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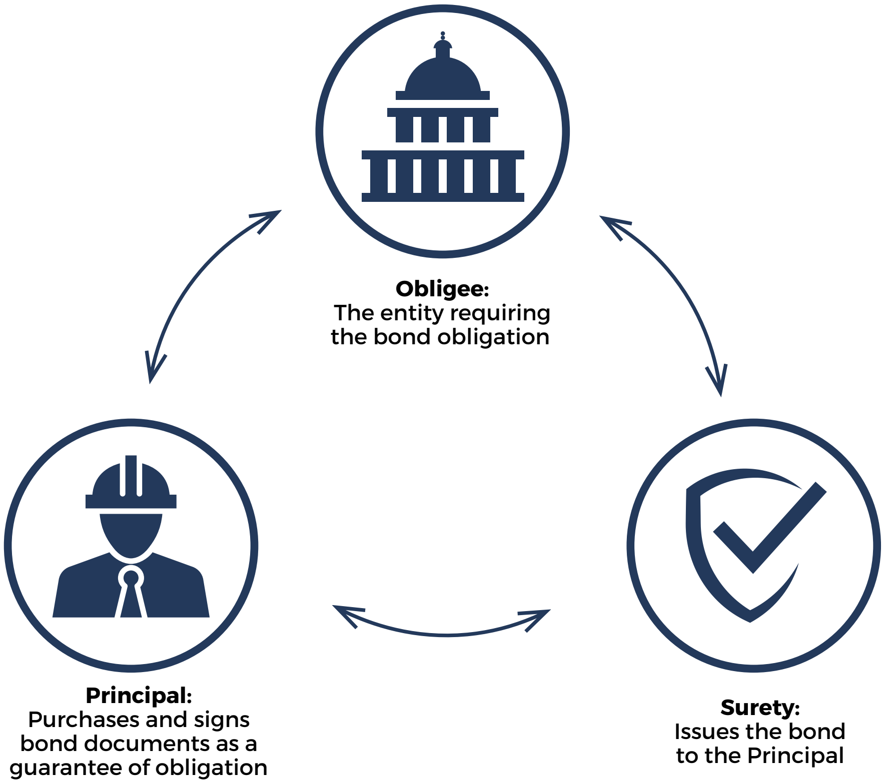
Why Do I Need A Bid Bond?

Back to the Basics: Bid Bonds



What is a Bid Bond?

A bid bond is a type of surety bond that offers a financial guarantee that the contractor submits the bid in good faith. In a bid bond, it is standard practice that the obligee (in this case the project owner) will choose the lowest bid provided, so it's important that the contractor has the correct estimates when submitting a bid. A bid bond also assures that, if chosen, the contractor will sign the contract at the bid price selected and provide the required performance and payment bonds.

Bid Bond Facts:

- A three-party agreement between the surety, principal, and obligee
- The bid bond is a percentage of the bid amount and is submitted along with the bid (usually 5-20 percent)
- A legal agreement that provides financial backing of a surety company in case of a contractor defaulting (or backing out) of the bid bond

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How Bid Bond Percentages Work

Bid Bonds are typically valued between 5% to 10% of the project amount while federally funded bid bonds are usually 20%.

How can there be a claim on a bid bond?

A bid bond can have a claim, if a contractor bids on a $400,000 project and there is a 5% bid bond, the maximum penal sum that the surety company would be required to pay on behalf of the principal (contractor) would be $20,000 dollars. If there are multiple bidders, the liable party is responsible for the difference between their bid and the next lowest bid as long as it does not exceed the original bid amount.

To expand on the previous example, if bidder A is awarded a contract for the amount of $400,000 but fails to enter into a contract and bidder B is the second lowest bidder at $420,000 then bidder A's surety company would be required to pay the $20,000 for the difference and the surety company would then seek recovery from the contractor.

1 **Bidder A: Bids $400,000** **Bidder B: Bids $420,000**

2 **Bidder A backs out, Bidder B is now awarded the bid bond.**

3 **Bidder A's surety company pays the difference between the two bids.**

Bidder B's Bid - Bidder A's Bid = Difference Owed

$420,000 - $400,000 = $20,000

How should I get started?

The first step to start bidding on bonded projects is to find a trusted surety broker. They will be able to review your company's financial profile and help partner you with a surety company that will best fit your needs.

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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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