


- 
- Construction.....what could go wrong??

- What could go wrong?



- What could go wrong?



- What could go wrong?



- What could go wrong?

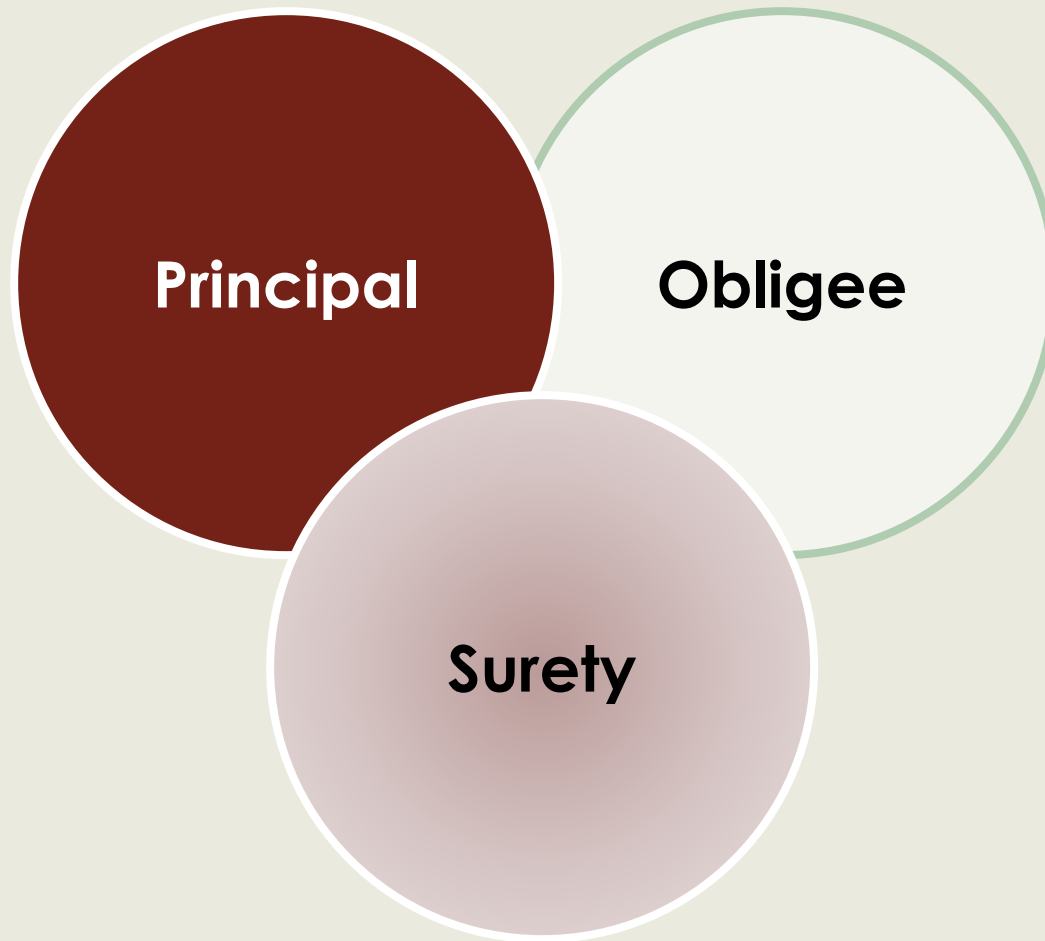




# CONTRACT SURETY BONDS 101: THE BASICS OF BONDING



# What is a Surety Bond?



# Surety Bonds Mandated on Public Works

- Federal
  - Heard Act (1894)
  - Miller Act (1935)
- State & Local
  - “Little Miller Acts”



