—a process that typically takes 314 days or more.

Mexico and Canada Tariffs

- Importers previously paid no duties on $50 million in goods from Mexico or Canada.
- The new 25% tariff results in $12.5 million in annual duty costs.
- This requires a customs bond valued at $1.3 million (10% of $12.5 million, rounded to the nearest $100,000).
- Many importers have never carried this level of financial exposure, leading to increased risk for lenders financing these businesses.

Reciprocal Tariffs on U.S. Exports

- If Canada and Mexico impose retaliatory tariffs, U.S. exporters will face:
  - Higher costs to access foreign markets, reducing competitiveness.
  - Stronger liquidity constraints, impacting debt servicing.
  - Lower collateral values, raising red flags for secured lenders.
- Example: A U.S. manufacturer exporting $50 million annually to Mexico could face a 25% tariff on their goods, increasing costs by $12.5 million. This would tighten margins, impact loan covenants, and reduce repayment capacity.

The Bond Stacking Dilemma: A Key Risk for Lenders

A major concern is bond stacking, which occurs because an importer must maintain all existing bonds until goods tied to them are liquidated by CBP—a process that takes 314 days or more.

Example of Bond Stacking Risks

- An importer starts with a $500,000 bond to support $5 million in annual duties.
- After a tariff increase to 20%, the importer must secure a new $1 million bond to cover the increased $10 million duty exposure.
- The original $500,000 bond is formally terminated, but the importer retains liability for entries tied to that bond until CBP completes liquidation.
- This results in overlapping exposure totaling $1.5 million across the two bond periods.
- Reciprocal tariffs may further tighten credit, forcing importers to reallocate working capital to meet these increased financial obligations—impacting their ability to service debt and maintain credit lines.

Implications for Lenders

Secured lenders must adapt to the evolving risks of higher tariffs and potential retaliatory trade measures. The combined effect of rising duties and reciprocal tariffs could create systemic liquidity constraints for borrowers.

1. Increased Collateral Demands

- Bonds exceeding $200,000 often require collateral (e.g., letters of credit (LCs)).
- Rising bond values and reciprocal tariff risks will strain borrower liquidity, increasing default risks.

2. Strained Credit Lines

- Importers with stacked bonds will see reduced access to capital.
- Exporters hit by reciprocal tariffs may struggle to service existing loans.

3. Delays in Bond Issuance

- A surge in bond applications could overwhelm customs brokers and sureties.
- Lenders should anticipate supply chain disruptions, impacting borrower cash flow.

4. Heightened Financial Scrutiny

- Importers and exporters reliant on tariff-affected goods will undergo stricter financial evaluations.
- Lenders must reevaluate borrowers' ability to manage tariffs, bond obligations, and retaliatory trade impacts.

Proactive Strategies for Lenders

To support importers while mitigating financial risks, secured lenders should:

- ✔ Monitor Tariff & Reciprocal Trade Policies – Stay updated on both U.S. and foreign tariff shifts to assess client exposure.
- ✔ Adjust Loan & Collateral Terms – Modify lending structures to reflect increased bond values and exporter risks.
- ✔ Anticipate Bond Underwriting Delays – Work with customs brokers and sureties to ensure borrowers secure bonds in a timely manner.
- ✔ Encourage Clients to Improve Liquidity – Advise borrowers to prepare for reciprocal tariff impacts, maintaining sufficient working capital reserves.
- ✔ Educate on Bond-Stacking Risks – Help importers understand liquidity constraints caused by overlapping bond requirements.

The Road Ahead: Navigating the New Trade and Finance Environment

The higher tariffs on Chinese goods and the 25% duties on imports from Mexico and Canada—coupled with reciprocal tariffs from key trade partners—will reshape global trade financing.

Secured lenders must proactively adjust their risk assessments and loan structures to mitigate both rising bond requirements and shrinking borrower liquidity. Importers and exporters alike will require more flexible financing solutions to navigate ongoing trade disruptions.

By fostering collaborative financial planning, leveraging global trade insights, and adapting loan strategies, lenders can safeguard their portfolios while helping borrowers weather these challenges.

Strategic foresight and financial adaptability will be essential to ensure both lenders and importers thrive amid this new era of trade volatility.

Salvatore J. Stile II is co-founder and co-chairman of the Board, Alba Wheels Up International Inc., a New York-based shipping and logistics company that handles importing and domestic shipping for a variety of clients, from Asia, Europe, the Americas, and elsewhere throughout the world. He is a licensed custom broker, and the Founder of Wheels Up International 1994.

Stile's vast knowledge of national and international shipping, and the economy, has made him a resource for many of the nation's leading publications - industry and mainstream - and he has been sourced in outlets ranging from The Wall Street Journal, to the New York Post, to Newsday. Sal appears regularly on the FOX Family of networks as an industry expert, and has also made appearances on Bloomberg and New York-metro television stations WABC-7, WCBS-2 News, News 12 and others.