

Bid Bonds

Bid Bonds are one of the major types of contract surety bonds. They ensure that a contractor can accept a project for the specified price as the lowest acceptable bidder. If a contractor refuses to commence work, the bid bond allows the project developer to recoup the difference between the lowest bid and the second-lowest bid.

Bid bonds are generally required for all construction bids, particularly on larger projects such as residential or commercial developments. This provides both confidence and financial security to the developer offering the contract.

Bid bonds also ensure that the bond issuer, or guarantor, stands behind the work of the bidding contractor and will follow up with a performance bond if the contract is awarded.

Contractors can withdraw a bid before the actual opening, and in some cases a developer will allow a bid to be retracted before it is awarded without action taken against the bidder. But once the bidding is complete and a contract is awarded, no withdrawal is allowed without the loss of the bid security.

Bid bonds are a type of surety bond issued typically issued by surety or insurance companies who specialize in this type of product. Often, this type of bond is sold through an agent of the insurance company, rather than sold directly. An agent may work directly for the insurance company or be an independent agent who sells products on behalf of many different companies. In either case, the agent will have the answers on the pricing and processing of bid bonds best suited for a particular contractor or project.

The market for writing bid bonds has leveled off recently after a stretch of somewhat loose underwriting practices. Contractors who qualify can still expect to find excellent rates. But those with poor or no credit will likely face a new wave of scrutiny and should expect to pay higher premiums.

Often the surety company requires a financial indemnity from the owner or owners of the construction company in case the company fails to complete the contract or encounters financial hardships in the middle of a contract. Given that, the owner's personal financial information may be used as part of the underwriting process.

The U.S. Small Business Administration also offers a surety program for small businesses. The SBA can guarantee bonds for contracts up to \$2 million, covering bid, performance and payment bonds for small and emerging contractors who cannot obtain surety bonds through regular commercial channels. SBA's guarantee gives sureties an incentive to provide bonding for eligible contractors, and thereby strengthens a contractor's ability to obtain bonding and greater access to contracting opportunities.



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