IN CASE YOU MISSED IT (ICYMI):

MWIS HOSTS WEBINAR ON THE FUNDAMENTALS

OF BONDING IN CONSTRUCTION

On January 30, Merriwether & Williams Insurance Services (MWIS) hosted a webinar on the fundamentals of bonding in the construction industry. The co-presenters at the free webinar were Lourdes Landa, AFSB Surety Manager and Vice President of McGriff Insurance Services, and Jennifer Elmore, Contractor Development Program Project Manager with MWIS.

Topics covered during the hour-and-a-half webinar included: capacity to perform; financial strength; history and track record of the company, organizational structure, business continuation plans; trade references; analysis of all projects in progress; credit history; financial standing; and working capital. Other issues addressed included broker representation, and quality CPA prepared financial statements.

“Bonds are required under the Miller Act, which requires that any federal job with a contract price of $150,000 or more have a payment and performance bond,” said Landa. “If the contract price is under that, they can ask you for a payment bond only. Various states and governmental agencies followed suit and in California, whenever there is a contract in excess of $25,000, a payment bond is needed. In the private sector, it is sometimes optional.”

Landa also said that bonding helps the contractor by creating less competition for a job, by ensuring that subcontractors and material suppliers will get paid, and that a bond is the difference between keeping the job and not getting the job.

“It should be noted that bonding is very different from insurance,” Landa said. “A bond is a three-party contract by which one party, the surety, guarantees the performance of a second party, the principal, to a third party, the obligee. Insurance is a two-party contract in which premiums create a pool for losses. It protects you and makes you whole if you have a loss, and when there is a valid claim, you receive payment.”

In most cases, contractors will need to prequalify for a bond, said Landa. The elements of prequalification include: a credit only submission, a contractor or supply/service questionnaire, business financial statements for three years, personal financial statements for all owners, and a work in progress (WIP) schedule.

There are costs associated with some bonds, added Landa. Bid bonds are free, but performance bonds usually run 1-3% of the total contract price, based on the type of work, financial strength, how often bonds are needed and financial presentation. Payment bonds are included in the performance bond, and maintenance/warranty bonds are free for the first year, with charges applying to subsequent years.

Jennifer Elmore of MWIS pointed out that completing a bond application/package is a critical process.

“Bonding is vital to the growth of the contractor’s business,” she said. “The surety underwriting process provides guidance, discipline, and benchmarking to help your business.”

Elmore also pointed out that having the necessary documents in order will give the contractor an enormous advantage when applying for surety bonds: It can expedite the process and tell your company story.

“One of the things we want people to understand is that Merriwether and Williams is here to help you walk through the application and that you complete all forms to your satisfaction and that we answer any questions,” said Elmore.

To watch the webinar video, go [here](https://www.youtube.com/watch?v=gbZQ0M8JWjQ). For more information on Merriwether & Williams Insurance Services contractor development and bonding programs, go [here](https://imwis.com/services/contractor-bonding-development-programs/).