

# Surety Bonds

AN INTRODUCTION

Stein Insurance Agency Inc

---

Megan Corradi | Vice President | MSc, CPCU, ARe

Margaret Corradi | President | CPCU, CIC

# What Is A Surety Bond?

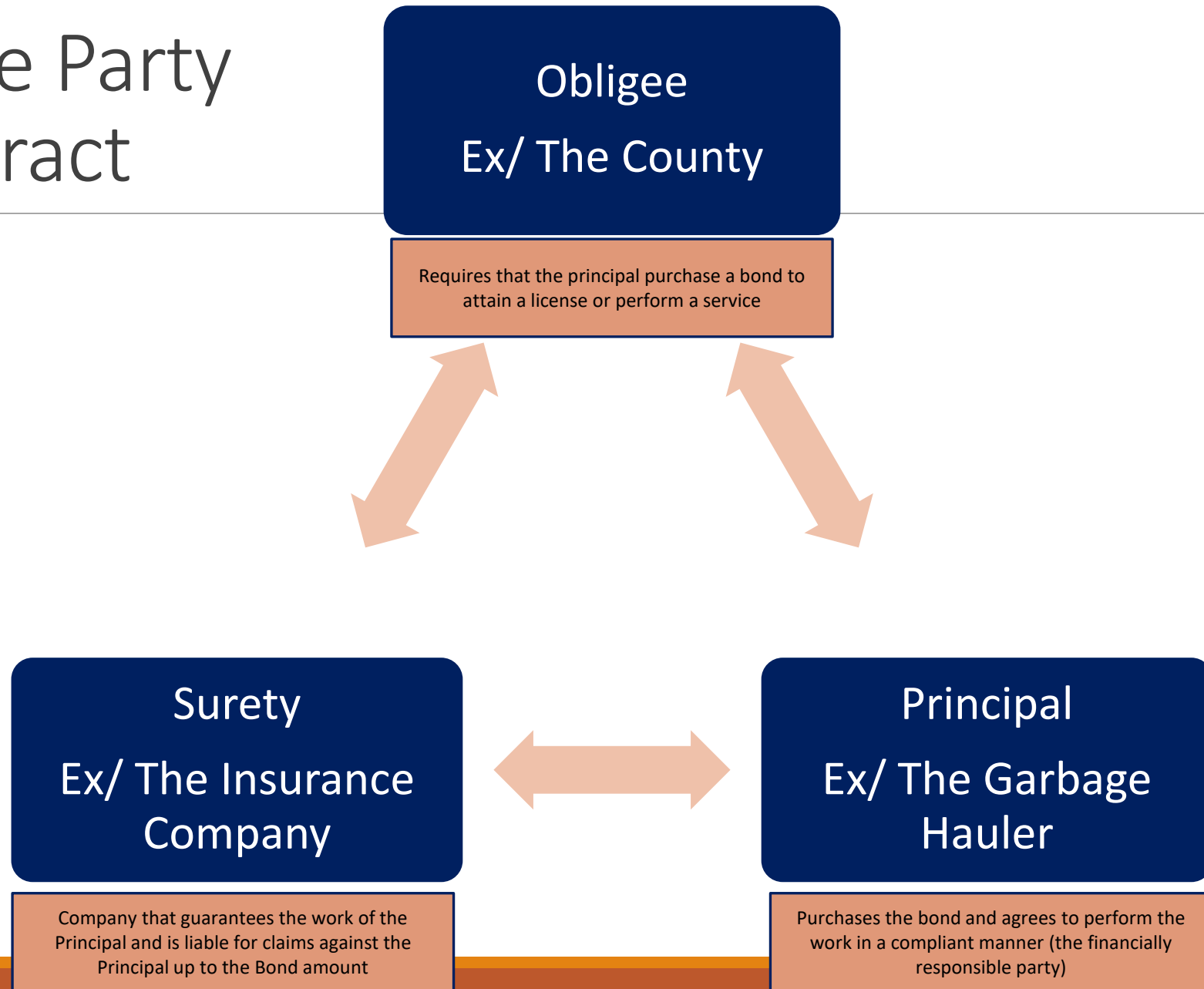
---

The promise of one party to be liable for the default or failure of another party

