5 Things to Know About
Commercial Bonds

THE DIFFERENCE BETWEEN INSURANCE AND COMMERCIAL BONDS

Comparing bonds to insurance is like comparing apples to oranges. They both compensate you for a loss but, the difference lies between the types of losses covered and who is reimbursed. Unlike insurance, commercial bonds don't protect you; they insure someone else's property against your potential misdoings. This means that a general liability policy will cover accidents, and a commercial bond will cover intentional acts. They are bought as an Act of Good Faith to assure your customers that they will get what they paid for, even if you don't complete the work. Although insurance is a two-party agreement between the person requesting the policy (insured) and the company issuing the policy (the insurer). Bonds are a three-party agreement between the person performing the work (the bondholder or the principal), the party the work is being done for (the obligee), and the company providing the bond (the surety).

Commercial bonds are intended for the benefit of the general public as they protect consumers from physical and financial harm. When obtaining a bond, the principal signs an indemnity agreement that obligates them to compensate the surety for claims paid; for this reason, commercial bonds are more like a line of credit than insurance because if the surety pays out a claim, the principal is ultimately liable for all of the funds paid.

Surety

The Surety is who guarantees the performance of the principal and administration of the bond, if necessary.

Obligee

The Obligee requests the bonds before work can be done to protect themselves from an incomplete or unsatisfactory job.

Principal

The Principal is responsible for purchasing the bond and paying the bonds amount if at fault in their contract.

SURETY & FIDELITY BONDS

Like there are different insurance products, there are different commercial bonds: surety and fidelity. Surety bonds are usually requested by cities, counties, or other local government entities, for contractors to pull permits to work within the specific jurisdiction of the project. Fidelity bonds are designed for service-based businesses, especially when employees work on clients' property. Fidelity bonds protect against things like theft, embezzlement, or employee misconduct.

Fidelity Bonds

Fidelity bonds protect employees from business services such as acts of theft, larceny, or fraud committed by you or your employees. This is not the bond for a license or permit, but they are commonly purchased to show professional credibility. Businesses engaged in the following activities may have use for a fidelity bond:

- Appliance repair
- Pest control
- Security and surveillance
- Home health care
- Elderly or childcare
- Household or business cleaning (janitorial)
- Pool cleaning and repair
- Locksmiths
- Landscaping (and grounds keeping)
- Employee dishonesty.

Surety Bonds

Surety bonds are written agreements to guarantee an act's compliance, payment, or performance. The Miller Act requires surety bonds to be posted to ensure the performance of contractual duties for all construction projects involving federal funding. Most surety bonds are issued for a set term or are "continuous" meaning the bond is written, so it is in force until canceled by the surety company. Businesses engaged in the following activities may need a surety bond:

- Auto dealer license
- Construction contractors
- Credit repair service license
- Loan originator license or Mortgage broker
- Private investigator license

POPULAR BONDS AND WHAT THEY PROTECT

Commercial bonds are required based on a legal statute to uphold federal and local laws that protect consumers from physical and financial harm. Thus the purpose of these is for the benefit of the general public. The most popular commercial bonds are license and permit, court, and construction bonds.

COURT BONDS

Court bonds minimize losses from a court ruling or ensure compliance with court-mandated actions. They cover a broad range of proceedings to protect against fraudulent activities or the use of finances. There are two kinds, judicial and fiduciary; judicial bonds are intended to limit losses that could result from a court ruling; fiduciary bonds ensure designated caretakers (for someone else's assets) from the court ethically adhere to their legally assigned duties.

LICENSE & PERMIT BONDS

These are used for a wide range of industries that use permits and licensing to guarantee the principal abides by the laws and regulations according to their occupation.

Depending on your kind of permit or license and the limits you need for the bond, it should be instantly administered after you submit your application.

CONSTRUCTION BONDS

Construction bonds are a type of commercial bond that provide assurance the project developer is protected from any financial losses from a project done by the principal. Here are some of the most popular and what they're for:

- **Bid Bonds** serve as legal and financial protection to the developer to ensure a selected bidder will fulfill their contract.
- **Contractor License Bonds** guarantee a contractor will abide by the rules and regulations of his license.
- **Maintenance Bonds** protect against defective materials and workmanship for a pre-selected time period
- **Performance Bonds** guarantee the satisfaction and completion of a contract or obligations.
- **Payment Bonds** guarantee that the contractor will pay for all labor and materials when job is done.

HOW THE CLAIMS PROCESS WORKS

A claim is a dispute against the principal. A claimant alleges that an obligation was not fulfilled that was covered under a bond. Claims can occur under many circumstances like a project not completed on time, a project not completed on budget, or transported goods not delivered on time or as promised. If one of these circumstances occurs, then the claim process goes as follows:

NOTIFICATION

At first, the surety and broker are notified of the alleged claim.

