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## Proactive Planning: The Importance Of Establishing A Contract Surety Line





# Anticipatory Strategizing

In a contract bond, the surety company must fulfill the obligations of the bond to the obligee (project owner) if the principle (contractor) fails to complete a project. Typically, this is in the form of financially funding the project until completion. To ensure that the surety company is adequately protected, they establish processes to evaluate a company's financial standing before allowing a contract surety line to bond projects.

## **Why should you set up a contract surety line before you want to start doing bonds?**

Setting up a contract surety line before bidding bonded construction jobs has several benefits, including demonstrating financial strength to potential clients, streamlining the bonding process, and establishing a relationship with a surety company that can provide guidance and support. Most importantly, having a contract surety line in place can help ensure that you can secure bonds when you need them and allows you to bid projects within the scope that the surety will likely approve, which can be critical to the success of your business.

## **Surety Programs**

There are typically **two different programs** offered among surety companies when it comes to bonding.

The first is a **credit-based program**. Getting set up in a credit-based program is a faster and more simplified process that allows you to work on projects up to \$400,000-\$600,000. The second process allows for higher limits; here your surety company will complete an analysis of your company. complete an analysis of your company. This will include but is not limited to a fillable questionnaire, financial statements on the company and owner, a bank reference letter, tax returns, and work-in-process schedules. After the analysis, the surety will decide if you are eligible to get bonding and assign you bonding limits.



# Your credit score: unlocking financial opportunities

## Surety Programs

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- ▶ Pay your bills throughout the month
- ▶ Use different types of credit (such as installment loans) in addition to credit cards
- ▶ Keep your credit card balances low
- ▶ Monitor your credit report regularly and dispute any errors

## The importance of your credit report in contract bonding

Your credit report provides a history of your fiscal responsibility, assists in determining how fit you are to receive credit, and helps assess the risk of bonding your company. Credit scores have always been important to obtain a bond in the past. Still, in today's world, your credit is even more critical due to many surety companies using programs that primarily use your credit score for approval. For example, at Professional Insurors, we can use your credit score as the main component to obtain a bond under 600,000. With that being said, having a rich understanding of how to manage your credit score will help you significantly in obtaining a bond.

## Main components of a credit score:

- ▶ Payment history
- ▶ Amounts owed
- ▶ Length of credit history
- ▶ New credit
- ▶ Types of credit used



# Your credit score: unlocking financial opportunities

## Tips To Improve Your Credit Score:

- ▶ Pay your bills throughout the month
- ▶ Keep your credit card balances low
- ▶ Use different types of credit (such as installment loans) in addition to credit cards
- ▶ Monitor your credit report regularly and dispute any errors
- ▶ Keep old credit accounts open, even if you're not using them anymore
- ▶ Avoid opening too many new credit accounts at once.

★ Tip to raise your credit score:  
Pay Your Bills Throughout The Month

### Example:

If you make a purchase utilizing 90% of your credit line and pay off the entire purchase at the end of the month, then the bank is at risk of the amount borrowed until it is paid back.

If you make the same purchase and pay it off throughout the month (weekly, biweekly, etc), then the bank is at risk for less with each payment.



# Surety: What You Need To Know

## Finding a Surety that Fits Your Needs

The first step to getting bonded is to find a bonding agent that has a strong understanding of the surety process, knowledge on accounting as well as financial statements and good relationships with multiple surety providers. When it comes to surety companies, bonding is not a one size fits all process. It is important your agent possesses the skills to determine what carrier is best for you based on the size of your company, financial standing and future bonding goals.

## Understanding Bonding Capacity

Unlike obtaining a smaller bond through credit reporting, setting up a bonding capacity with a surety company is a longer and more rigorous process. Surety providers are going to do a holistic review of your company to see if you would be a good fit for them. The most important aspect to remember when presenting your information to the surety is that they are looking for high levels of past success and good management. This is why trusting an agent that is able to convey your surety needs to a bonding company is an essential part of the surety process.

## What to expect your surety to view

- |                               |                              |
|-------------------------------|------------------------------|
| ▶ Financial Statements        | ▶ Work in progress schedules |
| ▶ Tax Returns                 | ▶ Bank letter and statements |
| ▶ Credit score                | ▶ Operational efficiency     |
| ▶ Work history and experience | ▶ Reputation and integrity   |

## Conclusion

Setting up a surety line before you need it can provide several benefits. First, it allows you to establish a relationship with a surety company, which can help expedite the process if you need a bond quickly. Second, it can give your agent time to shop around and find the best rates and terms, rather than being forced to accept the first option that comes along when you're in a rush. But most importantly, having a surety line in place will set you up for future success not only in the bonding industry but in the construction industry as a whole.





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## About Professional Insurors

Professional Insurors has a distinct and rich history that starts in 1977. Over the course of 45 years, our philosophy continues to remain the same: concentrate on specialized areas and bring excellent service and products to our clients. Our employees are our most important asset, and we have an employee first culture where they have a career path and look to future opportunities and personal growth.



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