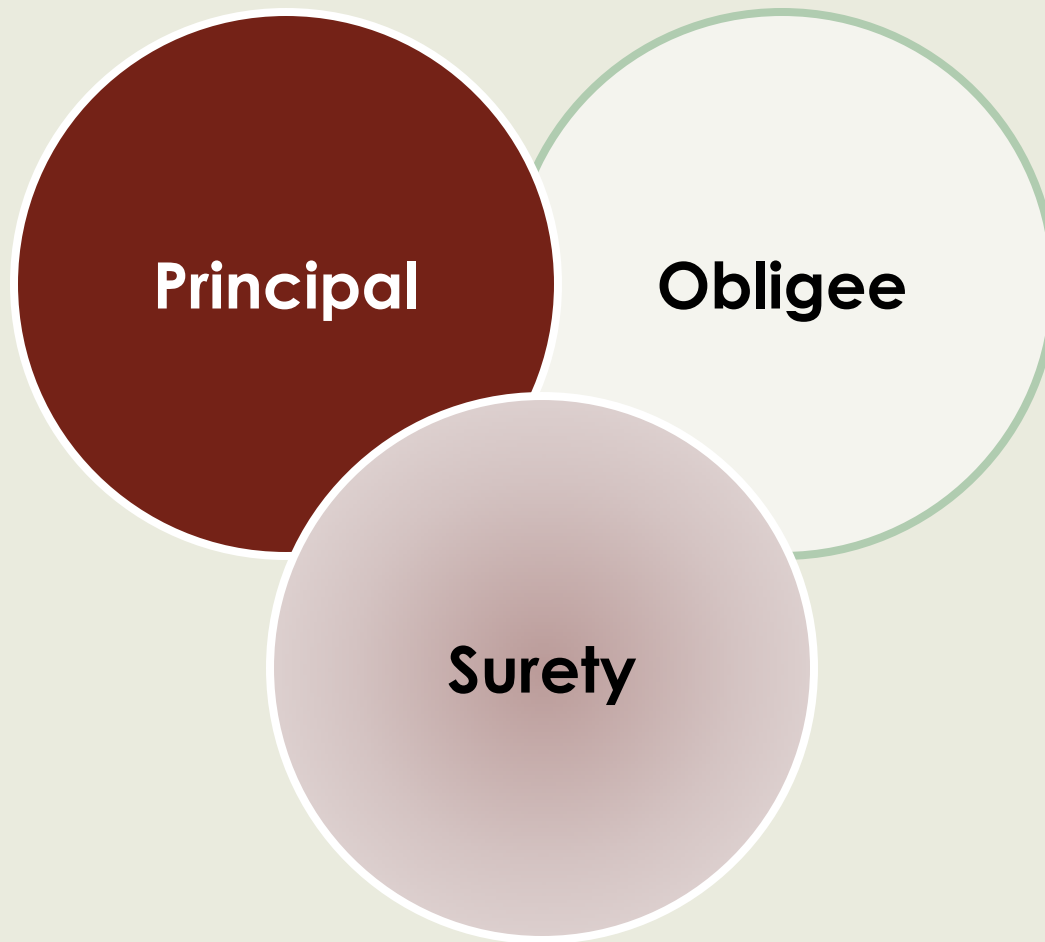




# CONTRACT SURETY BONDS 101: THE BASICS OF BONDING

Patrick Arendt Spectrum Ins Group

# What is a Surety Bond?



# Surety Bonds Mandated on Public Works

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

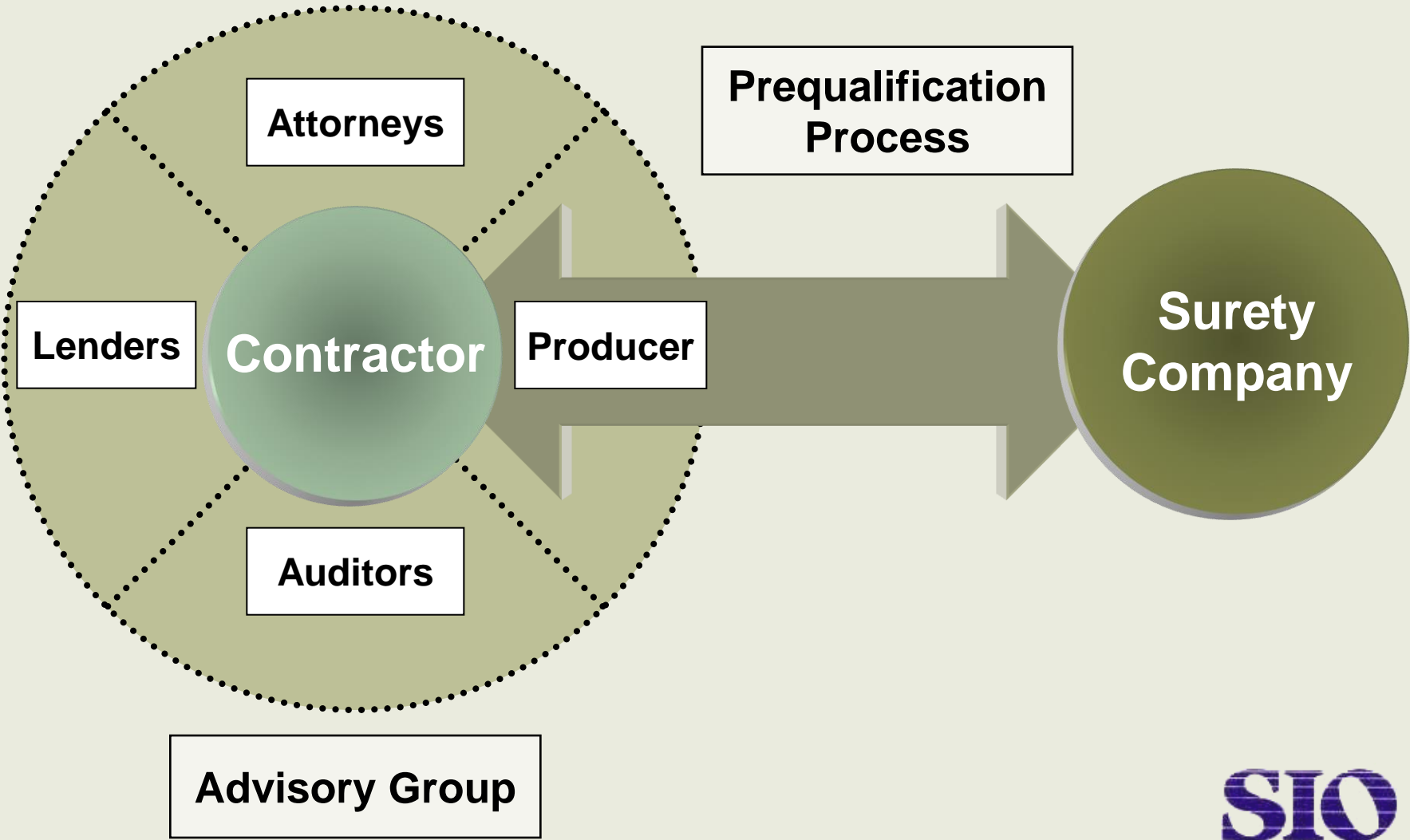
# Types of Bonds

- Bid
- Performance
- Payment

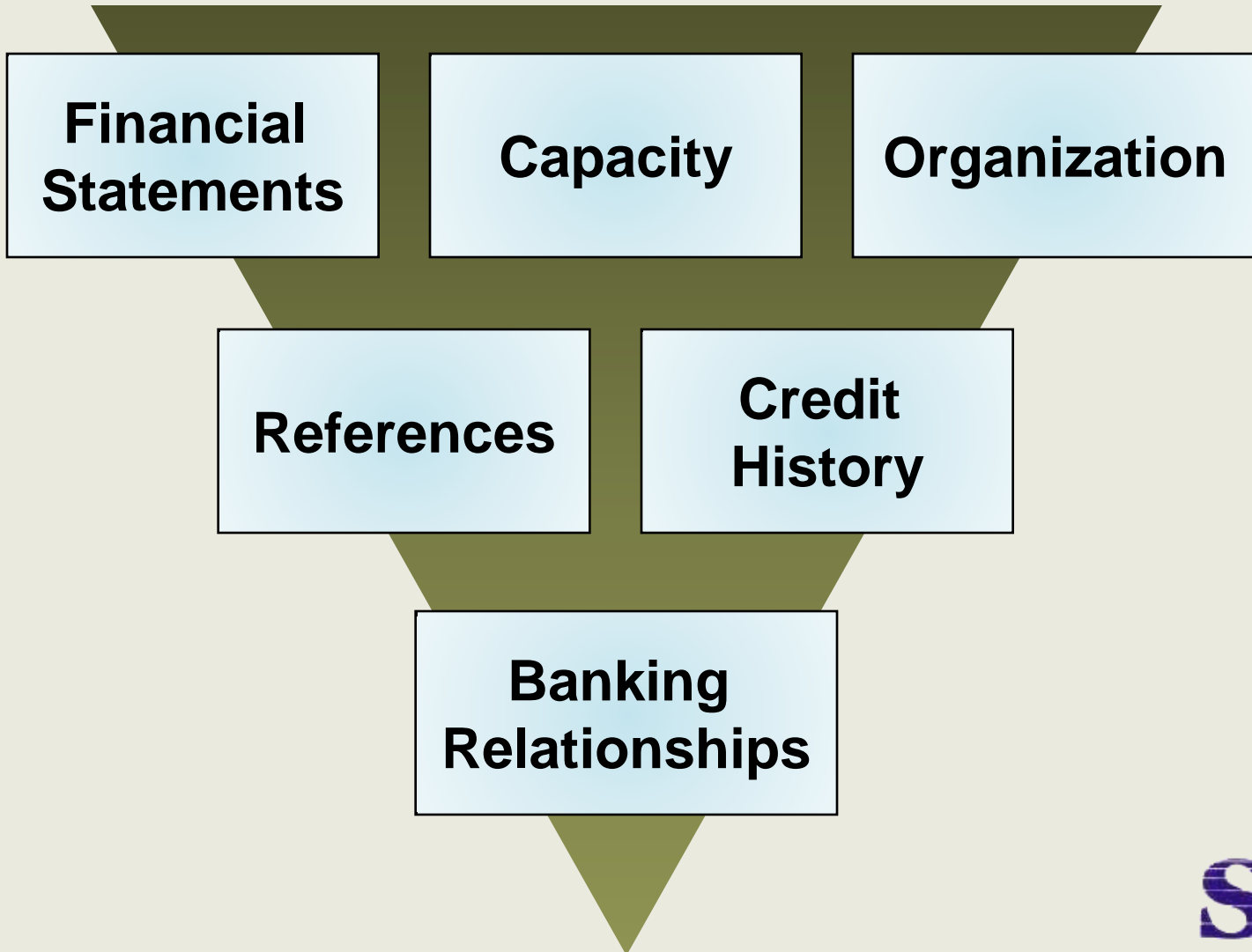
# Fundamentals of Surety Bonds

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

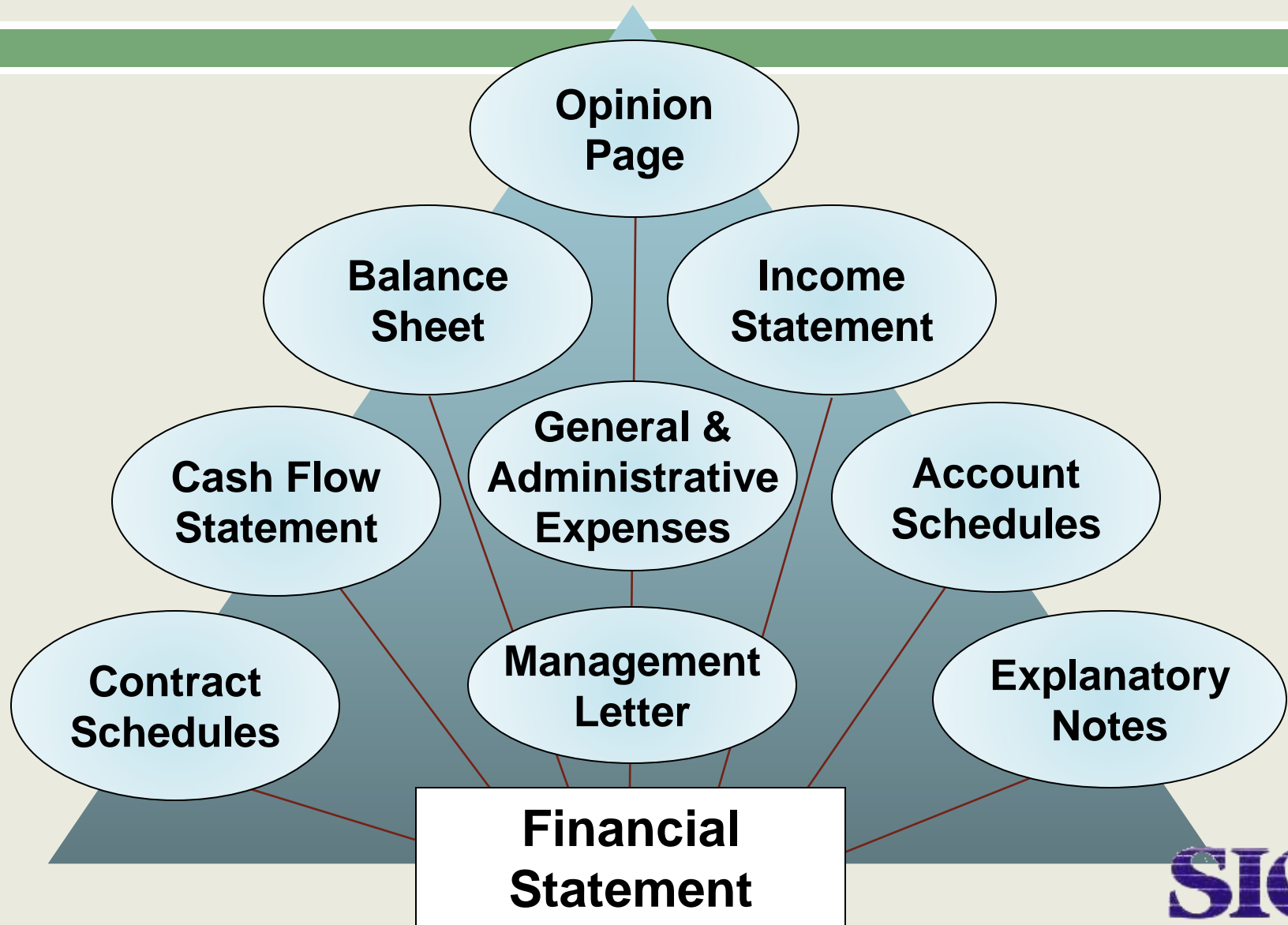
# Role of the Producer



# Prequalification



# Financial Statement Analysis



# 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).



## MAKING IT EASIER TO SERVE YOUR CONTRACT SURETY CLIENTS

When your surety clients need contract bonds, you have three ways to get the job done

### CinciExpress™

Contracts up to \$500,000

- Bid or performance and payment bonds up to \$500,000
- Up to \$750,000 in open or uncompleted bonds
- Primarily based on personal credit reports
