

Site Improvement Bonds

Site Improvement Bonds ensure that a contractor makes proper improvements to existing structures as per existing building codes. These bonds also guarantee that public property will receive improvements in accordance with applicable governmental regulation.

These are different from Subdivision Bonds, which are required for new structures. Site Improvement Bonds pertain only to existing structures. A Site Improvement Bond guarantees completion of improvements specified in the bond. These improvements can include curbs and gutters, sidewalks, utilities, grading, storm drains and streets. The bond will spell out the estimated cost and anticipated time until completion.

Site Improvement Bonds are often required before a contractor can obtain a construction permit or record a final parcel map. These bonds can take several forms, including

- Certificates of deposit (CDs)
- Cash, certified cashier's check or money order
- Irrevocable letter of credit issued by a bank, credit union, etc
- Corporate surety bonds

Surety bonds remain the preferred avenue. Letters of credit are susceptible to the bank's immediate seizure of property if they choose not to renew the bond. CDs and cash are problematic because the recipient of the guarantee will have to ensure that it is properly executed and that they are in fact the beneficiaries of the bond. For the contractor, CDs and cash tie up capital that could be used more effectively elsewhere.

Subdivision Bonds

Subdivision Bonds are required by the state or locality in which the subdivision will be built and essentially ensure that the subdivision will be built according to contract. These bonds – which, again, are for new structures only – cover all aspects of construction, including streets, houses and even gutters and drainage ditches. Subdivision Bonds also make it possible to file plats with a county or city in advance of a project being completed.

If, for some reason, the project fails to be completed or there is a contractual problem, a claim is made against the bond. If the claim is found to be a valid one, the contractor must pay some or all of the bond's face value. Subdivision bonds can take many forms, including cash, letters of credit issued by a bank and CDs.

Surety bonds are the preferred method. Subdivision Bond amounts vary by state and often depend on the size and scope of a given project. Like most contract bonds, bond rates will depend on a contractor's financial health, credit history and other key economic factors.

The market for both Site Improvement Bonds and Subdivision Bonds has proved a bit volatile in recent years, given economic upheaval and the overall slowdown in the construction industry. Make sure you have a reputable, proven agent to help manage and explain the process.



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