PROFESSIONAL INSURORS

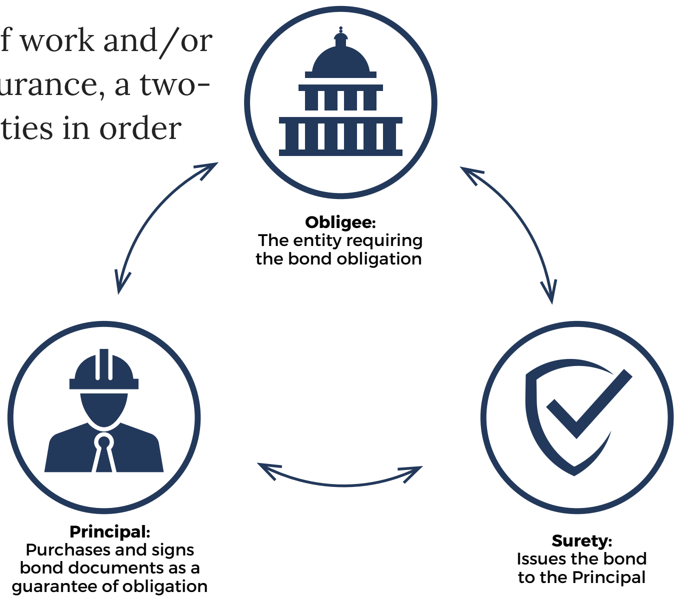
TRUST A PROFESSIONAL

Understanding Contract Bonds

What Is A Surety Bond?

A surety bond is a guarantee of the performance of work and/or fulfillment of an obligation by an entity. Unlike insurance, a two-party agreement, a surety bond requires three parties in order to issue a bond.

- Principle- (Contractors or Construction Company) Entity purchasing the bond and promising to adhere to the terms of the bond.
- Surety- (Agency) Issues and backs the bond to the principal. Guarantees to the Obligee that the Principal can perform the task.
- Obligee- (Project Owners) The person requiring and protected by the bond.



Bonds: What Are They And Who Needs Them

Is A Bond A Form Of Insurance?

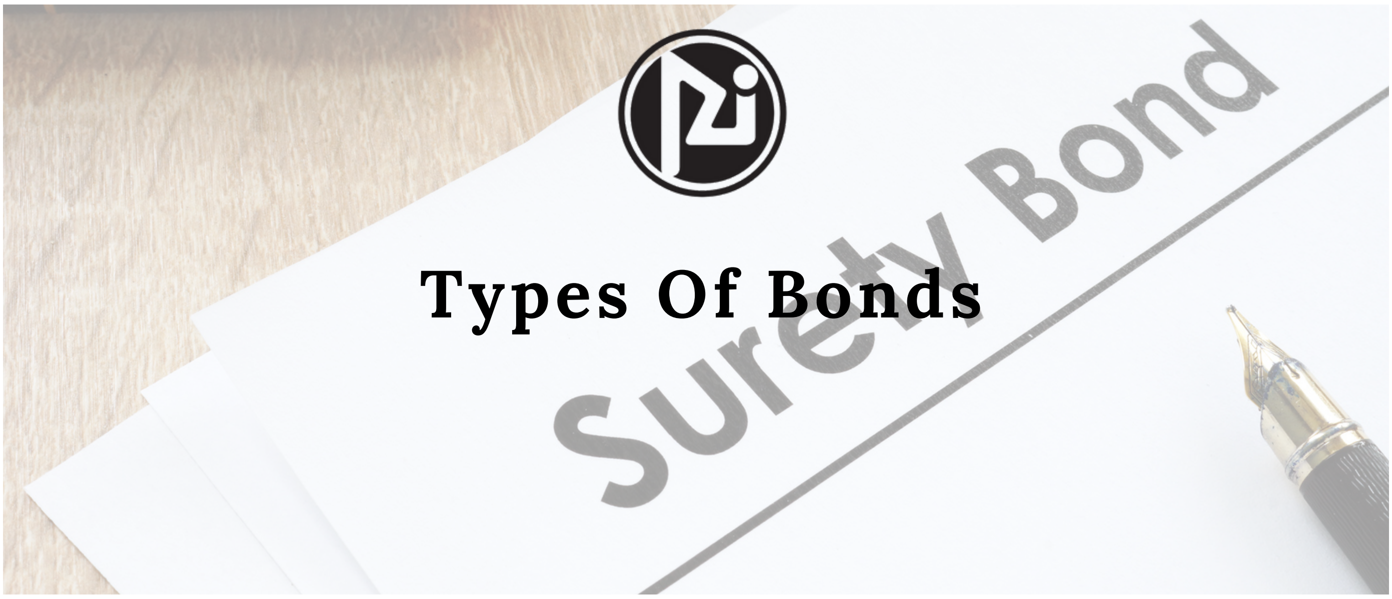
Surety bonds are often thought of as a type of insurance policy, when in reality the two are vastly different. When you use insurance, you are transferring exposed risk from yourself to the insurer. With a bond, you are holding the risk by guaranteeing that you will fulfil the end of the contract. Think of contract bonds like banking where contractors can obtain a line of credit. The surety will often give them a bonding line of credit, pre-establishing the amount of work the contractor can perform at one time.

