The Little Black Bond Book

The Insurance Agent Handbook for Surety

Kara Skinner

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Introduction

Having knowledge of surety bonds will enable you to increase your insurance sales as well as increase your commission revenue. Surety is a small industry, so even if you, as an insurance agent, have a general knowledge and understanding of a surety bond, it will give you a head start above all of your competition.

One of the reasons agents may not like to sell surety bonds is that, compared to the world of insurance, surety seems complicated and confusing. This book is intended to help you feel more confident about selling surety bonds and give you the resources to sell and service your surety bond clients.

"The Little Black Bond Book" is formatted as an interview. I had a conversation with **Jonathan**, a layperson who had no surety knowledge when the conversation began.

My hope is that you will use this book as a handbook. You might not read it cover-to-cover, but get the general idea in the first few chapters and use the rest as a reference, as needed.

As a reference book, you might not read all the definitions, but it might be something that insurance agents can keep in their desks when they get a phone call from someone who says,

"I need a bond." I don't want that insurance agent to be nervous about the call.
I want them to pull out their handy little book and say, "What kind of bond do you need?"

Surety bonds are not simple. This book can offer insurance agents just enough information to call either their surety company or their surety bond producer in order to help them.

I hope this book provides enough insight for you to be less afraid to sell surety. Because surety is such an unusual product, having just a small amount of knowledge in order to talk to your customers about the topic of surety will give you an edge over your competition.

To Your Success!

Kara Skinner

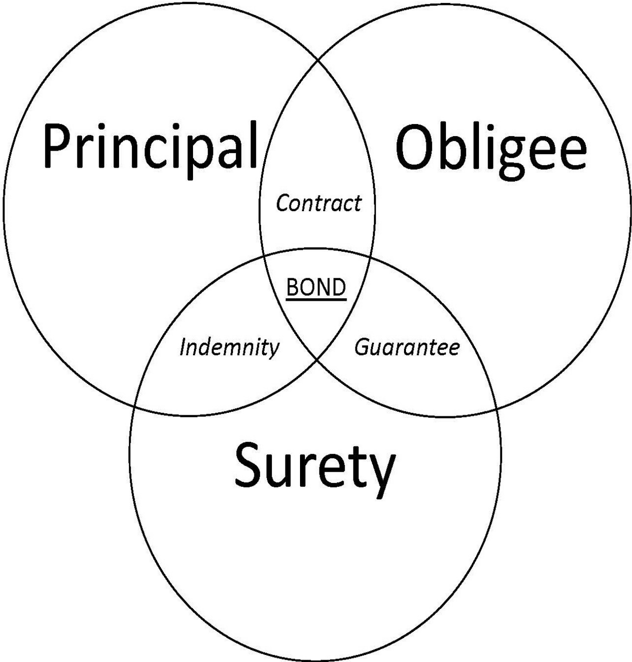
Why Don't More Insurance Agents Sell Surety Bonds?

Jonathan: Why don't more insurance agents sell surety bonds?

Kara: Assume you are an insurance producer, and your primary focus is selling and servicing insurance products. When you get a call from a client asking about a surety bond, it might throw you for a loop. Even though you may have had some exposure and training in surety bonds, they are not your primary focus, so receiving a surety bond request from a client can be stressful. Surety bonds are so different from insurance that many insurance producers choose not to offer surety bonds at all. While this might work for some agencies, it may not be the way you want to run your agency. Offering some surety products may lead you toward additional insurance sales and help you to retain your current insurance clients.

Why is surety so misunderstood? There are a lot of misconceptions in the marketplace about surety bonds. This is primarily because in order to sell surety bonds, the seller needs an insurance license. This gives the insurance producer and the customer the illusion that surety is an insurance product, but surety is the opposite of insurance in many ways.

If it isn’t insurance, what is this mysterious product? Technically, a **surety bond** is defined as a contract among at least three parties: the **obligee** (the party who is the recipient of a surety obligation), the **principal** (the primary party who will perform the contractual obligation), and the **surety** (the party who assures the obligee that the principal can perform the contract).



The Three Parties That Make Up a Surety Contract

Jonathan: Can you describe the three parties of a surety contract?

Kara: The three parties to a surety contract are the **Surety Company**, the **Principal** and the **Obligee**. Our first party is the Surety or insurance company. In the United States, corporate surety companies are typically insurance companies. They join with the principal. I really like to emphasize the fact that the principal and the surety company are a team. The surety is essentially setting the money aside for the principal in order to guarantee some performance or payment. Since this is a credit relationship, the surety acts similarly to a bank.

The federal government requires that a corporate surety be included on the latest US Department of the Treasury's Listing of Certified Companies, which is updated by the federal government every year. This list can be found on their website at **www.fiscal.treasury.gov**.

The second party in the contract is the principal. The principal is your customer, who joins with the surety company, and they are the first in line for their bonded obligation. Whatever that contract says, the principal is responsible to

fulfill that obligation. If the principal does not, the surety company might step in.

The third party of the contract is the obligee. The obligee is the beneficiary—the one who benefits, the bond holder. When a bond is issued, just as a check might be issued, the obligee is the one who holds that bond, and can make a claim on that bond.

Jonathan: The surety company oversees both the principal and the obligee?

Kara: The surety company is the principal's partner, and underwrites both the principal, and the obligation, to confirm the principal can fulfill the obligation. The surety company underwrites like a bank. They have the money to figuratively set aside for the principal to guarantee whatever is the obligation of the surety.

Jonathan: Let's say you go into a department store, and you want to apply for a credit card. The bank is the surety company, the store is the obligee, and you are the principal.

Kara: Correct.

What Every Agent Needs to Know About Surety

Jonathan: Can you give us a layman's description or understanding of a surety bond?

Kara: A surety bond is a guarantee—a promise that you will do something. It's very much like a loan from a bank or a deposit made to guarantee that you will do something.

