AMERICAN SURETY BONDS

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Frequently Asked Questions

1. **What is a surety bond?**
A surety bond is a three party agreement between the Principal (the contractors), the Obligee (or owner) and the Surety, which guarantees the principal will complete a project as specified in the contract documents.

2. **How do I know if I need a surety bond?**
Check your contract. The contract documents will usually state whether or not you will need to obtain a surety bond. When in doubt, ask the Obligee.

3. **What is the difference between a payment bond and a performance bond?**
Usually a payment bond and a performance bond will be issued together. A payment bond guarantees that the contractor will pay specified suppliers and subcontractors for work performed on a project. A performance bond guarantees the principal will perform all work specified within the scope of the project.

4. **What is a bid bond?**
A bid bond guarantees to the Obligee that the bid will be submitted in good faith and the contractor will enter into the contract at the bid price should they be awarded the job. It also guarantees the principal will obtain the required payment and performance bonds within the allotted time.

5. **How much does a surety bond cost?**
While each surety may differ, American Surety Bonds bases the bond premium on the contract price. Premium usually ranged from 1% to 4% of the total contract price depending on the financial strength of the company, the size and scope of the project and the experience of the contractor.

6. **Why do I need a CPA prepared financial statement in order to obtain a surety bond?**
In essence, a surety bond is a credit relationship. Because of this, applying for a bond is similar to applying for a bank loan. As with any credit relationship, it is important for the surety to have an accurate and complete picture of your company's financial standing prepared by an outside independent third party source.

7. **What kind of financial statement do I need?**
Most sureties prefer, at minimum, a reviewed statement for larger jobs, but may accept a compilation depending on the size of the project. An audited statement provides verification of both internal and external accounting principles while a review presents a thorough review of accounting methods used. A compilation provides little or no guarantee of accurate accounting methods. Most sureties only accept financial statements prepared using the percentage of completion method.

8. **Why do I have to provide personal financial information to obtain a surety bond?**
While a surety company does not enter into a bond expecting a loss, they must have an accurate financial picture of the contractor, as well as all individual parties with ownership, in the event of a loss.

9. **How do I begin the bonding process?**
Contact American Surety Bonds – Our knowledgeable staff can assist you in all aspects of the bonding process. Please contact Sam Newberry at 404-486-2356 or SNewberry@suretybondsagency.com or Shoni Trammell at 404-486-2357 or Strammell@suretybondsagency.com for all surety bond inquiries. Also, check out our web site www.suretybondsagency.com for more information. We look forward to assisting you with all your bonding needs.