In short, a surety bond is a contract that guarantees you will fulfill your tasks and obligations

Attaches to an underlying contract and must be interpreted as such

# Three Party Contract



# Two Types Of Surety Bonds

---

1

## Contract Surety Bond

Construction Projects

1. Bid Bond
2. Performance Bond
3. Payment Bond
4. Warranty / Maintenance Bond

2

## Commercial Surety Bond

Federal, State, Local Governments

1. License & permit bonds
2. Court bonds
3. Fiduciary bonds
4. Public official bonds
5. Miscellaneous bonds

# License & Permit Bonds

---

## What is it?

- Type of commercial surety bond required of many business industries
- Typically required by federal, state, and local governments as a prerequisite for receiving the license or permit
- Ensures that any licensed entity or business will carry out work as per the specific local and federal laws

## How to obtain

- License bonds can be obtained through an independent insurance agent
- Most License Bonds can be issued with minimal underwriting and a cost at ~1% of the total bond amount
- In most cases you receive a quote within 24 hours
- A separate Bond is needed for each licensing entity with a separate premium charged for each

# Who Indemnifies Who?

---

Bonds are different than insurance

- Insurance indemnifies the policy holder (The Principal) and seeks to protect policy holder assets
- Bond protects the entity requiring the bond (The Obligee)

What happens if a Bond is “Called”?

- The bonding company provides defense and helps to negotiate terms. The idea is to try to avoid a Bond payout
- If the bond is paid out, the bonding company will require that the Principal indemnify the Surety. This is called the Indemnity Agreement.

# When To “Call” A Bond

---

Can only be called when the Principal has not fulfilled its obligations/duties or has not followed the law

Claims are understood to be intentional or unintentional violations made by the Principal

Calling on a Bond should not be taken lightly. It can cause serious damage to the reputation of the Principal and the Principal will have to reimburse the Surety for sums paid out

The Bond itself will contain contact information to submit a claim

# Other Financial Guarantee Options

---

## Bank letter of credit (LOC)

- Issued by bank instead of surety producer
- Financial underwriting performed by bank prior to approval
- Usually accompanied by a promissory note from the Principal to the Oblige
- Independent of underlying contract

## Posting physical collateral

- Property deed
- Certificate of deposit
- Cashier's check
- Cash bond



# Bonds vs LOC

---

Category	Bond	LOC
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Cost	<input type="checkbox"/> 1-3%	<input type="checkbox"/> 3-5% + Fees
<input type="checkbox"/> Collateral	<input type="checkbox"/> Unsecured	<input type="checkbox"/> Secured
<input type="checkbox"/> Borrowing	<input type="checkbox"/> Unaffected	<input type="checkbox"/> Reduced Borrowing Ability
<input type="checkbox"/> Claims	<input type="checkbox"/> Claim Adjustment Process	<input type="checkbox"/> Paid On Demand
<input type="checkbox"/> Legal	<input type="checkbox"/> Defense Provided By Surety	<input type="checkbox"/> No Defense Provided
<input type="checkbox"/> Underlying Contract	<input type="checkbox"/> Attached	<input type="checkbox"/> Not Attached

# Insurance Requirements

---

## General Liability

- Property damage / bodily injury to third party

## Auto Liability

- Property damage / bodily injury to third party while operating vehicle

## Excess Umbrella

- Liability in excess over GL, Auto, & Employers Liability

## Other Liability

- Pollution liability

## Workers' Compensation

- Employment related injury or illness
- Let's talk about sole proprietors

# Legally Tendering A Claim

---

Hold harmless agreement

Additional insured endorsement including products & completed operations

Primary Non-Contributory

Waiver of Subrogation

Blanket Endorsements

THANK YOU!!



# Questions?

---

Megan Corradi

Vice President | MSc, CPCU, ARe

[megan@steininsurance.com](mailto:megan@steininsurance.com)

Margaret Corradi

President | CPCU, CIC

[Margaret@steininsurance.com](mailto:Margaret@steininsurance.com)

Office: 651-257-1042

We Are Insurance & Bond Experts!  
If Licensees Have Insurance Or Bond Questions, Please Feel Free To Contact Us!