- Minimum one year in business
- No design-build or multi-year contracts

### Express submission

- CinciExpress online application – NO 004
- Receive approvals usually within a few hours
- Mail signed, original General Indemnity Agreement
- Email [CinciExpress@cinfin.com](mailto:CinciExpress@cinfin.com) or send fax to 513-371-7290 for questions and additional submission documentation

### SuretyBridge™

Contracts up to \$2 million

- Bid or performance and payment bonds up to \$2 million
- Up to \$2 million bonded liability
- Minimum two years in business
- Evaluation of business and personal financials
- Limited financial reporting requirements
- Bond size and frequency allow for accelerated underwriting of contractors meeting this program's financial and operating requirements

### Streamlined submission

- SuretyBridge one-page application – NO 007
- Accrual-based tax returns or CPA-prepared financial statements for last two fiscal years
- Current personal financial statements for each owner
- Receive a prompt review of your submission to prequalify the contractor
- Mail signed and notarized, original General Indemnity Agreement (pre-filled by underwriter)
- Request bond online after prequalification
- Email [SuretyBridge@cinfin.com](mailto:SuretyBridge@cinfin.com) or send fax to 513-371-7289 for questions and prequalification

### Large Contract

Programs up to \$100 million and above

- Bid or performance, and payment bonds
- Single job and aggregate parameters considered based on the contractor's needs, business and personal financial capacity, experience, organization and track record
- Underwriter accompanies you on visits for initial and periodic reviews

### Standard submission

- Contractor Information Report – BN 1100
- Three years of financial statements reviewed or audited by a CPA
- Work-on-hand schedules
- Personal financial statements for each owner
- Bank line of credit
- Current interim financial statements
- Receive a prompt evaluation of contractor's qualifications
- Mail signed and notarized, original General Indemnity Agreement

Contract Surety Bonds up to \$500,000 and Aggregate bonded liability up to \$750,000\*



## Contract Bond Application

Agency Name & Agency Code

Agent & Email Address

PLEASE PRINT OR TYPE

### CONTRACTOR INFORMATION

Entity Creation Date (e.g. 05/11/2012):			
Type of Business: <input type="checkbox"/> Proprietorship <input type="checkbox"/> Partnership <input type="checkbox"/> "C" Corporation <input type="checkbox"/> "S" Corporation <input type="checkbox"/> LLC <input type="checkbox"/> LLP			
Contractor Name:			Phone #:
Street Address:			
City:		State:	ZIP:
Type of Work Performed:			
Job Size Experience (list two largest contracts completed in last five years):			
	<u>Owner or General</u>	<u>Contract Price</u>	<u>Gross Profit</u>
1.			<u>Year Completed</u>
2.			
Has there ever been a claim filed under any bond issued on your behalf? <input type="checkbox"/> Yes <input type="checkbox"/> No If yes, please attach explanation.			