Jonathan: It's like a promissory note, but a little more nuanced.

Kara: It is a promissory note sold through insurance agents. I think this is what makes it so unique and odd to insurance agents. Insurance agents are used to selling insurance products that protect the insured. This product does not protect the insured. It does not protect the principal. It protects a third party.

There are thousands of different types of surety bonds. Most insurance agents know and understand the difference between a surety product and an insurance product. Surety is not insurance; it's assurance. A surety bond is a three-party agreement. You might hear it called a tri-parte agreement.

An insurance contract is a two-party agreement, which is very different.

We’ll explore more on that topic later on. The difference between surety and insurance is that surety is a credit relationship. Insurance is not a credit relationship.

Jonathan: In what ways?

Kara: When a principal applies for a surety bond, it is an application for credit. They’re applying to qualify for a certain amount of credit in the same way you might go to a bank and get qualified for a line of credit or a credit card. Banks do not anticipate losses. Surety companies do not anticipate losses. When you apply for insurance, the insurance companies do expect losses. They rate you as a customer based on the possible losses. With surety, they underwrite based on the idea that there are no losses, even though, of course, there could be.

If you are looking for a small surety bond, around $5,000 or $10,000, you may only need to provide the surety company the same personal information that you might provide to a bank to get a similar-size credit card: full name, address, social security number, and bond type. They might ask you some other questions, but it’s a pretty simple application for a small low risk bond.

If you're going to the bank to borrow $1 million, that's an entirely different kind of application, and a bond may be very similar.

When you go to the bank and ask for a $1 million loan, the banker will ask for copies of your tax returns, your financial statements, and so forth—a lot more information than a small credit card.

Jonathan: The company will expect tax returns for surety bonds because, like credit cards and loans, they're underwritten based on income, past bill payments, etc.?

Kara: Yes, and the surety company will run the principal's credit. Depending on the credit, the company may either approve or decline the principal's surety bond request, or the company may charge the principal more, depending on their credit history.

Surety bonds are a privilege. The principal gets approved for a surety bond. Not every principal qualifies, and not every principal can be bonded, unlike with insurance. Most people can get insurance, but not everyone can get a bond.

Jonathan: I would guess that there is an interest rate tacked onto a surety bond.

Kara: It's a fee. For insurance, the insured person pays a premium.

Since the principal purchases surety from an insurance company, the company calls it a premium, but it's really only a fee for pre-qualification, for the underwriting. In surety, there are no anticipated losses, so the premium does not include a loss factor.

All of the bond rates are different. Insurance companies have rate filings for insurance products as well as for surety products, because they're regulated by the insurance commissioner.

Jonathan: It seems as though surety is pretty misunderstood. Why is that?

Kara: The main reason is that when a principal meets with an insurance agent to purchase a surety bond, the principal assumes that she is purchasing an insurance product, and it's not an insurance product. Because surety is regulated by the insurance commissioner, insurance agents also have that same misconception. They compare the two and try to make the surety bond an insurance product when it's not. It's a totally different animal. I like to say that surety bonds are the opposite of insurance.

Another main difference between surety and insurance is that the principal, who is the person or entity purchasing the surety bond, is never the beneficiary. When you purchase insurance, you're the beneficiary of that insurance. You can make a claim on that insurance.

For a surety bond, you, as the principal or the insured, are never the beneficiary. You don't benefit from the surety bond except for the privilege of being able to do something.

You can't make a claim on your own surety bond. That would be like making a claim on your own credit card. You don't make a claim on borrowing money.

A surety bond is more closely related to a bank or borrowing relationship than an insurance relationship. This is why it's so confusing.

Let's say a principal comes to an insurance agent and wants $1 million worth of insurance. The agent writes it up, and the principal has the insurance.

If a principal comes to an insurance agent requesting a $1 million surety bond, it's a very different story. In the same way, if a person goes to the bank to borrow $1 million, the potential borrower will have to provide much more

information than if he wanted a $1 million insurance policy.

Jonathan: You said that the beneficiary can claim on insurance, but that's not the case for a surety bond. Can you give me an example of how claims work?

Kara: There are three parties involved in a surety bond. The **principal** or the qualified entity purchasing the bond, and the insurance company (the **surety** company) partner together and write a bond to the beneficiary, who is the **obligee**.

The obligee is the only one who benefits. Only the obligee can make a claim on the bond.

Many people see bail bonds on TV shows and in movies, and they get the idea of how one works. The piece of paper is a guarantee that somebody will do something. A bail bond is a guarantee that somebody will appear in court. Bail bonds are what we classify as "criminal surety bonds." It's a similar piece of paper. It looks the same, and it says all of the same things, but insurance agents are licensed to do civil surety bonds.

Jonathan: When is the most ideal time to sign someone up for a surety bond?

Kara: Just as you wouldn't get a credit card or a loan from the bank unless you needed it, you wouldn't get a surety bond unless you needed it. The federal government, states, cities, counties, and towns typically require surety bonds. Not everybody will need one, but when someone does, the obligee might say, "Go to your insurance agent, and get a bond."

Jonathan: I know you said a little bit about what agents need to know about surety. You compared insurance to surety bonds. Can you talk a little bit about the indemnity agreement?

Kara: In my opinion, the indemnity agreement is probably the most important part of the transaction between a principal and a surety company. I think it's really important for the agent to have a thorough understanding of the indemnity agreement because the agent will be asking their principal to sign it.

In insurance, and in general, the word "indemnity" means 'to make whole.' As an insured party, the insurance company makes the insured whole and brings them back to where they were before a loss, should an accident or covered loss happen.

Surety is the opposite. It's just like borrowing money from a bank. The principal has to make the surety company whole if there's a claim. If

the principal defaults, and the surety company is required to pay out to the beneficiary, then the surety company will look to the principal to be indemnified.

Jonathan: If I have a surety bond, and I have to make a claim, then I have to repay the full amount. Is that exactly what you're saying?

