Value of Surety Bonds

Government entities in the United States have understood the importance of surety bonds and have required bonding for over a century to provide performance and payment assurance for the nation's infrastructure projects. Although procurement methods have evolved—including the increased use of public-private partnerships (P3s) in the U.S.—construction risks remain the same, making surety bonds just as relevant and important today.

Surety bonds' protective nature is two-fold. First, surety bonds protect taxpayer dollars by guaranteeing project completion through performance bonds. The in-depth prequalification process, which is unique to surety as a security instrument, ensures that, in the opinion of the independent third-party surety, the contractor has the character, capability, and financial standing to complete the project, and, in the unlikely case of default, the surety steps in with its own assets to complete the contract or provides the funds to allow the owner to complete the contract. When prequalifying contractors, surety companies review all jobs the contractor has on-ongoing and not just one project, thus providing a more accurate and in-depth decision that is then backed by the balance sheet of the surety company. The requirement of bonding has assured the successful completion of public construction projects for decades.

Second, payment bonds guarantee laborers, subcontractors, and suppliers that they will get paid for their work and materials. Payment bonds are a critical protection for small, emerging, and minority contractors, since they are more likely to start as subcontractors on projects. Without bonds, subcontractors and suppliers either have to risk losses from nonpayment that they cannot afford, or not work on the public jobs for which they are qualified. Let's face it, construction is a risky business, and performance and payment assurance is necessary. From 2002-2013, surety companies have paid a total of over $13 billion in claims, plus claims adjustment expenses.

Surety companies are committed to assuring that small, emerging, and minority contractors have access to opportunity. Owners, design-builders, and general contractors understand the value of partnering with bondable contractors and subcontractors. By having small, emerging and minority contractors work one-on-one with bond producers, underwriters, and other surety professionals as part of SFAA's Model Contractor Development Program (MCDP)® and the Bonding Education Program (BEP), the U.S. DOT version of MCDP®, these contractors learn what they need to know to develop a trust-based relationship with a licensed surety, become bondable, and have the ability to bid on projects they otherwise would not. In just the last few years over half a billion in bonding capacity has been provided through the MCDP® and BEP. The U.S. DOT's commitment to bonding on transportation projects and its partnership with the SFAA stress the importance of having bonded contractors on transportation-related P3 projects.

Bonding is a tool that protects taxpayer and investor dollars and supports economic empowerment, sustainability, job creation and legacy wealth for small, emerging, and minority contractors and subcontractors, and the surety industry remains ready to provide bonding for all types of construction delivery mechanisms, including P3 projects.