

## HOW TO OBTAIN SURETY BONDS

**PREMISE:** It's important to realize that each surety company has its own underwriting standards and requirements. But there are fundamentals that are common to underwriting surety bonds.

**THE PROCESS:** Since most companies that issue surety bonds work through agents and brokers, also known as producers, your first step is to discuss your plans with one of these representatives. You will find that an agent who specializes in insurance and bonding for the construction industry will likely be the best qualified to assist you. (Please visit the National Association of Surety Bond Producers at <http://www.nasbp.org/bond.cfm> to obtain a listing of bond producers in your area.)

1. The surety agent will guide you through the bonding process and assist you in establishing a business relationship with a surety company.
2. Surety bonds are not provided in the same manner as off-the-shelf insurance products which can be purchased. Contractors must qualify for surety bonds.
3. You may find that it's necessary to spend a lot of time and effort establishing a good relationship with a surety company. Since the surety is guaranteeing your company's bid, performance, and payment, it needs to gather and carefully analyze a lot of information about your firm.
4. Before issuing a bond, the surety wants to be satisfied that your company is a well-managed, profitable enterprise which keeps promises, deals fairly, and performs obligations in a timely manner.
5. Your surety agent may need the following information in order to prepare your submission to the surety:
  - Organizational chart that shows your key employees;
  - Detailed resumes of yourself and your key people;
  - Business plan outlining type of work, growth, and profit objective;
  - List of your largest completed jobs and the gross profit earned;
  - Subcontractor and supplier references;
  - Evidence of a line of credit at your bank; and
  - Letters of recommendation from owners, architects, and engineers.
6. Fiscal year-end statements are vital and should include:
  - Accountant's opinion page;
  - Balance sheet which shows your assets, liabilities and net worth;
  - Income statement which measures how well the business performed;
  - Statement of cash flow which discloses the cash flow movements;
  - Schedule of contracts in progress and contracts completed; and
  - Schedule of general expenses to show overhead expenses.

Sureties prefer audited fiscal year-end statements, but there are occasions when a surety may accept a review statement. Sureties also require you to sign a personal indemnity agreement to assure you will stand behind your firm.

**CONCLUSION:** Even after all this information is provided to the surety, there is no guarantee it will result in an approval. The bond will be given only if the surety feels the contractor is qualified to successfully perform the contract and has the financial capacity to withstand the numerous risks involved in the construction business. Your decision to seek surety bonds should be based on long-term considerations. To obtain bonds, some changes in the way your firm does business may be necessary and these changes could have certain costs.

**SOURCE:** "Your First Bond," a joint publication of The Surety Association of America (SAA) and the National Association of Surety Bond Producers (NASBP). To order this and other publications, visit NASBP at <http://www.nasbp.org/products.cfm> and visit SAA at <http://www.surety.org/publicat.htm>. Another publication on this topic, "Obtaining, Maintaining, & Effectively Using Surety Credit" is available from NASBP.

For more information about surety bonding,  
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