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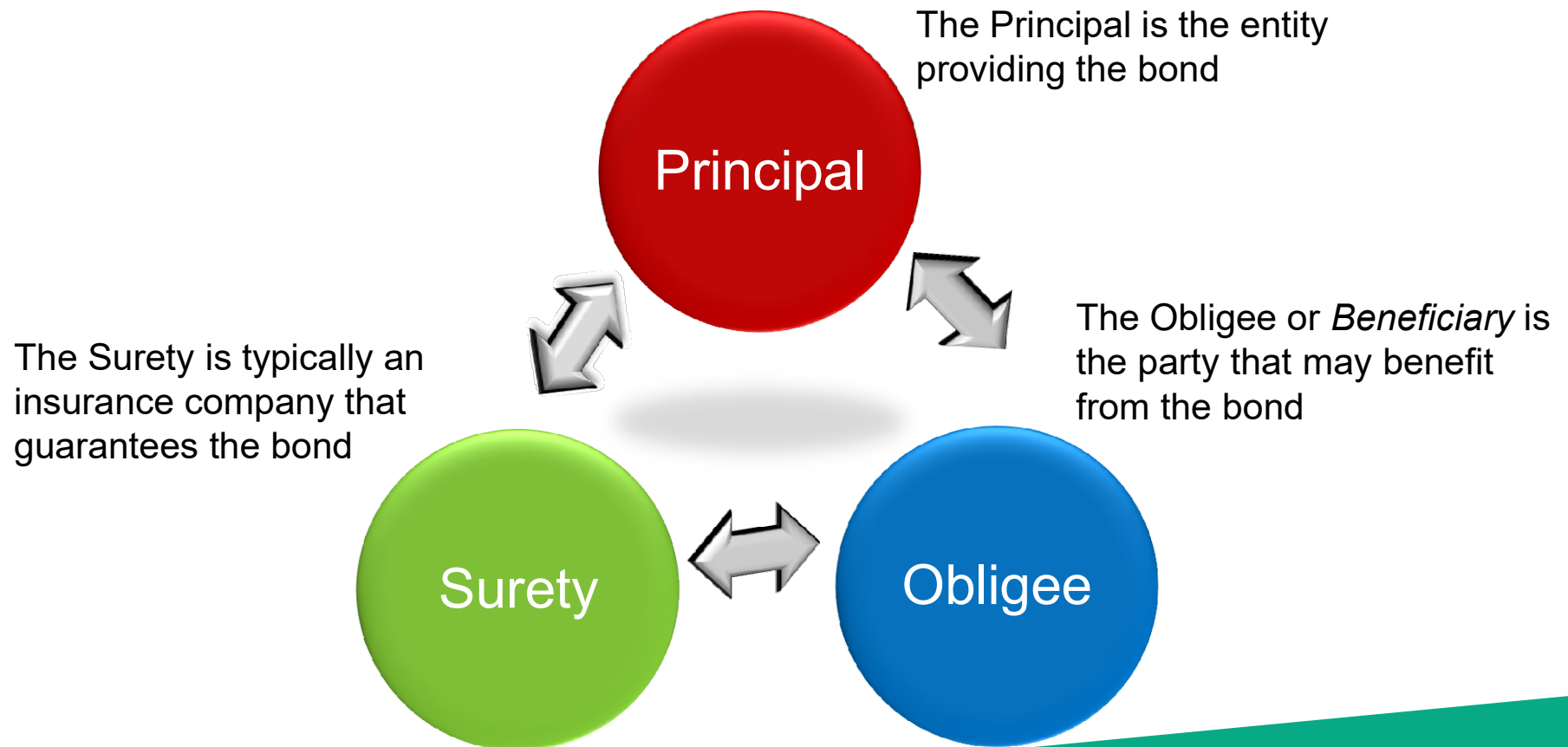
## ***Bonds 101***

*Presented Exclusively for:*  
*Michigan Minority Contractors Association*  
*VTC Insurance Group*  
*Jeffrey A. Chandler, VP – Surety*  
*Matt Chandler, Manager*

# Underwriting Basics

- Character, Capacity, Capital
- Surety vs. Insurance / No Expected Losses
- Indemnity Agreement
  - Idea of No Expected Losses
  - Providing a Guarantee of Security to the Owner... Not the Contractor
  - If a Surety Loses Monday, They Look to Get it Back.