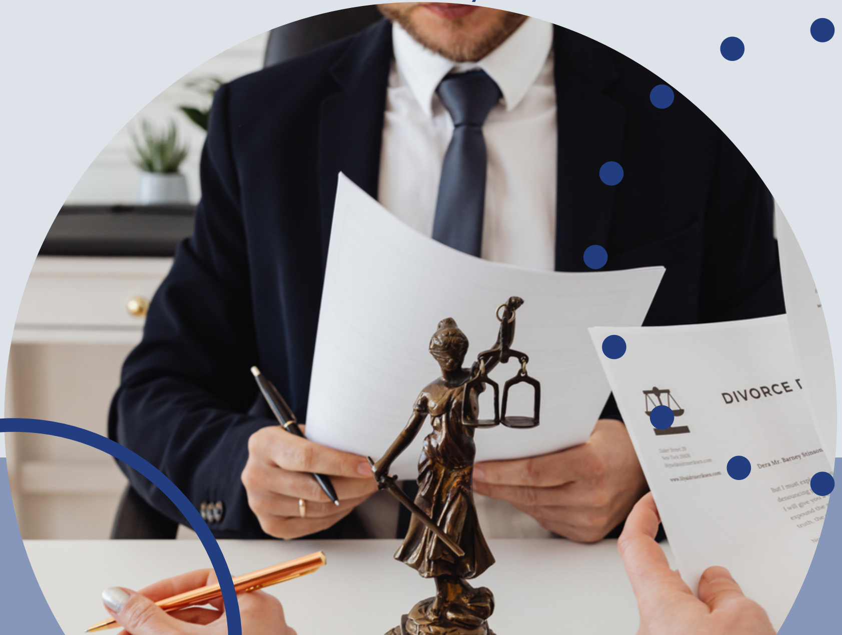
CLAIM INVESTIGATION

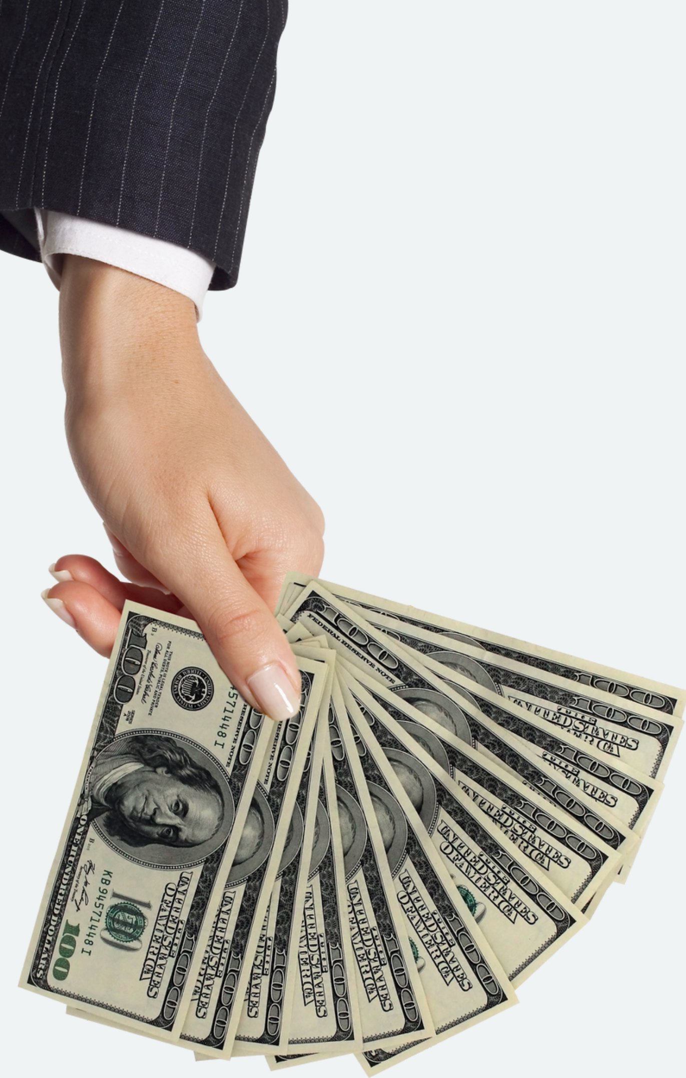
Then, it is the surety's responsibility to prove whether a claim is valid. The surety will work with the principal to obtain necessary documents during the investigation.

CLAIM DECISION

If the claim is **invalid**, the surety company sends a cancellation notice to the claimant denying their claim.

If the claim is **valid**, the surety must pay the claim to the obligee. Afterward, the surety will request the principal for reimbursement for any costs or resources used to be fully indemnified.





HOW MUCH DO COMMERCIAL BONDS COST?

Surety bonds typically cost 1-3% of the total bonded obligation. The bond amount is set by the obligee and is a fixed amount based on the project, contractor classification, or volume of the work. Factors that determine the price include the bond type, personal credit of the principal(s), personal financial position, and corporate financial position. Bond amounts can range anywhere from $5,000 to several million dollars, depending on the size of the project, obligation, or performance. For applicants with credit scores 650 and above, if the bond is $50,000 or less, the usual cost is 2% of the bond amount; if the bond is $500,000 or more, the typical price is 3% of the bond amount. For applicants with personal credit scores below 650, the bond amount will typically cost more at about 3-10% of the bonded amount. A history of similar-sized projects completed and having multiple years in business will help with approval and bond costs.

QUALIFYING QUESTIONS

- *What coverage is required by the bond?*
- *What kind of bond are you looking for?*
- *What is the principal(s)'s credit score?*
- *What is your financial history?*

We understand that this list is not entirely comprehensive, and your questions may not have been answered. But we would like to thank you for taking the time to review it and hope you found some of the material helpful. If you have any additional questions, don't hesitate to contact one of our agents to assist you.

FLORIDA SURETY
PARTNERS