

SURETY INFORMATION OFFICE A VALUABLE RESOURCE FOR CONTRACTORS, SUBCONTRACTORS

One might expect a product that has been around almost 5,000 years to be pretty well known—especially by those who benefit most from it. However, don't be surprised that contract surety bonds—and the benefits they provide—are not a household name.

While the first known record of contract surety bonds appeared in an etched clay tablet from the Mesopotamian region in 2750 BC, it wasn't until the 19th Century that corporate surety bonds came into being. In 1993, the Surety Information Office was established to educate stakeholders in public and private construction about surety bonds. Over the years, SIO has become the primary information source on contract surety bonds.

Supported by the National Association of Surety Bond Producers (NASBP) and the Surety Association of America (SAA), SIO is composed of a small, dedicated staff committed to providing practical information about surety bonds. Here are some frequently asked questions:

Q: What is a contract surety bond?

Contract surety bonds provide financial security and construction assurance on building and construction projects by assuring the project owner (obligee) that the contractor (principal) will perform the work and pay certain subcontractors, laborers and material suppliers.

Three basic types of contract surety bonds exist: the bid bond, the performance bond and the payment bond. The bid bond assures that the bid has been submitted in good faith and that the contractor will enter into the contract at the price bid and provide the required performance and payment bonds. The performance bond protects the owner from financial loss if the contractor fails to perform the contract in accordance with its terms and conditions. The payment bond assures that the contractor will pay specified subcontractors, laborers and material suppliers on the project.

Before issuing a bond, the surety company must be satisfied that the contractor runs a well-managed, profitable enter-

prise, keeps promises, deals fairly and performs obligations in a timely manner. To determine whether to bond the contractor, the surety company requires the contractor to undergo a thorough pre-qualification process, which takes an in-depth look at the contractor's business operations.

Q: How do I get a bond?

Surety bonds are issued through surety bond producers, also known as agents and brokers, who know the surety and construction industries. Surety bond producers usually work in agencies that specialize in surety bonds or in insurance agencies that have a sub-specialty in surety bonds.

The surety bond producer usually maintains a business relationship with several surety companies, which enables the producer to match a contractor with an appropriate surety company. A good surety company and surety bond producer will help a contractor maintain and increase its surety capacity.

Names of producers specializing in surety bonds can be obtained from the NASBP at www.nasbp.org. Click on "Need a Bond." NASBP members adhere to standards that demonstrate professionalism, expertise and innovation in surety bonding.

SIO's "How to Obtain Surety Bonds" brochure and "Surety Bonds: A Guide for Contractors" CD are two additional resources that can be ordered free through the SIO website, www.sio.org.

Q: How do I know I'm dealing with a reputable surety company?

Most large property and casualty insurance companies have surety departments. In addition, for some companies, surety bonds make up all or most of their business. In both cases, in order for a company to write a surety bond in the United States, it must be licensed by the insurance department of one or more states. Although some exceptions exist, generally a surety company must be licensed in the state in which it is doing business or by the state where the obligation guaranteed by the bond is being performed.

For more information on surety companies, SIO's brochure "Surety Compa-

nies: What Are They and How to Find Out About Them" is particularly useful and is available free on the SIO website. Another resource is the SAA Bond Authenticity Program - Obligees Guide, found under "About the Industry" on the SAA website, www.surety.org.

Q: How much do surety bonds cost?

Surety bond premiums vary from one surety to another, but can range from one-half of 1 percent to 2 percent of the contract amount, depending on the size, type and duration of the project and the contractor. Typically, there is no direct charge for a bid bond. In many cases, performance bonds incorporate payment bonds.

Q: How does bonding benefit contractors?

In addition to owners, lenders and taxpayers, surety bonds also protect contractors and subcontractors. Bonding demonstrates that a contractor has undergone a rigorous prequalification process and is judged capable of fulfilling the obligations of the contract. Bonding capacity can help a contractor or subcontractor to grow by increasing its opportunities. Furthermore,

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COMPANY TO WRITE
A SURETY BOND IN THE
UNITED STATES, IT
MUST BE
LICENSED
BY THE INSURANCE
DEPARTMENT OF ONE
OR MORE STATES.**

surety companies can help prevent default by offering technical, financial and management assistance to a contractor. Equally important, a bond requirement ensures that a contractor is competing for the project only against qualified contractors.

SIO explains the surety-contractor relationship in a PowerPoint presentation, "Building Solid Surety Relationships," which is available free on the SIO website.

For more information, contact SIO, (202) 686-7463, fax (202) 686-3656 or email sio@sio.org.