

WHAT TO EXPECT SERIES

YOUR FIRST MEETING WITH A PROFESSIONAL SURETY BOND PRODUCER

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What to Expect in Your First Meeting with a Professional Surety Bond Producer

- As a contractor or subcontractor, you are now ready to position your business to obtain surety credit—to qualify your construction business to get bonds and to grow your business.
- Contract surety bonds--including bid, performance, and payment bonds--are required for contractors working on most public works projects and many private work projects.
- You probably have a number of questions:
 - ✓ What do I do?
 - ✓ Whom do I turn to?
 - ✓ What are my first steps?
 - ✓ What do I need to know?



What to Expect in Your First Meeting with a Professional Surety Bond Producer

- The first thing you need to do is contact a professional surety bond producer and start developing that relationship.
- Producers work with and obtain bonds on behalf of their contractor clients.
- This presentation will take you through the steps to find a professional surety bond producer and explain what you can expect in that first meeting.

Professional Surety Bond Producers in the Construction Industry

- Bond producers are business professionals who specialize in providing surety bonds to contractors, subcontractors, and other construction project participants.
- They are knowledgeable about the surety and construction industries and focus their main activities on the surety market and position construction firms to qualify for surety credit.
- They provide invaluable business advice and expertise to assist the contractor in securing a surety credit relationship and increasing its surety credit, if appropriate.



The Role of Professional Surety Bond Producers (cont.)

- They procure from the contractor information and documentation needed by the surety to evaluate a request for bonding.
- The type and amount of the bonds requested will likely narrow the field of potential sureties that will issue the bond.
- They match the needs and strengths of the contractor to a surety that will support it.
- They nurture a successful relationship between the contractor and the surety company.
- They maintain communication channels between the contractor and the surety company.
- They develop and maintain with the contractor a relationship of trust, commitment, respect, and teamwork.



When You Need to Obtain a Bond, Contact a Surety Bond Producer

- You begin the process of obtaining surety credit by contacting a professional surety bond producer.
- The National Association of Surety Bond Producers (NASBP) is a national trade association of surety agencies, whose employees--the bond producers--are experts in surety.
- Names of professionals specializing in surety bonds can be obtained online from the NASBP membership directory.
- This directory is on the NASBP website at www.nasbp.org/NASBP/Directory/FindaProducer , and the producers are listed by state.



How to Plan for the First Meeting with Your Bond Producer

- You will likely be both excited and anxious about your first meeting with your bond producer.
- As much as possible, bring to the meeting all the information, statements, and reports requested by the bond producer in the checklist he/she sends you.
- You may not have every document or all the information requested. If not, you and your producer can work out a game plan during the first meeting to obtain such information.
- The first meeting is mostly about the bond producer and you learning more about each other's goals, businesses, and history and setting the stage for moving forward to meet your business's surety goals.



Bond Producer's Checklist for New Contractors

- Often bond producers will send a contractor a checklist before the first meeting, requesting that the contractor bring certain itemized information to the first meeting.
- The checklist typically includes the following requested information:
 - ✓ Past 3 fiscal year-end financial statements
 - ✓ Current interim financial statement and aging receivables and payables report
 - ✓ Copies of any bank loan agreements, including lines of credit and recent line of credit statement
 - ✓ A current personal financial statement
 - ✓ A current statement of work in progress
 - ✓ Resumés of owners/key employees
 - ✓ Letters of recommendation about the accomplishments of your company



Bond Producer's Checklist for New Contractors (cont.)

- A statement of qualifications for the company
- Certificate(s) of Insurance
- A Contractor's Questionnaire, which requests detailed personal and company information, including:
 - ✓ Business information and details, including articles of incorporation
 - ✓ Officer information
 - ✓ Financial and bank information
 - ✓ Key personnel
 - ✓ Surety relationships, if any
 - ✓ Largest completed contracts
 - ✓ Trade references
 - ✓ Life insurance information
 - ✓ Specimen copy of subcontract agreement



What is the Order of Business at the Typical First Meeting?

- The bond producer will spend a good deal of time listening to and understanding the history of your business, company ownership, project expertise, operations, and goals/desires for bonding.
- The bond producer will explain whom he/she works for, how surety companies underwrite bonds, how bond rates work, how to request a bond, the importance of a good accountant, why bond underwriters care about construction accounting and bank support, how he/she can add value in coaching you to attain higher levels of surety capacity, and the general lay of the land in the surety marketplace.



What Factors Does a Surety Consider in the Underwriting Process?

- Among others, the surety considers the following factors in the underwriting process:
 - ✓ Financial capacity
 - ✓ Net worth
 - ✓ Cash flow
 - ✓ Assets
 - ✓ Credit score
 - ✓ Works in progress
 - ✓ Work history
 - ✓ Banking relationship
 - ✓ Nature of project to be bonded



What Other Topics Might Be Covered at a Typical First Meeting?

- If you need to develop relationships with other professionals, the bond producer can provide you with referrals for other types of professionals, such as accountants, attorneys, and bankers.
- The producer will explain the fundamental differences between traditional insurance and surety bonds.
- The producer will explain generally to you how bonds are underwritten:
 - ✓ Character—of the contractor
 - ✓ Capacity—the expertise and experience of a contractor to handle a project
 - ✓ Capital—the financial strength of the contractor and its indemnitors
- The producer will explain indemnity agreements and why surety companies require you to sign them.



What Are Indemnity Agreements and Why Must I Sign One?

- A general agreement of indemnity (GIA) is a contract that requires the signatories to indemnify or reimburse the surety if the surety suffers any loss (including attorneys' fees, costs, etc.) as a result of having issued the bonds.
- Most sureties require the individual and corporate signatures from: the contractor, the spouse of the contractor, owners, and the business itself.
- The GIA protects the surety if the bonded contractor fails to fulfill its contractual obligations and the surety must step in to fulfill its bond obligations.
- The GIA is a powerful contract that protects the rights of the surety issuing bonds to a contractor, and courts will enforce the terms of a GIA.
- Therefore, a contractor must be fully aware of those rights before it signs the GIA.



Keys to a Successful Relationship With Your Surety Bond Producer

- A professional surety bond producer can be a powerful and crucial business ally in growing and prospering your construction business.
- The key to a successful relationship with your surety bond producer is to begin and continue with:
 - ✓ Mutual commitment
 - ✓ Respect and trust
 - ✓ Candor
 - ✓ Clear communication
 - ✓ Teamwork
 - ✓ Follow through



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provides valuable resources and information on growing your small construction business and on positioning your business to qualify for surety credit.



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