### INDEMNITOR INFORMATION (provide for all owners; use additional sheets if necessary)

Name:	Ownership %:	Name:	Ownership %:
Street Address:		Street Address:	
City/State/ZIP:		City/State/ZIP:	
Social Security No.:		Social Security No.:	
Date of Birth:		Date of Birth:	
Spouse Name:		Spouse Name:	
Social Security No.:		Social Security No.:	
Date of Birth:		Date of Birth:	
Monthly Household Income:		Monthly Household Income:	
Any owners, partner, officer, or members failed in business or declared bankruptcy? <input type="checkbox"/> Yes <input type="checkbox"/> No			
Have you ever been arrested, indicted, sentenced or imprisoned? <input type="checkbox"/> Yes <input type="checkbox"/> No			

### BOND INFORMATION (this application is *not intended* for Subdivision bonds, Asbestos Abatement, Completion, Hazardous Materials, Software Development or Multi-Year Service Contract)

<input type="checkbox"/> Bid Bond	<input type="checkbox"/> Performance & Payment Bond
Bid Date:	Contract Date:
Bid % or Bid Amount:	Contract Price: *
Estimated Contract Price:	Start Date:
Estimated Start Date:	Completion Date:
Estimated Completion Date:	Backlog (total estimated cost-to-complete):
Liquidated Damages: /day	Negotiated Contract: <input type="checkbox"/> Yes** <input type="checkbox"/> No
Maintenance Period: years	Maintenance Period: years
Backlog (total estimated cost-to-complete):	Bidder #2: Bidder #3:
	**Private job or subcontracts, please attach copy of contract for projects over \$100,000.
Obligee:	
Obligee Address:	City: State ZIP:
Project Location:	
Job Description:	
If Private Owner, Financing by:	

\*For single and aggregate bonded liability in excess of \$500,000, please attach latest CPA prepared fiscal year-end financial statement or internally prepared statement with supporting tax return along with a current personal financial statement.

# SuretyBridge™

## Application

### CONTRACTOR INFORMATION

Type of Business: <input type="checkbox"/> Proprietorship <input type="checkbox"/> Partnership <input type="checkbox"/> "C" Corporation <input type="checkbox"/> "S" Corporation <input type="checkbox"/> LLC <input type="checkbox"/> LLP					
Contractor Name:				Phone#:	
Street Address:					<input type="checkbox"/> Union <input type="checkbox"/> Nonunion
City:			State:		ZIP:
Type of Work Performed:			Bonded %	Non-Bonded %	
Type of Work Subcontracted:			Percent of Work Self-Performed: %		
State(s) or Territory of Operation:					
Any Suits, Liens, or Judgments? <input type="checkbox"/> Yes <input type="checkbox"/> No		Desired Work Program: Single: _____ Aggregate: _____			
Continuity Plan in Place? <input type="checkbox"/> Yes <input type="checkbox"/> No		Date Business Started:		Federal Tax ID:	

### AFFILIATED COMPANIES, SUBSIDIARIES, OR OTHER BUSINESS INTERESTS

Name	Type of Business	Address	Federal Tax ID	Year Established

### PERFORMANCE INFORMATION Please enter the following regarding largest projects completed within last 5 years:

Project Name	Work Type	Year Completed	Contract(\$)	Profit (\$)	Contact Name and # of Oblige

### BANK & FINANCIAL INFORMATION Do you have a Bank Line of Credit in Place? If yes, please complete the following:

Name of Bank	Amount of BLOC	Amount of BLOC in Use	Date BLOC Expires

Current CIC Insured?  Yes  No

Policy Number: \_\_\_\_\_

Do you produce Internal Financial Statements?  Yes  No

Frequency? \_\_\_\_\_

Does a CPA prepare your Financial Statements?  Yes  No

Name of CPA: \_\_\_\_\_

Format of Financial Statements:  Tax Return  Compilation  Review  Audit

*For a complete account submission please include the two most recent years of accrual-based tax returns or CPA prepared financial statements along with current personal statements for each owner and this completed SuretyBridge™ application.*

### INDEMNITOR INFORMATION (provide for all owners; use additional sheets if necessary)

<b>Owner 1 Name:</b>		<b>Owner 2 Name:</b>	
Street Address:		Street Address:	
City, State, ZIP Code:		City, State, ZIP Code:	
Social Security #:		Social Security #:	
Date of Birth:		Date of Birth:	
Title:	Ownership %	Title:	Ownership %
<b>Spouse Name:</b>		<b>Spouse Name:</b>	
Social Security #:		Social Security #:	
Date of Birth:		Date of Birth:	
Ownership % and Title:		Ownership % and Title:	
Name of Corporate Secretary (if applicable):			
Any owners, partners, officers, or members failed in business or declared bankruptcy? <input type="checkbox"/> Yes <input type="checkbox"/> No			

**FAIR CREDIT REPORTING ACT PRE-NOTIFICATION:** Principal and Indemnitor(s) expressly authorize the Surety to Access their credit reports and to make such pertinent inquiries as may be necessary from third party sources for the following purposes: (A) to verify information supplied to the Surety, (B) for underwriting purposes, and (C) upon receipt of a Notice of Claim or potential claim under any bond, for debt collection.

