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Understanding Bonding

What is a surety bond?
A surety bond is a three party credit instrument where the three parties are the principal (successful bidder), the obligee and the surety. The surety's role is to guarantee the performance of the principal, and the obligee is the beneficiary of that guarantee.

What is the purpose of a bid bond?
The bid bond guarantees that the principal (the bidder) will enter into the contract once it is awarded. If the principal who provided the bid bond fails to sign and enter into the contract, the bid bond specifies the amount that may be paid as damages or penalty.

What is the purpose of a performance bond?
A performance bond guarantees that the principal will perform all aspects of the underlying contract according to the terms outlined in that contract.

What is the purpose of a payment bond?
The payment bond guarantees that suppliers of labor and material related to the bonded contract will be paid the amounts due subject to the terms of the contract, restrictions and limitations imposed by statute or the bond.

What do I need in order to qualify for bonding?
Surety companies base their decision about whether to provide bonding on three basic criteria, 1) Credit history, 2) Work history, and 3) Financial resources. Being able to get a bond for certain types of contracts is to a great degree dependent upon demonstrating that all three of these criteria are appropriate for the work that is being performed.

Is it hard to qualify for bonding?
This is a difficult question and the answer is not always clear. The factors that enter into getting a performance bond depend on an evaluation of the items mentioned above, as well as the size of the contract, the complexity of the work, confirmation of the financing for the project, location of the work, and the terms of the contract and other variables that can effect the principal's ability to perform the contractual obligations.

How much does a bond cost?
Typically surety companies do not charge for bid bonds, however you will need to know the cost of the performance and payment bond if you are the successful bidder prior to bidding a project. Rates for bonds can vary and depend on many factors (type and size of contract, principals financial standing, past history/experience, etc...). Rates are typically a percentage of the either the contract amount or bond amount. The average rates can range from 1% to 3%. These are only averages and can vary.

I need a bond right now, how do I get started?
The place to start is with a reputable surety agent who represents a variety of surety companies that are capable of providing bonding for you. Your agent will help you through this process making it as simple as possible and guide you in assembling the information that will be needed to get your account established.