Kara: First, you would never make a claim on your own bond. The idea is that when an insurance company starts the underwriting process, they run the principal's credit to make sure that the principal can perform, pay, or complete whatever the obligation is.

If the surety underwrites properly, and there is no claim or default, a surety company never has to step in.

If the principal defaults and doesn't pay or perform their obligation on the surety bond, the surety company will pay out. Then, because the surety company has made that beneficiary (or obligee) whole, the surety company will look back to the principal to be reimbursed in the same way that the bank would come back to you to be reimbursed if you didn't pay your credit card or mortgage payment.

Surety and Bond Categories

Jonathan: Can you tell us a bit about surety and bonds?

Kara: Yes, there are two main categories of bonds. The surety companies classify them a little bit differently, but traditionally, surety companies will have contract surety bonds and commercial surety bonds. Commercial surety bonds are essentially miscellaneous bonds. Contract bonds are typically for construction contracts.

Under contract surety, your construction contractors will have bid bonds, performance bonds, and payment bonds. Those are the three main types of surety bonds for contractors. When the principal bids a job, he may be required to post 5%, 10%, or as much as 20% of the estimate as a deposit. This deposit is the bid bond. The bid bond guarantees that if that principal, the contractor, is the low, successful bidder, he will enter into a contract and provide performance and payment bonds.

Typically, surety companies don't charge, or they charge a very small fee, for bid bonds.

Essentially, the surety company is pre-qualifying the contractor. With that bid bond, the surety

company says that the contractor is pre-qualified to enter into the contract.

If the contractor is the low, successful bidder, and she enters into a contract, and a bid bond was required, typically a performance and/or payment bond will also be required. When contractors enter into a contract, they sign a contract and provide performance and payment bonds.

Performance and payment bonds are just what they sound like. A performance bond guarantees that the contractor will perform that contract. A payment bond guarantees that the contractor will pay their subcontractors, suppliers and the material people on that contract. The performance and payment bonds are made part of the contract.

The performance bond does not contain much language, yet guarantees anything written in that contract. After initially approving the account as a whole, the contract is really the most important piece of underwriting. The surety company will want to read the contract, and this is where the principal and the surety company become a team.

A surety company has some experience; they have read contracts before and can tell the principal about the onerous clauses in the

contract and whether or not the principal should go through with it or see if modifications can be made to make the contract fairer.

Jonathan: What is a “Bonding Line”?

Kara: Another important term in contract surety is “line of authority.” A line of authority could be something that the surety company gives to the insurance agent and/or principal to say that they are pre-qualified for contracts up to a certain amount. Some will call it a “bonding line.”

Let’s use the analogy of a bank again. You might go to the bank and get a line of credit. You don’t know exactly what it will be needed for yet, but you know that you will need some money, so you go to the bank and get pre-qualified for, let’s say, a $1 million line of credit.

It’s possible to do something very similar with contract surety, if you qualify. You can ask the surety company for a line of credit, or a line of authority, i.e., “How much will you bond me for?” Small contractors or those new in business might not qualify for this, but it is something that insurance agents should know is available.

Developer bonds are another kind of bond that some surety companies put into the category of contract surety, and that other surety companies put into the category of miscellaneous or

commercial surety. These types of bonds are often confused with performance and payment bonds, because they often say “performance” on them. Because most bonds have a performance element to them, most bonds guarantee that you’re going to perform something.

A developer bond is especially risky because the developer must have the capital to do the project. A developer is not typically paid by the obligee, federal government, the state, the city, or the county.

The developer must have the funds to complete all aspects of the project, whereas a typical contractor, who bids a job to the federal government or to the state, is paid for the labor and materials to do the job by the federal government or the state. The contractor doesn’t need as much capital to be a contractor as a developer needs for development.

Jonathan: Let’s say Warren Buffett wanted to create a building somewhere in the middle of the country. He could apply for a developer bond because he’ll most likely be self-funding the project, right?

Kara: Right, and the city or county might require that he provide a developer bond to guarantee that he will do the offsite improvements, such as building sidewalks and putting up stop signs, or

other improvements. He might have to put in a fire hydrant or plant trees. The city and county want a guarantee that these improvements will happen before they give him a permit to build his building.

Jonathan: Let's talk a bit about commercial surety and some of the subcategories.

Kara: There are many different types of commercial surety, and there are often many names for those types. The standard way to classify commercial surety might be license and permit, court and probate, financial guarantee, and other miscellaneous bonds. License and permit bonds typically go hand-in-hand with a license or permit. If a principal wants to get a contractor's license, she may also have to get a contractor's license bond, depending on what state she is licensed in. This basically guarantees compliance with the licensing requirements. It strengthens the laws, ordinances, and regulations. These bonds protect the general public.

Court and probate bonds are also called judicial and fiduciary bonds. A judicial and court bond is a general term for a bond that is required for a court case or some action of a law.

A temporary restraining order might be a kind of court bond. A probate bond is also sometimes

called a fiduciary bond. As an insurance agent, you know that the word “fiduciary” means to take care of somebody else’s money or assets. A fiduciary bond guarantees the performance and honest accounting of administrators, guardians, and other fiduciaries appointed by the court.

Financial guarantee bonds are, again, very similar to what their name implies. They are guaranteed payments.

An example of one of these bonds might be a tax bond to guarantee that a taxpayer will pay his taxes or a lease bond to guarantee payment of a lease.

Other miscellaneous bonds are bonds that don’t fit into any of these categories, like lost instrument bonds, or public official bonds.

Jonathan: Are the court and probate bonds the bail bonds you mentioned earlier?

Kara: Correct, bail would fit into court bonds, but are classified as criminal surety bonds, and most insurance agents are not licensed to sell criminal surety bonds.

Jonathan: You were talking a bit about performance, payment and developer bonds. If somebody defaults on a commercial surety bond, are they under the same ramifications?