## Small and Emerging Contractor Programs



Streamlined Small and Emerging Contractor Program

### ContractXpress up to \$500,000

Underwritten on 1-page application and personal credit. Program is for infrequent users or small contractors. *(Basic Rates Apply)*

### Xpress Xtra up to \$1,500,000 / \$1,500,000

(Bonded Aggregate) – No C.P.A. Requirement!  
Underwriting based on business statements, personal financial statements, bank letter and WIP schedule.  
*(Basic Rates Apply)*

### U.S. Small Business Administration (SBA) Bond Guarantee Program

SBA Bond Guarantee Program	SBA Rates
First \$1,000,000 of Contract Price	1.8%
Over \$1,000,000	1.5%
SBA Contractor Fee (Paid to SBA by contractor)	0.729%

## Basic, Standard, Preferred and Merit Rating Plans

*\*Flexible Rating— Debits/credits can also be applied to rates below for added flexibility.*

Rate Per Thousand (Based on final <u>contract</u> price).	Xpress & Xtra Basic Rates	Standard Rates ANW > \$100,000	Preferred Rates ANW > \$250,000	Merit Rates ANW > \$500,000
<b>Class B Contracts</b>				
First \$500,000	\$25.00	\$17.00	\$14.40	\$10.00
Next \$2,000,000	\$15.00	\$10.00	\$8.70	\$7.50
Next \$2,500,000	\$12.50	\$7.50	\$7.20	\$6.70
Next \$2,500,000	\$10.00	\$7.00	\$6.25	\$6.25
<b>Class A Contracts</b>				
First \$500,000 of Contract Price	\$16.00	\$11.00	\$9.50	\$7.75
Next \$2,000,000	\$9.50	\$7.00	\$6.75	\$6.25
Next \$2,500,000	\$7.00	\$5.50	\$5.50	\$5.00
Next \$2,500,000	\$6.50	\$5.00	\$5.00	\$4.50
<b>Class A-1 Contracts</b>				
First \$500,000 of Contract Price	\$8.50	\$7.65	\$6.90	\$6.10
Next \$2,000,000	\$7.00	\$6.00	\$5.75	\$5.25
Next \$2,500,000	\$6.00	\$5.00	\$4.75	\$4.25
Next \$2,500,000	\$5.50	\$4.50	\$4.25	\$4.00

- Minimum Premium is \$100 and rates are charged on the contract price with a maximum of 4 times the end rate applied to the aggregate penalty of the performance & payment bond. Additional and return premiums in excess of \$250 will be charged or refunded based on the final contract price.
- Additional charges may apply when time for completion exceeds 12 months (24 months for Preferred and Merit rates)
- For Standard, Preferred and Merit rating plans, the firm must have the stated minimum adjusted net worth and meet at least 6 of 10 qualifying factors. Contact your underwriter to discuss rates or classes in more detail.



Email: [Patrick.Arendt@spectruminsgroup.com](mailto:Patrick.Arendt@spectruminsgroup.com)

**I. BUSINESS INFORMATION**

Business name: \_\_\_\_\_  
 Contact name: \_\_\_\_\_ E-mail address: \_\_\_\_\_  
 Firm address: \_\_\_\_\_  
 Phone: \_\_\_\_\_ Fax: \_\_\_\_\_  
 Web site: \_\_\_\_\_  
 State of incorporation: \_\_\_\_\_ Year started: \_\_\_\_\_  
 Tax ID: \_\_\_\_\_ Is your firm union?  Yes  No  Both  
 Contracting specialty: \_\_\_\_\_  
 LEED project experience:  Yes Number of projects: \_\_\_\_\_  No Number of LEED Certified employees: \_\_\_\_\_  
 Geographic area(s) of operation: (Territory) \_\_\_\_\_  
 Type of business:  C-Corp.  Sub S. Corp.  Part.  Sole Prop.  LLC  LLP  
 Employees (# of): Office: \_\_\_\_\_ Field (min.): \_\_\_\_\_ to (max.): \_\_\_\_\_ Current total: \_\_\_\_\_  
 Affiliations:  AGC  ASA  ABC  CFMA Other: \_\_\_\_\_  
 Certifications:  8a  HubZone  SDVOSB Other: \_\_\_\_\_

**II. OFFICER INFORMATION**

List all Owners, Proprietors, Partners and Officers of the firm:

	a. Full legal name:	b. Percentage owned:	c. Date of birth:	d. Social Security Number:
	e. Position:	f. Since:	g. Home address:	
	h. Spouse legal name:		i. Spouse date of birth:	j. Spouse Social Security Number:
<b>1</b>	a. _____	b. % _____	c. _____	d. _____
	e. _____	f. _____	g. _____	
	h. _____		i. _____	j. _____
<b>2</b>	a. _____	b. % _____	c. _____	d. _____
	e. _____	f. _____	g. _____	
	h. _____		i. _____	j. _____
<b>3</b>	a. _____	b. % _____	c. _____	d. _____
	e. _____	f. _____	g. _____	
	h. _____		i. _____	j. _____
<b>4</b>	a. _____	b. % _____	c. _____	d. _____
	e. _____	f. _____	g. _____	
	h. _____		i. _____	j. _____
<b>5</b>	a. _____	b. % _____	c. _____	d. _____
	e. _____	f. _____	g. _____	
	h. _____		i. _____	j. _____

