



How to get Bonding Support By Shawn Weppelman, AFSB

You are just starting your own construction company or interested in a project that requires a bond. Either way, this is your first time needing a bond and you need to know how to qualify. We talk to contractors every day that need to get a bond...and fast. This article will explain the main types of construction bonds and how to qualify for bonding support.

3 Main Types of Bonds

- Bid Bond – Guarantees that if you are low & awarded the project, you will enter into contract and provide Performance & Payment bonds. If you don't, the owner can make a claim on the bond, usually for the difference between your bid and the next lowest bidder. So, the owner essentially is guaranteed the project will get done for the amount of the low bid. The Bid Bond also provides the owner with assurance that a Surety Company has prequalified the contractors bidding his/her project.
 - The Bid Bond is free. The next two bonds, often referred to as "Final Bonds" will cost roughly 1-3% of the contract value (depending on creditworthiness as determined by the Surety Company). That cost can and should be passed along to the owner/company that is asking you for the bonds.
- Performance Bond – Guarantees you will complete the project on time and in accordance with the contract specifications. The Performance Bond automatically comes with a one-year warranty on workmanship. However, if the contract specifies a longer warranty term, it is covered by this bond. The bond guarantees the contract terms.
- Payment Bond – Guarantees your subs and supplies will be paid. This helps assure that unpaid subs and suppliers have recourse than other than filing a lien on the property.

How to Qualify for Bonding Support – The 3 C's of Surety

1. Capital – This has to do with your financials. Surety's want to see that you have money in the company. Specifically, they like Working Capital. You should try to maintain a Working Capital position that is at least 5% of your desired backlog (if you have a \$10 million in backlog, you want at least \$500k of Working Capital). Personal wealth can help, so make sure to include all assets on your personal financial statement. Surety's also need to understand your financial statements, so take the time to understand each line item and be prepared to answer questions. CPA prepared statements are eventually going to be required for multi-million-dollar bonds.
2. Capacity – This has to do with your ability to complete the job. Basic considerations include:
 - a. Scope should be similar to previously completed projects

- b. Job size in relation to your previous largest completed project
 - c. Prior experience working for the owner/contractor requiring the bond
 - d. Proximity to your office/operating territory
 - e. How the job fits into your current backlog
3. Character – Surety's want to do business with people they can trust to be honest and transparent. They will have questions and request copious amounts of documentation. The more responsive you are, the more likely you are to get approved. Personal credit is also very important. Sureties figure that you will run your business the same way you run your personal affairs. If you have excellent credit, you can qualify for smaller bonds based on your personal credit alone!

At Brunswick Companies, we specialize in helping small and disadvantaged contractors get the bonding support they need. If we cannot get a surety company to approve you in the "standard market", we can get the SBA involved. The SBA program reimburses surety companies 80% - 90% on losses, making your bond request a much more attractive risk. We are consistently in the top ten writers of SBA business in the country. We are appointed with roughly 40 Surety Companies and are skilled in finding the right one to support your business plan. Look us up online, request a quote, and someone will contact you immediately to discuss your business needs. <https://www.brunswickcompanies.com/>