Kara: Yes, the principal must sign an indemnity agreement that is very similar, if not identical, to the indemnity agreement that they would sign for their performance and payment bonds. An example is a contractor license bond. If the principal defaults on a contract with a homeowner, the homeowner can go to the surety company, depending on the state and say, “I want to make a claim on this bond.” The surety company opens an investigation. The company may pay the homeowner and then look to the principal to be reimbursed, indemnified.

A company representative will probably go to the principal first and say, “What happened? Why didn’t you pay or perform? Pay them back, or perform.”

Remember, “default” in the surety industry often means fraud and misrepresentation. A contractor goes to someone’s house, collects a deposit, and never shows up again. The bond protects the general public.

Who Qualifies for Surety?

Jonathan: What are the parameters you use for determining who qualifies for surety?

Kara: This is where we get into underwriting, which is what the surety company will do when the insurance agent makes a presentation to the surety company for a new principal. The three Cs are something that every surety company, every surety underwriter, and every surety bond producer should know. They represent how principals are pre-qualified.

The first C stands for Character. The surety takes a look at the principal's honesty, integrity, and openness. This is not an easy thing to underwrite. They use the other two Cs to help determine character.

The second C stands for Capacity, or the ability to perform. Does the contractor have prior experience? Has he performed a job like this before? This gives the surety company a good feeling about the principal and whether he can actually do the job. Using the performance and payment bond as an example, if a principal applies for a $1 million single job without ever having done a $1 million single job before, that could be a problem. A surety company will want to see that the contractor has done jobs in the same size, scope, and location in the past.

The third C stands for Capital. This is the easiest thing to underwrite, but I don't think it should be the number one thing that surety companies underwrite. They should take the other two Cs into account very seriously. Capital is the principal's financial ability. Does she have the financial wherewithal to perform a $1 million job? Does he have the working capital to start a $1 million job? That doesn't mean the principal must have $1 million. For traditional performance and payment bonds, they just need enough to get them through about the first 30 or 60 days before they get their first draw from their obligee.

Jonathan: You mentioned that it's hard to underwrite character.

Kara: It is harder to underwrite. Part of what the surety bond producer does to ensure honesty, integrity, and character is to call about prior jobs. The producer gets references. Has the principal really done a job this size and scope? How did it go? Was there a problem on the job? If there was a problem on the job, how did the principal handle it? That is probably the best way to identify character.

Another way a surety company might identify character is via a credit report and by calling suppliers and subs. Does the principal—this contractor—pay on time?

Did he fulfill his obligations? That's essentially what the surety company is required to do: make sure that this principal will fulfill his obligations.

When the surety company or surety bond producer does prior job checks, they might also ask about the organization, cleanliness, and tidiness of the work on the job site.

Jonathan: How does someone get their bond approved?

Kara: Applying for a bond is very similar to applying for a loan or a credit card. If someone applies for a small bond—between $5,000 to $15,000 or $20,000, or maybe a little more—she might just have to submit an application that includes her name, address, and social security number. The surety company will run her credit because this is a credit relationship.

The surety company needs to know what type of bond to look for. Remember, there are many different types of bonds. In order for the surety company to properly underwrite, the company needs to know about the applicant's obligation.

For a large contract bond, especially performance and payment, the surety company will need a lot more information.

That's when the surety company asks for questionnaires, resumes, a business plan, a credit check (as with all bonds), both business and personal financial statements, a work-in-progress report, and a bank letter.

How to Find a Surety Bond Producer

Jonathan: Can someone find a surety bond producer?

Kara: The first place an insurance agent might check is your insurance company, to see if they offer surety bonds. A lot of them may. Most surety companies prefer to work with surety bond producers and are not as open to working with insurance sales people. If you're struggling to get a surety bond through your insurance company, you should find a surety bond producer.

One way to find a surety bond producer is through the National Association of Surety Bond Producers (NASBP), which is a relatively small community of experienced, knowledgeable surety professionals; these surety bond producers really do know how to make a presentation to a surety company and have the relationships with the surety underwriters that are helpful in getting a surety bond placed.

Surety Etiquette

Jonathan: We talked a bit about it, but can you explain surety etiquette?

Kara: We talked a bit about the indemnity agreement. As an insurance salesperson, you must understand the importance of an indemnity agreement. Asking a surety company to waive indemnity or personal indemnity—not to require the principal to stand by their word and work—will not make an insurance agent look professional. I want to help the insurance agent make a presentation to the surety company, and to me, it is really critical to understand the importance of an indemnity agreement and not asking for that to be waived.

An insurance agent might also run into splitting sureties and jumping a bid bond. Splitting sureties means that a contractor already has a line of credit with an insurance or surety company. The contractor gets $1 million dollars' worth of bonds because that's what the surety company said it would offer upon completion of underwriting. Then the insurance agent and/or principal will go to another surety company, without telling the second company that they already have $1 million with a separate surety company. The agent or principal will try to take out another $1 million with the second surety company.

Being honest about prior surety bonds and relationships is important to disclose and says something about the character.

An insurance agent understands that someone could purchase all different kinds of insurance from a bunch of different insurance companies, and it would be no problem. Surety is different because it's a credit relationship.

'Jumping a bid bond' is a term referring to when an insurance or surety company issues a bid bond. Remember when I mentioned that a bid bond doesn't cost anything and that the surety company pre-qualifies them for their $1 million bid? The surety company does a lot of work to review a submission like underwriting the questionnaire, many years of financial statements, and so forth. The surety company performs all of the underwriting, issues a bid bond, and typically charges a nominal fee or nothing at all. If the insurance agent then asks a different surety company to write the Performance and Payment bonds, they are "jumping a bid bond". This means the first surety did all the work and the second surety company gets the premium.

Most surety companies won't work this way. If a bid bond was issued by one surety company then another surety company typically would not

knowingly issue the performance and payment bond.

