

Surety Information Office (SIO)

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The Surety Information Office (SIO) is the information source on contract surety bonds in public and private construction. SIO offers complimentary brochures and CDs and can provide speakers, write articles, and answer questions on contract surety bonds. SIO is supported by The Surety & Fidelity Association of America (SFAA) and the National Association of Surety Bond Producers (NASBP). All materials may be accessed at www.sio.org.



The Surety & Fidelity Association of America (SFAA)

1101 Connecticut Avenue NW • Suite 800 • Washington, DC 20036 (202) 463-0600 • (202) 463-0606 Fax www.surety.org • information@surety.org

The Surety & Fidelity Association of America (SFAA) is a District of Columbia non-profit corporation whose members are engaged in the business of suretyship. Member companies collectively write the majority of surety and fidelity bonds in the United States. SFAA is licensed as a rating or advisory organization in all states, as well as in the District of Columbia and Puerto Rico, and it has been designated by state insurance departments as a statistical agent for the reporting of fidelity and surety experience. SFAA represents its member companies in matters of common interest before various federal, state, and local government agencies.



National Association of Surety Bond Producers (NASBP)

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The National Association of Surety Bond Producers (NASBP) is the international organization of professional surety bond producers and brokers. NASBP represents more than 5,000 personnel who specialize in surety bonding; provide performance and payment bonds for the construction industry; and issue other types of surety bonds, such as license and permit bonds, for guaranteeing performance. NASBP's mission is to strengthen professionalism, expertise, and innovation in surety and to advocate its use worldwide.

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What They Are & How to Find Out About Them



Contract surety bonds guarantee the performance or financial obligations of others. In construction, contract surety bonds are provided to an *obligee* (for example, the construction project owner) by licensed surety companies that commit their assets to support the performance and financial obligations of the *principal* (typically the contractor). General contractors frequently also act as the obligee in the case of bonds provided by subcontractors. Surety bonds used in construction include bid, performance, and payment bonds as well as supply and maintenance bonds. Construction owners, contractors, lenders, public officials, and others involved in the construction project need to know about the companies that issue surety bonds and the role of the surety bond producer.

What Is a Surety Company?

Most large property and casualty insurance companies have surety departments. In addition, there are some insurance companies for which surety bonds make up all or most of their business. In either case, in order for a company to write a surety bond in the United States, it must be licensed by the insurance department of one or more states in which the surety conducts business. The surety company's thorough prequalification process greatly reduces the likelihood of contractor default. The surety company underwriter takes an in-depth look at the contractor's entire business operations—credit history and financial strength, experience, equipment, work in progress, and management capability—and must be satisfied that the contractor is capable of completing the project before issuing a bond. Should the contractor experience difficulties on a project, the surety company may elect to assist the contractor to head off default. In many cases, the owner may not even be aware of the surety's involvement.

In the unfortunate event that the owner declares the contractor in default, the surety must investigate the claim, analyze all options, and choose a course of action. If the contractor is in a default situation, the surety may finance the original contractor or provide support to ensure project completion, arrange for a new contractor to complete the project, rebid the job, or pay the cost of completion up to the penal sum of the bond, depending on the options in the particular bond form.

Information about surety companies can be obtained from The Surety & Fidelity Association of America (SFAA), (202) 463-0600; www.surety.org. SFAA represents the majority of companies that write surety and fidelity bonds in the United States.

Other sources of information about surety companies include:

- State Insurance Departments;
- U.S. Department of the Treasury;
- Ratings Organizations; and
- Surety Bond Producers.

State Insurance Departments

State insurance departments license companies that write surety bonds and can provide information on these companies. The insurance department of the state in which the surety company is domiciled is responsible for performing periodic examinations of the company and usually will have the most information about a surety company. Insurance departments usually are located in state capitals and may have offices in other large cities of the state. Sources for locating a state insurance department are:

- The state government listing in the local telephone directory; or
- The National Association of Insurance Commissioners, www.naic.org/state_web_ map.htm.