Will all owners and their spouses provide full personal indemnification to the surety?  Yes  No (explain below)

Explain: \_\_\_\_\_

Is there a buy/sell agreement among the owners of the business?  Yes  No

Is this agreement funded by life insurance?  Yes  No



### III. BUSINESS DETAILS

Has your firm or any of its principals ever petitioned for bankruptcy, failed in business, failed to complete a contract, or caused a loss to a surety? If yes, please attach explanation.  Yes  No

Is your firm or any of its owners or officers currently involved in any litigation? If yes, please attach explanation.  Yes  No

Percentage of the firm's work for: Government Owners: \_\_\_\_\_% Private Owners: \_\_\_\_\_% Other Contractors: \_\_\_\_\_%

Trades you normally undertake with your own employees:  None (Paper GC)  \_\_\_\_\_

Percentage of the firm's work normally subcontracted to others: \_\_\_\_\_%

Trades you normally subcontract: \_\_\_\_\_

Sub bonding policy: \_\_\_\_\_

Preferred job size range: \$ \_\_\_\_\_ to \$ \_\_\_\_\_ Number of jobs at a time: \_\_\_\_\_

Largest cost to complete backlog: \$ \_\_\_\_\_ Year: \_\_\_\_\_ Number of jobs: \_\_\_\_\_

Largest job expected during the next year: \_\_\_\_\_

Largest backlog expected during the next year: \_\_\_\_\_

Expected annual volume this current fiscal year: \_\_\_\_\_ Next fiscal year: \_\_\_\_\_

Do you lease equipment?  Yes  No Type of lease: \_\_\_\_\_

Terms of the lease: \_\_\_\_\_

### IV. FINANCIAL INFORMATION

Name of CPA Firm: \_\_\_\_\_ Fiscal Year End: \_\_\_\_\_

Contact name: \_\_\_\_\_ E-mail: \_\_\_\_\_

Company address: \_\_\_\_\_

Company phone: \_\_\_\_\_ Fax: \_\_\_\_\_ Web Site: \_\_\_\_\_

On what basis are taxes paid?  Cash  Completed Job  Accrual  % of Completion

On what basis are financial statements prepared?  Cash  Completed Job  Accrual  % of Completion

On what level of assurance are financial statements prepared?  CPA Audit  Review  Compilation

How often are internal financial statements prepared?  Annually  Semi-Annually  Quarterly  Monthly

How are bills paid?  Discounts taken as offered  Prompt within payment terms  Late, within \_\_\_\_\_ days of due

Any material troubled A/R?  No  Yes Explain: \_\_\_\_\_

Changes to the balance sheet since last fiscal year end: (contributions, distributions, loans, material asset buys or sells, financing, etc.) \_\_\_\_\_

Do you have a full time accountant on staff?  Yes  No Name: \_\_\_\_\_

Staff accountant professional designations:  CPA  CCIFP  Other: \_\_\_\_\_

Accounting software: \_\_\_\_\_

Estimating software: \_\_\_\_\_

Job cost software: \_\_\_\_\_

### V. BANK INFORMATION

Name of Bank: \_\_\_\_\_ Address: \_\_\_\_\_

Contact name: \_\_\_\_\_ Phone: \_\_\_\_\_ E-mail: \_\_\_\_\_

With this bank since: \_\_\_\_\_ Relationship currently includes:  Deposit accounts  Revolving line of credit  Term loans

Line of credit (LOC) year opened: \_\_\_\_\_ Amount: \$ \_\_\_\_\_ Line expires: \_\_\_\_\_

LOC -  Unsecured  Secured By: \_\_\_\_\_

LOC - special terms or sublimits: \_\_\_\_\_

Other banks used and purpose: \_\_\_\_\_

### VI. EXPERIENCE & REFERENCES

**Previous bonding companies:**

	Name:	Dates:	Reason for leaving:
1	_____	_____	_____
2	_____	_____	_____
3	_____	_____	_____