Jonathan: Can you elaborate on asking to waive indemnity, personal or otherwise?

Kara: We touched on that a little bit earlier. This is an extremely important part of the contract between the principal and the surety company.

Asking for indemnity to be waived is similar to taking out a loan at the bank but not guaranteeing, in writing, that you will pay it back. Signing an indemnity agreement is about good faith. By executing an indemnity agreement, the principal is saying to the surety company, “My word is good. I’m going to perform whatever obligation you guarantee.” If the principal doesn’t sign it, why would a surety company want to guarantee that they’re going to perform?

Jonathan: If someone is interested in working with you, what’s the process you take them through?

Kara: It’s very simple. I usually start out by asking some very basic questions about the kind of surety bond that the individual or agent wants. Insurance agents typically have to be appointed or have an agreement with our offices

and/or an insurance company in order to write surety bonds.

We try to make it as simple as possible because we know that most insurance agents don't have the expertise. We want to be the bond team for that insurance agency.

Jonathan: It's almost like you're a specialized agent.

Kara: That's exactly it. Our company is licensed as an insurance producer.

We only write surety bonds, and we do so nationwide and internationally.

Jonathan: That means having to comply with international laws?

Kara: Yes, or overseas contracts, or principals coming to the United States. One example of an international bond is when a U.S. corporation wants to build something in Germany, so the German government wants a guarantee that corporation will perform the contract and pay its subcontractors, suppliers and material people. The German government asks for a guarantee or surety bond.

Another example of an international surety bond might occur if a company from Japan comes to the United States to perform something. A surety bond needs to be written for that Japanese company.

How to Get Your Surety Bond Approved

You already sell insurance successfully. Providing surety bonds is often misunderstood and costs insurance agents a lot of time and frustration. Yet, providing bonds will keep your current clients happy and could bring you more insurance sales.

That's where we come in. Integrity Surety has the specialized knowledge and expertise. We are your Bond Department, for surety needs nationwide and internationally, and help insurance agents just like you service your clients' surety bond needs with confidence.

Step 1: Call us at **1-800-592-8662**. We are happy to talk to you about your current bond needs. Or go to: **www.integritysurety.com**.

Step 2: We will send you the correct application and directions on how to submit it when it's completed.

Step 3: We underwrite, market, and work with you to create and execute the surety bond on behalf of your clients.

If you'd like us to help, just send an email to: **submissions@integritysurety.com** and we will take it from there.

NOTES:

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Glossary

Administrator: A person legally vested with the right of administration of an estate.

Aggregate: The total amount of exposure or liability of a principal or a surety, over a single bond, or multiple bonds.

AIA: Acronym for American Institute of Architects. In relation to surety, the publisher of standard template forms of surety bonds and related contract documents.

Appeal Bond: One filed in court by a defendant (the appellant), against whom a judgment has been rendered, in order to stay execution of the judgment pending appeal to a higher court, in the hope of reversing the judgment.

Annual Accounting: This term relates to Fiduciary Bonds, and is a presentation to the court of an estate's financial activity.

Applications: A form used to collect information to underwrite a risk.

Attachment: The legal process of taking possession of a defendant's property when the property is in dispute.

Attorney: A person legally appointed by another to act as his or her agent in the transaction of business, specifically one qualified and licensed to act for plaintiffs and defendants in legal proceedings.

Balance Sheet: A financial statement listing assets, liabilities and net worth.

Bankruptcy Trustee Bonds: Bonds which provide a guarantee to the beneficiaries of the bankruptcy that the bonded trustees, appointed in a bankruptcy proceeding, will perform their duties and handle the affairs according to the ruling of the court.
Common Types of Bankruptcies are:

- Chapter 7: Calls for the "liquidation" of a business and allows for the sale of the assets to pay outstanding debts.
- Chapter 11: Calls for the "reorganization" of a business and the debtor remains in possession of the assets after the filing of a plan for the reorganization.
- Chapter 13: Also called the "wage earner's plan", enables individuals with regular income to develop a plan to reply all or part of their debt.

Bid Bonds: Bonds guarantee that a contractor will enter into a contract at the amount bid and post the appropriate performance bonds. These bonds are used by owners to prequalify

contractors submitting proposals on contracts. These bonds provide financial assurance that the bid has been submitted in good faith and that the contractor will enter into a contract at the bid price.

Bond: An instrument which guarantees the integrity and honesty of the principal; his/her ability, financial responsibility, and compliance with the law or performance of contract. Bonds are written by the surety on behalf of the principal to ensure satisfaction to the obligee.

Bond Penalty: or Penal Sum; the amount of, or limit of liability of, a bond.

Business Financial Statement: A collection of reports about an organization's financial results and condition. Usually consists of, at a minimum, a Balance Sheet, an Income Statement (Profit & Loss), a Statement of Cash Flows, and Aging Reports of Accounts Payable and Accounts Receivable. These statements should always reflect an "End of Month" date and be fully reconciled. "Quality" will often be referred to regarding business financial statement, and refers to the level of professional preparation: "In-House" means the principal's internal accounting team prepared the financial statement. "CPA Engagement" can be on the "Quality" level of "Compilation", "Review", or "Audit", and most often is a year-end report.

Capacity: A term that refers to the size of a bond which a surety is able to write. May also refer to the size of bond which a Principal is approved for. This is also one of the three C's the surety uses to underwrite. This describes the ability of the principal to perform the obligation.

Cash Value of Life Insurance: The amount received from certain types of life insurance policies when liquidated prior to the insured's death, as shown on the monthly/period policy statement. NOT equal to face value. See Face Value of Life Insurance.

Collateral: Security held by the surety company to reduce the surety's risk when issuing a bond. Collateral may be in the form of cash, irrevocable letter of credit, real estate, or control of contract funds.

Commercial Surety Bond: This class of surety bonds includes most miscellaneous bonds, but do not include bid, performance, and payment or fidelity bonds. There is usually a statute or law requiring these bonds.