# Underwriting Basics





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# Building a File and a Case

- Corporate Financial Statements
  - Presentation
  - Parameters
  - CPAs
- Personal Statements
- Job Schedules
- Bank Relationships
- Insurance Coverage
- Pay Record/Credit
- Experience/Background

## Type of Bonds

### Bid Bonds

guarantees the low bidder will enter into a contract with the owner and provide final performance and payment bonds

### Performance Bonds

guarantees that the contractor will perform all specifications of the contract

### Payment Bonds

guarantees to third parties that all labor and material suppliers will be paid

## Type of Bonds

### License & Permit Bonds

guarantees the permit holder will comply with the terms and conditions of a permit or license. i.e. City of Detroit wrecking bond

### Development Bonds

guarantees the developer will comply with the terms & conditions of their development permit, including but not limited to construction

### Maintenance Bonds

warrants that faulty workmanship and defective materials will be corrected

# Building an Individual Bond

- To Get a Bid Bond:
  - Relevant pages from the Specs
  - Bond Request Form
  - Occasionally Current Financial / Work in Progress Data
- To Get a Final Bond:
  - Bid Results
  - Copy of the Contract / Notice of Award / LOI



Please attach the bond requirements section of the bid advertisement/ RFP for Bid Bond requests and a copy of the contract for Performance & Payment Bond requests.

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

Principal Name/Address: \_\_\_\_\_  
(Name of Contractor required to provide bond)

Obligee/Project Owner: \_\_\_\_\_ (Name)  
(Owner or Entity requiring Bond)

\_\_\_\_\_ (Address)

Project Name: \_\_\_\_\_  
(Legal project name, bid category, etc.)

Work Description: \_\_\_\_\_

Bid Date or Contract Date: \_\_\_\_\_  
(Final bonds)

Bid Bond %: \_\_\_\_\_ Performance Bond %: \_\_\_\_\_ Payment Bond %: \_\_\_\_\_

Project Estimate or Contract Amt: \$ \_\_\_\_\_ Retainage %: \_\_\_\_\_

Project Start Date: \_\_\_\_\_ Project Completion Date: \_\_\_\_\_

Late Completion Penalties: \$ \_\_\_\_\_ Maint./Warranty Period: \_\_\_\_\_

Subcontractors (and rough % of contract): \_\_\_\_\_

Current Total Backlog: \$ \_\_\_\_\_

Any Specific Bond Form Requirements? Attach copy or indicate form Req'd: \_\_\_\_\_

Are Dual or Multiple Obligees required? If so, name: \_\_\_\_\_

This Request Completed by: \_\_\_\_\_ Phone # \_\_\_\_\_

Additional Info/Remarks: \_\_\_\_\_

If this is P&P Request, please provide Bid Results:

Low Bid: \_\_\_\_\_ 2<sup>nd</sup>: \_\_\_\_\_ 3<sup>rd</sup>: \_\_\_\_\_



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# Who Requires Bonds




- Government Projects
  - Federal (over \$100k), State (over \$50k), Local
- Private projects with bank, HUD, or MSHDA funding





# Reasons Why Contractors Fail

- Change in Project Size or Type
    - Volume (too high, too low)
  - Geographic Spread
  - Change in Key Personnel or Management
  - Overhead
  - Receivables/Underbillings
  - Owner/Sub Problems
    - Verify Owner Financing
    - Bond Back Subcontractors
- 



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# Reasons Why Contractors Succeed...





# Surety Options in a Claim Situation

- Finance the Principal
  - Know the job... but is it good money after bad?
- Takeover the Job
  - Become a C/M with more control... but legal status changes
- Tender the Job
  - Turn it back to the owner... but paying for someone else's profits.



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