Have you ever been turned down by a surety?  Yes  No If yes, why? \_\_\_\_\_

**Largest completed contracts: (largest first)**

	a. Job name:	b. City, State:	c. Contract price:	d. Gross profit:	e. Date completed:	f. Bonded?
	g. Contact name:	h. Firm:	i. Phone:	j. Fax:	k. E-mail:	
	l. Project description:					
1	a. _____	b. _____	c. \$ _____	d. \$ _____	e. _____	f. <input type="checkbox"/> Yes <input type="checkbox"/> No
	g. _____	h. _____	i. _____	j. _____	k. _____	
	l. _____					
2	a. _____	b. _____	c. \$ _____	d. \$ _____	e. _____	f. <input type="checkbox"/> Yes <input type="checkbox"/> No
	g. _____	h. _____	i. _____	j. _____	k. _____	
	l. _____					
3	a. _____	b. _____	c. \$ _____	d. \$ _____	e. _____	f. <input type="checkbox"/> Yes <input type="checkbox"/> No
	g. _____	h. _____	i. _____	j. _____	k. _____	
	l. _____					
4	a. _____	b. _____	c. \$ _____	d. \$ _____	e. _____	f. <input type="checkbox"/> Yes <input type="checkbox"/> No
	g. _____	h. _____	i. _____	j. _____	k. _____	
	l. _____					
5	a. _____	b. _____	c. \$ _____	d. \$ _____	e. _____	f. <input type="checkbox"/> Yes <input type="checkbox"/> No
	g. _____	h. _____	i. _____	j. _____	k. _____	
	l. _____					

**Major suppliers: (largest volume first)**

	Name:	Products:	Phone:	Fax:	Contact name:	Last used:
1	_____	_____	_____	_____	_____	_____
2	_____	_____	_____	_____	_____	_____
3	_____	_____	_____	_____	_____	_____
4	_____	_____	_____	_____	_____	_____
5	_____	_____	_____	_____	_____	_____

**Major trade subcontractors (or contractors if you are a trade contractor): (largest volume first)**

	Name:	Trade:	Phone:	Fax:	Contact name:	Last used:
1	_____	_____	_____	_____	_____	_____
2	_____	_____	_____	_____	_____	_____
3	_____	_____	_____	_____	_____	_____
4	_____	_____	_____	_____	_____	_____
5	_____	_____	_____	_____	_____	_____

**Specialty trade subcontractors:**

	Name:	Trade:	Phone:	Fax:	Contact name:	Last used:
1	_____	_____	_____	_____	_____	_____
2	_____	_____	_____	_____	_____	_____



### VIII. KEY PERSONNEL

#### Additional key personnel:

	Name:	Designation(s):	Position:	Birth year:	Years experience	
					This company:	Total:
1						
2						
3						
4						
5						

### IX. LIFE INSURANCE INFORMATION

#### Life insurance in effect on officers or key personnel:

	Insured:	Beneficiary:	Death benefit:	Insurance company:
1				
2				
3				
4				

### X. BUSINESS INSURANCE INFORMATION

Staff Risk Manager: \_\_\_\_\_ Designations:  AFSB  CPCU  CRIS  Other: \_\_\_\_\_

Insurance broker/agency: \_\_\_\_\_ City/ State: \_\_\_\_\_

Agent's name: \_\_\_\_\_ E-mail: \_\_\_\_\_

Phone: \_\_\_\_\_ Fax: \_\_\_\_\_

Key expiration dates: \_\_\_\_\_

### XI. SUBSIDIARIES AND AFFILIATES

#### Subsidiaries and affiliates of the applicant firm:

	Firm name:	Ownership/relationship:	Type of business:	FEIN:	Cross/Corp. indemnity?
1					<input type="checkbox"/> Yes <input type="checkbox"/> No
2					<input type="checkbox"/> Yes <input type="checkbox"/> No
3					<input type="checkbox"/> Yes <input type="checkbox"/> No
4					<input type="checkbox"/> Yes <input type="checkbox"/> No
5					<input type="checkbox"/> Yes <input type="checkbox"/> No

Remarks:

**XII. ATTACHMENTS**

- Copies of the last three fiscal year end financial statements including work in progress & completed contract schedules
- Current interim financial statement and work in progress report if fiscal statement is over six months old
- Current personal financial statement for all indemnitors
- Bank Line of Credit Agreement
- Business Plan
- Federal Tax Returns
  - Company – years: Most recent 2-3 Years
  - Personal – years: \_\_\_\_\_
- Buy/Sell Agreement
- Specimen copy of Subcontract Agreement
- Certificate(s) of Insurance (*all lines carried*)
- Resumes of owners/key employees
- Brochure and/or Letters of Recommendation about the accomplishments of your firm
- Other: please describe below under "Additional Remarks":

**Applicant(s) hereby authorize the Surety Company and the Agency to make such pertinent inquiry as may be necessary from business and personal credit reporting agencies, financial institutions, persons, firms, and corporations in order to confirm and verify information referred to or listed on this application.**

**This questionnaire must be signed by an owner or officer of the company for which bonding is being requested.**

Name of Firm: \_\_\_\_\_

Completed by: \_\_\_\_\_

Title: \_\_\_\_\_

Signature: \_\_\_\_\_ Date: \_\_\_\_\_