Completion Bond: Guarantees performance of a construction project, and names as an obligee a city, county, utility, lender or similar party in a position to invoke the performance features of the bond for his benefit without an obligation to provide contract funds to complete.

Conservator: A person, official or institution designated to take over and protect the interest of an incompetent or minor.

Contingent Payment Clause: Aka "Pay when paid" and "Pay if paid." Primarily used in construction subcontracts and materials contracts, this clause can either delay a payment obligation (General Contractor will pay Subcontractor or Materialmen "X" days after receiving payment from Job Owner) or remove a payment obligation (GC will not pay Subcontractor or Materialman if Job Owner does not pay). States and Courts can hold wildly different interpretations of these clauses.

Continuity Plan: Aka Disaster Plan or Resiliency Plan, a plan, system or process of creating chain-of-command, long-term-vision and funding for prevention of or recovery from potential threats to a company and its projects, for example, death or disablement of a key officer.

Contract Bonds: A type of bond classification designed to guarantee the performance of obligations under a contract. These bonds guarantee to the obligee that the principal will perform according to the terms of a written contract. Construction contracts constitute most of these bonds.

Contract bonds protect a project owner (obligee) by guaranteeing a (principal) contractor's

performance and payment for labor and materials.

Cosigner: An individual or entity that joins in the execution of a promissory note to compensate for any deficiency in the applicant's repayment ability. The cosigner becomes jointly liable to comply with the terms of the contract in the event of the principal's defaults.

Cost Bonds: A type of bond guaranteeing the payment of the cost of a trial. May also be called a Cost of Appeal bond.

Court Bonds: A general term referring to bonds required in some action of law. May be Fiduciary or Judicial bonds.

Covenants: In surety, typically refers to conditions set by a bank, which the borrower must maintain, in order to continue a lending arrangement.

Current Assets: Cash, liquid accounts, current accounts receivable, a portion of inventory.

Current Liabilities: Obligations for which payment must be made within 12 months.

Current Portion of Long-term Debt: One years' worth of payments on a debt.

Damages: Term that refers to monetary measures of harm which may have occurred in a claim.

Defendant: The term that refers to the person or institution being accused in a court case.

Defendant Bonds: Defendant Bonds counteract the effect of the bond that the plaintiff has furnished. These bonds are more hazardous than plaintiff bonds. Often, they require posting collateral to be written.

Employee Retirement Income Security Act (Often called **ERISA**): The 1974 Act that created a requirement for a bond to be posted, in the amount of ten percent of the funds, on the fiduciary of pension funds and profit sharing plans.

Equity: The financial worth in an entity or item. In business, the net amount that would be generated upon liquidation.

Error and Omissions Insurance: This is a form of insurance covering damages resulting from the negligence or mistakes that occur in the course of doing business. Often called E&O.

Executor: A person appointed to execute a will.

Face Value of Life Insurance: The amount paid to beneficiaries upon the insured's death. NOT equal to Cash Value. See Cash Value of Life Insurance.

Fidelity Bonds: Bonds designed to guarantee honesty. Generally, the bond guarantees honesty of employees. These bonds cover losses arising from employee dishonesty and indemnify the principal for losses caused by the dishonest actions of its employees.

Fiduciary: One who is appointed by the court to handle the affairs of persons who are not able to do so themselves. Fiduciaries are often requested to furnish a bond to guarantee faithful performance of their duties.

Fiduciary Bonds: Bonds which guarantee an honest accounting and faithful performance of duties by administrators, trustees, guardians, executors and other fiduciaries. Fiduciary bonds, in some cases referred to as probate bonds, are required by statutes, courts or legal documents for the protection of those on whose behalf fiduciary acts. They are needed under a variety of circumstances, including the administration of an estate and the management of affairs of a trust or a ward.

Financial Statement: A collection of reports about an organization's or individual's financial

results and condition. Usually consists of, at a minimum, a Balance Sheet, Income Statement (Profit & Loss), Statement of Cash Flows, and Aging Reports of Accounts Payable and Accounts Receivable as of a given time or period.

Forfeiture Bond: A bond requiring payment of the entire bond penalty upon default of the principal, regardless of size of actual loss.

Funds Control: This is a surety tool to help reduce the surety's risk when issuing a bond and refers to a professional third party paid a fee to be responsible for collecting contract payments and paying the subcontractors and suppliers for specific contracts.

GAAP: Acronym for Generally Accepted Accounting Principles, the standards for accounting adopted by the US SEC and the American Institute of CPAs.

Guarantee: A promise to answer for the debt or default of another.

Guardian: One appointed by the court to manage the estate of a minor or incompetent.

Income Statement: One of the main financial statements (along with the balance sheet). The income statement is also referred to as the profit and loss statement, P&L, statement of income, or

the statement of operations. The income statement reports the revenues, gains, expenses, losses, net income and other totals for the period of time shown in the heading of the statement.

Indemnification: The act of guaranteeing to another party, repayment in the event of a loss.

Indemnity to Sheriff or Marshal Bond: A bond which covers and indemnifies liability to a third party, incurred by a sheriff or marshal upon request of a party, in the execution of the process of a court.

Insurance Agent: Licensed insurance agent, broker, producer or representative.

Invitation to Bid: The request for proposals to enter into a contract. Usually includes the scope of work, location, proposed contract details such as estimated size, duration, liquidated damages, and warranty requirements, which a surety may want to review.

Irrevocable Letter of Credit (or ILOC): An instrument of collateral, which is an unbreakable relationship between a bank and beneficiary, typically a surety company or obligee. The ILOC cannot be cancelled or reneged, and is sometimes used in lieu of a surety bond.

Judicial Bond: Bonds required of litigants who

seek to avail themselves of privileges or remedies which are allowed by law, for the protection of the opposing litigant or other interested parties.

Lessee: A tenant.

Lessor: One who grants a lease. Landlord.