U.S. Department of the Treasury

A surety that wants to write bonds for federal government construction projects must have a certificate of authority issued by the U.S. Department of the Treasury. The Treasury Department conducts a financial review of the surety and sets a single bond size limit for the surety. The Treasury Department maintains a list of surety companies that it has qualified to write surety bonds on federal government projects.

Treasury Department Circular 570: Companies Holding Certificates of Authority as Acceptable Sureties on Federal Bonds and as Acceptable Reinsuring Companies is published in the Federal Register on July 1 each year. A free copy of the most current "Treasury List" may be accessed at www.fms.treas.gov/c570/index.html.

Ratings Organizations

A.M. Best Company is a private company that analyzes and rates insurance companies. Each year it publishes *Best's Insurance Reports*, *Property-Casualty*, which includes detailed profiles and financial information on almost every insurance company operating in the United States. Best's gives each company an alphabetic rating and a financial size category (the rating pertains to the entire insurance company and not just the surety operation). This book is available in many public and financial libraries or may be purchased from A.M. Best.

The A.M. Best Company also publishes an abbreviated version of the information in its *Best's Key Rating Guide, Property-Casualty,* which contains only the alphabetic ratings and financial size categories of each insurance company. A.M. Best will not distribute information to inquirers who do not subscribe to either publication, nor will they divulge ratings information over the telephone. Up-to-date information and prices on Best's publications are available at www.ambest.com.

Other ratings organizations include:

- Dun & Bradstreet (www.dnb.com/us);
- Fitch Ratings (www.fitchratings.com);
- Moody's Investors Service (www.moodys.com);
- Standard & Poor's (www.standardandpoors.com/); and
- Weiss Ratings Inc. (www.weissratings.com).

Role of a Surety Bond Producer

Most surety bonds are issued through surety bond producers (or agents) who are knowledgeable about the surety and construction industries. Surety bond producers work in agencies that specialize in surety bonds or in insurance agencies that have a sub-specialty in surety bonds. The professional surety bond producer maintains a business relationship with several surety companies, which enables the producer to match a contractor with an appropriate surety company.

The surety bond producer assists a contractor in obtaining surety bonds, and provides business advice, management consulting, and technical expertise. The producer is an integral part of the contractor's external advisory group, which may also include attorneys, lenders, and CPAs. By using specialized knowledge of the construction industry, the producer assists the contractor in preparing for the surety company's rigorous prequalification process. As a contractor develops a strong business relationship with a surety bond producer, a relationship will also develop between the contractor and surety company. A good surety company and surety bond producer can help a contractor maintain and increase its surety capacity.

Contact information for producers specializing in surety bonds can be obtained from the National Association of Surety Bond Producers (NASBP), (202) 686-3700; www.nasbp.org. NASBP members adhere to professional standards that demonstrate professionalism, expertise, and innovation in surety bonding.

Surety Bond Authenticity Program

The Surety & Fidelity Association of America (SFAA) maintains a list of surety companies that will assist in verifying the authenticity of a surety bond and the fact that the surety authorized the execution of the bond.

For a free copy of the list of participating surety bond companies, send a self-addressed envelope to The Surety & Fidelity Association of America, 1101 Connecticut Avenue NW, Suite 800, Washington, DC 20036. The authenticity program also is available at www.surety.org (select "About the Industry," then "Bond Authenticity Program").

When making an inquiry directly to a surety company on SFAA's list to authenticate a bond, the following information should be provided:

(The best way to supply this information is to enclose a photocopy of the bond with your inquiry.)

- 1. Bond Number (if any)
- Name and address of principal [contractor or subcontractor] (include names of all parties if the principal is a joint venture)
- 3. Name and address of the obligee [owner or general contractor]
- 4. Amount of Performance Bond
- 5. Amount of Payment Bond
- 6. Date bond executed
- 7. Name of person signing bond for the surety
- 8. Brief description of project
- 9. Contract price
- 10. Name and address of person to whom the confirmation of authenticity should be sent.

Please allow sufficient time for the surety to respond.

This brochure is not intended to be all-inclusive, but merely to provide some commonly accepted sources of information.