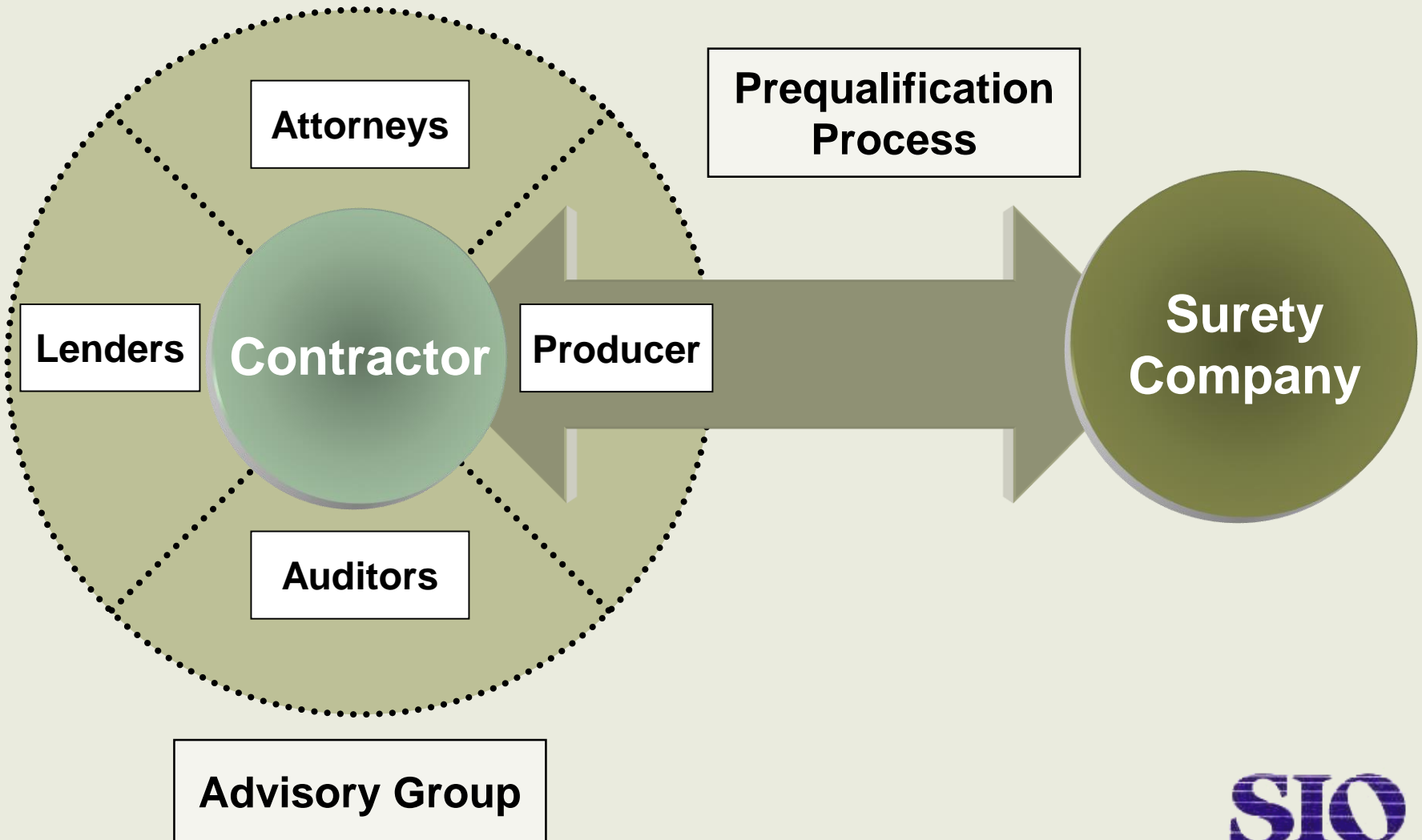
# Types of Bonds

- Bid
- Performance
- Payment

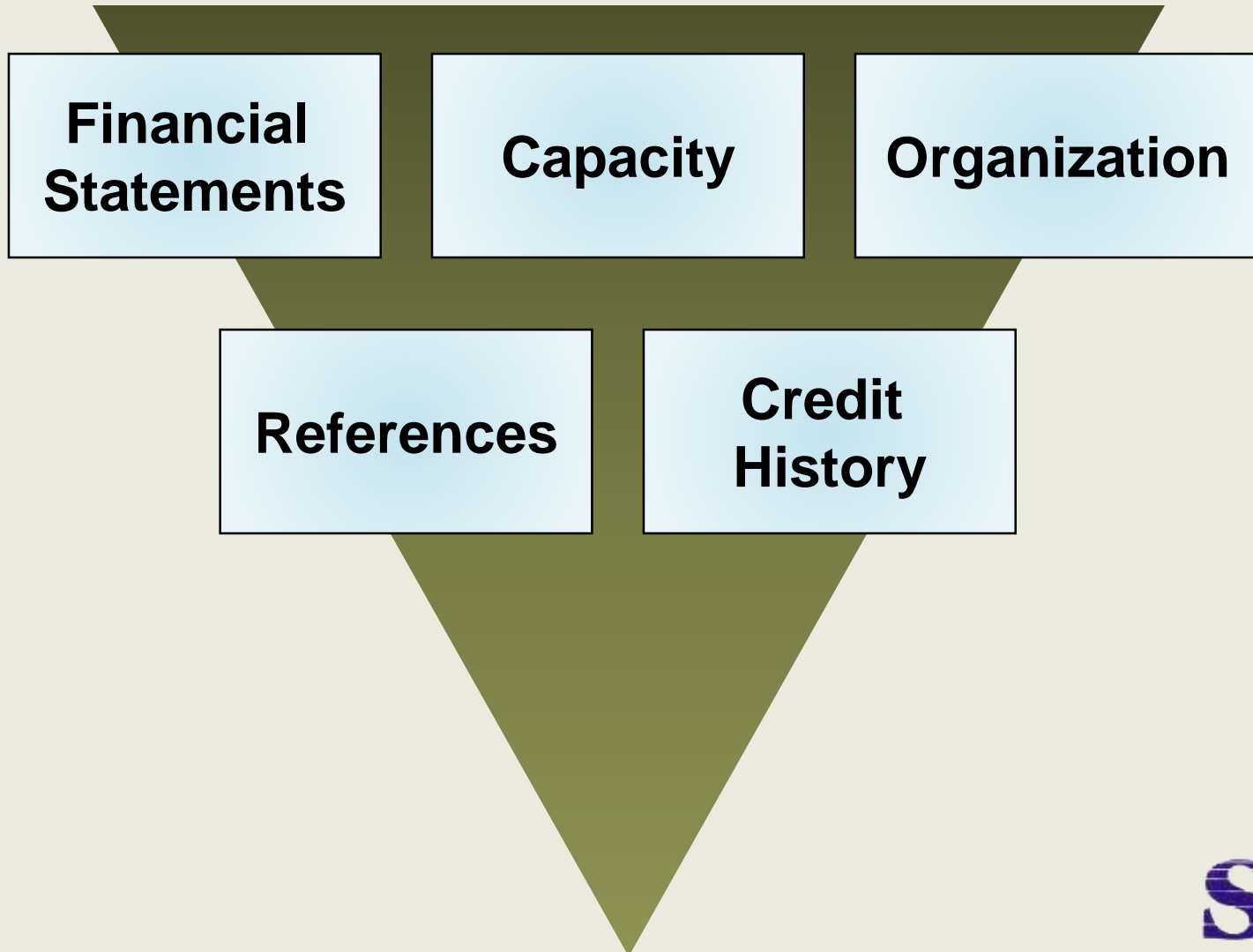
# Fundamentals of Surety Bonds

Surety Bonds	Traditional Insurance
Regulated by state insurance departments	Regulated by state insurance departments
Prequalification intended to prevent loss	Spreads fortuitous losses among a large group of similar risks
Three-party agreement	Two-party agreement
Coverage is project-specific	Coverage usually term-specific and renewable
Bond forms are standard or may be negotiated by owner or surety and contractor	Policy forms vary by insurance company
Coverage: 100% of the contract price for performance and 100% for payment, up to penal sum of bond	Coverage up to policy limit, less the deductible
Claims – Surety has right to contract balance and indemnity from contractor (contractor remains primarily liable)	No right to insured's assets, however, companies can subrogate against a third party or another insurer
Bonds are required by law in public projects and voluntarily by private owners	Buying insurance is a voluntary way of managing risk of loss for the insured