License and Permit Bonds: A term used to refer to bonds which are required to obtain a license or permit in any city, county or state. These bonds guarantee whatever the underlying statute, state law, municipal ordinance or regulation requires. They may be required for a number of reasons, for example providing consumer protection as a condition to granting licenses related to selling real estate or motor vehicles and contracting services.

Life Insurance Value: See Cash Value of Life Insurance and Face Value of Life Insurance.

Lien: A charge upon real or personal property for the satisfaction of a debt. See also Mechanic's Lien.

Lien Release Bond: See Release of Lien Bond.

Limited Liability Company (LLC): An LLC is a hybrid business entity created by statute. It is an unincorporated association of members which, if

properly structured, receives pass-through federal tax treatment and limited liability for its members.

Line of Credit (LOC): Can refer to many things. Generally, a pre-determined amount of credit available to a borrower by the lender. Varying types may be referred to as **ILOC** (see **I**rrevocable **L**etter **o**f **C**redit), BLOC (Business or Bank LOC), HELOC (Home Equity LOC) OLOC (Operating LOC) or WCLOC (Working Capital LOC). A LOC may be used as collateral to secure a bond or other obligation, increase liquidity of a financial statement, or held by an obligee as surety alternative, or other.

Litigant: A party to an action at law.

Little Miller Act(s): Varying State-by-State versions of the **Miller Act**, which require surety bonds on state public works contracts.

Liquidated Damages: During the formation of a contract or invitation to bid, the amount the parties designate for the obligee to withhold as penalty or compensation upon a specific breach of contract, such as late performance. Typically stated in a "dollars per day" amount, or a formula relating the value of the contract to the allowed duration.

Lost Securities Bonds: Bonds given by owners of valuable instruments (i.e. stocks, bonds,

promissory notes, certified checks, etc.) which are alleged to have been lost or destroyed, in order to protect the issuers against loss which may result from the issuance of duplicate instruments or, in some instances, payment of cash value thereof. Note: for certified checks, the issuing bank will often issue this bond.

Maintenance Bonds: Bonds that provide for the upkeep of the project for a specified period of time after the project is completed. These bonds guarantee against defective workmanship or materials. See Warranty/Maintenance.

Mechanic's Lien: A claim of right to detain property exercised by one who has furnished labor or material used on said property.

Mechanic's Lien Discharge Bond: See Release of Lien Bond.

Miller Act: (USC Title 40, 1935) The Miller Act requires that Federal contracts over a specified amount must be secured, typically with surety bond(s).

Minor: A person who is not of legal majority. In certain situations, a person may be appointed as a guardian of a minor.

Miscellaneous Bonds (Also called Commercial Surety Bonds): A term used to refer to bonds

which do not fit any of the other well recognized categories of surety bonds. Usually a bond that is not a contract bond (bid bond, performance bond or payment bond).

NASBP: An acronym for the National Association of Surety Bond Producers.

Notary Public Bonds: Includes bonds that are required by statutes to protect against losses resulting from the improper actions of notaries.

Obligee: The person or institution to which a surety guarantees that a principal will perform as expected.

Obligor: The entity for whom the debt is made. Under a bond, strictly speaking, both the principal and surety are obligors since the surety company must answer if the principal defaults.

Omnibus Language: A clause found in the Agreement of Indemnity, which extends the signer's indemnity to bonds written for "the Applicant; individually; jointly with others or on behalf of any of its subsidiaries, affiliates or divisions or their subsidiaries, affiliates or divisions now in existence or hereafter formed or acquired; or on behalf of individuals, partnerships or corporations."

Open Penalty: A term used to refer to the unlimited liability of the surety on a particular bond.

Ordinance: A municipal regulation.

Payment Bonds: Labor and Material Payment bonds guarantee payment of the contractor's obligation under the contract for subcontractors, laborers and materials suppliers associated with the project. Since liens may not be placed on public jobs, the payment bond may be the only protection for those supplying labor or materials to a public job.

Penalty: A term used to refer to the monetary size or limit of a bond. Also called Penal Sum.

Performance Bonds: Performance bonds guarantee performance of the terms of a contract. These bonds frequently incorporate payment bond (labor and materials) and maintenance bond liability. This protects the owner from financial loss should the contractor fail to perform the contract in accordance with its terms and conditions.

Personal Surety: An individual who acts as surety for another.

Personally Identifiable Information (PII): As used in information security, is information that can be used to uniquely identify, contact, or

locate a single person or can be used with other sources to uniquely identify a single individual.

Plaintiff: The person or institution that brings an action in a court of law.

Plaintiff Bonds: Plaintiff bonds are required of a plaintiff in an action of law. They generally guarantee damages to the defendant caused by the plaintiff's legal action.

Plat Bond: Aka a subdivision bond, completion bond, improvements bond, or developer bond. Required by City or County as a condition of permitting or formal platting of land, usually guarantees completion, performance, or maintenance of self-funded improvements on a development project, such as sidewalks, roads, utilities, environmental restoration, etc.

Power of Attorney: Authority given to a person(s) to act for and obligate another to the extent defined in the instrument. In surety, an instrument which appoints an attorney-in-fact to act on behalf of the surety in signing bonds.

Premium: A sum of money paid as consideration for a bond. Does not include a factor for the payment of losses as does an insurance premium, and is often referred to as a Fee.

Principal: The individual or entity required to be bonded by the obligee. The party whose

performance, actions, honesty, or responsibility is being guaranteed.

Probate: The legal process of administering estates of decedents, minors and incompetents.

Probate Bond: One that guarantees an honest accounting and faithful performance of duties by administrators, executors, trustees, guardians and other fiduciaries, so-called because such bonds are usually filed in a Probate Court.

Profit & Loss (P&L) Statement: One of the main financial statements (along with the balance sheet). The income statement is also referred to as the P&L, income statement, and the statement of operations. The P&L reports the revenues, gains, expenses, losses, net income and other totals for the period of time shown in the heading of the statement.

