Surety Bonds: What They Are and Why They Matter

NewsUSA

(NU) - A surety bond, as the name suggests, means a sure thing - at least when it comes to the financial security of construction projects. Simply put, surety bonds are similar to loans from a bank, and construction contractors who qualify for them show owners their ability to do the job right. Bonds bring successful outcomes.

Construction is an expensive and risky business with a high rate of default on project completion, according to experts at the National Association of Surety Bond Producers (NASBP), the Bethesda, Md.-based association for surety bond producers.

NASBP members develop relationships with contractors that benefit the project owners and municipal organizations that undertake construction projects large and small.

"Undertaking a commercial construction project is an inherently risky endeavor, as each project combines unique factors, such as owner needs, design requirements, parties who may not be familiar with one another, site requirements, weather conditions, and myriad other factors," says Robert Shaw, President of Skillings Shaw & Associates in Lewiston, Maine and President of NASBP.

"Insurance companies through underwriting surety bonds vet construction contractors so that only those with the right experience, equipment, and know-how can furnish bonds to owners. As part of the process, the surety does an in-depth financial review of the contractor's financial capability along with trend analysis. The surety issuing the bonds then is confident to stand behind that bonded contractor should any problems arise," he explains.

"With bond requirements in place, project owners know that

they are dealing with quality firms and that they have third-party performance guarantees," he emphasizes.

Such guarantees matter to taxpayers, too.

Municipalities planning public projects such as upgrading roads, repairing bridges, or building new hospitals protect themselves and the investments of taxpayers in their community by requiring surety bonds from construction contractors before awarding them a contract.

The surety bond producer can act as a middleman if something goes wrong, and the bond company stands behind the contractor to cover costs so the taxpayers aren't paying twice.

Some of the criteria by which contractors are vetted before earning a bond from a certified surety, include financial statements, trade references, credit history, management, and organizational structure.

In the event that a contractor is unable to complete a project, the surety protects the project owner and the taxpayers with strategies including re-bidding the project, obtaining a replacement contractor, providing technical and/or financial support to the struggling contractor, and paying off the bond.

For more information about surety bonds and the benefits of choosing contractors who have these bonds, visit https://www.nasbp.org/guaranteed/home.