Ten Things Contractors Should Know Before Seeking Extended Surety Capacity

BY MARC RAMSEY

In today's hot construction market, contractors have the opportunity to expand beyond their comfort level to new construction markets. But, construction firms must question if a surety would support extended surety credit for new projects. Before approaching a surety about extended surety capacity, a contractor should:

DAVID GOULD/GETTY IMAGES

1. Get to know its surety bond agent and surety company underwriter. When considering a change in geographic regions, scope of work or project size, involve an agent and underwriter and listen to their advice.

2. Maintain and pursue work within the capabilities of its financial and organizational resources.

3. Work with other construction professionals, such as a banker, CPA, attorney and insurance agent.

4. Take advantage of the robust economy to increase profit margins and build the liquidity and equity of its operation. Strengthen financial statements, stay focused on the bottom line and grow the company's equity base every year.

5. Provide proven profitable results by presenting historical project analysis as evidence of success. Demonstrate a track record of higher than normal profit margins in firm-specific markets.

6. Confirm that its surety providers have the capacity to support more ambitious work programs. If a surety partner has the capacity and appetite to support larger backlogs, focus on creating a clear business plan that outlines the specific tactics and broader strategy the company will follow in order to create the desired corporate trajectory and operating results. Maintain open lines of communication with a surety to proactively build support for a business plan.

7. Present a complete application to the surety. A contractor with good financials and a proven track record, but a poor presentation, may get less surety credit than a contractor with a strong presentation. Work closely with a surety bond producer to strengthen this presentation. Provide quality information and responses when requested or, better yet, before the surety makes a request.

8. Provide quality, detailed financial statements, work-in-process and completed job schedules, cost controls, business planning (including business perpetuation) and talented, proven field management. A contractor also should explain the non-bonded work in its backlog. A surety will want to know how that work was obtained. (Was it negotiated with longtime owners where the risk would be considered low?)

9. Rely on more than bank support to finance daily operations.

10. Hire the best employees, and let them perform.

Increased bonding capacity is made available to well-managed firms that demonstrate the ability to adhere to a business plan, effectively manage resources, report timely and accurately, and show a commitment to increase their balance sheets.

Remember, bond agents and surety companies are strategic business partners that want you to succeed.

Ramsey is communications manager of the Surety Information Office, Washington, D.C. For more information, call (202) 686-7463 or email sio@sio.org.