Public Official Bonds: A type of bond that guarantees a public official will act with honesty and/or faithful performance. These bonds are required by statutes and ordinances.

Public Official: Person who holds public office.

Rates: The amount of money per thousand dollars (or percentage) used to determine the bond premium.

Receiver: One appointed by a court to take custody of property. Sometimes bonded.

Reclamation Bonds: A bond guaranteeing that an institution will restore land that it has mined or otherwise altered to its original condition.

Release of Lien Bond: A Lien against real estate may be filed for an amount claimed to be due for labor or materials used on said property. Pending final determination of the property owner's liability, the owner may "release" (aka discharge or replace) the lien by "bonding around"; giving bond conditioned for the payment of any amount that may be found due to claimant with interest and costs. Note: usually 100% collateralized.

Renewal: Continuance of a bond obligation for a subsequent term, in consideration of an additional premium charge.

Replevin: An action of a law used to recover specific personal property.

Replevin-Plaintiff's Bond to Secure: Replevin is an action to recover possession of specific personal property. The replevin bond, which the plaintiff is required to furnish, is conditioned for the return of the property, return is ordered, and for the payment of all costs and damages.

Replevin-Defendant's Bond to Recover Property Replevied: Where personal property has been replevied the defendant may, by the furnishing of a bond, regain possession of the property, pending final decision on the merits. The bond is conditioned for redelivery of property to the plaintiff, if ordered to do so, or otherwise to comply with a court order or judgment.

Retainage: A portion of the agreed upon contract price deliberately withheld from progress payments until the work and documentation is complete, to assure that contractor or subcontractor will satisfy its obligations and complete a construction project.

Retainage Bond: An optional bond posted in lieu of withholding retainage.

Retained Earnings: Accrual of net profits which remain within a company, and not distributed to shareholders.

SBA: An acronym for the Small Business Administration. The SBA has a program to help small- and minority-owned contracting businesses obtain surety bonds.

SFAA: An acronym for the Surety & Fidelity Association of America, which is a licensed rating agency/advisory organization and trade association. The surety counterpart to ISO.

Status Report: A simple survey sent to an Obligee by the surety, requesting job progress status, current contract value, estimated completion date, and general condition of job.

Statute: A law enacted by a legislature.

Statutory: Required by, or having to do with, a law or statute.

Statutory Bond: A bond given in compliance with statute. Such a bond must carry whatever liability the statute imposes.

Stay of Execution Bond: A bond to stay or suspend execution on a judgment. It guarantees the payment of the judgment upon termination of the stay by the court.

Subcontract Bond: One required by a general contractor of a subcontractor, guaranteeing that the subcontractor will faithfully perform the subcontract in accordance with its terms and will pay for labor and material incurred in the prosecution of the subcontracted work.

Subdivision Bond: A type of bond that guarantees that the owner of certain property will make specific, obligee-mandated improvements to property being developed, at his own expense, such as streets, sidewalks, curbs, etc. Also called developer bonds and completion bonds.

Submission: The presentation of underwriting data to a surety or its agent.

Supersede: To replace.

Supersedeas: A writ staying execution of a judgment pending appeal.

Supply Bonds: Bonds that guarantee performance of a contract to furnish supplies or materials. In the event of a default by the supplier, the surety indemnifies the purchaser of the supplies against the resulting loss.

Surety: A person or institution that guarantees the acts of another.

Surety Bonds: Surety Bonds are three-party agreements in which the issuer of the bond (the surety) joins with the second party (the principal) in guaranteeing to a third party (the obligee) the fulfillment of an obligation on the part of the principal.

Treasury Listing: A financial rating published by the US Treasury Department that lists the maximum size of federal bond that a surety is allowed to write. Also called the T Listing.

Trustee: A trustee is a person named to manage the assets of a business and work with the business's creditors.

Warranty/Maintenance: This can refer to several situations. Construction or Supply Contracts may have a term of Warranty or Maintenance for a defined number of years, where the Principal is responsible. Typically a 1-2 year term; longer terms are more difficult to approve.

Completion/Subdivision/Developer/Plat performance bonds are often replaced with **Maintenance Bonds** upon completion of the performance.

Work-On-Hand Reports: A type of financial statements or schedule listing a contractor's jobs in progress. Aka a WIP (Work-in-Progress) report.

Workers' Compensation Self-Insurers Bond: Workers' Compensation laws, at the state and federal level, require employers to compensate employees injured on the job.

An employer may comply with these laws by purchasing insurance or self-insuring by posting a workers' compensation bond to guarantee payment of benefits to employees. This is a hazardous class of commercial surety bond because of its "long-tail" exposure and potential cumulative liability.

Working Capital: The liquid assets available to a business, primarily to fund projects. Typically calculated as current assets, less current liabilities.

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How to Get Your Next Surety Bond Approved...

You already sell insurance successfully. Providing surety bonds is often misunderstood and costs insurance agents a lot of time and frustration. But providing bonds will keep your current clients happy and could bring you more insurance sales.

That's where we come in. Integrity Surety has the specialized knowledge and expertise. We are your Bond Department, for surety needs nationwide and internationally, and help insurance agents just like you service your clients' surety bond needs with confidence.

Inside, you'll find top-level and top-drawer information, tips, suggestions and more to get your next bond approved.

> **Step 1:** Call us at **1-800-592-8662**. We are happy to talk to you about your current bond needs. Or go to: **www.integritysurety.com**.
>
> **Step 2:** We will send you the correct application and directions on how to submit it when it's completed.
>
> **Step 3:** We underwrite, market, and work with you to create and execute the surety bond on behalf of your clients.

Most agents steer clear of surety bonds due to the complex natures.

Now you can keep your clients and handle their next surety bond with confidence.

If you'd like us to help, just send an email to: **submissions@integritysurety.com** and we will take it from there.