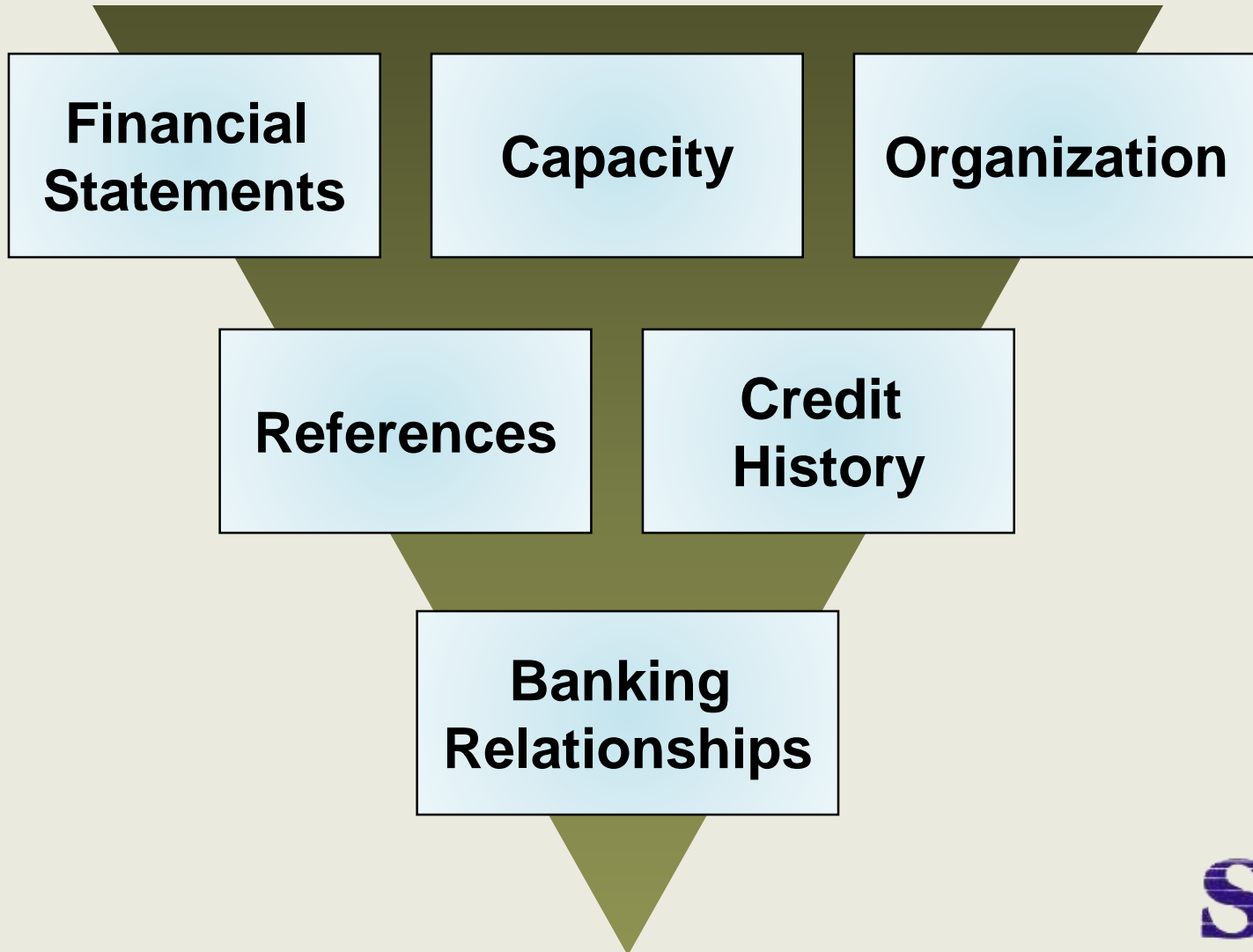
# Role of the Producer



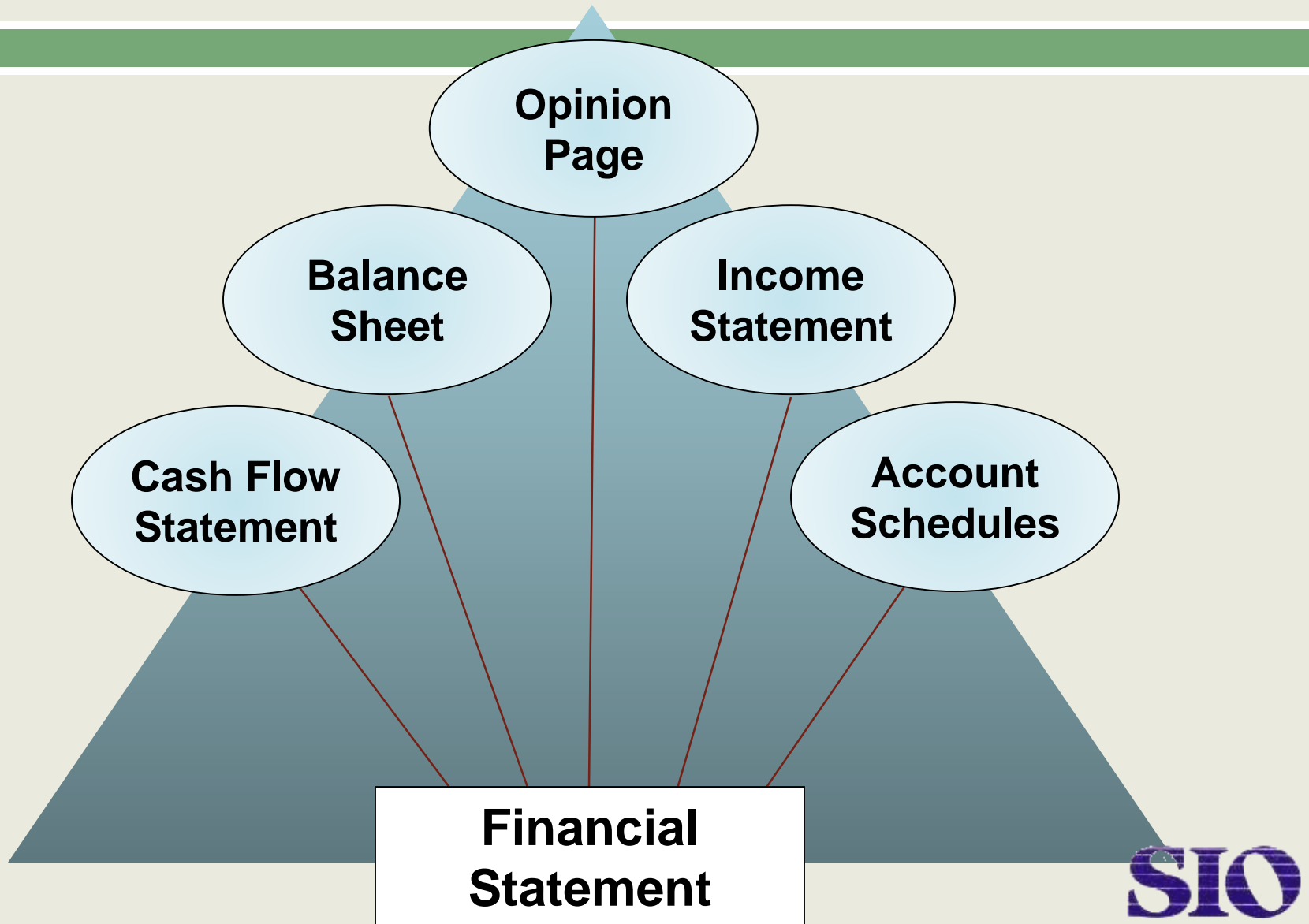
# Prequalification



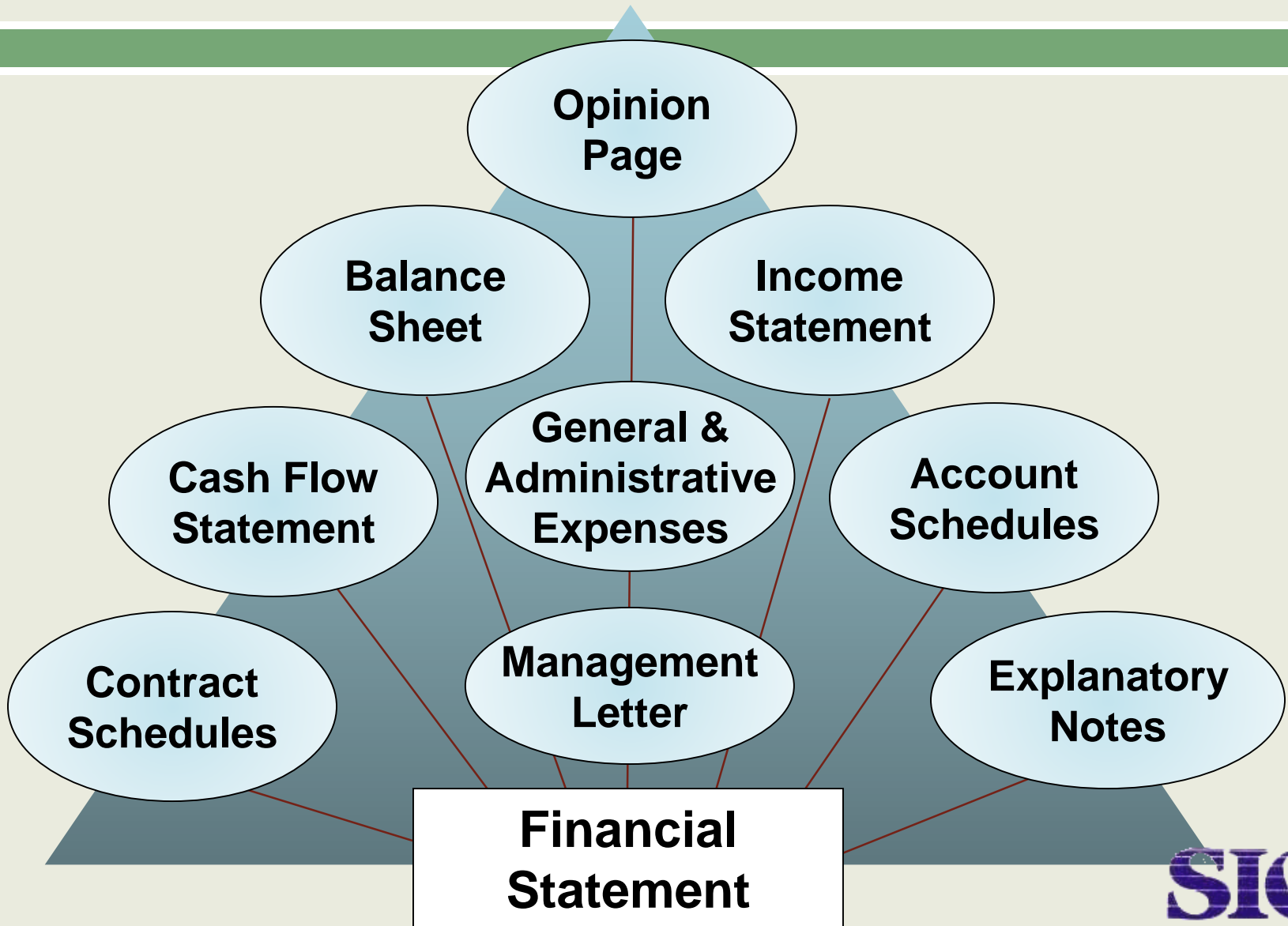
# Prequalification



# Financial Statement Analysis



# Financial Statement Analysis





# Benefits of Bonds

- Financial security



- Construction assurance

# Benefits of Surety Bonds

## Surety Bonds

- Provide capable and qualified contractors
- Assure project completion
- Offer financial security
- Technical, managerial, or financial assistance

# Benefits of Surety Bonds

## Surety Bonds

- ❑ Reduce risk of liens filed by subcontractors, laborers and suppliers
- ❑ Protect taxpayer dollars
- ❑ Smoother transition from construction to permanent financing
- ❑ Lower costs

# Cost of Surety Bonds

<b>Bid Bond</b>	No charge if performance and payment bonds are required
<b>Performance Bond</b>	0.5%-3% of contract price
<b>Payment Bond</b>	Price included with performance bond

# For More Information

The logo for the Surety Information Office (SIO) consists of the letters 'SIO' in a bold, blue, sans-serif font. The letters are filled with a horizontal line pattern.

Surety Information Office (SIO)

[www.sio.org](http://www.sio.org) | [sio@sio.org](mailto:sio@sio.org)

SIO is a joint initiative of The National Association of Surety Bond Producers (NASBP) and Surety & Fidelity Association of America (SFAA).

