Contract Surety

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What is Suretyship

Surety is Not Insurance

Surety is Assurance

It is a Credit Relationship
Parties to a Surety Bond

- Principal
- Obligee
- Surety

- Bond
- Indemnity
- Guarantee
- Contract
Surety Bonds vs Insurance

**Surety**
- 3 party
- Protects Obligee
- Project Specific
- Claims by Obligee
- No loss anticipated

**Insurance**
- 2 party
- Protects Principal
- Term Specific
- Claims by Insured
- Losses anticipated
Life of a Bond

Obligee

Bond

Principal

Surety

Agent
History Of Surety

2,750 BC
The earliest known suretyship contract was written on a Mesopotamian tablet.

1894
Heard Act

1935
Miller Act
Little Miller Acts
Major Categories of Bonds

Contract
- Bid
- Performance & Payment

Commercial
- License Bonds
- Court & Probate
- Financial Guarantee
Release of Retainage Bonds

What is Retainage?

Differences from other bonds

Main Contract vs Subcontracts
Retainage Bonds

- Main Contract
- Review Contract
- Ask Owner
Retainage Bonds

Subcontract

Ask General Contractor

May pay more
The Three Cs of Surety

Character
- Honesty
- Openness

Capacity
- Ability
- Experience

Capital
- Financial
- Credit
Underwriting

- Questionnaire
- Application
- Org Chart
- 3 years Financial Statements
- Bond Request
- Agent Write Up
- Resume References
- Business Plan
- Bank Line
- Bank Statements
Credit Reports

- Credit Reporting Agencies
- Business and Personal
- Fair Credit Reporting Act
Financial Statement

- Balance Sheet
- Income Statement
- Opinion Page
- Schedules AR / AP
- Work in Progress
Financial Statement Quality

- Internal / In house
- CPA Compilation
- CPA Review
- CPA Audit
Financial Statement Method

- Cash Basis of Accounting
- Accrual Basis of Accounting
- Percentage of Completion
- Completed Contract
Indemnity

1. Informs the principal of these common laws
2. Principal will reimburse surety for expenses
3. Allows the surety to negotiate resolution of claims, use assets to complete projects and provide funding
To Increase Bonding

- Construction CPA
- Accounting Method
- Surety Professional
Preparing for a Hard Market

- Have a Plan
- Build Cash Reserves
- Control Overhead
- Solidify Bank Relationship
thank you