Credit, Indemnity and **Surety Bonds**
By Surety Advisors, LLC
www.suretybondservices.com

With few exceptions (for example **Notary Bonds** and **Auto Title Bonds**), all applicants will need to be prepared to complete a bond application and provide financial information in the form of a business and/or personal balance sheet and income statement. In certain situations tax returns may be substituted for financial statements. The bond underwriter will also check credit and ask for bank and trade references.

Since **bonds** guarantee performance of duties and character (**License Bonds**, **Probate Bonds, Fidelity Bonds, ERISA Bonds**, or, financial obligations (**Contract Bonds, Bid**, **Payment, Performance Bonds**, **Court Bonds),** the analysis and investigation the underwriter conducts is similar to other credit obligations such as mortgages, auto loans and credit cards.

Underwriters typically use the standard credit rating services to obtain information. If there is an issue with your credit the underwriter must disclose the credit agency used to obtain the report so you can discuss your situation directly with that credit agency. For those applicants with credit issues your **bonding agency** may represent bonding companies that are willing to take higher credit risks for a higher premium.

Credit is a concern for bonding companies because unlike an insurance policy, if there is a loss, you are expected to repay the bonding company. Most bond applications will have an **Indemnity Agreement** which you sign to personally guarantee the bond. When an applicant's credit is marginal or poor, the surety may require a Co-Indemnitor who has good credit in order to approve a bond. In community property States a spouse will be required to indemnify as well.

In many cases and for certain types of bonds **(Supersedeas Bonds**, **Appeal Bonds**) collateral is requested to support the applicant's indemnity. The preferred collateral for most bonding companies is cash or an irrevocable letter of credit (ILOC) from an approved FDIC insured bank. If the collateral is posted with cash, the bonding company should offer a competitive interest rate on the deposit. If collateral is required you will have to execute and sign a **Collateral Security Agreement** which describes the obligation and identifies the collateral owner, the surety receiving the collateral and who will receive the collateral when it is returned. It also describes the events that can lead to a surety's cashing the collateral to pay a loss or expenses.

Collateral is returned when the bond is no longer needed, cancelled and no further liabilities can be enforced upon the bond principal (applicant) and surety. In the case of annually renewable or continuous bonds, if the bond principal does not or cannot pay the premium, the collateral can be cashed or drawn down to pay premiums.

It is important to have a good bond agent to help and advise through the process. Most bond agents are commercial insurance agents that have a special expertise in bonding. A good resource to find those agencies is the **National Association of Surety Bond Producers (NASBP**), **Surety Advisors, LLC**, a Houston Texas Bonding Agency **(www.suretybondservices.com**) is a proud member of this organization and Better Business Bureau approved. They are dedicated to helping individuals, businesses and attorneys with their bonding needs for most credit situations.