Contract Surety Bond Basics: Bid,Performance,Payment Bonds By Houston Bond Agent Mark Strange

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Your survival may be dependent on your ability to bond: 7 Basic FAQS you must know before **the application**:

1) What are Contract (aka- Bid, Payment, Performance, Supply or Maintenance) Bonds?

Payment and Performance Bonds provide financial protection to owners and general contractors from the risks of contractor default and the filing of liens by subs and suppliers. Bid bonds give a measure of assurance to owners that bidders are financially qualified and capable. Also, if a bidder is awarded a job but later refuses to undertake it, the bid bond guarantees the owner will get the bid bond amount (generally a percent of the total amount bid-5% or 10%).

2) Should I Bid A Job With A Cashiers Check Before I know I´m Bondable?

No. If awarded the job there is no guarantee you would get bonded so you could lose the amount of your check. Go through the application process first. Find out if you can get a bond.

3) Where Do I Get Surety & Construction Bonds?

Most bonds can be purchased from independent insurance agents that specialize in this service. These agents may also have a strong expertise in construction insurance. A good resource is the National Association of Surety Bond Producers (NASBP), the professional organization representing the **surety bond agents** responsible for writing most of the surety bonds in the United States.

4) What Do Contract Surety Bonds Cost?

Contract bonds (Payment & Performance) are charged a rate per $1000 of contract amount. Like insurance, the calculated charge is called a premium. On large contracts, rates may decline on a sliding scale and can vary from 4% down to less than 1%. Some surety companies offer premium dividends (partial refund of premiums at year end) for qualified contractors. Not all bonding companies charge the same rates. Some sureties charge a nominal flat premium for bid bonds. Special Note: Keep in mind rates are not necessarily the issue. Qualifying for bonding is the difficult part.

5) What About The Small Business Administrations SBA Bond Program?

The SBA bond program "co-insures" a percentage of a job with participating bonding companies. This is a good route for disadvantaged or emerging contractors having trouble getting bonds however, it is more expensive, the application process takes longer and the SBA limits this service to certain size and type of contracts.

6) Quick Applications

Generally, small bonds (Contracts $250,000 or less) can be written based mostly on the personal credit of the owner, a two page application plus a copy of the contract and evidence of proper insurance. For Jobs $251,000 to $500,000 more information is usually needed. Anything over $500,000 will require a lengthy submission.

7) Is It Possible I Will Have To Put Up Collateral?

Collateral is not always required but some sureties will accept collateral to secure the bond in the event of contractor default or bankruptcy. It may be the only way to get the bond written. Generally only cash or bank irrevocable letters of credit are acceptable collateral. Funds control aka funds administration is another tool sureties can use to limit their risk on a bond.

For more Information, related links, and applications about getting a contract surety bond go to:

www.suretybondservices.com