BONDS VS. INSURANCE
AT A GLANCE

BONDS	INSURANCE
3 Parties: Principal, Obligee, and Surety A bond is a three-party agreement where the surety guarantees the performance of the principal to the obligee.	**2 Parties: Insured and Insurance Company** Insurance is a two-party agreement. The insurance company pays the insured directly for losses incurred.
Losses are NOT Expected The surety takes only risks that are qualified and safe.	**Losses Are Expected** Insurance losses are expected; therefore, the rates are adjusted to cover the losses and expenses.
Losses Are Recoverable The surety is lending its name, which it wants returned untarnished after the obligation is performed. In case of a claim, the surety expects to be repaid or indemnified by the principal.	**Losses Are NOT Recoverable** An insurance company doesn't expect to be repaid bvy the insured.
Sureties - Selective Risk Takers Must be selective in the risks they write.	**Insurance - Writes Most Risks** Insurer tries to write everything, thus letting the volume cover the risk. The higher the rate, the higher the risk.

Why Is Bonding An Attractive Avenue For Contractors?

In the United States, construction bonds make up 60% of the bonding industry and is roughly a 3-billion-dollar industry. The federal and state governments heavily rely on contract bonds to support the growing infrastructure in the United States. Since suppliers and contractors cannot place liens on public property, the bond allows an avenue for unpaid parties to recover their money in the event of a default by the upper tier contractor. Odds are, any public school, hospital, highway, etc... is a product of construction bonds. With the growing need and production of public infrastructure, bonds are an increasingly popular form of contracts.



Types Of Bonds

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- Bid Bonds- This type of bond offers a financial guarantee that the contractor submits the bid in good faith. A bid bond also assures that, if chosen, the contractor will sign the contract at the bid price selected and provide the required information for the performance and payment bonds.
- Performance Bonds- Gives protection of the project owner (obligee) from financial loss if the contractor (obligee) fails to meet the terms of the contract.
- Payment Bonds- This bond guarantees that the principle (Contractor) will make good on their word and pay the subcontractors, laborers, and suppliers for their work in the project.

Who Should You Trust To Handle Your Bonds? What Qualities You Should Look For In An Agency

- When performing construction projects, you assume risk in multiple ways with the contract you sign, including insurance and bonding. It’s much easier to let one company who has experience in both handle both to keep your risk to a minimum and transfer as much as possible to other parties.
- Let someone who knows the surety process work with you. Understanding when your submission is ready and how to present it optimally, to make you look the best. If it is submitted prematurely or not in the proper way, the surety cannot unsee it, and it will look less favorable on your account moving forward.
- An agent should not only have the ability to understand the financial requirements but should be able to help coach you in improving your surety line of credit. When you can bond more work, you can make more profit.
- Your agent should also establish discovery meetings where they will learn and work to meet your goals.

PI's Surety Program

Professional Insurors offers a Surety Program that features two different bonding options based in the pricing of the bid. With over 20 years of experience in the bond industry, Professional Insurors has been building the foundation of surety bonds in the nation.

PI’s Quick Bond Program (Under 500,000)
An ideal solution for many contractors bidding on smaller projects is using a credit-based program. A credit-based or quick bond program is a quick and easy way to obtain a bond without providing any financial statements. With our quick bond program, we can provide a bond up to $500,000 with an aggregate of 800,000 and with basic financials we can assist in bonding a bid up to 1,000,000.

<u>What You Need:</u>

1. PI’s Quick Bond Application
2. Invitation To Bid (Bid Bond)
3. Bid Spread Result And Copy Of Contract (Performance And Payment Bond)

PI’s Standard Bond Program (Over 500,000)
Our Contract surety program offers bonding for any size project. With an intricate understanding of the construction industry and the bonding process, we are able to cater to your individual surety needs. Our goal is to create a long-term relationship between contractors, Professional Insurors, and the Surety company. This will allow the company to reach their long-term goals.

<u>What You Need:</u>

1. Contractor’s Questionnaire
2. Last 3 Years Fiscal Year End Business Financial reports
3. Last 3 Years Business Income Tax Filings. Personal Tax Returns And Financial Report
4. Reference Letter (Optional)
5. Bank Letters
6. Contract Bond Request